



# Annual Financial Report

Iberdrola, S.A. and subsidiaries / Financial Year 2017



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# Iberdrola, S.A. and Subsidiaries

Consolidated Annual Accounts

23 February 2018

Consolidated Directors' Report

2017

**(With Independent Auditor's Report Thereon)**

(Free translation from the originals in Spanish. In the event of discrepancy, the Spanish-language versions prevail.)



KPMG Auditores, S.L.  
Torre Iberdrola  
Plaza Euskadi, 5  
Planta 17  
48009 Bilbao

## **Independent Auditor's Report on the Consolidated Annual Accounts**

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

To the Shareholders of Iberdrola, S.A. commissioned by the shareholders at their annual general meeting

### **REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS**

#### **Opinion**

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We have audited the consolidated annual accounts of Iberdrola, S.A. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

#### **Basis for Opinion**

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We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts in Spain pursuant to the legislation regulating the audit of accounts. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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



## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Recoverability of non-current assets

See note 13 to the consolidated annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>The principal activities of the different businesses included in the consolidated annual accounts of the Group are related to the generation, transmission, distribution and supply of electricity, and therefore the balances recognised under intangible assets and property, plant and equipment are highly significant.</p> <p>Furthermore, as a result of the acquisitions carried out in recent years, including the recent acquisition of Neoenergía, to which we refer below, the consolidated annual accounts include goodwill amounting to Euros 7,932 million and other non-current assets, assigned to the Cash Generating Units (CGUs) in accordance with IFRS-EU, of equally significant amounts.</p> <p>IFRS-EU determine the need to carry out an analysis of the recoverable amounts of the assets referred to in the previous paragraph in those cases in which indications of impairment were identified. Goodwill and intangible assets with indefinite useful lives are not amortised, but are instead tested for impairment at least on an annual basis.</p> <p>The calculation of the recoverable amount of non-current assets indicated in the preceding paragraphs is determined through the use of methodologies based on discounted cash flows, the estimation of which is subject to uncertainty and which therefore requires the use of a high degree of judgement.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"><li>▪ Identification of the reasonableness of the grouping levels used to place assets in CGUs for the purpose of analysing impairment.</li><li>▪ Evaluation of the existence of indications of impairment that would have required an analysis of the recoverability of the assets.</li><li>▪ Analysis and understanding of the models used by the Company in the calculation of the recoverable amounts of CGUs for which impairment analysis was required.</li><li>▪ Evaluation of the reasonableness of the main assumptions used in determining the recoverable amounts of these CGUs through the involvement of our specialists.</li><li>▪ Analysis of the reasonableness of the use of projection periods used by the Company in order to comply with the requirements of IFRS-EU.</li><li>▪ Analysis of compliance with the disclosure requirements established in IFRS-EU.</li></ul>

**Acquisition of Neoenergía, S.A.**

See note 7 to the consolidated annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>On 24 August 2017 the Company acquired control of Neoenergía, S.A. (Neoenergia) through the contribution of 47.55% of the Group's stake in Elektro Holdings, S.A., the value of which was estimated at a total of Euros 456 million. This led to the recognition of goodwill amounting to Euros 244 million.</p> <p>In accordance with IFRS 3 "Business Combinations", the acquirer must measure the identifiable assets acquired and liabilities assumed at their fair value at the date of acquisition, with the exceptions permitted under this standard. As the acquisition was carried out without any cash disbursement, it was also necessary to determine the fair value of the businesses contributed.</p> <p>The measurements referred to in the previous paragraph require the use of complex valuation techniques, assumptions and estimates.</p>	<p>The measurement of the identifiable assets and liabilities acquired and the determination of the cost of acquisition was made with the collaboration of external experts employed by the Group. The audit procedures performed included the following:</p> <ul style="list-style-type: none"> <li>▪ Understanding and analysis of the valuation techniques used by the experts and comparison with generally accepted practices.</li> <li>▪ Evaluation of the reasonableness of the main assumptions used, including discount rates.</li> <li>▪ Evaluation of the reasonableness of the measurements made, including those applied for the purposes of determining acquisition cost.</li> <li>▪ Verification of the calculations used in the different models.</li> <li>▪ Evaluation of the independence and professional competence of the external experts employed by the Group.</li> <li>▪ Analysis of compliance with the disclosure requirements established in IFRS-EU.</li> </ul> <p>The aforementioned procedures were performed with the participation of our valuation experts.</p>

**Pension commitments**

See note 24 to the consolidated annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>The Group has important commitments with personnel in relation to retirement and other long-term liabilities. These commitments are mainly in Spain, the United States, the United Kingdom and Brazil.</p> <p>Obligations relating to pension and similar commitments amount to Euros 2,574 million.</p> <p>Non-material variations in the actuarial assumptions used could have a significant impact on the amounts recognised in the consolidated annual accounts and we have therefore considered this a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>▪ Reading and understanding of collective agreements and other commitments assumed with personnel.</li> <li>▪ Evaluation of the integrity and accuracy of the databases used for the beneficiaries of the different commitments.</li> <li>▪ Analysis of the reasonableness of the main actuarial assumptions applied by the Group in the different jurisdictions in which it operates through the involvement of our specialists.</li> <li>▪ Performance of substantive procedures on a sample of the assets subject to the different plans in order to verify the reasonableness of their valuation. Our procedures included obtaining external confirmations.</li> <li>▪ Evaluation of the independence and professional competence of external actuaries employed by the Group.</li> <li>▪ Evaluation of the reasonableness of the sensitivity analyses performed.</li> <li>▪ Analysis of compliance with the disclosure requirements established in IFRS-EU.</li> </ul>

## Provisions for litigation and claims

See notes 25 and 45 to consolidated the annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>As a result of the operations carried out by the entities that comprise the Group, the consolidated statement of financial position includes significant provisions on litigation and claims of a fiscal and legal nature that are shown in the "provisions for litigation, indemnities and other items" column of note 25 to the consolidated annual accounts.</p> <p>The provisions made in respect of these items amount to Euros 958 million.</p> <p>The criteria for the recognition and disclosure of contingencies and provisions require the application of a high degree of judgement.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>▪ Procurement of details of litigation from the Group's legal department, assessment of associated risks and verification against accounting records.</li> <li>▪ Interviews with the heads of the Tax and Legal Department in order to corroborate the integrity of the details obtained and identify new evidence or significant litigation.</li> <li>▪ Sending of confirmations to external lawyers.</li> <li>▪ Reading of the minutes of board of directors' meetings.</li> <li>▪ Selection of a sample of the main litigation procedures and analysis with supporting documentation.</li> <li>▪ Involvement of our specialists in assessing the main litigation procedures.</li> <li>▪ Analysis of compliance with the disclosure requirements established in IFRS-EU.</li> </ul>

## Revenue recognition

See note 6 a) to the consolidated annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>The Group's businesses that carry out electricity supply activities must make estimates of unbilled supplies to end customers in the period between the last meter reading and the end of the fiscal year.</p> <p>Unbilled electricity supplied is estimated based on internal and external information that is compared with the measurements contained in the management systems used by the businesses. Revenue is calculated by multiplying the volume of estimated unbilled use by the tariff agreed for each customer, a process that is subject to a high degree of uncertainty.</p> <p>Estimated electricity supplied and not invoiced amounts to Euros 2,006 million.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>▪ Analysis of the design, implementation and operational effectiveness of the key controls related to the calculation of revenue estimates.</li> <li>▪ Evaluation of the reasonableness of the model through retrospective analysis of the estimates made at the close of the previous period and actual invoicing data.</li> <li>▪ Verification of the reasonableness of the volume of unbilled electricity through an analysis of historical information and other available internal and external data.</li> <li>▪ Verification of the tariffs applied by comparing them with the data contained in the contract databases.</li> </ul>

## Other Information: Consolidated Directors' Report

Other information solely comprises the 2017 Consolidated Directors' Report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.



Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility regarding the information contained in the consolidated directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels for this information:

- a) A specific level applicable to non-financial consolidated information, as well as certain information included in the Annual Corporate Governance Report, as defined in article 35.2. b) of Audit Law 22/2015, which consists of merely verifying that this information has been provided in the directors' report or, where applicable, in a separate report corresponding to the same year and to which reference is made in the directors' report, and if not, report on this matter.
- b) A general level applicable to the rest of the information included in the consolidated directors' report, which consists of assessing and reporting on the consistency of this information with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit. Also, assessing and reporting on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have verified that the information mentioned in paragraph a) above has been provided in the consolidated directors' report and the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2017, and that the content and presentation of the report are in accordance with applicable legislation.

## **Directors' and Audit Committee's Responsibility for the Consolidated Annual Accounts**

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The Parent's Directors are responsible for the preparation of the accompanying consolidated annual accounts in such a way that they give a true and fair view of the consolidated equity, consolidated financial position and consolidated financial performance of the Group in accordance with IFRS-EU and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent's audit committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.



## **Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts**

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.
- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.





- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee of the Parent regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent's audit committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the audit committee of the Parent, we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Additional Report to the Audit Committee of the Parent** \_\_\_\_\_

The opinion expressed in this report is consistent with our additional report to the Parent's audit committee dated 23 February 2018.

### **Contract Period** \_\_\_\_\_

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 31 March 2017 for a period of three years, from the year ended 31 December 2017.



## Services Provided

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The services other than the audit of accounts in addition to those indicated in the notes to the consolidated annual accounts provided to the Group consisted of the issuance of our limited review reports on the individual and consolidated interim financial statements of Iberdrola, S.A. and subsidiaries, the issuance of comfort letters and a report on agreed procedures.

KPMG Auditores, S.L.

On the Spanish Official Register of Auditors ("ROAC") with No. S0702

*(Signed on original in Spanish)*

**Enrique Asla García**

On the Spanish Official Register of Auditors ("ROAC") with No. 1797

23 February 2018



# Annual Financial Report

Iberdrola, S.A. and subsidiaries / Financial Year 2017



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**CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED MANAGEMENT REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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Translation of Financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 56). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2017

Thousand euros			
ACTIVE	Note	31.12.2017	31.12.2016(*)
<b>Intangible assets.</b>	<b>9</b>	<b>21,148,027</b>	<b>19,934,163</b>
Goodwill		7,932,404	8,711,053
Other intangible assets		13,215,623	11,223,110
<b>Real estate investments</b>	<b>10</b>	<b>424,029</b>	<b>462,342</b>
<b>Property, plant and equipment</b>	<b>11</b>	<b>64,082,379</b>	<b>63,834,384</b>
Property, plant and equipment in operation		57,301,296	57,343,025
Property, plant and equipment in use		6,781,083	6,491,359
<b>Non-current Financial investments</b>		<b>5,013,504</b>	<b>3,903,994</b>
Companies accounted for using the equity method	14.a	1,790,896	2,239,655
Non-current equity instruments		65,342	59,489
Other non-current financial investments	14.c	2,612,565	695,668
Derivative Financial instruments	27	544,701	909,182
<b>Commercial debtors and other accounts receivable</b>	<b>15</b>	<b>838,690</b>	<b>887,083</b>
<b>Deferred tax assets</b>	<b>30</b>	<b>5,382,373</b>	<b>6,958,154</b>
<b>NON-CURRENT ASSETS</b>		<b>96,889,002</b>	<b>95,980,120</b>
<b>Assets held for sale</b>	<b>34</b>	<b>355,731</b>	<b>-</b>
<b>Nuclear fuel</b>	<b>17</b>	<b>331,883</b>	<b>322,630</b>
<b>Inventories</b>	<b>18</b>	<b>1,870,121</b>	<b>1,633,502</b>
<b>Commercial debtors and other accounts receivable</b>		<b>6,721,258</b>	<b>5,862,492</b>
Current tax assets	31	546,304	503,403
Other tax receivables	31	318,582	143,379
Commercial debtors and other accounts receivable	19	5,856,372	5,215,710
<b>Current Financial investments</b>		<b>1,323,224</b>	<b>1,474,790</b>
Current equity instruments		1,744	4,584
Other current financial investments	14.c	598,883	776,341
Derivative Financial instruments	27	722,597	693,865
<b>Cash and cash equivalents</b>	<b>20</b>	<b>3,197,340</b>	<b>1,432,686</b>
<b>CURRENT ASSETS</b>		<b>13,799,557</b>	<b>10,726,100</b>
<b>TOTAL ASSETS</b>		<b>110,688,559</b>	<b>106,706,220</b>

(\*)The Consolidated statements of financial position at 31 December 2016 are presented for comparative purposes only.

The accompanying Notes 1 to 56 and the Appendix are an integral part of the Consolidated statements of financial position at 31 December 2017.

Translation of Financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 56). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 31 DECEMBER 2017

Thousand euros			
<b>EQUITY AND LIABILITIES</b>	<b>Note</b>	<b>31.12.2017</b>	<b>31.12.2016(*)</b>
<b>Of the parent company</b>	<b>21</b>	<b>35,509,260</b>	<b>36,690,965</b>
Share capital		4,738,136	4,771,559
Unrealised assets and liabilities revaluation reserve		(42,254)	(149,394)
Other reserves		31,435,651	31,506,301
Treasury shares		(597,797)	(1,083,367)
Translation differences		(2,828,470)	(1,059,117)
Net profit for the year		2,803,994	2,704,983
<b>Of Minority shareholders</b>		<b>5,671,380</b>	<b>3,445,898</b>
<b>Of subordinated perpetual obligations</b>		<b>1,552,546</b>	<b>550,526</b>
<b>EQUITY</b>		<b>42,733,186</b>	<b>40,687,389</b>
<b>NON-CURRENT EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY</b>	<b>22</b>	<b>14,762</b>	<b>43,664</b>
<b>Deferred income</b>	<b>23</b>	<b>6,379,102</b>	<b>6,590,302</b>
<b>Provisions</b>		<b>5,486,820</b>	<b>4,904,875</b>
Provision for pensions and similar commitments and similar obligations	24	2,533,465	2,380,590
Other provisions	25	2,953,355	2,524,285
<b>Financial Debt</b>		<b>29,784,705</b>	<b>26,926,882</b>
Bank borrowings and other financial liabilities - Loans and others	26	29,465,739	26,509,052
Derivative Financial instruments	27	318,966	417,830
<b>Other non-current payables</b>	<b>29</b>	<b>1,005,795</b>	<b>737,269</b>
<b>Deferred tax liabilities</b>	<b>30</b>	<b>8,558,419</b>	<b>12,740,661</b>
<b>NON-CURRENT LIABILITIES</b>		<b>51,214,841</b>	<b>51,899,989</b>
<b>NON-CURRENT EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY</b>	<b>22</b>	<b>32,519</b>	<b>93,390</b>
<b>Liabilities linked to assets held for sale</b>	<b>34</b>	<b>134,544</b>	<b>-</b>
<b>Provisions</b>		<b>626,841</b>	<b>143,643</b>
Provision for pensions and similar commitments and similar obligations	24	40,604	9,771
Other provisions	25	586,237	133,872
<b>Financial Debt</b>		<b>7,509,809</b>	<b>5,404,119</b>
Bank borrowings and other financial liabilities - Loans and others	26	7,224,759	4,711,630
Derivative Financial instruments	27	285,050	692,489
<b>Trade and other payables</b>		<b>8,422,057</b>	<b>8,434,026</b>
Trade payables	32	5,307,551	5,490,634
Corporate income tax	31	259,633	237,123
Other tax receivables	31	988,926	914,493
Other current liabilities	29	1,865,947	1,791,776
<b>CURRENT LIABILITIES</b>		<b>16,693,251</b>	<b>13,981,788</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>110,688,559</b>	<b>106,706,220</b>

(\*)The Consolidated statements of financial position at 31 December 2016 are presented for comparative purposes only.

The accompanying Notes 1 to 56 and the Appendix are an integral part of the Consolidated statements of financial position at 31 December 2017.



Translation of Financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 56). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED AT 31 DECEMBER 2017

Thousand euros

	Note	31.12.2017	31.12.2016 (*) Revised (Note 2.c)
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>			
Net revenue	35	31,263,262	28,759,148
Procurements	37	(17,899,454)	(15,823,727)
<b>GROSS MARGIN</b>		<b>13,363,808</b>	<b>12,935,421</b>
Staff costs	38	(2,775,994)	(2,367,053)
Capitalised Staff costs	38	604,398	557,187
Net Staff costs		<b>(2,171,596)</b>	<b>(1,809,866)</b>
External services		(2,578,653)	(2,263,895)
Other operating income		579,644	607,776
Net External services		<b>(1,999,009)</b>	<b>(1,656,119)</b>
Net Operating Expenses		<b>(4,170,605)</b>	<b>(3,465,985)</b>
Taxes other than income	40	(1,874,503)	(1,535,756)
<b>GROSS OPERATING PROFIT (EBITDA)</b>		<b>7,318,700</b>	<b>7,933,680</b>
Depreciation and amortisation charges and provisions	41	(4,606,069)	(3,247,827)
<b>OPERATING PROFIT (EBITDA)</b>		<b>2,712,631</b>	<b>4,685,853</b>
Result of companies accounted for using the equity method - net of taxes	14.a	(28,733)	47,259
Financial revenue	43	921,790	1,041,005
Financial Expense	44	(1,858,892)	(1,944,163)
Financial result		<b>(937,102)</b>	<b>(903,158)</b>
Gains on disposal of non-current assets	42	299,093	52,919
Losses on disposal of non-current assets	42	(20,039)	(4,211)
Non-current asset profit/(loss)		<b>279,054</b>	<b>48,708</b>
<b>PROFIT BEFORE TAX</b>		<b>2,025,850</b>	<b>3,878,662</b>
Corporate income tax	30	1,397,127	(935,157)
<b>PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>3,422,977</b>	<b>2,943,505</b>
<b>PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS (NET)</b>	<b>34</b>	<b>(253,011)</b>	<b>(100,663)</b>
Non-controlling interests	21	(365,972)	(137,859)
<b>NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT</b>		<b>2,803,994</b>	<b>2,704,983</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE IN EUROS FOR CONTINUING OPERATIONS</b>	<b>54</b>	<b>0.478</b>	<b>0.423</b>
<b>BASIC AND DILUTED EARNINGS PER SHARE IN EUROS FOR DISCONTINUED OPERATIONS</b>	<b>54</b>	<b>(0.040)</b>	<b>(0.015)</b>

(\*)The Consolidated statements of financial position at 31 December 2016 are presented for comparative purposes only. The accompanying Notes 1 to 56 and the Appendix are an integral part of the Consolidated income statement for the year ended at 31 December 2017

Translation of Financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 56).  
In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED AT 31 DECEMBER 2017

Thousand euros	31.12.2017				31.12.2016(*)			
	Of the parent company	Of non-controlling interests	Of subordinated perpetual obligations	Total	Of the parent company	Of non-controlling interests	Of subordinated perpetual	Total
<b>Net profit for the year</b>	<b>2,803,994</b>	<b>333,730</b>	<b>32,242</b>	<b>3,169,966</b>	<b>2,704,983</b>	<b>114,911</b>	<b>22,948</b>	<b>2,842,842</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS</b>								
<b>Unrealised assets and liabilities revaluation reserve</b>	<b>114,278</b>	<b>4,836</b>	<b>–</b>	<b>119,114</b>	<b>15,706</b>	<b>(10,690)</b>	<b>–</b>	<b>5,016</b>
Change in the value of available-for-sale investments	577	–	–	577	(13)	–	–	(13)
Change in the value of cash flow hedges	158,462	7,993	–	166,455	15,118	(17,701)	–	(2,583)
Tax effect	(44,761)	(3,157)	–	(47,918)	601	7,011	–	7,612
<b>Translation differences</b>	<b>(1,769,353)</b>	<b>(555,977)</b>	<b>–</b>	<b>(2,325,330)</b>	<b>(843,875)</b>	<b>171,949</b>	<b>–</b>	<b>(671,926)</b>
Gains or losses due to assessment	(2,065,566)	(555,977)	–	(2,621,543)	(843,875)	171,949	–	(671,926)
Amounts transferred to consolidated income statement (Note 7)	296,213	–	–	296,213	–	–	–	–
<b>TOTAL</b>	<b>(1,655,075)</b>	<b>(551,141)</b>	<b>–</b>	<b>(2,206,216)</b>	<b>(828,169)</b>	<b>161,259</b>	<b>–</b>	<b>(666,910)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FROM COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD (AFTER TAX)</b>								
<b>In Other reserves</b>	<b>(151,887)</b>	<b>1,110</b>	<b>–</b>	<b>(150,777)</b>	<b>(231,493)</b>	<b>13,891</b>	<b>–</b>	<b>(217,602)</b>
Actuarial gains and losses on pension schemes	(57,818)	28,490	–	(29,328)	(256,000)	22,978	–	(233,022)
Tax effect	(20,090)	(10,587)	–	(30,677)	24,507	(9,087)	–	15,420
Impact US Tax reform (Note 30)	(73,979)	(16,793)	–	(90,772)	–	–	–	–
<b>Unrealised assets and liabilities revaluation reserve</b>	<b>(17,596)</b>	<b>–</b>	<b>–</b>	<b>(17,596)</b>	<b>73,496</b>	<b>–</b>	<b>–</b>	<b>73,496</b>
Change in the value of cash flow hedges	(21,992)	–	–	(21,992)	96,192	–	–	96,192
Tax effect	4,396	–	–	4,396	(22,696)	–	–	(22,696)
<b>TOTAL</b>	<b>(169,483)</b>	<b>1,110</b>	<b>–</b>	<b>(168,373)</b>	<b>(157,997)</b>	<b>13,891</b>	<b>–</b>	<b>(144,106)</b>
<b>Unrealised assets and liabilities revaluation reserve of companies accounted for using the equity method (net of tax)</b>								
<b>In Other reserves</b>	<b>(11,952)</b>	<b>–</b>	<b>–</b>	<b>(11,952)</b>	<b>(16,453)</b>	<b>–</b>	<b>–</b>	<b>(16,453)</b>
<b>Unrealised assets and liabilities revaluation reserve</b>	<b>10,458</b>	<b>–</b>	<b>–</b>	<b>10,458</b>	<b>(16,545)</b>	<b>–</b>	<b>–</b>	<b>(16,545)</b>
<b>TOTAL (Nota 14.a)</b>	<b>(1,494)</b>	<b>–</b>	<b>–</b>	<b>(1,494)</b>	<b>(32,998)</b>	<b>–</b>	<b>–</b>	<b>(32,998)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>	<b>(1,826,052)</b>	<b>(550,031)</b>	<b>–</b>	<b>(2,376,083)</b>	<b>(1,019,164)</b>	<b>175,150</b>	<b>–</b>	<b>(844,014)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>977,942</b>	<b>(216,301)</b>	<b>32,242</b>	<b>793,883</b>	<b>1,685,819</b>	<b>290,061</b>	<b>22,948</b>	<b>1,998,828</b>

(\*) The Consolidated statement of comprehensive income for 2016 is presented for comparison purposes only.

The accompanying Notes 1 to 56 and the Appendix are an integral part of the Consolidated statement of comprehensive income for the year ended at 31 December 2017.

Translation of Financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 56).  
In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED AT 31 DECEMBER 2017

Thousand euros	Other reserves							Unrealised assets and liabilities revaluation	Translation differences	Net profit for the year	Non-controlling interests	Subordinated perpetual obligations	Total
	Share capital	Treasury shares	Legal reserve	Revaluation reserves	Share premium	Other restricted reserves	Retained earnings						
<b>Balance at 01.01.2017</b>	<b>4,771,559</b>	<b>(1,083,367)</b>	<b>958,271</b>	<b>368,436</b>	<b>14,667,676</b>	<b>528,691</b>	<b>14,983,227</b>	<b>(149,394)</b>	<b>(1,059,117)</b>	<b>2,704,983</b>	<b>3,445,898</b>	<b>550,526</b>	<b>40,687,389</b>
<b>Net profit for the year (excluding impact of Modification of the consolidation perimeter) (Note 7)</b>	-	-	-	-	-	-	(163,839)	107,806	(2,407,780)	2,759,982	(216,301)	32,242	112,110
<b>Transactions with shareholders or owners</b>													
Share capital increase (Note 21)	131,570	-	-	(131,570)	-	-	(834)	-	-	-	-	-	(834)
Share capital reduction (Note 21)	(164,993)	1,280,176	-	-	-	164,993	(1,280,214)	-	-	-	-	-	(38)
Restructuring Distribution of year 2016	-	-	10,727	-	-	-	2,507,184	-	-	(2,704,983)	(101,332)	-	(288,404)
Acquisition of free-of-charge allocation rights (Note 21)	-	-	-	-	-	-	(645,800)	-	-	-	-	-	(645,800)
Transactions with treasury shares (Note 21)	-	(794,606)	-	-	-	-	2,950	-	-	-	-	-	(791,656)
<b>Other changes in equity</b>													
Equity instruments-based payments (Note 21)	-	-	-	-	-	-	7,166	-	-	-	845	-	8,011
Modification of the consolidation perimeter (Note 7)	-	-	-	-	-	-	(500,926)	(666)	638,427	44,012	2,320,651	-	2,501,498
Issuance of subordinated perpetual obligations (Note 21)	-	-	-	-	-	-	(5,150)	-	-	-	-	1,000,000	994,850
Other changes	-	-	-	-	-	-	(35,337)	-	-	-	221,619	(30,222)	156,060
<b>Balance at 31.12.2017</b>	<b>4,738,136</b>	<b>(597,797)</b>	<b>968,998</b>	<b>236,866</b>	<b>14,667,676</b>	<b>693,684</b>	<b>14,868,427</b>	<b>(42,254)</b>	<b>(2,828,470)</b>	<b>2,803,994</b>	<b>5,671,380</b>	<b>1,552,546</b>	<b>42,733,186</b>

Thousand euros	Other reserves							Unrealised assets and liabilities revaluation reserve	Translation differences	Net profit for the year	Non-controlling interests	Subordinated perpetual obligations	Total
	Share capital	Treasury shares	Legal reserve	Revaluation reserves	Share premium	Other restricted reserves	Retained earnings						
<b>Balance at 01.01.2016 (*)</b>	<b>4,752,652</b>	<b>(639,239)</b>	<b>958,271</b>	<b>505,241</b>	<b>14,667,676</b>	<b>410,793</b>	<b>14,762,776</b>	<b>(222,051)</b>	<b>(459,039)</b>	<b>2,421,578</b>	<b>3,246,287</b>	<b>551,108</b>	<b>40,956,053</b>
<b>Net profit for the year</b>	-	-	-	-	-	-	(247,946)	72,657	(843,875)	2,704,983	290,061	22,948	1,998,828
<b>Transactions with shareholders or owners</b>													
Paid-up share capital increase (Note 21)	136,805	-	-	(136,805)	-	-	(916)	-	-	-	-	-	(916)
Share capital reduction (Note 21)	(117,898)	946,566	-	-	-	117,898	(946,603)	-	-	-	-	-	(37)
Restructuring Distribution of year 2015	-	-	-	-	-	-	2,234,861	-	-	(2,421,578)	(101,082)	-	(287,799)
Acquisition of free-of-charge allocation rights (Note 21)	-	-	-	-	-	-	(514,265)	-	-	-	-	-	(514,265)
Transactions with treasury shares (Note 21)	-	(1,390,694)	-	-	-	-	2,707	-	-	-	-	-	(1,387,987)
<b>Other changes in equity</b>													
Equity instruments-based payments (Note 21)	-	-	-	-	-	-	(35,160)	-	-	-	-	-	(35,160)
Other changes	-	-	-	-	-	-	(272,227)	-	243,797	-	10,632	(23,530)	(41,328)
<b>Balance at 31.12.2016 (*)</b>	<b>4,771,559</b>	<b>(1,083,367)</b>	<b>958,271</b>	<b>368,436</b>	<b>14,667,676</b>	<b>528,691</b>	<b>14,983,227</b>	<b>(149,394)</b>	<b>(1,059,117)</b>	<b>2,704,983</b>	<b>3,445,898</b>	<b>550,526</b>	<b>40,687,389</b>

(\*) The Consolidated statement of changes in equity for 2016 is presented for comparison purposes only.  
The accompanying Notes 1 to 55 and the Appendix are an integral part of the Consolidated statements of changes in equity for the year ended at 31 December 2017.

Translation of Financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 56). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CASH FLOW FOR THE YEAR ENDED AT 31 DECEMBER 2017

Thousand euros	Note	31.12.2017	31.12.2016(*)
Profit for the year from continuing activities before tax		2,025,850	3,878,662
Profit before tax discontinued operations before tax	34	(321,490)	(131,201)
Adjustments for			
Amortisation charge, provisions and staff costs for pensions	38.41	4,969,021	3,362,519
Results of companies accounted for using the equity method net of taxes	14	28,405	(48,723)
Grants credited to income	23	(276,795)	(277,241)
Income and expenses Financial	43.44	946,812	903,444
Profit from the disposal on non-current assets	42	(278,962)	(48,146)
Changes in working capital			
Change in trade and other payables		36,145	312,847
Change in inventories		(169,087)	190,950
Change in trade and other payables		(310,640)	(294,873)
Change in non-current receivables and other payables		(1,397)	(15,448)
Provisions paid		(470,723)	(464,802)
Income taxes paid		(542,169)	(743,362)
Dividends received		50,483	95,258
<b>Cash flows from operating activities</b>		<b>5,685,453</b>	<b>6,719,884</b>
Change in cash due to variations in the method and / or perimeter of consolidation	7	76,366	-
Investments in intangible assets	9	(530,992)	(269,162)
Investments in associates	14	(77,331)	(47,460)
Equity instruments		(1,641)	(16,689)
Other investments	14	1,016	(1,525)
Investments in investment property	10	(4,169)	(7,321)
Investments in property, plant and equipment	11	(5,594,372)	(4,639,161)
Interest paid capitalised interest	43	(134,042)	(109,270)
Capital grants	22	42,761	15,380
Net Inflow/outflow due to current financial assets		584,087	(9,171)
Interest collected		130,830	157,943
Income taxes		-	(11,437)
Proceeds from disposals of non-financial assets		2,800	2,015
Proceeds from disposals of financial assets		312,017	110,090
<b>Net cash flows from investing activities</b>		<b>(5,192,670)</b>	<b>(4,825,768)</b>
Free-of-charge allocation rights acquisition	21	(645,800)	(514,265)
Dividends paid		(187,072)	(186,717)
Dividends paid to non-controlling interest		(104,029)	(77,656)
Subordinated perpetual obligations	21	964,663	(30,188)
Issues and disposal from borrowings	28	13,637,173	9,277,651
Repayment of borrowings	28 22	(10,419,647)	(7,646,334)
Interest paid excluded capitalised interest	43 28	(840,985)	(1,037,353)
Movement of working capital by revenue shortfall		-	(90,444)
Cash outflows due to capital reduction		(38)	(37)
Cash outflows due to capital increase		(834)	(916)
Treasury shares acquisition	21	(1,004,890)	(1,453,188)
Proceeds from disposals of treasury shares	21	90,589	83,513
Transactions with major shareholders	21	(67,503)	-
<b>Net cash flows from financing activities</b>		<b>1,421,627</b>	<b>(1,675,934)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(149,756)</b>	<b>61,231</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,764,654</b>	<b>279,413</b>
<b>Cash and cash equivalents at the beginning of the year</b>		<b>1,432,686</b>	<b>1,153,273</b>
<b>Cash and cash equivalents at the end of the year</b>		<b>3,197,340</b>	<b>1,432,686</b>

(\*) The Consolidated cash flow statement for 2016 is presented for comparison purposes only.

The accompanying Notes 1 to 56 and the Appendix are an integral part of the Consolidated cash flow statement for the year ended at 31 December 2017.

## IBERDROLA, S.A. AND SUBSIDIARIES

### Consolidated income statements for the years ended at 31 December 2017

#### 1. GROUP ACTIVITIES

Iberdrola S.A. (Hereinafter, IBERDROLA), incorporated in Spain and with corporate address at Plaza Euskadi 5, in Bilbao, is the parent of another group of companies whose main activities are:

- Production of electricity from renewable and conventional sources.
- Sale and purchase of electricity and gas in whole sale markets.
- Transmission and distribution of electricity.
- Retailing of electric power, gas and associated electricity.
- Other activities, mainly linked to the energy sector.

The aforementioned activities are performed in Spain and abroad, and 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. The IBERDROLA Group carries its activities mainly in five countries in the Atlantic region: Spain, UK, US, Mexico and Brazil.

#### 2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

##### 2.a) Applicable accounting legislation

The IBERDROLA Group's 2017 Consolidated financial statements were prepared by the directors on 20 February 2018, 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 2016 Consolidated financial statements were approved at the General Shareholders' Meeting on 31 March 2017.

On 31 December 2017, the IBERDROLA Group presents a negative working capital of EUR 2,926 million. However, as shown in Note 5, the IBERDROLA Group has a liquidity of EUR 10,061 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 2016, except for: the application on 1 January 2017, of the amendments to IAS 7: "Statement of cash flows: Disclosure initiative" issued by the IASB (International Accounting Standards Board), adopted by the EU for its application in Europe. Said amendment implied the breakdown of transactions in 2017 classified under financing activities on the Statement of cash flows (Note 28). It is not required to present comparative information.

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 2017:

Regulation		Mandatory application	
		IASB	European Union
IFRS 15	Revenues from contracts with customers	01.01.2018	01.01.2018
Modifications to IFRS 15	Clarifications to the standard	01.01.2018	01.01.2018
IFRS 9	Financial instruments	01.01.2018	01.01.2018
Modifications to IFRS 4	Application of IFRS 9 Financial instruments with IFRS 4 Insurance contracts	01.01.2018	01.01.2018
Modifications to IFRS 2	Classification and measurement of share-based payment transactions	01.01.2018	(*)
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01.01.2018	(*)
Modifications to IAS 40	Transfer of Investment Property	01.01.2018	(*)
Cycle 2014-2016	Annual improvements several standards	01.01.2017/ 01.01.2018	(*)
IFRS 16	Leases	01.01.2019	01.01.2019
IFRS 17	Insurance policies	01.01.2021	(*)
IFRIC 23	Uncertainties over income tax treatments	01.01.2019	(*)
Modifications to IFRS 9	Prepayment Features with Negative Compensation	01.01.2019	(*)
Modifications to IAS 28	Long-term interests in subsidiaries and joint business	01.01.2019	(*)
Cycle 2015-2017	Annual improvements several standards	01.01.2019	(*)

(\*) Pending approval from the European Union

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.

The IBERDROLA Group will apply on the financial statements starting from 1 January 2018 the IFRS 9: "Financial instruments" and IFRS 15: "Revenue from Contracts with Customers", whereas IFRS 16: "Leases" will be applied on the financial statements from 1 January 2019. All the quantitative effects are shown below in gross figures.

#### IFRS 15: "Revenues from contracts with customers"

The IBERDROLA Group estimates that the application of IFRS 15 would have not implied any significant changes to these Consolidated financial statements but the effect of the activation of customer acquisition costs.

The IBERDROLA Group will adopt IFRS 15 retroactively recording the cumulative effect resulting from the application of this standard on the first day of its application. The effect of the activation of customer acquisition costs will entail a return payment of approximately EUR 175 thousand in equity as of 1 January 2018 with a charge to assets in the Consolidated financial statement of financial position.

IFRS 9: "Financial instruments"

With regard to application of IFRS 9, the IBERDROLA Group believes that:

- The new classification and measurement criteria do not imply a significant change in the IBERDROLA Group's equity as of 1 January 2018 since most financial assets will continue being valued at amortised cost with the sole exception of equity instruments and derivative financial instruments, valued at fair value.
- It will apply the general model for calculation of expected loss on financial assets other than trade and lease receivables, where the simplified model will be applied. Under the general model, credit losses expected in the next twelve months are recorded unless the credit risk of financial instruments has significantly increased from the initial recording. In such case, they will qualify as expected credit losses over the life of the asset. Under the simplified model, they qualify as expected credit losses over the life of the asset.

In view of the considerable creditworthiness of the financial assets, it is felt that the defaults applicable will be non-material.

- IFRS 9 will enable hedge accounting to be applied to economic hedges that do not meet hedging requirements under the current version of IAS 39: mainly the hedging of risk components in non-financial contracts and consideration as a hedged item of a combination of a derivative and an item which could meet the characteristics of a hedged item. As of the first application, on 1 January 2018, this has not had a significant impact on the IBERDROLA Group's equity.

Moreover, the IBERDROLA Group will record in a separate equity item the temporary value of option contracts, term of term contracts and the differences in exchange rates of financial instruments should they be excluded from hedges.

The transition to IFRS 9 in relation to the recording of hedges will be made prospectively, with the exception of the new accounting treatment of the temporary value of those option contracts for which changes in its intrinsic value was designated as hedging instrument. In such case, it will be applied retrospectively. The effect of the first application of the IFRS 9 in relation to temporary value as indicated above will result in the payment/return of EUR 2 million in equity as of 1 January 2018.

Also, in October 2017, the IASB clarified that in the changes of financial liabilities to amortised cost not resulting from the derecognition of a financial liability (for considering this to be a non-material change), it will be necessary to record in the Consolidated financial statements the result on the date of the change, the difference between amortised cost of financial liabilities and the amount of cash flows still in financial liabilities deducted from the original effective tax rate.

In the financial statements for 2017 and previous years, the IBERDROLA Group has applied the criteria set in Note 4.I for those cases where there are no material changes to financial liabilities.



This clarification by the IASB will be adopted retrospectively by the IBERDROLA Group in the financial statements from 1 January 2018. This will entail a credit of approximately EUR 162 million in equity as of 1 January 2018 with charge to “Financial debt” in the Consolidated financial statement as of that date.

#### IFRS 16: “Leases”

In relation to IFRS 16, applicable in financial statements from 1 January 2018, the analysis of its application will go on in 2018. The IBERDROLA Group expects an increase in the amount in assets due to right of use and in liabilities due to the present value of the obligation to make lease payments in relation to lease agreements for certain assets where the IBERDROLA Group acts as the lessor.

The IBERDROLA Group's main leases concern land used for wind farms and transformer plants (mainly wind farms), buildings and vehicles, among others. Under the current version of IAS 17, most of these leases are considered operating leases.

The IBERDROLA Group has temporarily adopted the following alternatives based on the possibilities offered by IFRS 16:

- Short-term leases (less than 12 months) will be excluded from the scope of the standard.
- In the case of leases of intangible assets and assets which, considered individually, are of little value, the IBERDROLA Group will decide upon their inclusion within the scope of the standard by type of asset.

The IBERDROLA Group is quantifying the impact of the first application of the standard based on the different transition alternatives as of the date of its first application. Moreover, The IBERDROLA Group is currently modifying IT systems to adapt its accounting to the new regulatory requirements.

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.

The IBERDROLA Group will not opt for early application of any of the above standards.

## **2.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.

#### Subsidiaries

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 maintains control of a company when it is exposed, or has the right to variable yields from its involvement in the company, and has the capability to influence in these yields through its power thereon. For the purpose of drawing up these consolidated annual accounts, control is deemed to be exercised in companies in which the Group holds over 50% of the share capital and can prove the existence of this control. The Annexe to the present consolidated annual accounts contains information regarding companies in which the Group holds less than 50% consolidated through global integration, and the companies in which the Group holds over 50% that have not been consolidated through global integration.

Results of subsidiaries acquired or sold in the year are included in the consolidated income statement as from the effective date of acquisition or up to the effective date of sale. All accounts and transactions between fully consolidated companies have been eliminated in consolidation.

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.

Holdings of minority shareholders are recognised at the initial moment at an amount equivalent to their proportional interest in the net assets of the acquired company on the takeover date. 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.

When there is a loss of control of a company of the Group, its assets, liabilities and any minority shareholder are written off. The resulting gains or losses are recognised in the profit and loss account. Holdings maintained in the subsidiaries whose control has been lost will be measured by their fair value on the date when this loss of control occurred. The income obtained in stock purchase transactions with minority shareholders in controlled companies and the sale of stock without loss of control will be recognised as charged or credited to reserves.

#### Investments accounted for using the equity method

Equity accounted investments include investments in associates and joint businesses. Associates are companies in which the IBERDROLA Group has significant influence, i.e., the power to intervene in decisions regarding financial and operating policies yet without having control or joint control. A joint business is a joint agreement in which the Group has the right to net assets of the agreement.

For the purpose of drawing up these consolidated annual accounts, control is deemed to be exercised in companies in which the Group holds over 20% of the share capital and can prove the existence of this control.

The Annex I to the present consolidated annual accounts contains information regarding companies in which the Group holds less than 20% consolidated through global integration, as well as companies in which the Group holds between 20% and 50% that have not been consolidated through global integration.

In the transactions carried out with associates and joint businesses, the gains or losses of the operation are eliminated in the percentage of holding interest in each company. The result of measuring investments in associates using the equity method is recognised under “Other reserves” and “Result of companies accounted for using the equity method - net of taxes” of the consolidated balance sheet and income statement, respectively.

#### Closing date of the financial statements

The closing date of the financial statements of the subsidiaries, jointly controlled entities and associates is 31 December, with the exception of SIEMENS GAMESA, whose closing date was changed to 30 September. However, for the purposes of these consolidated financial statements harmonisation has been applied so that the equity method includes the equity of the associate as of 31 December.

The accounting policies applied by these companies are the same or have been harmonised with the ones used by the IBERDROLA Group.

#### Conversion of the financial statements of foreign companies

The financial statements of each foreign company were drawn up in their respective functional currencies, defined as the currency of the economy in which each company operates and in which it generates and uses cash.

The translation of the financial statements of foreign companies has been carried out by applying 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 (provided that there are non-material transactions that do not deem appropriate to use the average exchange rate) for the year the Consolidated income statement items, keeping equity at the historical exchange rate at the time of the acquisition (or at the average exchange rate of the year in which they were generated in the case of accumulated results). The resulting translation differences are taken directly to reserves.

### 2.c) Comparativa information

When comparing the figures for 2017 included in these Consolidated financial statements with those corresponding to the year 2016, it is necessary to take into account:

- Such as is indicated in Note 7, on 8 June 2017 the shareholders of Neoenergia, S.A. (NEOENERGIA), this is, BB Banco de Investimento S.A. (Banco do Brasil), Caixa de Previdência dos Funcionários do Banco do Brasil (Previ) and Iberdrola Energía, S.A.U. (IBERDROLA ENERGÍA), reached an agreement for NEOENERGIA to incorporate Elektro Holding S.A. (ELEKTRO)'s activity and business.

After the effectiveness of the operation, on 24 August 2017, Banco do Brasil and Previ own approximately 9.35% and 38.21% respectively of the capital of NEOENERGIA, and IBERDROLA ENERGÍA now holds 52.45%, including the businesses of ELEKTRO as consideration.

The acquisition of NEOENERGÍA should be considered when comparing the figures for 2017 included in these consolidated financial statements with the 2016 figures.

- Subsequently, IBERDROLA Group has changed the way it reports its activities in Brazil and does so based on the different businesses to which they belong (before, they were included under Networks and renewables was included under ROW). As provided in IFRS 8: "Operation segments" revises comparative information from the previous year (Note 8).
- On the other hand, on 22 December 2017 the *Tax Cuts and Jobs Act of 2017* (Tax Act), referred to as "US Tax reform", was signed and passed. The standard includes relevant changes in the US Tax Structure. With the most significant aspect being the reduction in federal tax for legal persons from 35% to 21%. Other measures also reference the establishment of a territorial system, the limitation to the deductibility of interests and the use of the credits by negative tax bases, the immediate deduction of specific investments, and the setting of certain measures aimed at preventing the erosion of tax bases in the multinational environment. Independent of the impact on the current tax that is determined during the years in which the new legislation is in effect (2018 and thereafter), the calculation of the balance of taxes different from the tax rate at which they will be reversed in the future, already considering the new federal rate of 21% for this, implied a credit of 2,025,508 under the sub-heading 'Corporate income tax' of the 2017 Consolidated income statement (Note 30).
- Additionally, in 2017, the activities related to the provision of engineering and construction services were abandoned, meeting the requirements to be considered a discontinued activity. The profit or loss after tax of this discontinued operation is included under the sub-heading 'Year's result from discontinued activities' on the 2017 and 2016 Consolidated income statement from applying the main accounting principles. In this regard, the financial result and the cash flows for the years 2017 and 2016 related to said activities are broken down in Note 34 of these Financial Statements. Subsequently, comparative information from the previous year has been revised.

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

In 2017 a set of rules affecting the energy sector were approved. This section lists the most significant changes:

#### 3.1. European Union

##### Network codes:

The European Union published Regulations (EU) 2017/459 and 2017/460 in March 2017. The former established a network code on capacity allocation mechanisms in gas transmission systems (defining the capacity allocation mechanisms in transmission networks for existing and incremental capacities) and set out how adjacent system operators can cooperate to facilitate capacity sales.

The latter, 2017/460, sets out rules on harmonised transmission tariff structures for gas, including rules on the application of a reference price methodology, the associated consultation and publication requirements as well as the calculation of reserve prices for standard capacity products.

The Grid Code on emergencies and service restoration was published on 28 November, establishing a) the management by the transmission network state of emergency, power outage and restoration managers; b) the coordination of the operation of the system throughout the entire Union in a state of emergency, power outage and restoration; c) the simulations and tests to guarantee a reliable, effective and fast restoration of the interconnected transmission networks to their normal state after a state of emergency or power outage.

Allegations about strategic reserves:

Open term for submitting comments regarding the investigation of the Directorate-General for Competition (European Commission) on the strategic reserves in Germany. On 23 January 2017, Germany reported draft legislation on the reserve capacity, along with an assessment of the need for the measure. After examining the measures, the Commission reached a provisional conclusion on what constitutes state aid. Interested parties may submit their comments one month following the publication date (19 May 2017).

BREXIT

Council Decision (EU) 2017/900 created the ad hoc working party on Article 50 of the Treaty on European Union (TEU) chaired by the General Secretariat of the Council, who will assist the Committee of Permanent Representatives of the Governments of the Member States (Coreper) and the Council in all matters pertaining to the withdrawal of the United Kingdom from the Union. The working party will cease to exist when its mandate has been fulfilled.

Publication of the new emissions limits for large combustion plants (LCP)

On 17 August 2017, the Official Journal of the European Union (OJEU) published Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 establishing best available techniques (BAT) conclusions for large combustion plants (> 50 MW).

- Member States must adapt to these new limits on acid gas emissions [nitrogen oxides (NOx), sulphur dioxide (SO<sub>2</sub>), small particulates and, for the first time, mercury] by 2021.
- The technical references were approved by the committees (Board and EC) on 28/04, having previously been strongly opposed within the Board (Germany Poland, Czech Republic, Finland, Hungary, Slovakia, Bulgaria and Romania).

Entry into force of the Directive on the management of the electricity transmission network

On 14 September 2017 Regulation (UE) 2017/1485 came into force, establishing a directive regarding the management of the electricity transmission network (published in the DOUE of the 28/08). The Directive requires the development of specific procedures for the different network operators. *European Network of Transmission System Operators for Electricity* (ENTSOE) must draft a proposal in the next six months, as well as adapt to each State and be ratified by the Regulators, before September 2018. These procedures will determine the roles of the Transmission and Distribution networks, their responsibilities and the data exchange methodology. Following the publication of this Directive, only the Emergency and Replacement Network Code and the Balancing Directive are pending.

Security supply of gas:

The new Regulation 2017/1938 on the Security Supply of Gas was published on 30 October 2017, repealing Regulation 994/2010.

After the 2006 and 2009 gas crisis, the first Regulation (994/2010) was adopted on the security supply of gas of the European Union (requiring the Member States to have national gas crisis and prevention plans, obligating the companies to ensure the supply to protected customers and predict the installation capacity of bidirectional gas). In February 2016, as part of the Energy Security Package, the EC presented a new regulation since the European Union continued to be highly dependent on gas importations and many Member States continued to be vulnerable to interruptions in supply. The best principles of the new regulation are:

- Principle of solidarity: In the event of a serious gas crisis, the Member States will help their neighbouring states to ensure the supply of gas to homes and necessary social services.
- Reinforcement of regional cooperation: The Regional Groups will jointly assess the common security risks to the supply and shall agree upon preventive measures and common emergencies.
- Improve transparency: The gas companies must notify the long term contracts that are relevant to the security of the supply (those that represent 28% of the annual gas consumption in the Member States).

#### Electricity balance sheet:

EC Regulation 2195/2017 was published on 28 November 2017, establishing a directive on the electricity balance sheet and the common principles for the contracting and settlement of reserves for the containment and recovery of the frequency and replacement reserves, as well as a common method for the activation of these reserves. This applies to all transmission networks and interconnections of the European Union, except for island transmission networks that are not connected to other transmission networks through interconnections.

#### Aid to renewable energy:

EC Decision SA.40348 (2015/NN) was published in December 2017, authorising the Spanish system of aid to renewable energy. The EC came to the conclusion that the Spanish system of aid to electricity production from renewable energy sources, cogeneration of high efficiency heat, electricity and wastes is in accordance with the state aid standards of the European Union.

## 3.2. Spain

### Spanish electricity sector

#### Regulated revenues and costs in the electricity sector

An order was published at the end of December 2016 establishing electricity access tolls for 2017. The order maintained the currently valid tolls, capacity payments and compensation of non-peninsular systems, and the contribution of 50% of this cost by the General State Budget. The distribution remuneration is provisionally settled with 2016 values until a ministerial order with the values for 2017 is published.

#### Renewable energy remuneration revision

The order to revise the remuneration for renewable energies, cogeneration and waste for 2017-2019 was published in February 2017. The order revises the regulated remuneration additional to the market income received by the aforementioned facilities for both investment as well as operation:

- The actual prices obtained in the previous half-period (2014-2016) are updated, using the OMIP futures for the next three years (2017-2019) as a reference (approximately EUR 42 - 43 per MWh), maintaining a price of EUR 52 per MWh as of 2020.
- In turn, operation remuneration of the first half of 2017 is revised to include the updated fuel costs.

The total regulated remuneration increase in the sector is approximately EUR 600 million versus 2016.

### Renewable Energies, Cogeneration and Waste (RECORE):

The order was published that reviews the operation remuneration (OR) for the second half of 2017, in accordance with the evolution of the cost of the raw materials and the price of the euro/US dollar. The level of remuneration stays at a level similar to that of the previous half.

In this order, five new types of facilities are created, establishing the remuneration of some current facilities that showed inconsistencies in their enrolment on the record.

The judgements of the Supreme Court were also published, cancelling the amendments to the useful life that affected the mini hydro power plants before 2014 and the slurry plants, obligating them to maintain the regulatory useful life at 25 years. For slurries it is also mandatory to review the equivalent hours for the calculation of the plant production.

### Social tariff

On 24 December, the Royal Decree-law 7/2016 was published, which regulates the mechanism for financing the cost of Social tariff and other measures to protect vulnerable electricity consumers. In response to the rulings of the Supreme Court on appeals against social bonus financing, this Royal Decree-Law establishes a new mechanism for financing them against retail activities and entered into force on 25 December 2016. In the meantime and until the regulating provisions, IBERDROLA will finance 35.5% compared to the previous 38%. The royal decree-law calls on the Government to develop a new social protection mechanism that includes income criteria in its definition and also creates a second group of "severely vulnerable consumers" entailing a prohibition on supply discontinuance and bill co-financing by the competent administrations and social tariff funders.

The royal decree-law was co-validated on 31 January 2017, from which date the implementing provisions thereof has a term of three months.

Royal Decree 897/2017, concerning vulnerable consumers, social bonus and other protective measures for domestic electricity consumers and the ministerial order implementing this decree, applicable as of 9 October 2017 (with a transitional period of six months for social bonus recipients) were published at the beginning of October 2017. The social bonus is defined as a discount on the electricity bill, 25% or 40% on the PVPC up to a consumption limit, based on the income and characteristics of the family unit. The social bonus eligibility criteria and access procedure were revised based on criteria entailing income, number of minors in the household and other conditions up to a consumption limit. The social bonus will apply for two years and only extend until expiration of the pertinent contract for large families. The supply suspension process for natural persons in their primary residence was also revised.

There is an additional obligation to rescind additional services under contract with the consumer when the electricity supply is terminated. Lastly, a method was established for calculating the percentages for distribution amongst retailers based on their quota of customers and procedure for settling the quantities to finance.

The consumer must request the social tariff to a benchmark retailer. Who in turn must check the details of the request on a remote platform managed by the Ministry of Energy, Tourism and Digital Agenda, except for the Basque Country and Navarra, where the consumer must present the income received.



All retailers have the obligation to finance the social bonus according to distribution percentages that are calculated based on the number of customers (in the free or regulated market), and also to inform all the consumers of the right to contract at PVPC or social tariff.

The supply suspension process for natural persons in their primary residence was also revised.

- The deadlines for suspension of supply due to non-payment (2 months after notification or 4 months for vulnerable customers) in the free and regulated market are matched, and the number of authenticated notifications due to lack of payment increases (between 2 and 4 notifications), which must follow the established models.
- The supply to consumers at risk of social exclusion (severely vulnerable or who are being assisted by social services and pay less than 50% of their bill to PVPC) are considered a necessary supply and as such, uninterrupted. The rest of the bill will be paid by the same companies financing the social tariff.

There is an additional obligation to rescind additional services under contract with the consumer when the electricity supply is terminated.

#### Return of amounts financed by the social bonus between 2014 and 2016:

A return order was published in October 2017, paid from the accumulated surplus of the settlements, for amounts of the 2015 and 2016 social bonus, along with its corresponding interests.

The return came into effect in November, with IBERDROLA receiving EUR 120 million (EUR 114 million from principle and EUR 6 million from interests).

Subsequently, the return order of the 2014 amounts, recognised in the November judgement, was published in December 2017.

As in the previous case, it includes the corresponding interest and it will also be paid from the accumulated surplus. IBERDROLA shall receive EUR 77 million (EUR 70 million from principle and EUR 7 million from interests).

#### Territorial Supplements

A ministerial order was published in January 2017 that established the Territorial Supplements of the Autonomous Communities of Catalonia, La Rioja, Castilla La Mancha and Valencia, and their rebilling procedure to the consumers of the corresponding autonomous communities.

This order is a result of the Supreme Court rulings that supplements must be established in the tolls applied to consumers in every autonomous community to recover the local taxes on the different electricity activities in 2013.

The approved order entails rebilling consumers in the four autonomous communities where the government has completed the process, and the rest of the autonomous communities remain pending.

#### National efficiency fund

In March 2017, the order establishing the contributions to the National Energy Efficiency Fund for 2017 was published. Electricity and gas retailers and oil product operators must finance this fund in proportion to their 2015 turnover figures (year n-2). The approximate weight of these sectors is 25% electricity, 25% gas and 50% oil.



Similar to previous years, the annual allocation is set at EUR 205.2 million. The total turnover in these sectors amounted to 777 TWh equivalent, which is equal to 0.26 euros per MWh of electricity, gas or oil product. Calculations are based on the final energy sales declared by each company and corrections from previous years are added. As the values are final energy, gas consumption in generation and cogeneration is excluded.

The quota calculated for IBERDROLA is 7.2%, for a turnover of 56.3 TWh and the payment obligation is approximately EUR14.9 million versus EUR15.1 million last year.

#### Renewable capacity auctions

The royal decree providing legal support to the first renewables auction in 2017 was approved on 31 March 2017, followed by publication of the ministerial order and decisions regulating the auction procedure and parameters of remuneration.

The auction expected a maximum 3,000 MW of renewable power capacity on the Iberian peninsula, excluding cogeneration. It addresses new facilities but does not admit repowering existing wind farms or projects that already have authorisation or prior entry. All technologies will compete against each other without quotas. A surety of EUR 60 per kW is established, linked to attaining intermediate milestones. Failure to attain the first milestone will entail the loss of the entire surety (100%).

The auction took place on 17 May with an assignment of 2,980 MW in wind power, 1 MW photovoltaic power and 19 MW in the other technologies. The maximum discount was applicable, and therefore successful bidders would receive no premiums, save the pertinent revisions in subsequent regulatory periods when the market price decreases to a certain level.

The royal decree providing legal support to the first renewables auction in 2017 was approved on 17 June 2017. A quota of 3,000 MW in wind or photovoltaic power was established for the Iberian peninsula. Additionally, the projects presenting the same maximum discount as the winning bid in the auction were awarded contracts so long as a confidential value was not surpassed.

On 1 July 2017, the decision on the call for the third new photovoltaic and wind power capacity auction on the peninsula was published after the royal decree for calling the auction and the ministerial order establishing the corresponding remuneration parameters were published in June.

The auction was held on 26 July, resulting in the assignment of 3,909 MW of photovoltaic and 1,128 MW of wind power. The procedure and rules of application were the same as the ones in the May auction, differing in the increased maximum reduction percentages compared with the previous auction. The maximum discount was applicable, and therefore successful bidders would receive no additional remuneration besides the market remuneration, save the pertinent revisions in subsequent regulatory periods when the market price decreases to a certain level.

#### Constitutional Court ruling quashing several sections in Law 13/2015 regarding Galicia

The quashed sections regulated some matters regarding the billing of customers for electricity that conflicted with the powers of the State.

Aspects related to billing with new remotely managed meters are relevant, since it overrides the prohibition not only to collect rent when they are not integrated yet but also to bill on estimated readings for these meters when real consumption data cannot be secured remotely. It also invalidates the payment exemptions on extension rights to purchasers of urbanised land for the power capacity already borne by the industrial complex promoter, regardless of the time elapsed since then. State legislation establishes an expiration in three years (low voltage) or five years (high voltage) for this exemption.

#### Supreme Court ruling regarding the deficit in 2013

In April 2017, the Official State Gazette published the Supreme Court's ruling on the appeal lodged by UNESA against the Ministerial Order on tolls in 2015. In relation to the deficit of 2013, the ruling establishes acknowledgement of interests to UNESA companies from the moment of contribution (instead of from 1 January 2014), which results in EUR 5 million to IBERDROLA.

#### Detraction of CO2 emission rights practised in 2006

Through an enforceability declaration of the decision handed down on 4 May, the Supreme Court acknowledged IBERDROLA's rights to the interests on the detraction of emission rights practised in 2006 amounting to EUR 31 million after resolving the presented decision execution incident. The interests correspond to amounts unduly taken from facilities not assigned under the first national CO rights assignment plan.

In another ruling, the Supreme Court also found in favour of a payment to IBERDROLA of EUR 1 million for interests in the detraction of emission rights in 2007.

The acknowledgement of late interests related to the detraction of rights was recorded in the 2017 consolidated profit and loss account.

#### Supreme Court ruling regarding Royal Decree 900/2015 on self-consumption

In July 2017, the Official State Gazette published the judgement of the Constitutional Court invalidating several precepts of Royal Decree 900/2015 on self-consumption in the complaint lodged by the Catalan regional government (Generalitat de Catalunya) and upholding the ruling of the Supreme Court published in June. In particular, the judgement invalidated section 4.3, permitting a generator (producer) to connect to an internal grid of several consumers, in which regard the Constitutional Court construes the term "internal grid of several consumers" to mean "connection/coupling facilities" (common area of the building before the meters). It also invalidates several sections referring to the obligation to register with a state registry.

#### Nuclear power plant renewal deadline requests

Two ministerial orders were published in June to extend the deadline for requesting operation renewal for the Almaraz and Vandellós nuclear power plants. Renewal will be requested within the term of two months from the government's approval of the comprehensive energy and climate plan or, in the absence thereof, two months before completion of the current authorisation. This plan is part of the developments required by the Clean Energy Package.

#### Hydroelectric power fee

A royal decree-law was published in June 2017, containing measures to alleviate the drought in certain watersheds that included an increased hydroelectric power fee. The charged rate hiked from 22% to 25.5%, applicable on the income obtained from hydroelectric power production. The measure entered into force upon publication of the royal decree-law with no time limit.

### Garroña closure

In August, the Official State Gazette published the order establishing the final closure of Garroña. The government deems that, at the current juncture entailing the revision of the energy planning, the lack of electricity production at this power plant had no significant repercussion on the electricity supply due to its small power capacity (466 MW) in comparison with other nuclear power plants, and the effective return online could be delayed for more than a year as a result of the investments and measures being taken at the plant concerning nuclear safety and radiological protection.

### Coal subsidies

In August, the Official State Gazette published the order with the Ministry of Energy, Tourism and the Digital Agenda's comprehensive annual aid plan, which includes subventions to the coal sector for 2017. The published amounts are not binding but contingent upon the effective implementation of the different subvention lines. These programmes include aid to offset the closure of coal-burning power plants (EUR 25 million).

### Availability and interruptible incentive:

In November 2017, the order in which the incentive for availability was published will only be extended for half a year, until June 2018 (it is usually extended for one year) and excludes the hydropower plants.

The interruptible mechanism is also modified and will be awarded through an auction for 5 months (previously 1 year). The modifications are also implemented to be able to make their application flexible.

The interruptible auction was held the week of 18 to 22 December 2017 for the delivery period understood to be between 1 January and 31 May 2018. Unlike the previous years, additional auctions were not held since the set conditions to hold them are not provided in the confidential annexe. A power of 2,600 MW (-12.6% vs. 2,975 MW in 2017) at a total annual cost of EUR 372,8 million (-29% vs. EUR 524.8 million in 2017) was auctioned.

### 2018 tolls:

The order that establishes the electricity tolls for 2018 was published.

- It freezes all the tolls and current capacity payments.
- It provisionally maintains the transmission remuneration and distribution, until the orders with definitive values for 2018 are published.
- It establishes the possibility of allocating part of the historical surplus so that there are no maladjustments in 2017 and 2018 (up to EUR 200 million in 2017 and EUR 500 million in total).
- The 2017 receivable income is considered to be the balances of the accounts allocated to quality improvement, service and clearing vegetation plans, for the amount of EUR 54 million.
- It modifies the aspects related to social bonus eligibility criteria and access procedure, for pensioners and large families.
- It makes the gas meter replacement plan more flexible in granting exceptions: The distributors can remain at up to 2% of non-replaced gas meters starting January 2019.
- It establishes the provision remuneration of the OS and OM, recognising EUR 9 and 5 million additional, respectively, for the adaptation of systems to the European market, which increases the prices to be paid by generators and retailers.

Distribution compensation:

Several judgements have been published that affect the remuneration of past years, as well as the calculation of the remuneration for the coming years:

- Judgement of the Supreme Court that mandates the revision of the coefficient ( $\lambda$  base) representing the percentage of facilities that make up part of the assets of each company and that were financed by it, discounting that loaned by third parties and the volume of public aid received.
- Favourable ruling for IBERDROLA in the appeal filed against the incentive for losses in 2012 and 2013.
- Unfavourable ruling for IBERDROLA in the appeal filed against the incentive for losses in 2010 and 2011.
- Judgements of the Supreme Court that accept that the accounting information is used for the calculation of the average remaining life.

Electric vehicle aid:

Aid programmes of up to EUR 20 million have been published for the acquisition of electric vehicles and other types of alternative energy, and EUR 15 million for the development of the recharging infrastructure, managed by IDAE.

**Spanish gas sector**

Gas tolls for 2017

On 31 December, Order ETU/1977/2016 was published whereby the tolls and fees associated with third party access to gas facilities and the remuneration of regulated activities for 2017 are established. This order maintains the current tolls in force, except for the reduction of refills except in the case of the coefficients applicable to short-term contracts.

Last resort of natural gas tariff for the first quarter of 2017

Resolution of 29 December of the General Directorate of Energy Policy and Mines, publishes the last resort of natural gas tariff effective from 1 January 2017. Prices decrease by an average of 3% versus the previous quarters. The increase is due to the boost in the cost of the raw material, both in its component referenced to Brent and the one referenced to the NBP. Still, prices continue being 8% lower than those in January 2015, when the historical maximum record was attained.

Last resort of natural gas tariff for the third quarter of 2017

Resolution of 28 December of the General Directorate of Energy Policy and Mines, publishes the last resort of natural gas tariff effective from 1 January 2017. Prices decrease by an average of 1%, in relation to the previous quarter. The decrease is a result of the reduced raw material cost, improved exchange rate and Brent price similar to the previous quarter. Thus, prices continue being 7% lower than those in January 2015, when the historical maximum record was attained.

#### Winter activation plan:

The resolution was published obligating the gas retailers to maintain a 'winter reserve' (from November to March) by means of its own existing LNGs or those of third parties, equivalent to 3.5 days of its input capacity to the transmission network (it was 2 days up until now), which may only be mobilised in the event of a cold spell or significant increase in the electricity demand, prior declaration of the Technical System Manager. Exceptionally, during the 2017-2018 winter period, the part of the reserve that did not exceed the current debenture up until now shall also remain in the underground storage facilities.

#### Market makers:

The decision was published establishing the conditions for the provision of the mandatory market maker service by the controlling operators of the natural gas market (Endesa and GNF).

They are obligated to maintain a minimum volume of purchase and sale offers up to a maximum annual volume of 5.68% of its volume from supplying gas to Spain. The separation of prices between the purchase and sales offers must be equal to or less than 0.50 euros per MWh.

#### 2018 gas tolls:

The order was published that establishes the gas tolls and fees for 2018, in which all the tolls and current fees are frozen.

It also recognises the corresponding yearly cost of storage facilities in Castor at 80.7 million years (recently cancelled by the Constitutional Court) and recognises an imbalance of EUR 90 million between the 2016 income and expenses, to be recovered with the payment of the 2018-2022 tolls (which allows for its securitisation).

#### Last resort natural gas tariff for the first quarter of 2018

The Last Resort Rate of natural gas was published, valid starting 1 January 2018. Prices increase by an average of 6%, in relation to the previous quarter. The increase is due to the increase in the cost of raw material, Brent (+12%) and NPB (+25%).

### 3.3. United Kingdom

#### BREXIT

The UK informed of the activation of Article 50 of the EUT on 29 March 2017. After a standstill due to the general elections, negotiations started on 19 June 2017.

On 8 December 2017, the negotiators of the United Kingdom and European Union agreed upon a joint report on the payment issues from the separation, the rights of the citizens and Northern Ireland. This allowed the European Council to conclude that sufficient process has been made to continue onto the next phase of the negotiations, in which a transition phase of about 2 years is expected, during which most of the agreements of the European Union shall continue to be applied without change and the United Kingdom continues to make budgetary contributions. Likewise, work will start on the future relationship between the United Kingdom and the European Union, even though this would not be over in March 2019.

### Capacity Market

Office of Gas and Electricity Markets announced its final decision on industry proposals CMP264 and CMP265, which favour an option construed as that substantially eliminates the benefits (regarding transmission tolls) for generation connected to distribution progressively for a period of three years beginning in April 2018. Moreover, on 22 March 2017 the BEIS (Department for Business, Energy and Industrial Strategy) announced its decision to recover the costs of the capacity payments on the gross demand beginning in 2018, thus preventing the actual covered subsidy for generation connected to distribution.

On 15 June 2017, the published its plan regarding the 2017/2018 capacity market, which establishes that the T-1 auction (for energy delivery in 2018/19) begins on 30 January 2018 and the T-4 auction (delivery in 2021/22) begins on 6 February 2018.

The Government has continued working on proposals for improving the Capacity Market and on 4 December 2017 announced more realistic appraisal factors for short-duration battery. On 1 November the legislation necessary for improving the distribution of capacity market costs and avoiding the excessive remuneration of small diesel systems connected to distribution was approved. DEFRA (Department for Environment, Food & Rural Affairs) continued to work on the restrictions of diesel generated emissions to require environmental updates from whoever participates in the CM. The planning of the 2017/2018 capacity market continues. The T-1 auction started on 30 January 2018 and the T-4 auction on 6 February 2018.

### Renewables auction

The auction on contracts for differences (CfD) on renewable energies for offshore wind power and other technologies began on 3 April 2017 with a budget of GBP 290 million. Sealed envelopes with the bids were opened in August 2017. On 11 September 2017, the results of the second round of CfD auctions for offshore wind farms and other immature technologies were announced. Over 3 GW in offshore wind power were awarded with approximately 2.3 GW in delivery year 2022/23 at a price of GBP 57.50 per MW (at 2012 levels).

After the results of this last auction, the Government confirmed a budget of GBP 557 million for the next contracts for difference (CfD) for offshore wind and other immature technologies. This amount is sufficient for a broad offshore programme in 2020.

### Retail prices

Over the speech at the Conservative Party Convention on 4 October, Prime Minister Theresa May announced an inquiry on the draft law that required OFGEM to apply a price cap on the standard variable tariffs (SVT) and other tariffs by default. The draft of the draft law was submitted to pre-legislative scrutiny by a 'Selection Committee' and it is expected to reach Parliament at the beginning of 2018. In autumn of 2017, OFGEM confirmed its decision to increase the exiting price cap for customers with pre-payment accountants so that they be applied to customers who are in the Warm Homes Discount programme (this new price cap enters into effect 2 February 2018). OFGEM has indicated an intention to extend this latter cap to further vulnerable customers, which it wants to implement in autumn 2018. Ofgem has indicated an intention to extend this latter cap to further vulnerable customers in later 2018.

## RIIO2

On 12 July 2017, OFGEM published an open letter regarding the development of the RIIO framework, indicating that new controls would be more restrictive and inquiring on a series of specific details. OFGEM announced that it would open a consultation regarding its proposals for the RIIO-2 structure at the beginning of 2018. Consultations were also made on proposals to simulate competition in mandatorily tendered major grid projects, providing the transmission owner with an option to tender the project or accept lesser profitability. No ScottishPower project is currently included in this case.

## Cost Review Study.

On 25 October 2017, Professor Dieter Helm published a report on his independent energy cost review. In this, he specifically studied how the energy industry, government and regulators are able to keep the cost of electricity as low as possible by ensuring, in turn, the national and international climate targets.

The review concluded with a long list of ambitious proposals, on which the Government published a call for evidence.

## Carbon Closure.

The Government has reconfirmed its intention to eliminate the carbon generation system in 2025 and, in the 2017 autumn proposals, it confirmed that it will maintain the minimum price of CO<sub>2</sub> so that the sum of this price and the ETS price remain at the current levels, until at least all of the carbon generation is out of the system.

## **3.4. United States**

### Paris Agreement

On 4 August 2017 Trump's Administration sent a formal notice to the UN describing its intention to withdraw from the Paris Agreement. The Agreement allows for any party to send a notice in writing to the UN expressing the intention to withdraw from the Agreement three years after it becomes effective. The withdrawal will become effective a year after the notice, expected for 2020. On 20 September, the United States Climate Alliance, a coalition of 14 US States and Puerto Rico formed in response to President Trump's statement that he would withdraw from the Paris climate deal, announced its commitment to honour the United States' commitment under the Paris agreement to reduce emissions related to global warming. The co-chairmen of the alliance stated that the group was taking steps to secure a reduction of 24 to 29% (compared to 2005 emissions) by 2025, the target set in the Paris agreement.

### Tax Reform

On 22 December 2017, President Trump signed the tax reform, Tax Cuts and Jobs Act, which implied a cut of 1.5 trillion US dollars.

The new law establishes the following:

- The permanent reduction of corporate income tax from 35 to 21%, effective as of 1 January 2018.
- The elimination of the corporate Alternative Minimum Tax (AMT).



- The maintenance of corporate deductions for local and state taxes.
- The limitation on the deduction of interests.
- The exclusion of the utilities (regulated public services) from the total expense and their exemption from the limitation on the deduction of interests.
- The inclusion of normalisation and the excess provisions of deferred taxes.
- The maintenance of tax on dividends and capital gains.
- The maintenance of the elimination and gradual reduction of the PTC (Production Tax Credits) and the ITC (Investment Tax Credits), without modifications.
- The enforcement of a Base Erosion Anti-Abuse Tax on the deductions for the costs paid or accrued to a foreign subsidiary.

The Ministry of Finance will publish the guides and regulations necessary to implement the law.

#### Environmental Protection Agency

The EPA (Environmental Protection Agency) is carrying out a procedure to put an end to the Clean Power Plan.

The EPA is also reviewing the options on replacing the programme, which will establish a smoother regulatory impact.

In November 2017, the Congress approved and the President signed the 2018 annual defence authorisation legislation. This includes a text that addresses the location of wind farms near military bases. The legislation made minor changes to the current process.

#### Resilience of the System.

FERC is also reviewing the resilience of the system. In September 2017, the Minister of Energy proposed that certain generators with resilience properties can obtain income through this service. FERC refused to go forward with the proposal of the Minister. Instead, the FERC is now continuing to review the resilience properties at the regional level.

#### Renewables

The legislators of California approved it, and Governor Brown signed Assembly Bill 398, increasing the state regulations of greenhouse gases and authorising the use of the cap-and-trade programme until 2030.

The legislators of Texas approved it and Governor Abbott signed a draft law to deny property tax incentives to the new wind projects near military facilities.

The North Carolina Senate added a provision of 18 months to the moratorium in the solar draft law for the location of wind farms. Governor Cooper signed the draft law that specifically exempts Desert wind II from the moratorium.



### Tariffs on solar panels

On 22 September 2017, the International Trade Commission (ITC) of the United States concluded that the imported solar panels were causing 'serious damages' to American manufacturers.

Suniva and SolarWorld Americas requested that the ITC recall that the mass influx of cheap solar panels from Asian countries is damaging the American industry and putting companies out of business.

On 22 January 2018, President Trump approved the recommendations to establish tariffs on the panels and solar cells. These tariffs will be 30% the first year and will be lowered over the following 3 years, excluding the first 2.5 GW in imports on each one. This is less than the levels requested by the companies who processed the claim, accusing the Chinese companies of undermining the market.

### Transmission

The review continues on the return on equity (ROE) of the FERC (Federal Energy Regulatory Committee) for the transmission facilities in New England. The Court of Appeals issued a ruling ordering the FERC to reconsider its order on the 2011 claim (first claim), in which the initial ROE decreased from 11.14% to 10.57%. The final determination of the ROE is still unresolved.

## 3.5. Brazil

### New Tariff Flag values for 2017

On 20 February 2017, ANEEL published a decision with the variable unit costs for triggering the different tariff flags in 2017, also establishing the additional cost for each flag:

- Yellow category: It is activated when the VCU of the last coal-fired plant dispatched is greater than BRL 211.28/MWh and less than BRL 422.56/MWh. It implies a surcharge of BRL 20 /MWh for the customer (in 2016, it was BRL 15/MWh).
- Red 1 category: It is activated when the VCU of the last coal-fired plant dispatched is greater than BRL 422.57/MWh and less than BRL 610/MWh. It implies a surcharge of BRL 30 /MWh for the customer (the same as in 2016).
- Red 2 category: It is activated when the VCU of the last coal-fired plant dispatched is greater than BRL 610/MWh. It implies a surcharge of BRL 35/MWh for the customer (in 2016, BRL 45/MWh)

On 24 October 2017 ANEEL open a public enquiry to revise the tariff flags methodology and the values added each time each flag is activated. The deadline for sending comments ended on 11 December.

### Over-contracting of distributors:

During the first half in 2017, the centralised negotiation mechanism held rounds with excessively contracted distributors and generators seeking to lower the volume of contracted energy (new energy surplus and deficit compensation mechanism), and also held a special round for reducing January 2018 contracts to December 2021.

On 23 August 2017, the Brazilian Ministry of Mines and Energy published Decree 9,143/2017 with amendments affecting the contracting of energy through distributors. The main developments are:

- Recognition of overcontracting arising from the migration of special customers (between 0.5 and 3 MW) to the deregulated market as involuntary, so long as there is participation in all rounds of the centralised energy surplus and deficit compensation mechanism between distributors and producers. In doing so, it guarantees the transfer to tariff of these overcontracting amounts.
- Defined rules so that the distributor can return any contract arising from the existing energy auction when there is a migration of special customers (previously only capable of returning contracts entered into before 2017).
- Clearer rules for auctions, anticipating the contracting periods and guaranteeing predictability. Obligation to publish an annual auction agenda at the start of each year.
- Enabling distributors to sell their energy surpluses to producers, retailers and free customers (> 3 MW) in specific auctions.
- Reduced physical guarantee to 90% for producers who sell their energy in the quota system (positive measure for distributors by reducing the risk of overcontracting).

Additionally, on 24 July 2017, the Brazilian Chamber of Electricity Trading published the results of a new round of the centralised energy surplus and deficit compensation mechanism between distributors and producers for the July-December 2017 contracting period.

Elektro's annual tariff readjustment: Tariff readjustment for inflation and the competitiveness and efficiency factors, and the tariff at real costs of purchasing energy, transmission and system loading

Approved by ANEEL on 22 August. It entails an average increase of 10.40% for consumers (increase of 10.27% for HV and 10.47% for LV). The new tariffs are valid beginning on 27 August. In this case, despite entailing an increased final tariff, the distributor's remuneration decreases by 2.1% as a result of the lower inflation rate and application of the productivity, efficiency and quality factors.

Public inquiry on the regulatory improvements in the Electricity Sector CP 33/2017

Between 5 July and 17 August, the Ministry of Mines and Energy opened a public industry with a view to gleaning contributions of agents to improve the regulatory framework of the electricity sector. The technical note contains proposals on various matters discussed in the sector such as the expansion of retail deregulation, separation in auctions on ballast (supply security) and energy (to date both are quoted together in long-term distributor contracts), binomial tariff, end of the quota system, preview of the calendar for standardising regulated charges (CDE account) throughout the different zones. It also proposes solutions to eliminate the elevated judicialisation of the sector.

Result of transmission line auction No. 2/2017

On 15 December, an auction was held on transmission lines, in which the 11 lots offered were matched with an average discount of 40.46% on the expected market price.

This auction implies an investment of 8,700 million Brazilian reals in 10 states (Bahia, Ceará, Minas Gerais, Pará, Paraíba, Pernambuco, Piauí, Rio Grande do Norte and Tocantins). The lots contain transmission lines and substations, specifically 4,919 km of transmission lines and 10,416 MVA were awarded to the substations. They are expected to enter into commercial operation after 36 to 60 months after the date on which the concession contracts are signed. The duration of these contracts shall be for 30 years.

NEOENERGIA was the main winner of this auction, being awarded 1,074 km and a 500 kV substation on 2 lots, which were amongst the most disputed projects.

- The first project includes 729 km in the states of Piauí, Tocantins and Bahia. With an annual income of 126 million Brazilian reals, which implies a discount of 46.62%.
- The second is a 345 km line in the states of Paraíba, Rio Grande do Norte and Ceará. With an annual income of 57.3 million Brazilian reals and a discount of 44.56% (with 14 business groups competing for this line), it is important to mention that the Santa Luzia substation will be the future connection point with the Basic Grid for the two wind farms that were auctioned off at the A-6 auction held on 20 December.

#### Distributors released from obligation to refund revenues from energy sales in the market between 2002 and 2008

On 5 July, a ruling of the Finance and Taxation Commission of the Federal Chamber invalidated the Legislative Decree Project PDC 10, which aimed to required distributors to refund amounts collected in the tariffs between 2002 and 2008 back to consumers. The excess collected amounts arose because parcel A of the tariff (costs not managed by the distributor such as the energy purchase cost and transmission grid payment) was not neutral and allowed distributors to obtain profits whenever the real demand was higher than the initial estimations. Until then, there had been a latent risk for distributors with an impact of BRL 13,000 million for the sector as a whole. The CFT's decision is final and there is no political pressure to reopen the matter in Congress.

#### Regulatory Resolution No. 787/2017 on the quality of applying the corporate governance systems to the electricity distribution companies (published on 8 November 2017)

The corporate governance is measured using five variables: transparency, structure of the senior management, relationship between ownership and control, internal control and regulatory compliance. These variables make it possible to classify the distributors at different levels of compliance: high, average, insufficient and unfeasible. If the distributor has a low level of compliance, it must be included in monitoring programmes to promote improvements and assess the financial economic situation and quality of the governance system.

This resolution entered into effect on 1 January 2018 but has a trial period of 2 years, during which the distributors shall not have advantages if their governance is good, or penalties if it is not.

Exclusion from the responsibility of the Baixo Iguazu hydraulic power plant for a delay in its works.

The Baixo Iguazu power plant requested that it recognise an exclusion from responsibility for 104 days, during which the construction works were stopped due to the invasion promoted by the Movement of People Affected by the Dams throughout 2016. On 13 November 2017, Order No 3770/2017 was published recognising an exclusion from responsibility for 46 days due to delays and maintaining the validity period of the contract at 35 years. Resolution No. 6712/2017 was also published, which altered and postponed the implementation schedule of this hydraulic power plant.

Regulatory Resolution No. 791/2017 that regulates the acceptance of requests asking for reviews on extraordinary tariffs (RET) by the electrical energy distribution concessionaries.

The electricity distribution concession contracts state the ANEEL shall be able to review the tariffs to maintain the economic-financial balance of the contract in the event there are significant alterations to the costs of the concessionary.

In May 2017, public inquiry No. 22/2017 was opened to improve the standard that establishes the criteria to allow for a request process of the review of extraordinary tariffs and the applicable procedures. ANEEL recommended to make it explicit in a regulation that the concessionary has the right appeal, if their RET request is not accepted, enduring the requirement verification phase.

For a review of extraordinary tariff request to be admitted 1) the concessionary must present the causative information on the economic-financial balance and the actions carried out by the concessionary to deal with the imbalance at Plot B; 2) it may not have the objective compensate for imbalances caused by inefficiency of the concessionary; and 3) it must notify the associations of the consumers.

The responsible authorities must declare a maximum of 45 days if the RET request is allowed or not. The need to make a RET will be determined after a Public Hearing.

2018 A-4 new energy auction:

The Ministry of Mines and Energy published in the Official Journal "Portaría" 465, on 1 December, the guidelines for the holding of the 2018 A-4 energy auction, with the contracts starting in June 2022. The auction will be held on 4 April 2018. The distributors must present their energy purchase requirement declarations for this auction on 6 February 2018.

The term to submit the documentation and the technical authorisation ended 5 January 2018. The projects that participated in the 2017 December auctions (2017 A-4 and A-6) are exempt from presenting new documentation, provided that their technical characteristics and other project information remain the same.

At the auction, the CCEAR (regulated contracts) will be negotiated in a supply term of 30 years for the hydraulic projects and 20 years for the biomass, wind and photovoltaic solar projects.

Results of the 2017 A-4 auction:

Held on 18 December 2017, this auction contracted 674.5 MW of power installed from 25 projects, in which 85% corresponded to solar energy (574 MW); 9.5% corresponded to wind projects (64 MW); 3.7% to biomass (25 MW); and 1.7% to the small hydraulic power plants (11.5 MW).

On the buyer side, 7 distributors participated and were awarded energy contracts for supply to their customers. These distributors are: CEA, CEAL, Cepisa, Coelba, Copel D, EDP Espírito Santo (of EDP Energias do Brasil) and Elektro. Specifically, Coelba acquired an average of 23.3 MW and Elektro an average of 9.3 MW to supply energy from January 2022 with PPA for 20 to 30 years. Neoenergia did not participate in this auction with generation projects, its objective in the A-6 auction.

Regulatory Regulation No. 796/2017 on the expected hydrological risk in the processes tariffed by the distributors.

It was published on 19 December 2017 to approve modifications to the submodules dealing with the rest of the financial components in the Tariff Regulation Procedures (PRORET). The adjustments made to these submodules establish that it must include the expected hydrological risk to be considered in the processes tariffed by the distributors as a financial component, specifically in the energy purchase account of Plot A. They also establish that a change to this provision will modify the parameters and therefore the balance to be compensated in the energy purchase account.

Regulatory Resolution No. 797/2017 that establishes the procedure to share infrastructures (published on 19 December 2017)

It establishes the procedures to share electrical energy concession infrastructures with agents from the same sector or with agents from the telecommunications, petroleum and gas sectors (this decision was published after the holding of Public Hearing No. 96/2016 and a long debate between ANEEL and the regulatory agencies of the telecommunication sectors).

One of the improvements introduced the treatment of irregular occupation, the establishment of two occupation concepts by absence (when there is no previously approved technical project) and clandestine occupation (without a valid or identified technical project previously approved or contracted for sharing). In the case of occupation by absence, the disconnection requires the prior authorisation from the Conflict Resolution Committee amongst the regulatory bodies. In the case of clandestine occupation, the distributor may remove the equipment without prior authorisation.

Despite this decision, ANEEL and the National Telecommunications Agency Board consider that more effective actions are required to regulate it. For this, they decided to bring forward the decision of Joint Resolution No. 4 of 16 December 2014 to 2018, establishing the reference price to share the posts amongst electrical energy distributors and the telecommunications companies, using the conflict resolution processes and the establishment of rules for the use and occupation of fixing points.

Result of the 2017 A-6 auction

On 20 December 2017, the 2017 A-6 auction was held, in which 3,841.6 MW of installed power from 63 projects were contracted, of which 49 projects were on wind (1,386.62 MW), 6 projects on small hydraulic power plants (139.02 MW), 6 on biomass plants (177.05 MW) and 2 on thermal gas (2,138.91 MW). No carbon power plant was matched.

All the distributors that participated in the auction received double the amount of energy requested due to the large size of the last awarded power plant. Coelba acquired an average of 250 MW, Elektro an average of 220 Mw, Celpe an average of 24 MW and Cosern an average of 54 MW with contracts whose start of supply shall come into effect January 2023.

The wind power reached an average price of 98.62 Brazilian reales per MWh with a discount of 64.47% against the initial cap price of 276 Brazilian reales per MWh. The biomass ended with a discount of 34.10% and an average price of 216.82 Brazilian reales per MWh. The average price of the power plants with natural gas was 213.46 Brazilian reales per MWh (a discount of 33.08%) and lastly, the average price for the hydraulics was 219.20 Brazilian reales per MWh (which implies a discount of 22%).

NEOENERGIA was awarded 281 MW of wind power coming from 9 farms in the Santa Luzia area in the state of Paraiba at an average price of 100.01 Brazilian reales per MWh. The wind farms are: EOL Canoas 2; EOL Canoas 4; EOL Chafariz 1; EOL Chafariz 2; EOL Chafariz 3; EOL Chafariz 6; EOL Chafariz 7; EOL Lagoa 3 and EOL Lagoa 4.

#### Result of the 2017 A-1 and A-2 auctions.

The A-1 auction was held on 22 December 2017. At this auction, an average of 288 MW was awarded at an average price of 177.46 Brazilian reales per MWh (with a discount of 18.2% on the cap price). The resulting supply contracts shall be effective from 01/01/2018 to 31/12/2019. Of the NEOENERGIA Group distributors, only Coelba participated, acquiring an average of 34 MW.

The A-2 auction was held on 22 December. At this auction, an average of 423 MW was awarded at an average price of 174.52 Brazilian reales per MWh (with a discount of 9.6% on the cap price). The supply contracts shall be effective from 1 January 2019 to 31 December 2020. Of the NEOENERGIA Group distributors, only Coelba participated, acquiring an average of 127 MW.

#### Provisional Measure 814/2017 (Privatisation of Eletrobras)

Published on 29 December in the Official Journal, Provisional Measure 814/2017 repeals the device of Act 10.848/2004 by means of which Eletrobras and its controlled companies remained exempt from the National Privatisation Programme. With this measure, the Government unblocks sales from Eletrobras distributors. It also modifies the legislation of the isolated systems (Northern regions not connected to the National Interconnected System, establishing the conditions for Eletrobras to ensure the collection of credits from sectorial funds for the distributors, which minimises the indebtedness to be assumed by the holding company.

In January 2018, this measure was suspended by the Federal Justice of the state of Pernambuco. In light of this judicial blocking, the President of the Government presented a draft law that allowed for increases of share capital to give access to private capital, thus diluting the holding of the State (the funds raised do not go to the company but to the state coffers). The draft law proposes altering the corporate bylaws of Eletrobras, preventing any shareholder from holding over 10% of the shares with a right to vote. This limit prevents market concentration and the hostile taking of control by another company. Additionally, after privatisation, the Government shall have a Gold Share that will grant it exclusive powers in the administration of the company, such as the indication of an additional Board Member. The text also proposes a corporate restructuring to maintain control over nuclear power and Itaipú Binacional (hydraulic power plant administered jointly between Brazil and Paraguay).

### 3.6. Mexico

#### Long-term auctions

On 14 August 2017, the National Energy Control Centre (CENACE) published the accumulated volume of accepted purchase bids, resulting in three purchasers amounting to the following purchase volumes: 1,414 MW in power capacity, 6.1 TWh in energy and 6.1 million Clean Energy Certificates (CEC). Of these volumes, Iberdrola Clientes participates with 8.6% of the total products. On 15 August, CENACE also published the threshold percentage of the maximum economic value (23.47%) under which an iteration would need to be made in the auction. On 22 November, the ruling of the auction was published as a result of the 392 Sale Offers presented by 46 tenderers. 16 winning offers were selected which came to a total of 2,562 MW (52% photovoltaic solar, 27% wind power and 21% turbogas). 5.95 millions of CEL were assigned (97.8% on the total offered), 5.49 TWh of energy (90.2% on the total offered) and 592.61 MW of power (41.9% on the total offered). Iberdrola Clientes acquired, through the auction, 8.64% of this volume granted at extremely competitive prices: weighted average of the energy package + CEL at 20.5 US dollars per MWh; and a weighted average of the power at 35.4 US dollars per kW.

#### Medium-term auctions

On 12 June 2017, the Official Mexican State Gazette (DOF) published its manual on medium-term auctions (Manual de Subastas de Mediano Plazo). These auctions will be held annually to let Market Participants enter into Electricity Coverage Contracts of up to 3 years; in turn enabling Basic Service Suppliers to meet with the requirements established by the Energy Regulatory Commission (ERC) and satisfy its needs for power and energy in terms of 3 years and reduce their exposure to short-term prices. On 16 August, CENACE held the First Medium-Term Auction and published a preliminary version of the bidding rules. This auction will grant contracts of between 1 and 3 years (2018 -8 months from May to December- 2019 and 2020) for Energy and Power, in which any Responsible Loading Entity may participate. CENACE also presented a schedule, highlighting the following dates:

- 10 January: Publication of the amount, price and parameters of the Accepted Purchase Offers.
- 21 February: Publication of the final prices of the Purchase Offers.
- 22 February: Reception of the economic offer of the sales offer.
- 5 March: Ruling of the auction and assignment of contracts.

#### Natural gas open season

On 8 May 2017, the first open season for the National Integrated Natural Gas System (SISTRANGAS) assigned 2.3 million GJ/d in the different sections of the system. In this regard, the National Natural Gas Control Centre (CENACE) is preparing to offer the transmission service on a solid base of 6.3 million GJ/d in the system starting on 1 July, representing 97% of the published total capacity available. The premiums that will be paid by customers who received the capacity assignments will be zero in all cases.



### Long-term auction clearinghouse

The Energy Secretary (SENER) published the draft project of the Clearinghouse Operational Guide for Contracts assigned through Long-term Auctions in COFEMER. Final publication of the Operational Guide in the Official Gazette is expected to occur in June and will let Responsible Loading Entities participate in long-term auction purchase bids in addition to Basic Service Providers. The main objective is to let Responsible Loading Entities cover their needs for Clean Energy Certificates (CEC) through this process. The Clearinghouse will be a counterparty for buyers and sellers simultaneously. To do so, the long-term auction bidding rules currently being drafted include both contracts in the annexes thereto. The draft opens the possibility of the clearinghouse to absorb contracts derived from the first two long-term auctions in 2015 and 2016, where the only purchaser counterparty was the Electricity Commission as a basic service provider.

### Energy transition

On 4 May 2017, the Official Mexican State Gazette (DOF) published the Regulations of the Energy Transition Act, drawn up to establish the mechanisms and procedures so that the different actors responsible for observance and compliance with the Energy Transition Act could create and update the transition strategy for promoting the use of cleaner technologies and fuels; the National Programme for Sustainable Energy Use (PRONASE); the assessment of Planning Tools; framing and/or updating of the methods for quantifying gas emissions and procedure that stakeholders must follow to receive recognition for energy efficiency and environmental excellence.

### Definition of Clean Energy Certificate (CEC) goals for 2020, 2021 and 2022

On 31 March 2017, the Official Mexican State Gazette (DOF) published the SENER notice stating the requirements for acquiring Clean Energy Certificates in 2020, 2021 and 2022, informing that the corresponding CEC requirement will be 7.4% for the 2020 Obligation Period; 10.9% for the 2021 Obligation Period and 13.9% for the 2022 Obligation Period. The 2021 and 2022 targets may still be revised (only upwards in the upcoming target publications occurring every year on the same date (end of the first quarter).

### Regulation on distributed generation

On 7 March 2017, the Official State Gazette (DOF) published the ERC's decision issuing the general administrative provisions, contract models, method for calculating consideration and general technical specifications applicable to distributed generation and clean distributed generation power plants. This decision, together with the indications of the Interconnection Manual for plants with a power capacity of less than 0.5 MW published in 2016, describes the operating and remuneration criteria applicable to small and medium-scale distributed generation. Additionally, on 22 March, SENER published the Initial Analysis on the Benefits of Clean Distributed Generation and Energy Efficiency in Mexico in compliance with the eighteenth transitional section of the Mexican Energy Transition Act.



### Updated Total Short-Term Cost (TSTC)

On 2 March 2017, the Official State Gazette (DOF) published the ERC's decision updating the method to determine the Total Short-Term Cost (TSTC) (RES/143/2017). This decision affirms that the TSTC values (reference on revenue in the system before the reform) will match the local marginal prices resulting from executing wholesale electricity market models. Likewise referring to revenue, it is also worth noting that on 3 March, the ERC scrapped the draft project agreement establishing the maximum limit that the intermediation producer may pay the holders of legacy interconnection contracts for the concept of economic energy". Doing so eliminated the risk that limited payment for self-supply surpluses to 20%.

### Transmission lines

On 29 January 2018, the Energy Secretariat (SENER) officially held the first electrical energy auction for the development of new transmission networks with private investments. There is a total of 58 interested national and international companies. In July 2018, the proposals of the participants will be presented and 14 September will be the ruling date of the auction.

### Basic supply

On 25 August, the Official State Gazette (DOF) published SENER's terms and conditions, deadlines, criteria, rules and methods for Legacy Basic Supply Contracts, the mechanisms to assess them and the mentioned annexes. The plants generating the most value for the system were selected, in addition to the mechanisms obligating Legacy Thermal Power Plants to deliver energy when the plant is cheaper than the wholesale electricity market price, honouring costs and associated contracts. The document observes the following legacy contracts:

- Legacy Basic Supply Contract Model for Legacy Power Plants
- Legacy Basic Supply Contract Model for Legacy Renewable Power Plants (Energy and CEC Sales)
- Legacy Basic Supply Contract Model for Legacy Power Plants with Related Services (Energy, Power Capacity and Related Service Sales associated with an External Legacy Thermal Power Plant).

### Energy transition

On 21 August, SENER published the Smart Power Grid Programme, which defines a roadmap for the short, medium and long terms, and describes projects linked to developing smart grids that could be developed by the CENACE, Transmission and Distribution companies.

### Electricity tariffs for the Basic Supply:

On 23 November 2017, the Governing Body of the CRE approved and published the Agreement that issued the method for determining the calculation and adjustment of the final rates, as well as the operation rates, which shall be applied to the CFE Basic Service Supplier Subsidiary Productive Company (CFE SSB) during the period between 1 December 2017 and 31 December 2018. The agreement details the components that make up the final rates of the Basic Supply, which include charges for transmission, distribution, CFE SBB operation, CENACE operation, non MEM related services and the cost of the energy and associated products. For this, it establishes twelve new rates categories and sixteen tariff divisions. There will be a transition period for the application of the tariff, so the new method will not be applied in full until April 2018 for medium and high voltage. The old method (all-inclusive rate) is still valid for domestic consumers without a defined date of when the new criteria will be applied to these customers.

## 4. ACCOUNTING POLICIES

### 4.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 IFRS".

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).

### 4.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 4.i.

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 14.c).
- An intangible asset, amortisable in the concession period, which is recognised under "Other intangible assets" in the Consolidated statement of financial position (Note 9).

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.

#### IT Applications

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 software 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.

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.

#### 4.c) Investment property

Real estate investments will be recognised at its acquisition cost net of accumulated depreciation. 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 y 75 years based on the features of each asset concerned.

#### 4.d) Property, plant and equipment

Items of property, plant and equipment are measured at acquisition or production cost deducted the amortisations and accumulated assessment allowances. The acquisition cost includes, where applicable, are as follows:

1. Prior to the transition to IFRS (1 January 2004), the IBERDROLA Group revalued certain Spanish assets under the "Property, plant and equipment" heading 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.
2. Finance costs relating to external funding accrued exclusively during the construction period, are determined as follows:
  - The interests accrued by specific-purpose sources of financing used to build certain assets are fully capitalised.
  - 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.
3. Staff costs relating directly or indirectly to construction in progress (Note 38).
4. If the IBERDROLA Group is required to dismantle their facilities or renovate the place where they meet, the current value of said costs are included in the carrying value of assets for their present value, with a credit to the sub-heading "Provisions - Other provisions" of the consolidated statement of financial position (Note 4.r).

The IBERDROLA Group periodically checks their estimation of said current value increasing or decreasing the asset value depending on the results of said estimation.

The IBERDROLA Group transfers property, plant and equipment in progress 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.

#### 4.e) Depreciation of property, plant and equipment in use

Every year, the IBERDROLA Group reviews the useful life of its assets based on internal and external information sources.

In 2017, following this review, the Iberdrola Group consolidated that the best useful life estimation is 40 years for combined cycle plants (compared to the 35 years considered previously) and 50 years for the electromechanical equipment at hydroelectric power plants (compared to the 35 years considered previously). As a result, "Amortisation and provisions" in the 2017 Consolidated income statement includes the impact of this change in the estimate, which as per accounting regulations had been applied prospectively since 01 January 2017, and produced a lower depreciation charge of approximately EUR 65 million. This amount will gradually decrease as the useful life of the hydroelectric power plants in use terminates at 1 January 2017 terminate.

On the other hand, in 2016 the IBERDROLA Group concluded the analysis it had been performing of the useful life of its wind farms, using internal and external sources of information. They concluded that result was that, in the light of present circumstances, the best estimate of the useful life of civil works and the generator towers at onshore wind farms was 40 years, compared to the previous estimate of 25 years. As a result, "Amortisation and provisions" in the 2016 Consolidated income statement includes the impact of this change in the estimate, which as per accounting regulations had been applied prospectively since 1 January 2016, and produced a lower depreciation charge of approximately EUR 148.1 million. Moreover, in 2017, this adjustment to the useful life gave rise to an annual reduction in the depreciation charge similar to that booked in 2016, and this amount at 1 January 2016 will gradually decrease as the useful life of the wind farms in use terminates at 1 January 2016 terminate.

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:

	Average years of estimated useful life
Conventional thermal power plants	25 -50
Combined cycle power plant	40
Nuclear power plants	40
Wind farms	
Structural components	40
Non structural components (rotative)	25
Transmission facilities	40
Distribution facilities	40
Conventional meters and measuring devices	10-40
Electronic or smart meters	10
Buildings	50-75
Dispatching centres and other facilities	4 - 50

As hydroelectric plants are operated under concessions (Note 12), 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 50 years.

The important components of the plant and equipment that maintain different useful lives are considered separately.

#### 4.f) Lease agreements

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.

#### 4.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 43).

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.

#### 4.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 43).

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.

#### Emission allowances and renewable certificates

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.

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.

#### 4.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 9).

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 13).

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

#### 4.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 financial assets – Non-current equity investments" heading of the Consolidated statements of financial position (Note 14.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 debit to the Consolidated income statement within the “Results of companies accounted for using the equity method - net of taxes” heading.

#### 4.k) Joint transactions

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 46).

#### 4.l) Financial instruments

##### Financial investments

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

##### 1. Assets held for trading

Assets and liabilities held for trade are recognised at fair value. The transaction costs directly attributable to purchase or issuing is recognised as an expense in the consolidated income statement as it is incurred. The changes that occur in their fair value are allocated to the consolidated income statement for the period in the headings “Financial expenses” and “Financial income” of the consolidated financial statements, as may be applicable.

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 27).

##### 2. Loans and receivables

Includes the financial assets that originate from the sale of goods and lending of services related with the trafficking activities as well as other credits for non-commercial activities that, not being equity or hedging instruments, are of a fixed and determinable amount and are not traded in an active market.

These assets are initially recognised at fair value and are subsequently measured at amortised cost. Interests accrued on these liabilities are recognised in the Income statement using the effective interest rate method.

However, trade loans maturing in less than a year that do not have a contractual interest rate, as well as advances and loans granted to employees, receivable dividends and the unpaid portion of equity instruments expected to be received in the short term, are measured both initially and subsequently at nominal value when the impact of not discounting cash flows is not significant.

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

They 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 "Adjustments for changes in value" heading in the Consolidated statement of financial position (Note 21), until the disposal or impairment of these assets at which time the cumulative balance of this heading is recognised in the Consolidated income statement.

For 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 are readily convertible into cash and subject to insignificant risk of changes 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 a debit to an impairment 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 instruments

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

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 22).

#### 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 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.

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:

1. Fair value hedges: in the case that the hedge risk is the change in the fair value of an asset or liability or of a firm commitment.

Both the changes in the fair value of the derivative financial instruments designated as hedging, or the component of exchange rate of a monetary item in the case of non-derivative hedge instruments, such as the changes in the fair value of the hedged element produced by the hedged risk are recognised with a charge or credit to the same sub-heading of the consolidated income statement.

The IBERDROLA Group prospectively discontinues the fair value hedge accounting in the cases in which the hedging instrument matures, is sold, let go of or exercised, the hedge does not fulfil the hedge accounting conditions or the designation is revoked.

2. Fair value hedges and net investment abroad:

They are classified as cash flow hedges in the case that the hedge risk is the change in cash flows attributable to a certain risk associated to an asset or liability or a probable transaction, or in some cases, the change in exchange rate risk of a firm commitment.

The IBERDROLA Group recognises in sub-headings "Adjustments for changes in value", in the case of cash flow hedges and "Conversion differences", in the case of net investment hedges, the profit or loss proceeding from the assessment at fair value of the hedge instrument that corresponds to the part identified as effective hedge. The part of the hedge considered ineffective, as well as the specific component of the profit or loss or cash flows related with the hedge instrument, excluding the assessment of the effectiveness of the hedge, are recognised in the consolidated income statement.

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.

The IBERDROLA Group prospectively discontinues the accounting of the hedges when the indicated circumstances occur in the fair value hedges. When hedge accounting is discontinued, the cumulative amount at that date recognised under “Adjustments for changes in value” 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 16):

- 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 liabilities are derecognised when they are extinguished, this means, when the the obligation under the liability is discharged or cancelled or expires. Moreover, when a debt instrument between IBERDROLA and the counterparty is replaced by another on substantial different terms, the original financial liability is derecognised and the new liability is recognised. Similarly, substantial modifications in the terms of an existing financial liability are treated in the same way.

The difference between the carrying value of the financial liability or of the part of it that has given below and the paid consideration, including the attributable transaction costs, and in which any transferred asset different from the assumed cash or liability is also included, recognised in the consolidated income statement of the period in which it takes place.

IBERDROLA considers that the conditions are substantially different if the current value of the discounted cash flows under the new conditions, including any net paid fee of any received fee, and using the original effective interest rate for the discount, differs at least 10 per cent from the current discounted value of the cash flows that still remain from the original financial liability.

When a debt instrument exchange is made that does not have substantially different conditions, the original financial liability is not under the consolidated statement of financial position, recording the amount of the paid fees as an adjustment of its book value. The amortised cost of the financial liability is determined using the effective interest rate method. The effective interest rate is the rate that matches the carrying amount of the financial liability at the date of modification with the cash flows payable under the new terms.

#### 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.

#### **4.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.

#### **4.n) Deferred income**

##### Capital 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 "Other operating income" heading of the Consolidated income statement as the financed wind farms are depreciated.



#### Facilities transferred or financed by third parties

According to the regulation 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.

#### **4.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 the year end. The provision recognised under this concept represents the present value of the defined benefit obligation reduced by the fair value of the related plans.

New measurement of net liabilities corresponding to defined provision commitments including positive or negative actuarial differences, the performance of the plan assets, excluding amounts included in the net interest on assets or liabilities and any changed impacting the limit of assets, are recognised under “Other reserves” heading when they arise.

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, with the limit of the updated value of future of economic profits to be received in the form of reimbursements from the plan or reductions in the future contributions.

The IBERDROLA Group determines the net financial expense (income) related with their commitments for pensions by applying the discount rate used in its measurement on their value at the beginning of the period once considering the changes in the net commitments for pensions made during the period in terms of contributions and repayments made. The net interest and the amount corresponding to other expenses related with the commitments undertaken are recorded in the consolidated income statement.

The IBERDROLA Group determines the discount rate with reference to the market yields at the end of the reporting period, corresponding to the bonds or business obligations of high credit quality (Iberdrola Group considers rating equivalent to AA/Aa). In the countries in which there is not 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 corporate market does not exist as they don't satisfy the indicated credit qualifications.

The IBERDROLA 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 mainly 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 issuances 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 risk, investment, credit or deviation in compliance with the actuarial assumptions risk.

#### **4.p) Collective redundancy procedure and other early retirement plans for employees**

IBERDROLA recognises termination benefits when the Group can no longer remove the offer or when the expenses of restructuring are recognised from which the payment of severance payments arises, in the case that said recognition is made previously.

The payments related with restructuring processes are recognised when the IBERDROLA Group has an implicit debenture, i.e., at the time that there is a detailed formal plan to perform the restructuring (in which are identified, at least, the company activities, or part of them, implied, the main locations affected, the location, function and approximate number of employees that will be paid for the termination of their contracts, the repayments that will be carried out, and the dates on which the plan will be implemented) and has generated a valid expectation amongst the affected personnel which the restructuring will be carried out, either for having started to execute the plan or for having announced its main characteristics.

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.

#### 4.q) Provision for emission allowances Renewables

The IBERDROLA Group records a provision for contingencies and expenses in order to recognise the obligation to deliver CO2 emission allowances and ROCs (*Renewables Obligation Certificates*) in Scotland (Note 25), in accordance with the heading "Provisions" in the consolidated financial statements.

#### 4.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 25).

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.

#### 4.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 25). 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.

#### **4.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.

#### **4.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.

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 Group erred 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 Group 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.

#### 4.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 probable that the client will accept the claim and the amount can be measured reliably.

#### 4.w) 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.

The monetary assets and liabilities denominated in foreign currency have converted to euros applying the existing rate at the close of the financial year, while the non-monetary ones assessed at historical cost are converted applying the exchange rates applied on the date on which the transaction took place.

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 are made are charged or credited, as appropriate, to the Consolidated income statement.

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.l.

#### 4.x) 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.

The expense or income for the Corporate income tax includes both the current and deferred tax. The tax on the current or deferred earnings are recognised in the consolidated income statement, unless arising from a transaction or economic success that has been recognised in the same year or in a different one, against net equity or from a business combination.

The assets or liabilities from tax on the current earnings, are assessed for the quantities expected to pay or recover from the tax authorities, using the regulations and tax rates that are approved or are about to be approved on the closing date.

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 debit or credit to equity.

The IBERDROLA Group recognises deferred tax liabilities in all cases but when:

- arise from the initial recognition of the goodwill or from an asset or liability in a transaction that is not a business combination and on the date of the transaction does not affect the accounting income or the taxable income;
- correspond to temporary differences related with investments in subsidiary companies, associates and joint ventures over which the Group has the ability to control the moment of their reversal and was not probable that their reversal occurred in a foreseeable future.

The IBERDROLA Group recognises deferred tax assets in all cases but when::

- it is probable that there are sufficient future tax earnings for clearing or when the tax legislation includes the possibility of future conversion of assets for deferred tax in a credit due to the public administration. However, the deferred tax assets that arise from the initial recognising of assets or liabilities in a transaction that is not a business combination and on the date of the transaction does not affect the accounting income or the taxable income, are not recognised;
- correspond to temporary differences related with investments in subsidiaries, associates and joint ventures inasmuch as the temporary differences will not be reinvested in a foreseeable future and are not awaiting creating future positive tax earnings to clear the differences.

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.

The existence of uncertainties is considered in the taxable events, credits for negative taxable income or applied deductions. In those cases in which the asset or the liability for tax calculated with these criteria, exceeds the amount in the self-settlements, this is presented as current or not current on the consolidated statement of financial position taking into account the expected recovery or settlement date, considering, where applicable, the amount of the corresponding interest on arrears on the liability as earned in the profit and loss account. The IBERDROLA Group records the changes in facts and circumstances regarding tax uncertainties as a change in the estimate.

#### 4.y) 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 dismantled 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 plants in operation, the companies owning the stations must pay a charge directly proportional to the volume of energy generated at each plant. 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.

#### 4.z) 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 21 and 54).

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.

#### 4.aa) 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. IBERDROLA

The impairment losses related with the disposal asset groups are assigned first to the goodwill and then to the rest of assets and liabilities proportionally. Value adjustments that could affect the stocks, financial assets, deferred tax assets, assets related with commitments with staff are not recognised. These assets are assessed in accordance with the principles contained in the previous sections. The losses recognised at the time of initial classification in this sub-heading and the capital gains and/or losses that are highlighted later are recognised in the consolidated income statement.

The elements classified as non-current kept for their disposal are not amortised.

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.

#### 4.ab) 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.



#### 4.ac) 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 employees 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 delivery date, defined as the date the IBERDROLA Group and its employees reach an agreement establishing the terms of the share delivery.

Fair value is determined in reference to the market value of shares at the concession date deducting estimated dividends, to which employees are not entitled, during the irrevocability period.

If remuneration based on equity instruments is paid in cash, the amount booked as “Staff costs” in the Consolidated income statement is credited to “Other non-current payables” or “Trade and other payables - Other current liabilities” on the liabilities side of the Consolidated statement of financial position, as appropriate. The fair value of the cash-settled compensation is remeasured at each reporting date.

The amount recognised on the consolidated income statement is adjusted to reflect the number of the market conditions and other conditions that are not related with vesting, they are considered in the assessment of the fair value of the instrument. The rest of the conditions are considered adjusting the number of equity instruments included in the determination of the transaction amount, so that finally, the amount recognised for the services received, is based on the number of equity instruments that will prospectively be consolidated.

The equity instruments retained to make the payment of the corresponding tax obligations to the employee do not change the qualification of the plan as settled on equity instruments.

### 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.

In order to adequately manage and limit this risk, the IBERDROLA Group yearly determines the desired structure of the debt between fixed and floating interest rate, taking into account the indexing of income at a certain indicator, either interest rate or price index. 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 2017 and 2016, after considering the effect of hedge derivatives, is the following:

Thousand euros	31.12.2017	31.12.2016
Fixed interest rate	18,025,210	15,399,855
Floating interest rate	18,665,288	15,770,827
Limited floating interest rate (*)	–	50,000
<b>Total Bank borrowings and other financial liabilities - Loans and others (Note 26)</b>	<b>36,690,498</b>	<b>31,220,682</b>
Cash and cash equivalents (Note 20)	3,197,340	1,432,686
Other current financial assets	63,970	59,933
<b>Total Bank borrowings and other financial liabilities - Loans and others</b>	<b>33,429,188</b>	<b>29,728,063</b>

(\*) 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 CDI in the case of the debt of the Brazilian subsidiaries ).

Additionally, as of 31 December 2017, the IBERDROLA Group has arranged derivatives to cover the interest rate risk of the future financing for a nominal amount of EUR 3,620 million, which help to mitigate the interest rate risk.

#### 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 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.
- As far as possible, this covers the expense of the exchange rate risk in the Mexican corporate taxes, limiting the overall impact on the earnings of Mexico and of the Group.
- 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.

Note 6.c of these Consolidated financial statements includes information on the potential impact of the Brexit on the IBERDROLA Group.

### 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 markets (global and regional) 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 compared to its competitors. 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.

In section 4 of the consolidated management report, it offers detailed information related to these risks.

### 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 26 and 52).

For fiscal year 2018 the IBERDROLA Group is expected to face the ordinary investment program established with the cash flow generated from its operations and access to the bank financial markets, capital markets and supranational moneylenders (such as EIB), even though, the Group has the treasury and sufficient credits and loans available to meet these investments.

At 31 December 2017 and 2016, the IBERDROLA Group had undrawn loans and credit facilities amounting to EUR 6,863,917 and 6,583,500 thousand, respectively.

The liquidity position of the IBERDROLA Group exceeds EUR 10,061 million, of which EUR 1.446 million correspond to NEOENERGIA and EUR EUR 8,615 million to the rest of the IBERDROLA Group,

The breakdown is shown below by maturities of the liquidity position as of 31 December 2017 and 2016, considering the balance of the sub-heading "Cash and cash equivalents" in the consolidated financial statements.

Thousand euros	2017	2016
<b>Available maturity</b>		
2017	–	266,219
2018	794,991	760
2019	364,250	–
2020 onwards	5,704,676	6,316,521
<b>Total</b>	<b>6,863,917</b>	<b>6,583,500</b>
Cash and cash equivalents (Note 20)	3,197,340	1,432,686
<b>Total adjusted liquidity</b>	<b>10,061,257</b>	<b>8,016,186</b>

### 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 replacing products that are not supplied, as well as, in the case of dedicated plants, to amounts on which depreciation is pending, of said plants.

Credit risk is managed and limited in accordance with the type of transaction and the credit worthiness 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 2017 and 2016 there have been no material non-payments or losses.

The Group's Networks businesses in Spain and the UK do not sell energy. Therefore their credit risk is limited. In the case of Brazil and the United States, the activity of supplying to regulated tariff allows to recover, in general terms, commercial default.

### 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 2017 and 2016. Therefore, the sensitivity analysis does not show the effect on income for the year and equity that might have arisen if during 2017 and 2016 the risk variables had been different.

- Financial

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

Thousand euros	Increase/ decrease in interest rate (basis points)	Impact on profit before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2017	+ 25	171	67,229	67,400
	- 25	(171)	(67,229)	(67,400)
2016	+ 25	1,200	53,070	54,270
	- 25	(1,200)	(53,070)	(54,270)

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

Thousand euros	Change in the dollar/euro exchange rate	Impact on profit before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2017	Depreciation 5%	(166)	(680,585)	(680,751)
	Appreciation 5%	183	752,226	752,409
2016	Depreciation 5%	752	(725,927)	(725,175)
	Appreciation 5%	(831)	802,341	801,510

Thousand euros	Change in the sterling pound/euro exchange rate	Impact on profit before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2017	Depreciation 5%	771	(524,700)	(523,929)
	Appreciation 5%	(853)	579,932	579,079
2016	Depreciation 5%	3,823	(438,573)	(434,750)
	Appreciation 5%	(4,225)	484,738	480,513

Thousand euros	Change in the brazilian real/euro exchange rate	Impact on profit before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2017	Depreciation 5%	9,479	(242,586)	(233,107)
	Appreciation 5%	(10,477)	268,121	257,644
2016	Depreciation 5%	-	(102,277)	(102,277)
	Appreciation 5%	-	113,043	113,043

- Raw materials:

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

## Thousand euros

Year 2017	Variation in price	Impact on profit before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
Gas	+ 5%	(1,229)	14,232	13,003
	- 5%	1,363	(14,296)	(12,933)
Electricity	+ 5%	7,126	36,388	43,514
	- 5%	(7,202)	(36,388)	(43,590)
CO <sub>2</sub>	+ 5%	(62)	227	165
	- 5%	62	(227)	(165)
Coal	+ 5%	(1,116)	412	(704)
	- 5%	1,116	(412)	704

## Thousand euros

Year 2016	Variation in price	Impact on profit before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
Gas	+ 5%	1,135	15,574	16,709
	- 5%	(1,163)	(15,090)	(16,253)
Electricity	+ 5%	7,574	8,493	16,067
	- 5%	(7,572)	(8,493)	(16,065)
CO <sub>2</sub>	+ 5%	(64)	404	340
	- 5%	64	(404)	(340)
Coal	+ 5%	(115)	172	57
	- 5%	115	(172)	(57)

## 6. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

### 6.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 2017 and 2016 amounted to 2,005,863 and 1,821,047 thousand, respectively. This amount is included under "Trade debtors and other current receivables" on the Consolidated statements of financial position at 31 December 2017 and 2016.

- 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 35).

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 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 24).

- 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 13, 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.x, 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.

## 6.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:

- Section 12.5 of the Corporate Income Tax Law (Ley del Impuesto sobre Sociedades) introduced under the Royal Decree 4/2004, stated that financial goodwill arising from the acquisition of foreign companies was deductible for tax purposes. IBERDROLA 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).

In October 2007, the European Commission decided to initiate a formal investigation of the aforementioned tax measure to examine whether it was compatible with the internal market.

In 2009 and 2011 the European Commission issued two Decisions (named First Decision and Second Decision) 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 21 December 2007 (this being the case of the acquisitions made by the IBERDROLA Group) due to the fact that 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 (named 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. Furthermore, as this was a measure subsequent to the date on which it was disclosed that the formal investigation process had begun, the Commission considered that, for companies which made indirect acquisitions prior to 21 December 2007, no legitimate expectations had been generated, since they were aware of the administrative practice which excluded indirect acquisitions from the scope of application of the tax measure. 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.

Furthermore, on the same date it was published the third Decision in the Official Journal of the European Union, against which the IBERDROLA filed the corresponding appeal before the General Court on 22 May 2015.

On 21 December 2016 the Court of Justice of the European Union issued a resolution resolving the appeals submitted by the European Commission against the General Court rulings of 7 November 2014, dismissing said rulings and agreeing to refer the issue back to the Court to rule on the selectivity of the measure and examine the reasons for an appeal stated by the parties concerned, which had not been examined in these rulings. This resolution confirmed the validity of the First and Second Decisions. Consequently, the European Commission declared it will work with the Spanish authorities to implement the refund of the aid granted, including aid that had been declared incompatible with the domestic market by the Third Decision.

With the aim of executing the order to retrieve aid, on 1 June 2017 the Tax and Customs Control Division of the Tax Agency initiated an aid retrieval procedure that ended in 16 November 2017 with the notification of a tax settlement amounting to a tax base of EUR 576 million and 89 million of accrued interest. Payment of this settlement is currently postponed due to the order from the President of the General Court, dated 24 November 2017, which suspends the obligation to retrieve the aid until the date of the order that finalises the provisional measures procedure..

Actual recovery of the aid will be provisional, subject to the final outcome of the appeals submitted against the three decisions.



At the date of these consolidated financial statements, the appeal submitted had not been resolved.

It is the opinion of the Company and its counsel in this matter that it is probable that the Third Decision will be annulled by European courts.

- 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 PTC were extended to those wind farms which construction will begin before 31 December 2019, but the unitary amount is gradually reduced for those wind farms which construction is initiated from 1 January 2017 onwards.

The IBERDROLA Group considers that this extension of PTC 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 2016.

- The IBERDROLA Group has stakes in several nuclear plants, 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. On 8 February 2017 plenary of the CSN has agreed to set the limits and conditions related to the application for renewal of operating authorization of the Santa María de Garoña nuclear power plant. The evaluations conclude that the proposals by NUCLENOR are acceptable, while, from the point of view of safety and radiation protection it is necessary for the holder to carry out additional actions that are identified within limits and conditions on nuclear safety and radiation protection and which are included in the proposal that the CSN has sent to the Ministry of Energy, Tourism and Digital Agenda, which will have six months to issue its resolution. At the date of formulation of these Consolidated Financial Statements neither the proposal of the CSN nor the resolution of the Ministry of Energy, Tourism and Digital Agenda are available.

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 30 and 45 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.

### 6.c) Iberdrola and the result of the Referendum on the European Union in the United Kingdom (Brexit)

At the date of these Consolidated financial statements it is unknown of how the process of negotiations to take the United Kingdom out of the European Union (EU) will be.

However, IBERDROLA believes that there will be no significant short-term impact for the following reasons:

- Currency diversification offsets the potential impact of the Brexit in that the expected trend in the US dollar partially compensates for the impact of Brexit on the Sterling pound.
- Approximately 90% of total EBITDA generated by the IBERDROLA Group in the United Kingdom is accounted for by Regulated (Transmission - Distribution) and Renewables businesses. Both these areas of business have stable predictable regulation. In general terms, long-term British regulatory frameworks are defined in real terms and therefore possible inflationary pressures in the future would not affect expected returns.
  - Distribution: Remuneration guaranteed up to 2023 by the RIIOD-1 regulatory framework.
  - Transmission: Remuneration guaranteed up to 2021 by the RIOT1 regulatory framework.
  - Renewables: existing facilities and new projects, such as the East Anglia offshore wind power project, have the backing of the approved remuneration mechanisms: Renewables Obligation Certificates (ROCs) and Contracts for Differences (CfDs), respectively; which affect the first 15-20 years of asset useful life.

The IBERDROLA Group therefore believes that, since most of its businesses in the United Kingdom are regulated and since the supplies of electricity constitute an essential service, the sensitivity analyses performed demonstrate that none of its British cash-generating units are showing any signs of impairment at the date of these Consolidated financial statements.

## 7. BUSINESS COMBINATIONS

### Year 2017

On 24 August 2017, the incorporation of the activity and businesses of Elektro Holding, S.A. (ELEKTRO) in Neoenergia S.A. (NEOENERGIA) was completed, according to the agreement of the NEOENERGIA shareholders (BB Banco de Investimento S.A.- Banco do Brasil, Caixa de Previdência dos Funcionários do Banco do Brasil –Previ and Iberdrola Energía, S.A.U. - IBERDROLA ENERGÍA), notified on 8 June 2017 and once the suspensive conditions have been met that were subject to the operation. Through this transaction, IBERDROLA Group acquired NEOENERGIA compared to the previous control granted by its prior stake. This thus results in an acquisition in stages.

NEOENERGIA is a leading private electricity group in Brazil, which operates in 11 states and is present in the energy generation, transmission, distribution and marketing business. Currently, do Brasil and Previ are holders of 12% and 49% respectively of the capital of NEOENERGIA, with 39% remaining owned by IBERDROLA ENERGÍA. After the effectiveness of the operation, on Banco do Brasil and Previ own approximately 9.35% and 38.21% respectively of the capital of NEOENERGIA, and IBERDROLA ENERGÍA now holds 52.45%, including the businesses of ELEKTRO as consideration.

The operation will be structured between NEOENERGIA and ELEKTRO via the Brazilian legal form called "incorporação", which has an increase in share capital in NEOENERGIA that will be fully subscribed by IBERDROLA ENERGÍA and will imply the termination of ELEKTRO and the transmission in block of its equity to NEOENERGIA, which will acquire the rights and obligations of it through universal succession.

The competent Brazilian authorities, Conselho Administrativo de Defesa Econômica (CADE), have authorised the merger operation between NEOENERGIA and ELEKTRO without restrictions, as it appears published in the Official Journal from 4 July.

The final fair value of the assets and liabilities of NEOENERGIA on 24 August 2017 and its carrying value on this date is the following:

Thousand euros	Note	Fair Value at 24.08.2017	Fair Value at 24.08.2017
Intangible assets.	9	3,646,381	2,611,485
Tangible fixed assets	11	1,136,997	1,136,997
Non-Current Financial investments		2,879,125	2,707,592
Deferred tax assets	30	176,485	176,485
Commercial debtors and other accounts receivable		52,048	52,048
Inventories		14,145	14,145
Commercial debtors and other accounts receivable		1,014,685	1,014,685
Current Financial investments		763,303	763,303
Cash and cash equivalents		76,366	76,366
<b>Total</b>		<b>9,759,535</b>	<b>8,553,106</b>

Thousand euros	Note	Fair Value at 24.08.2017	Fair Value at 24.08.2017
Provision for pensions and similar commitments and similar Non-current obligations	24	273,900	273,900
Other non-current provisions	25	269,544	129,657
Non-current financial debt	28	2,667,380	2,667,379
Other non-current payables		128,992	128,992
Deferred tax liabilities	30	452,915	20,586
Provision for pensions and similar commitments and similar current obligations	24	7,985	7,985
Other current provisions	25	45,201	45,201
Current Financial investments	28	1,228,822	1,228,822
Trade and other payables		1,361,369	1,361,368
<b>Total</b>		<b>6,436,108</b>	<b>5,863,890</b>
<b>Net assets</b>		<b>3,323,427</b>	
Fair value of previous stake in NEOENERGIA at 39%		(1,321,844)	
Adjustments in NEOENERGIA shares due to previous control (1)		8,723	
Recognition of non-controlling interests	21	(1,798,535)	
<b>Goodwill arising in the acquisition</b>	<b>9</b>	<b>244,069</b>	
<b>Total acquisition cost</b>		<b>455,840</b>	

(1) For the purposes of calculating acquisition cost, the value of NEOENERGIA shares has been reduced in EUR 8,723 thousand due to previous control by IBERDROLA Group over certain assets over which NEOENERGIA in turn had a stake.

As mentioned before, the IBERDROLA Group has acquired an additional stake in NEOENERGIA in consideration for the 47.55% interest it had in ELEKTRO, of which Iberdrola S.A. was the indirect holder of 100% of its shares through the Group company IBERDROLA ENERGÍA.

As a consequence of this, the amount of EUR 606,918 thousand has been recognised in the heading "Equity - Of non-controlling interests" in the consolidated financial statements 2017. They represent 47.55% of ELEKTRO's fair value at the date of the transaction (Note 21). The difference between this amount and ELEKTRO's fair value given as consideration resulted in EUR 493,293 thousand charged to "Equity - Other reserves" and a collection payment of EUR 342,214 thousand in "Equity - Translation differences" in the consolidated financial statements (negative net impact of EUR 151,079 thousand).

As a consequence of this business combination by stages, an amount of EUR 44,012 thousand was registered under the sub-heading 'Benefits of disposing of non-current assets' of the 2017 consolidated income statement (Note 42), which includes the following effects:

- Measurement of the previous shareholding in NEOENERGIA at the fair value on the acquisition date, which involved a capital gain of EUR 325,274 thousand as the difference between the fair value of EUR 1,321,844 thousand and a value in pounds of 996,570 thousand euros.
- Charge and debit on the Consolidated income statement for the losses recognised before the transaction under the sub-headings 'Translation differences' and 'Adjustments for changes in value' for the amount of 296,213 and 666 thousand euros, respectively, coming from the investment of the IBERDROLA Group.
- Measurement of the previous shareholding in which IBERDROLA Group had a stake at the fair value on the acquisition date, implied a capital gain of 14,285 thousand euros.

The IBERDROLA Group has opted to assess the minority shareholders in NEOENERGIA for the proportional part of the fair value of their identifiable assets and liabilities. This meant the recognition of EUR 1,798,535 thousand under the sub-heading 'Equity – Of non-controlling interests' of the 2017 Consolidated statements of financial position (Note 21).

The contribution of the incorporated net assets from the transaction with NEOENERGIA to the 2017 net consolidated income of the IBERDROLA Group has increased to a loss of approximately EUR 3,030 thousand, before considering the result of the previously described EUR 44,012 thousand euros. If this acquisition had taken place on 1 January 2017, the increase of the net turnover of consolidated businesses in 2017 would have amounted to 3,414,226 thousand euros and the decrease in net turnover for continuing operations would be 21,825 thousand euros.

Goodwill resulting from this business combination, which is EUR 244,069 thousands, is mainly composed of future economic benefits arising from the activity of NEOENERGIA that do not comply with the conditions established for its accounting recognition at the time of the business combination.

The costs incurred in the acquisition have not been significant.

This business combination has been recorder temporarily since the 12 month period following the acquisition of NEOENERGIA has not passed as set in IFRS 3: "Business combinations".

#### Year 2016

The IBERDROLA Group has not carried out any significant business combination in 2016.

## 8. GEOGRAPHICAL AND BUSINESS SEGMENT REPORTING

The IBERDROLA Group combines their segments tending to the nature of the business activities in the different geographic areas in which said activities take place. Group IBERDROLA'S operating segments 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 Brasil.
- Other businesses: 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 transactions between the different segments are generally made in market conditions.

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

## Business segmentation reporting for 2017

Thousand euros	Deregulated						Renewables						Networks					Other business, Corporation and adjustments	Total	
	Spain and Portugal	United Kingdom	Mexico	Brazil	ROW	Total	Spain	United Kingdom	United States	Mexico	Brazil	ROW	Total	Spain	United Kingdom	United States	Brazil			Total
<b>NET REVENUE</b>																				
External revenues	12,125,066	4,797,481	2,334,028	671	(59,862)	<b>19,197,384</b>	192,518	59,966	971,154	73,422	58,722	125,380	<b>1,481,162</b>	1,885,658	1,050,463	4,083,179	3,371,006	<b>10,390,306</b>	194,410	<b>31,263,262</b>
Intersegment revenue	(45,759)	77,810	(19,061)	367,512	77,148	<b>457,650</b>	597,635	479,942	(48)	346	25,664	581	<b>1,104,120</b>	131,575	171,565	–	685	<b>303,825</b>	21,166	<b>1,886,761</b>
Eliminations						(170,197)							–					–	(1,716,564)	<b>(1,886,761)</b>
Total revenue						<b>19,484,837</b>							<b>2,585,282</b>					<b>10,694,131</b>	<b>(1,500,988)</b>	<b>31,263,262</b>
<b>RESULTS</b>																				
Segment operating profit	403,250	(104,663)	429,514	39,519	(800,740)	<b>(33,120)</b>	250,443	217,402	(297,566)	25,646	40,367	51,458	<b>287,750</b>	1,001,297	603,027	778,598	276,812	<b>2,659,734</b>	(201,733)	<b>2,712,631</b>
Result of companies accounted for using the equity method - net of taxes	(4,331)	(51)	–	(1,531)	–	<b>(5,913)</b>	6,847	1,128	(43,877)	–	3,982	(38)	<b>(31,958)</b>	2,921	(89)	14,669	6,399	<b>23,900</b>	(14,762)	<b>(28,733)</b>
<b>ASSETS</b>																				
Segment assets	11,303,427	7,126,306	3,754,452	1,646,585	156,303	<b>23,987,073</b>	4,379,219	4,984,086	11,255,376	957,661	656,761	2,195,210	<b>24,428,313</b>	11,925,746	11,898,622	19,779,894	5,655,755	<b>49,260,017</b>	3,123,357	<b>100,798,760</b>
Companies accounted for using the equity method	31,383	–	–	710,242	–	<b>741,625</b>	65,125	6,457	178,077	–	–	(1,076)	<b>248,583</b>	29,781	–	122,654	–	<b>152,435</b>	648,253	<b>1,790,896</b>
<b>LIABILITIES</b>																				
Segment liabilities	2,661,029	1,477,277	1,104,965	391,876	48,662	<b>5,683,809</b>	754,938	929,372	3,546,940	298,709	64,134	373,739	<b>5,967,832</b>	5,735,668	2,458,169	6,630,179	2,047,965	<b>16,871,981</b>	1,955,412	<b>30,479,034</b>
<b>OTHER INFORMATION:</b>																				
Total cost incurred during the period in the acquisition of property, plant and equipment and non-current intangible assets	396,927	227,571	707,916	51,076	5,914	<b>1,389,404</b>	40,647	821,911	973,640	227,576	93,704	230,651	<b>2,388,129</b>	489,240	692,245	944,008	324,810	<b>2,450,303</b>	53,346	<b>6,281,182</b>
Depreciation and amortisation expenses	498,673	243,759	95,845	20,471	774,981	<b>1,633,729</b>	242,636	143,239	827,312	26,884	16,497	47,809	<b>1,304,377</b>	518,193	283,030	555,417	211,684	<b>1,568,324</b>	99,639	<b>4,606,069</b>
Expenses of the period other than depreciation and amortisation that did not result in cash outflows	45,012	3,468	2,239	–	–	<b>50,719</b>	4,029	–	9,179	–	–	23	<b>13,231</b>	97,248	24,328	72,385	21,680	<b>215,641</b>	154,270	<b>433,861</b>

Business segmentation reporting for 2016

Restated- (Note 2.c)	Deregulated						Renewables						Networks				Other business, Corporation and adjustments	Total		
	Spain and Portugal	United Kingdom	Mexico	Brazil	ROW	Total	Spain	United Kingdom	United States	Mexico	Brazil	ROW	Total	Spain	United Kingdom	United States			Brazil	Total
Thousand euros																				
<b>NET REVENUE</b>																				
External revenues	12,004,791	5,361,763	1,498,246	71,404	(1,228)	<b>18,934,976</b>	44,543	56,374	963,972	73,059	39,112	123,193	<b>1,300,253</b>	1,909,088	1,106,035	3,979,421	1,458,544	<b>8,453,088</b>	70,831	<b>28,759,148</b>
Intersegment revenues	(124,258)	106,566	(3,292)	291	49,264	<b>28,571</b>	732,700	367,240	-	(1,267)	-	707	<b>1,099,380</b>	140,588	213,058	-	-	<b>353,646</b>	21,816	<b>1,503,413</b>
Eliminations						(240,175)						-						(1,263,238)	<b>(1,503,413)</b>	
Total revenue						<b>18,723,372</b>						<b>2,399,633</b>						<b>8,806,734</b>	<b>(1,170,591)</b>	<b>28,759,148</b>
<b>RESULTS</b>																				
Segment operating profit	986,453	17,161	338,176	(3,174)	(25,486)	<b>1,313,130</b>	250,625	129,668	218,225	25,230	15,708	63,326	<b>702,782</b>	1,100,314	692,426	729,464	126,991	<b>2,649,195</b>	20,746	<b>4,685,853</b>
Result of companies accounted for using the equity method - net of taxes	(25,693)	(100)	-	19,591	-	<b>(6,202)</b>	366	1,139	(9,406)	-	3,365	(8,870)	<b>(13,406)</b>	1,808	95	11,728	41,779	<b>55,410</b>	11,457	<b>47,259</b>
<b>ASSETS</b>																				
Segment assets	11,250,855	6,962,247	3,418,760	14,424	1,447,866	<b>23,094,152</b>	4,584,323	4,710,901	13,175,575	832,935	204,784	1,745,542	<b>25,254,060</b>	11,649,885	11,751,258	21,788,818	1,724,132	<b>46,914,093</b>	4,632,445	<b>99,894,750</b>
Companies accounted for using the equity method	5,953	1,825	-	438,914	-	<b>446,692</b>	61,879	7,908	144,788	-	111,088	(1,078)	<b>324,585</b>	51,395	92	143,107	657,082	<b>851,676</b>	616,702	<b>2,239,655</b>
<b>LIABILITIES</b>																				
Segment liabilities	2,571,554	1,189,049	1,020,133	11,375	402,665	<b>5,194,776</b>	769,914	783,486	5,252,396	267,507	17,652	316,351	<b>7,407,306</b>	5,932,897	2,515,384	8,760,558	570,528	<b>17,779,367</b>	3,169,327	<b>33,550,776</b>
<b>OTHER INFORMATION:</b>																				
Total cost incurred during the period in the acquisition of property, plant and equipment and non-current intangible assets	224,701	134,839	408,795	135	4,888	<b>773,358</b>	15,989	485,337	690,924	116,256	3,115	477,513	<b>1,789,134</b>	512,916	792,534	843,808	83,707	<b>2,232,965</b>	(49,397)	<b>4,746,060</b>
Depreciation and amortisation expenses	534,056	276,432	97,989	102	31,602	<b>940,181</b>	246,807	140,174	345,420	26,774	9,192	30,598	<b>798,965</b>	502,755	283,813	540,173	105,762	<b>1,432,503</b>	76,178	<b>3,247,827</b>
Expenses of the period other than depreciation and amortisation that did not result in cash outflows	22,556	5,567	964	-	-	<b>29,087</b>	3,025	-	8,563	-	-	-	<b>11,588</b>	26,582	21,607	63,609	840	<b>112,638</b>	102,745	<b>256,058</b>



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

Thousand euros	31.12.2017	31.12.2016 Restated- (Nota 2.c)
<b>Net revenue</b>		
Spain	13,733,471	13,500,953
United Kingdom	5,907,910	6,524,172
North America	7,402,164	6,513,719
Brazil	3,430,399	1,569,060
ROW	789,318	651,244
<b>Total</b>	<b>31,263,262</b>	<b>28,759,148</b>

Thousand euros	31.12.2017	31.12.2016
<b>Non-current assets(*)</b>		
Spain	22,881,482	23,537,117
United Kingdom	22,433,802	21,898,039
North America	31,962,224	35,837,302
Brazil	6,290,435	1,444,265
ROW	2,086,492	1,514,166
<b>Total</b>	<b>85,654,435</b>	<b>84,230,889</b>

(\*) 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:

Thousand euros	31.12.2017	31.12.2016
<b>Segment assets</b>	<b>100,798,760</b>	<b>99,894,750</b>
Non-current Financial investments	5,013,504	3,903,994
Current Financial investments	1,323,224	1,474,790
Cash and cash equivalents	3,197,340	1,432,686
Assets held for sale	355,731	–
<b>Total assets</b>	<b>110,688,559</b>	<b>106,706,220</b>

Thousand euros	31.12.2017	31.12.2016
<b>Segment liabilities</b>	<b>30,479,034</b>	<b>33,550,776</b>
Equity	42,733,186	40,687,389
Non-current equity instruments having the substance of financial liability	14,762	43,664
Long-term liabilities	29,784,705	26,926,882
Current equity instruments having the substance of financial liability	32,519	93,390
Short term liabilities	7,509,809	5,404,119
Liabilities linked to assets held for sale	134,544	–
<b>Total liabilities and equity</b>	<b>110,688,559</b>	<b>106,706,220</b>

## 9. INTANGIBLE ASSETS

The changes in 2017 and 2016 in intangible assets and their corresponding accumulated amortisations and provisions has been as follows:

Thousand euros	Balance at 01.01.2016	Differences in exchange rates	Modification of the consolidation perimeter	Additions/ (charge)/ reversals	Capitalised Staff costs (Note 38)	Transfers	Disposals /Derecognition	Balance at 31.12.2016	Differences in exchange rates	Modification of the consolidation perimeter (Note 7)	Additions/ (charge)/ reversals	Capitalised Staff costs (Note 38)	Transfers	Disposals /Derecognition	Assets held for sale (Note 34)	Write-off (Note 13)	Balance at 31.12.2017
<b>Cost:</b>																	
Goodwill	9,352,789	(605,188)	(35,351)	-	-	-	(1,197)	8,711,053	(573,238)	244,069	-	-	-	-	-	(449,480)	7,932,404
Concessions, Patents, licenses, trademarks and others	7,545,884	29,993	104,888	15,553	-	92	(1)	7,696,409	(796,107)	1,034,895	8,501	-	(336)	-	(12,695)	-	7,930,667
Intangibles assets under CINIF 12	726,508	179,979	-	84,089	23,696	(32,512)	(14,986)	966,774	(404,484)	4,802,502	338,120	34,372	(189,211)	(41,717)	-	-	5,506,356
IT Applications	1,869,488	(32,150)	-	143,269	7,377	24,234	(52,201)	1,960,017	(116,012)	-	157,639	7,927	40,599	(9,634)	(527)	-	2,040,009
Other intangible assets	4,861,701	(17,649)	25,639	10,678	-	(371,402)	(4,542)	4,504,425	(444,142)	32,755	5,939	-	(71,660)	(7,017)	(471,230)	-	3,549,070
<b>Total cost</b>	<b>24,356,370</b>	<b>(445,015)</b>	<b>95,176</b>	<b>253,589</b>	<b>31,073</b>	<b>(379,588)</b>	<b>(72,927)</b>	<b>23,838,678</b>	<b>(2,333,983)</b>	<b>6,114,221</b>	<b>510,199</b>	<b>42,299</b>	<b>(220,608)</b>	<b>(58,368)</b>	<b>(484,452)</b>	<b>(449,480)</b>	<b>26,958,506</b>
<b>Accumulated depreciation and procurement:</b>																	
Concessions, patents, licenses, trademarks and others	742,549	(43,632)	-	80,930	-	-	-	779,847	(55,164)	-	104,311	-	(142)	-	(5,355)	-	823,497
Intangibles assets under CINIF 12	209,266	55,604	-	51,505	-	-	(5,877)	310,498	(172,658)	2,221,975	134,587	-	-	(26,495)	-	-	2,467,907
IT Applications	1,262,538	(12,634)	-	164,905	-	1,691	(52,003)	1,364,497	(72,083)	-	182,870	-	1,852	(9,586)	(486)	-	1,467,064
Other intangible assets	554,990	(47,291)	-	146,688	-	-	(3,173)	651,214	(46,021)	1,796	120,325	-	(3,175)	(252)	(49,726)	-	674,161
<b>Total accumulated depreciation</b>	<b>2,769,343</b>	<b>(47,953)</b>	<b>-</b>	<b>444,028</b>	<b>-</b>	<b>1,691</b>	<b>(61,053)</b>	<b>3,106,056</b>	<b>(345,926)</b>	<b>2,223,771</b>	<b>542,093</b>	<b>-</b>	<b>(1,465)</b>	<b>(36,333)</b>	<b>(55,567)</b>	<b>-</b>	<b>5,432,629</b>
<b>Impairment allowance (Note 41)</b>	<b>827,421</b>	<b>39,220</b>	<b>-</b>	<b>(68,182)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>798,459</b>	<b>(81,435)</b>	<b>-</b>	<b>25,756</b>	<b>-</b>	<b>(18,706)</b>	<b>-</b>	<b>(346,224)</b>	<b>-</b>	<b>377,850</b>
<b>Total accumulated depreciation and procurement</b>	<b>3,596,764</b>	<b>(8,733)</b>	<b>-</b>	<b>375,846</b>	<b>-</b>	<b>1,691</b>	<b>(61,053)</b>	<b>3,904,515</b>	<b>(427,361)</b>	<b>2,223,771</b>	<b>567,849</b>	<b>-</b>	<b>(20,171)</b>	<b>(36,333)</b>	<b>(401,791)</b>	<b>-</b>	<b>5,810,479</b>
<b>Total net cost</b>	<b>20,759,606</b>	<b>(436,282)</b>	<b>95,176</b>	<b>(122,257)</b>	<b>31,073</b>	<b>(381,279)</b>	<b>(11,874)</b>	<b>19,934,163</b>	<b>(1,906,622)</b>	<b>3,890,450</b>	<b>(57,650)</b>	<b>42,299</b>	<b>(200,437)</b>	<b>(22,035)</b>	<b>(82,661)</b>	<b>(449,480)</b>	<b>21,148,027</b>

The heading “Other intangible assets” includes, among other items, wind farm projects in the development phase which meet the identifiability requirement under NIC 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.

The amounts incurred in due to research and development activities in 2017 and 2016 totals EUR 246,392 and 211,447 respectively.

The fully amortised intangible assets in use at 31 December 2017 and 2016 amounted to 1,093,271 and 384,669 thousand, respectively.

The IBERDROLA Group maintains at 31 December 2017 and 2016 commitments to acquire intangible assets for EUR 48,559 and 44,655 thousand.

In addition, at 31 December 2017 and 2016, 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 2017 and 2016 is as follows:

Thousand euros	31.12.2017	31.12.2016
Electricity and gas generation and supply in the UK	4,330,357	4,502,132
Regulated activities in the UK	858,779	885,294
Renewable energies in the UK	493,279	510,026
Renewable energies in the USA	828,687	1,460,337
Regulated activities in the USA	999,482	1,143,048
Regulated activities in Brazil	198,107	175,224
Electricity generation and retail in the UK	173,768	–
Renewable energies in Brazil	10,764	–
Other activities	39,181	34,992
<b>Total</b>	<b>7,932,404</b>	<b>8,711,053</b>

The allocation of indefinite life and in-progress intangible assets at 31 December 2017 and 2016 to the various cash generating units is as follows:

Thousand euros	2017			2016		
	Intangible assets with indefinite useful lives	Intangible assets in progress	Total	Intangible assets with indefinite useful lives	Intangible assets in progress	Total
Electricity distribution in Scotland	751,075	–	751,075	781,646	–	781,646
Electricity distribution in Wales and England	722,856	–	722,856	752,279	–	752,279
Electricity transmission in the UK	285,463	–	285,463	297,082	–	297,082
Renewable energies in the USA	–	150,563	150,563	–	257,681	257,681
Electricity and gas distribution in New York (NYSEG)	996,025	–	996,025	1,139,094	–	1,139,094
Electricity and gas distribution in New York (RG&E)	897,766	–	897,766	1,026,721	–	1,026,721
Electricity transmission and distribution in Maine (CMP)	247,347	9,758	257,105	282,876	20,960	303,836
Electricity transmission and distribution in Conneticut (UI)	1,037,259	–	1,037,259	1,186,251	–	1,186,251
Gas distribution in Conneticut (CNG)	261,730	–	261,730	299,325	–	299,325
Gas distribution in Conneticut (SCG)	513,807	–	513,807	587,610	–	587,610
Gas distribution in Massachusetts (BGC)	35,042	–	35,042	40,076	–	40,076
Others	–	374,647	374,647	–	367,121	367,121
<b>Total</b>	<b>5,748,370</b>	<b>534,968</b>	<b>6,283,338</b>	<b>6,392,960</b>	<b>645,762</b>	<b>7,038,722</b>

The undefined useful life assets mostly correspond to the acquisition cost of licences to operate in different businesses that make up the main activity of the activities performed by the Group.

**10. REAL ESTATE INVESTMENTS**

The changes in 2017 and 2016 in the IBERDROLA Group's investment property were as follows:

Thousand euros	Balance at 01.01.2016	Additions/ (charge)/ reversals	Transfers	Decreases, disposals or reductions	Balance at 31.12.2016	Additions/ (charge)/ reversals	Transfers	Decreases, disposals or reductions	Balance at 31.12.2017
Real estate investments	561,873	7,321	(9,683)	(14,396)	545,115	4,169	61,434	(108,759)	501,959
Impairment allowance	(31,953)	–	4,118	–	(27,835)	–	1,030	–	(26,805)
Accumulated depreciation	(49,179)	(7,446)	1	1,686	(54,938)	(6,965)	–	10,778	(51,125)
<b>Total net cost</b>	<b>480,741</b>	<b>(125)</b>	<b>(5,564)</b>	<b>(12,710)</b>	<b>462,342</b>	<b>(2,796)</b>	<b>62,464</b>	<b>(97,981)</b>	<b>424,029</b>

The investment property owned by the IBERDROLA Group relates primarily to properties destined for leasing. The income accrued during fiscal years 2017 and 2016 for this operation are EUR 25,177 and 30,655 thousand, respectively, and were registered in sub-heading "Net revenue" of the consolidated income statement. The operating expenses directly related to the real estate investments during fiscal years 2017 and 2016 were not significant.

The fair value of real property investments in operation fully amortised intangible assets at 31 December 2017 and 2016 amounted to EUR 477,299 and 530,112 thousand, respectively. This fair value (classified in Level 3) is determined via expert independent appraisals made annually in accordance with the Assessment Standards published by the Royal Institution of Chartered Surveyors (RICS) of Great Britain, in their January 2014 edition. The assessments on 31 December 2017 and 2016 have been made by Knight Frank España.

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

The methods applied for the calculation of fair value have been the discount of cash flows, the capitalisation of revenue and the comparison method, contrasted, as much as possible, with comparable transactions to reflect the reality of the market and the prices to which they are currently closing the asset operations of similar characteristics to the reference operations.

The discount of cash flows is based on a prediction of the probable net income that real estate investment will generate for a period of time and considers its residual value at the end of the period. Cash flows are discounted at an internal rate of return that reflects the urban, construction and business risk of the asset.

The variables and key assumptions of the cash flow discount method are:

- Net income that the property will generate for a certain period of time, keeping in mind the initial contractual situation, development of renters and expected income, marketing costs, divestment expenses (variable percentage depending on the sale price 1%-3%), etc.
- Discount rate or objective internal return rate adjusted to reflect the risk that the investment entails depending on the localisation, occupation, renter quality, property age, etc.
- 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, to perpetuity.

For property for hire that does not include many variables as extensive and involves leased property for a period of time greater than 10 years and up and one renter, the capitalisation method for income is usually applied. This method consists of the perpetual capitalisation of the current contractual income via a capitalisation rate that inherently includes the risks and uncertainties that could arise in the market.

At 31 December 2017 and 2016, 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.

## 11. PROPERTY, PLANT AND EQUIPMENT

In addition, in 2017 and 2016 the reconciliation between segment assets and liabilities and the total assets and liabilities in the Consolidated statement of financial position is as follows:

Thousand euros	Balance at 01.01.2016	Diferences in exchange rates	Modification of the consolidation perimeter	Additions/charge/(reversals)	Transfers	Disposals Derecognitions	Write-off	Balance at 31.12.2016	Diferences in exchange rates	Modification of the consolidation perimeter (Note 7)	Additions/charge/(reversals)	Transfers	Disposals Derecognitions	Assets held for sale (Note 34)	Write-off	Balance at 31.12.2017
<b>Cost:</b>																
<b>Land and constructions</b>	<b>1,848,719</b>	<b>25,707</b>	<b>(4,904)</b>	<b>65,379</b>	<b>375,359</b>	<b>(10,673)</b>	<b>-</b>	<b>2,299,587</b>	<b>(166,584)</b>	<b>21,668</b>	<b>50,966</b>	<b>55,432</b>	<b>(70,153)</b>	<b>(4,146)</b>	<b>-</b>	<b>2,186,770</b>
<b>Electricity plant in operation:</b>																
Hydroelectric power plants	6,802,995	(36,321)	-	-	77,458	(797)	-	6,843,335	(66,744)	483,853	782	41,505	(1,546)	-	-	7,301,185
Thermal power plants	2,818,908	(151,000)	-	544	15,414	(1,467,171)	-	1,216,695	(80)	-	1,739	2,035	-	-	-	1,220,389
Combined cycle power plant	7,581,038	(8,272)	-	25,652	396,373	(19,667)	-	7,975,124	(533,449)	387,961	10,181	370,015	(70,487)	-	-	8,139,345
Nuclear power plants	7,459,302	-	-	(5,017)	109,408	(55,363)	-	7,508,330	-	-	64,495	106,402	(56,230)	-	-	7,622,997
Wind farms	23,302,455	73,997	-	(92,938)	(197,529)	(82,026)	-	23,003,959	(1,774,746)	173,632	200,975	1,600,322	(41,179)	-	-	23,162,963
<b>Facilities:</b>																
- Gas storage and other alternative plants	1,424,967	73,332	-	140	49,336	(290)	-	1,547,485	(108,079)	-	148	(56,357)	(6,678)	(1,275,314)	-	101,205
- Electricity Transmission	6,335,777	(173,212)	-	-	1,270,828	(38,545)	-	7,394,848	(700,661)	-	-	1,212,265	(14,540)	-	-	7,891,912
- Gas transmission	49,387	2,775	-	-	-	-	-	52,162	(3,974)	-	-	(38,652)	-	(6,507)	-	3,029
- Electricity distribution	29,997,892	(657,281)	-	73,502	811,803	(39,868)	-	30,186,048	(1,157,705)	-	85,628	1,295,496	(1,620,725)	-	-	28,788,742
- Gas distribution	2,934,325	143,087	-	-	(180,454)	(11,107)	-	2,885,851	(375,723)	-	-	302,575	(7,319)	(36,496)	-	2,768,888
Meters and metering devices	1,836,016	(29,048)	-	199,700	285,569	(186,300)	-	2,105,937	(118,329)	-	148,325	(24,739)	(60,493)	-	-	2,050,701
Dispatching centres and other facilities	1,729,001	(8,370)	-	3,451	136,386	(1,844)	-	1,858,624	(35,986)	-	48,939	259,591	(152,930)	-	-	1,978,238
<b>Total Electricity plant in operation</b>	<b>92,272,063</b>	<b>(770,313)</b>	<b>-</b>	<b>205,034</b>	<b>2,774,592</b>	<b>(1,902,978)</b>	<b>-</b>	<b>92,578,398</b>	<b>(4,875,476)</b>	<b>1,045,446</b>	<b>561,212</b>	<b>5,070,458</b>	<b>(2,032,127)</b>	<b>(1,318,317)</b>	<b>-</b>	<b>91,029,594</b>
<b>Others in use</b>	<b>1,441,724</b>	<b>19,127</b>	<b>-</b>	<b>133,516</b>	<b>214,981</b>	<b>(102,288)</b>	<b>-</b>	<b>1,707,060</b>	<b>(104,005)</b>	<b>2,320</b>	<b>151,910</b>	<b>38,757</b>	<b>(79,215)</b>	<b>(4,823)</b>	<b>-</b>	<b>1,712,004</b>
<b>Electricity plant under construction</b>	<b>4,883,670</b>	<b>(158,301)</b>	<b>-</b>	<b>4,401,277</b>	<b>(2,918,251)</b>	<b>(13,648)</b>	<b>(29,245)</b>	<b>6,165,502</b>	<b>(424,346)</b>	<b>351,302</b>	<b>5,180,922</b>	<b>(4,736,672)</b>	<b>(19,436)</b>	<b>-</b>	<b>(37,499)</b>	<b>6,479,773</b>
<b>Prepayments and other PP&amp;E under construction(*)</b>	<b>303,327</b>	<b>22,791</b>	<b>-</b>	<b>397,330</b>	<b>(85,042)</b>	<b>(77,235)</b>	<b>-</b>	<b>561,171</b>	<b>(42,442)</b>	<b>4,668</b>	<b>518,888</b>	<b>(591,653)</b>	<b>(93,515)</b>	<b>-</b>	<b>-</b>	<b>357,117</b>
<b>Total cost</b>	<b>100,749,503</b>	<b>(860,989)</b>	<b>(4,904)</b>	<b>5,202,536</b>	<b>361,639</b>	<b>(2,106,822)</b>	<b>(29,245)</b>	<b>103,311,718</b>	<b>(5,612,853)</b>	<b>1,425,404</b>	<b>6,463,898</b>	<b>(163,678)</b>	<b>(2,294,446)</b>	<b>(1,327,286)</b>	<b>(37,499)</b>	<b>101,765,258</b>

(\*) Prepayment amounts as of 31 December 2017 and 2016 amount to EUR 46,708 and 306,178, respectively.

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Thousand euros	Balance at 01.01.2016	Diferences in exchange rates	Modification of the consolidation perimeter	Additions/ (charge)/ reversals	Transfers	Disposals Derecognitions	Write-off	Balance at 31.12.2016	Diferences in exchange rates	Modification of the consolidation perimeter (Note 7)	Additions/ (charge)/ reversals	Transfers	Disposals Derecognitions	Assets held for sale (Note 34)	Write-off	Balance at 31.12.2017
<b>Accumulated depreciation and procurement:</b>																
<b>Buildings</b>	<b>417,154</b>	<b>1,621</b>	<b>-</b>	<b>35,695</b>	<b>53,603</b>	<b>(7,039)</b>	<b>-</b>	<b>501,034</b>	<b>(34,968)</b>	<b>2,665</b>	<b>35,707</b>	<b>5,735</b>	<b>(50,419)</b>	<b>(972)</b>	<b>-</b>	<b>458,782</b>
<b>Electricity plant in operation:</b>																
Hydroelectric power plants	3,689,894	(19,912)	-	128,464	(15,996)	(558)	-	3,781,892	(18,920)	112,248	104,263	(160)	(1,547)	-	-	3,977,776
Thermal power plants	2,012,384	(92,123)	-	25,813	(1,683)	(915,795)	-	1,028,596	(26)	-	33,550	-	-	-	-	1,062,120
Combined cycle power plant	2,805,310	(29,667)	-	275,084	-	(17,356)	-	3,033,371	(188,960)	140,080	243,875	(5,719)	(66,467)	-	-	3,156,180
Nuclear power plants	5,306,105	-	-	261,859	-	(54,102)	-	5,513,862	-	-	267,732	-	(55,612)	-	-	5,725,982
Wind farms	6,613,462	44,137	-	730,544	(247,842)	(9,601)	-	7,130,700	(469,740)	31,495	749,008	(94,428)	(9,971)	-	-	7,337,064
Facilities:																
- Gas storage and other alternative plants	298,945	15,775	-	26,985	19,629	(236)	-	361,098	(24,561)	-	26,834	(12,170)	(3,390)	(303,370)	-	44,441
- Electricity Transmission	1,407,862	(38,940)	-	132,617	127,942	(17,233)	-	1,612,248	(157,679)	-	145,509	122,359	(12,988)	-	-	1,709,449
- Gas transmission	12,126	707	-	298	-	-	-	13,131	(1,049)	-	195	(7,829)	-	(2,334)	-	2,114
- Electricity distribution	10,884,877	(123,233)	-	694,741	15,033	(29,209)	-	11,442,209	(407,799)	-	710,790	(143,299)	(1,611,442)	-	-	9,990,459
- Gas distribution	1,235,020	61,394	-	46,165	(102,736)	(5,625)	-	1,234,218	(157,392)	-	41,839	20,230	(5,544)	(10,178)	-	1,123,173
Meters and metering devices	1,050,397	(40,835)	-	125,020	51,132	(186,200)	-	999,514	(44,116)	-	121,502	(12,483)	(57,627)	-	-	1,006,790
Dispatching centres and other facilities	818,895	(13,661)	-	46,247	17,485	(1,690)	-	867,276	(16,333)	-	53,650	8,248	(152,344)	-	-	760,497
<b>Total Electricity plant in operation</b>	<b>36,135,277</b>	<b>(236,358)</b>	<b>-</b>	<b>2,493,837</b>	<b>(137,036)</b>	<b>(1,237,605)</b>	<b>-</b>	<b>37,018,115</b>	<b>(1,486,575)</b>	<b>283,823</b>	<b>2,498,747</b>	<b>(125,251)</b>	<b>(1,976,932)</b>	<b>(315,882)</b>	<b>-</b>	<b>35,896,045</b>
<b>Others in use</b>	<b>972,805</b>	<b>4,510</b>	<b>-</b>	<b>106,886</b>	<b>75,431</b>	<b>(88,627)</b>	<b>-</b>	<b>1,071,005</b>	<b>(47,649)</b>	<b>1,848</b>	<b>102,536</b>	<b>977</b>	<b>(76,002)</b>	<b>(3,113)</b>	<b>-</b>	<b>1,049,602</b>
<b>Total accumulated depreciation</b>	<b>37,525,236</b>	<b>(230,227)</b>	<b>-</b>	<b>2,636,418</b>	<b>(8,002)</b>	<b>(1,333,271)</b>	<b>-</b>	<b>38,590,154</b>	<b>(1,569,192)</b>	<b>288,336</b>	<b>2,636,990</b>	<b>(118,539)</b>	<b>(2,103,353)</b>	<b>(319,967)</b>	<b>-</b>	<b>37,404,429</b>
Impairment allowance (Note 41)	1,435,677	(22,869)	-	-	-	(525,628)	-	887,180	(47,679)	71	608,646	(179,575)	(244)	(989,949)	-	278,450
<b>Total accumulated depreciation and procurement</b>	<b>38,960,913</b>	<b>(253,096)</b>	<b>-</b>	<b>2,636,418</b>	<b>(8,002)</b>	<b>(1,858,899)</b>	<b>-</b>	<b>39,477,334</b>	<b>(1,616,871)</b>	<b>288,407</b>	<b>3,245,636</b>	<b>(298,114)</b>	<b>(2,103,597)</b>	<b>(1,309,916)</b>	<b>-</b>	<b>37,682,879</b>
<b>Total net cost</b>	<b>61,788,590</b>	<b>(607,893)</b>	<b>(4,904)</b>	<b>2,566,118</b>	<b>369,641</b>	<b>(247,923)</b>	<b>(29,245)</b>	<b>63,834,384</b>	<b>(3,995,982)</b>	<b>1,136,997</b>	<b>3,218,262</b>	<b>134,436</b>	<b>(190,849)</b>	<b>(17,370)</b>	<b>(37,499)</b>	<b>64,082,379</b>



The breakdown by business of the main investments made in property, plant and equipment in 2017 and 2016, additional to the ones included in the acquisition of NEONERGIA (Note 7) and not including the capitalization of financial (Note 38) nor staff costs (Note 43) is as follows:

Thousand euros	31.12.2017	31.12.2016
<b>Deregulated Business</b>		
Spain	390,487	219,697
United Kingdom	205,269	109,428
Mexico	710,948	393,672
Brazil	50,780	135
Others	5,869	4,888
<b>Renewable Business</b>		
Spain	36,737	8,318
United Kingdom	801,792	967,445
United States	970,464	689,475
Mexico	192,937	89,453
Brazil	91,828	616
ROW	229,079	1,284
<b>Network Business</b>		
Spain	484,467	498,322
United Kingdom	678,662	779,772
United States	895,638	792,963
Brazil	912	–
<b>Corporation and other</b>	46,619	(47,497)
<b>Total</b>	<b>5,792,488</b>	<b>4,507,971</b>

In 2016 the Longannet coal-fired power plant in the United Kingdom was closed, resulting in a decrease in the "Property, plant and equipment" heading of EUR 1,348,124 thousand gross cost, EUR 842,929 thousand of accumulated depreciation and EUR 505,195 thousand of provision for impairment.

The "Amortisation and provisions" heading, in the Consolidated income statement for 2017 includes EUR 646,145 thousand for impairment and write-offs of property, plant and equipment of the IBERDROLA Group (Note 41). In 2016 this heading included a debit of EUR 29,245 thousand.

The fully amortised intangible assets in use at 31 December 2017 and 2016 amounted to 2,277,060 and 2,909,361 thousand, respectively.

The IBERDROLA Group maintains at 31 December 2017 and 2016 commitments to acquire intangible assets for EUR 4,130,359 and 5.275.933 thousand.

At 31 December 2017 and 2016, the heading "Property, plant and equipment – Property, plant and equipment in use" included EUR 203,835 y 193,044 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 contracts at 31 December 2017 is as follows:

Thousand euros	31.12.2017	31.12.2016
2017	–	33,899
2018	13,569	12,143
2019-2021	37,412	36,578
From 2022 onwards	123,873	129,230
<b>Total</b>	<b>174,854</b>	<b>211,850</b>
Financial Cost	28,890	43,493
Present value of the payments	145,964	168,357
<b>Total</b>	<b>174,854</b>	<b>211,850</b>

## 12. CONCESSION AGREEMENTS

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

### Distribution

Company	Location	Concessi on date	Maturity date	No. of towns	Tariff cycle	Last review
Elektro Electricidade e Serviços, S.A.	Estado do Sao Paulo	27/08/1998	26/08/2028	223	4 years	Aug-15
Elektro Electricidade e Serviços, S.A.	Mato Grosso do Sul	27/08/1998	26/08/2028	5	4 years	Aug-15
Companhia de Eletricidade do Estado do Bahia, S.A.	Estado da Bahia	08/08/1997	07/08/2027	415	5 years	Apr-13
Companhia Energética de Pernambuco, S.A.	Estado de Pernambuco	30/03/2000	30/03/2030	184	4 years	Apr-17
Companhia Energética de Pernambuco, S.A.	Distrito de Fernando de Noronha	30/03/2000	30/03/2030	1	4 years	Apr-17
Companhia Energética de Pernambuco, S.A.	Estado da Paraíba	30/03/2000	30/03/2030	1	4 years	Apr-17
Companhia Energetica do Rio Grande do Norte, S.A.	Estado do Rio Grande do Norte	31/12/1997	30/12/2027	167	5 years	Apr-13

### Transmission in operation

Company	Location	Concession date	Maturity date	Tariff cycle	Last review
Afluyente Geração de Energia Elétrica, S.A.	Estado da Bahia	06/08/1997	08/08/2027	5 years	2015
S.E. Narandiba, S.A. (SE Narandiba)	Estado da Bahia	28/01/2009	28/01/2039	5 years	2014
S.E. Narandiba, S.A. (SE Extremoz)	Estado do Rio Grande do Norte	10/05/2012	10/05/2042	5 years	2017
S.E. Narandiba, S.A. (SE Brumado)	Estado da Bahia	27/08/2012	27/08/2042	5 years	(1)
Potiguar Sul Transmissao de Energia, S.A.	Estado da Paraíba do Rio Grande do Norte	01/08/2013	01/08/2043	5 years	(1)

(1) First revision in 2018

Transmission in constructions

Company	Location	Concession date	Maturity date
EKTT 12-A Serviços de Transmissão de Energia Elétrica SPE S/A	Estados do Mato Grosso do Sul e São Paulo	31/07/2017	31/07/2047
EKTT 13-A Serviços de Transmissão de Energia Elétrica SPE S/A	Estado de São Paulo	31/07/2017	31/07/2047
EKTT 14-A Serviços de Transmissão de Energia Elétrica SPE S/A	Estado de Santa Catarina	31/07/2017	31/07/2047
EKTT 15-A Serviços de Transmissão de Energia Elétrica SPE S/A	Estado do Ceará	31/07/2017	31/07/2047

Generation in operation

Company	Location	Concession date	Maturity date	Plant	Rate	installed capacity (MW)	% Neo	% installed capacity (MW)	Secured energy (MWmed)
Itapebí Geração de Energia, S.A.	Rio Jequitinhonha – BA	28/05/1999	31/08/2035	Itapebí	Hydro	462.01	100	462.01	209.1
Termopernambuco, S.A.	Complexo Portuário do Suape - PE	18/12/2000	18/12/2030	Termopernambuco	Thermal	532.76	100	532.76	504.12
Baguari Geração de Energia Elétrica, S.A.	Rio Doce - MG	15/08/2006	31/12/2039	Baguari I	Hydro	140.00	51	71.40	84.7
Geração CIII, S.A.	Rio Corumbá - GO	07/11/2001	14/02/2037	Corumbá III	Hydro	96.45	70	67.51	49.3
Energetica Aguas da Pedra, S.A. <sup>(1)</sup>	Rio Aripuanã - MT	03/07/2007	02/01/2043	Dardanelos	Hydro	261.00	51	133.11	154.9
Companhia Hidrelétrica Teles Pires, S.A. <sup>(1)</sup>	Rio Teles Pires - MT	07/06/2011	06/06/2046	Teles Pires	Hydro	1,819.80	51	928.10	930.7
Arizona 1 Energia Renovável, S.A.	Rio do Fogo - RN	04/03/2011	03/03/2046	Arizona 01	Wind	28.00	100	28.00	12.9
Mel 2	Areia Branca - RN	28/02/2011	27/02/2046	Mel 2	Wind	20.00	100	20.00	9.8
Caetitê 1 Energia Renovável, S.A.	Caetitê - BA	29/10/2012	29/10/2042	Caetitê 1	Wind	30.00	100	30.00	13.0
Caetitê 2 Energia Renovável, S.A.	Caetitê - BA	07/02/2011	06/02/2046	Caetitê 2	Wind	30.00	100	30.00	12.1
Caetitê 3 Energia Renovável, S.A.	Caetitê - BA	24/02/2011	23/02/2046	Caetitê 3	Wind	30.00	100	30.00	11.2
Calango 1 Energia Renovável, S.A.	Bodó, Santana do Matos, Lagoa Nova – RN	28/04/2011	27/04/2046	Calango 1	Wind	30.00	100	30.00	13.9
Calango 2 Energia Renovável, S.A.	Bodó, Santana do Matos, Lagoa Nova – RN	09/05/2011	08/05/2046	Calango 2	Wind	30.00	100	30.00	11.9
Calango 3 Energia Renovável, S.A.	Bodó, Santana do Matos, Lagoa Nova – RN	30/05/2011	29/05/2046	Calango 3	Wind	30.00	100	30.00	13.9
Calango 4 Energia Renovável, S.A.	Bodó, Santana do Matos, Lagoa Nova – RN	19/05/2011	18/05/2046	Calango 4	Wind	30.00	100	30.00	12.8
Calango 5 Energia Renovável, S.A.	Bodó, Santana do Matos, Lagoa Nova – RN	02/06/2011	01/06/2046	Calango 5	Wind	30.00	100	30.00	13.7
Calango 6 Energia Renovável, S.A.	Bodó - RN	20/11/2014	19/11/2049	Calango 6	Wind	30.00	100	30.00	18.5
Santana 1, Energia Renovável, S.A.	Bodó - RN	14/11/2014	13/11/2049	Santana 1	Wind	30.00	100	30.00	17.3
Santana 2, Energia Renovável, S.A.	Lagoa Nova - RN	14/11/2014	13/11/2049	Santana 2	Wind	24.00	100	24.00	13.1
Canoas Energia Renovável, S.A.	São José do Sabugi/PB	04/08/2015	03/08/2050	Canoas	Wind	31.50	100	31.50	17.7
Lagoa 1 Energia Renovável, S.A.	Santa Luzia/PB	04/08/2015	03/08/2050	Lagoa 1	Wind	31.50	100	31.50	18.7
Lagoa 2 Energia Renovável, S.A.	São José do Sabugi/PB	04/08/2015	03/08/2050	Lagoa 2	Wind	31.50	100	31.50	17.5
Enerbrasil-Energias Renováveis do Brasil, S.A.	Rio do Fogo – RN	20/12/2001	20/12/2031	Enerbrasil	Wind	49.30	100	49.30	20.74
<b>Generation in operation</b>								<b>2,710.69</b>	

(1) Companies using the equity method

Generation in construction

Company	Location	Concession date	Maturity date	Plant	Rate	installed capacity (MW)	% Neo	% installed capacity (MW)	Secured energy (MWmed)
Geração Ceu Azul, S.A.	Rio Iguaçu - PR	20/08/2012	14/09/2049	Baixo Iguaçu	Hydro	350.20	70	245.14	171.3
Norte Energia, S.A. (1)	Rio Xingu - PA	26/08/2010	25/08/2045	Belo Monte	Hydro	11,233.10	10	1,123.31	4,571.0
<b>Generation in construction</b>								<b>1,368.45</b>	

(1) Companies using the equity method

Appendix II describes the main characteristics of these concessions.

The duration of each concession is 30 years in distribution and 30-35 years in generation, 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) (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.

### 13. 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 Notes 2.c and 7, the IBERDROLA Group incorporated ELEKTRO into NEOENERGIA in 2017. Considering that the date for taking control was 24 August 2017 and that the IBERDROLA Group has not identified indications of impairment after this date, no impairment test has been performed on NEOENERGIA.

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.
- 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 projections were based on the best information available about the plants that were expected to be put into operation in the next years.
- Operation and maintenance costs: maintenance agreements for the current facilities were used. 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 income: approved income was used for years in which it was available, while for subsequent periods regulation set actualization mechanisms of such income, and these were 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 and with the estimate of future income used.
- Operation and maintenance costs: the best estimation available of the performance of the operation and maintenance cost was used, which is in line with the income assumed to be received in each year.

c) Assumptions used in the renewables business:

- Facilities' production: the operation hours of each plant were consistent with their historical output. In this respect, the long-term predictability of wind output was taken into account, which was also covered by regulatory mechanisms that enabled wind farms to produce whenever meteorological and network conditions allowed it.
- Selling prices of electricity : 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. In any case, the existing support mechanisms have been taken into account.
- 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 about the plants that were expected to be put into operation in the next years, taking into account the fixed prices stated in the contracts to buy wind turbines from various suppliers among which is SIEMENS GAMESA (Note 51) as well as the technical and financial capacity of the IBERDROLA Group to successfully fulfil the planned projects.

- Operation and maintenance costs: the 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 growth nominal rate:

The forecast period of future cash flows were of 10 years for the regulated business and the growth nominal rate (g) used to extrapolate these projections beyond the reporting period are as follows:

cash-generating unit	2017		2016	
	No. of years	g	No. of years	g
Electricity and gas generation and supply in the UK	Useful life / 10	- 1.5%	Useful life / 10	- 1.5%
Electricity distribution in Scotland	10	2.5%	10	2.5%
Electricity distribution in Wales and England	10	2.5%	10	2.5%
Electricity transmission in the UK	10	2.5%	10	2.5%
Renewable Energies in the UK	Useful life	-	Useful life	-
Renewable energies in the USA	Useful life	-	Useful life	-
Electricity and gas distribution in New York (NYSEG)	10	1.0%	10	0.8%
Electricity and gas distribution in New York (RG&E)	10	1.0%	10	0.8%
Electricity transmission and distribution in Maine (CMP)	10	1.0%	10	0.8%
Electricity transmission and distribution in Connecticut (UI)	10	1.0%	10	0.8%
Gas distribution in Connecticut (CNG)	10	1.0%	10	0.8%
Gas distribution in Connecticut (CNG)	10	1.0%	10	0.8%
Gas distribution in Massachusetts (BGC)	10	1.0%	10	0.8%
Electricity distribution in Brazil (ELEKTRO)	Concession life	-	Concession life	-

Although NIC 36: 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 deregulated 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 IBERDROLA consisted 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.

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

The asset's risk premium corresponded to the specific risks of the asset, the calculation of which took into account the unlevered betas estimated on the basis of comparable companies performing the same main activity.

The discount rates before taxes used for the impairment test were:

Cash-generating unit	Rates 2017	Rates 2016
Electricity and gas generation and supply in the UK	6.25%	6.51%
Electricity distribution in Scotland	4.75%	5.01%
Electricity distribution in Wales and England	4.75%	5.01%
Electricity transmission in the UK	4.75%	5.01%
Renewable Energies in the UK onshore/offshore	5.95%/6.85%	5.91%/7.11%
Renewable Energies in the UK onshore/offshore	6.13%/7.58%	6.43%
Electricity and gas distribution in New York (NYSEG)	5.48%	5.44%
Electricity and gas distribution in New York (RG&E)	5.48%	5.44%
Electricity transmission and distribution in Maine (CMP)	5.48%	5.44%
Electricity transmission and distribution in Connecticut (UI)	5.48%	5.44%
Gas distribution in Connecticut (CNG)	5.48%	5.44%
Gas distribution in Connecticut (CNG)	5.48%	5.44%
Gas distribution in Massachusetts (BGC)	5.48%	5.44%
Electricity distribution in Brazil (ELEKTRO)	12.56%	13.32%

#### Impairments and write-offs recognised in 2017 and 2016

During 2017 and 2016, the IBERDROLA Group has registered the following valuation adjustments as a consequence of the impairment tests carried out (Note 41):

- As a consequence of the impairment test carried out in 2017 and 2016 on the renewable facilities in the USA (Note 4.b), the IBERDROLA Group has proceeded to revert part of the provision accounted for in relation their intangible assets from past years. In 2017 and 2016 this write off has amounted to EUR 42,959 thousand and to EUR 68,182 thousand, respectively.
- In the renewable energy cash generating unit in the US the recoverable amount is EUR 449,480 thousand lower than book value due to the tax reform resulting in substantial changes in book values such as tax rate. Said amount has been written-off from goodwill (Note 9).

#### 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 supply in the UK:
  - Decrease of 10% in energy produced.
  - Decrease of 10% in margin per kWh.

- Decrease of 10% in electricity and gas customer growth.
  - Decrease of 10% in electricity and gas retail per kWh.
  - Increase of 10% in operating and maintenance costs.
  - Increase of 10% in investment costs.
- Regulated activities in the UK, US and Brazil:
- Decrease of 10% in rate of return on which regulated remuneration is based.
  - Increase of 10% in operating and maintenance costs.
  - Decrease of 10% in investment (resulting in a subsequent decrease in remuneration).
- Renewable energies in the UK and the US:
- Decrease of 5% in energy produced.
  - Decrease of 10% in total price per kWh, solely applicable to production for which there is no long-term sales agreement.
  - Increase of 10% in operating and maintenance costs.
  - Increase of 10% in investment costs.

Moreover, the IBERDROLA Group has performed a sensitivity analysis, increasing the applicable discount rate in each case in 100 basic points.

These sensitivity analyses were carried out for each basic assumptions separately would not state out any depreciation whatsoever, except for the following cases:

- Electricity distribution in Scotland, Wales and England, whose value in use is 3,497 thousand euros more than its value in pounds, in which an increase of 86 basis points on the discount rate would imply that the value in use is lower than book value.
- Electricity Generation and Retail Scotland, Wales and England, whose value in use is 1,326 thousand euros more than its value in pounds, in which an increase of 98 basis points on the discount rate would imply that the value in use is lower than book value.
- Renewable production in Scotland, Wales and England, whose value in use is 513 million euros more than its value in pounds, in which a decrease of 3.8% in wind energy or of 81 basis points on the discount rate would imply that the value in use is lower than book value.
- Renewable energy in the USA, whose value, as previously mentioned, has been adjusted in use. Therefore any negative adjustment would imply that the value in use is lower than book value.



## 14. INVESTMENT

## 14.a ) Companies accounted for using the equity method

Movement for the years 2017 and 2016 in the carrying amounts recognised through global integration of IBERDROLA Group's associates and combines business (Appendix I) is as follows:

Thousand euros	Associated companies	Subgroup Neenergia	Subgroup Flat Rock	Other combined business	Total
<b>Balance at 01.01.2016</b>	<b>595,792</b>	<b>916,468</b>	<b>155,218</b>	<b>382,705</b>	<b>2,050,183</b>
Investment	13,077	–	1,366	33,017	47,460
Modification of the consolidation perimeter	–	–	–	20,341	20,341
Transfers	–	–	(9,470)	18,500	9,030
Profit for the year from continuing activities	45,936	30,237	(9,406)	(19,508)	47,259
Profit for the year from discontinued activities (Note 34)	1,464	–	–	–	1,464
Other global result	(6,611)	(20,120)	–	(6,267)	(32,998)
Dividends	(11,557)	(28,169)	–	(51,469)	(91,195)
Translation differences	4,770	215,657	7,080	21,246	248,753
Disposals	(104)	–	–	(60,153)	(60,257)
Others	(282)	–	–	(103)	(385)
<b>Balance at 31.12.2016</b>	<b>642,485</b>	<b>1,114,073</b>	<b>144,788</b>	<b>338,309</b>	<b>2,239,655</b>
Investment	6,387	10,422	2,215	58,307	77,331
Modification of the consolidation perimeter (Note 7)	–	770,306	–	–	770,306
Transfers	–	–	–	88,886	88,886
Profit for the year from continuing activities	6,346	(7,189)	(2,302)	14,188	11,043
Profit for the year from discontinued activities (Note 34)	328	–	–	–	328
Value adjustment (provision)/reversion	–	–	–	(39,776)	(39,776)
Other global result	10,295	(12,453)	–	664	(1,494)
Dividends	(210,465)	(38,026)	(3,107)	(27,062)	(278,660)
Translation differences	(14,323)	(133,664)	(16,656)	(30,040)	(194,683)
Disposals	(41,576)	(993,227)	–	(99,964)	(1,134,767)
Diluted effect merger SIEMENS-GAMESA (Note 42)	250,695	–	–	–	250,695
Others	2,032	–	–	–	2,032
<b>Balance at 31.12.2017</b>	<b>652,204</b>	<b>710,242</b>	<b>124,938</b>	<b>303,512</b>	<b>1,790,896</b>

The balance corresponding to the NEOENERGIA Subgroup includes the shares in Companhia Hidreletrica Teles Pires, S.A (TELES PIRES), Norte Energia, S.A. (NORTE ENERGÍA) and Energetica Aguas da Pedra, S.A.(EAPSA) IBERDROLA Group holds through as of 31 December 2017.

### Commitments related to associated companies and combined business

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 111 million in 2017. The project is scheduled to be completed in the fourth quarter of 2017. The project was implemented in December 2017 and reached a transmission capacity of 900 MW. In 2018 additional works increasing this capacity to 2,200 MW are expected to be completed.

### Impairment of shares accounted for using the equity method

The stock exchange listing of the IBERDROLA Group's holding in GAMESA at 31 December of 2017 amounts to EUR 628,390 thousand, increasing the book value to EUR 600,039 thousand.

### Main Transactions

The main transactions performed by the IBERDROLA Group in connection with these equity investments accounted for using the equity method are described in the following paragraphs.

#### **Year 2017**

- In accordance with the merger agreement for the wind businesses of Gamesa Corporación Tecnológica, S.A. (GAMESA) and of Siemens AG (SIEMENS) started in fiscal year 2016 by virtue of which Siemens Wind HoldCo would be absorbed (as an absorbed company) on behalf of GAMESA (as an absorbed company):
  - On 13 March 2017 the defence authorities of the European competition authorised the merger without commitments, meeting all of the conditions precedent to which the merger was subject.
  - The GAMESA Board of Directors from 29 March 2017 recognises the compliance of all of the conditions to execute the merger document, which is signed on 3 April in the Biscay Commercial Registry.

As a result of the above, GAMESA issues shares representing approximately 59% of the capital given to SIEMENS, causing a dilution in the participation percentage held by the IBERDROLA Group that changes from 19.69% to 8.07%(Note 42).

Despite having a holding percentage lower than 20%, the IBERDROLA Group is considered to have significant influence over Siemens Gamesa Renewable Energy, S.A.(hereinafter, SIEMENS GAMESA), amongst other aspects, for the status of IBERDROLA as a main shareholder as well as for the presence of one of their representatives in its Board of Directors and the performance of significant transactions with this company.

- On 27 April 2017, the IBERDROLA Group sold its shareholding in Amara, S.A.U. (Note 42).
- Such as is indicated in Notes 2.c. 7, on 8 June 2017 the shareholders of NEOENERGIA reached an agreement for NEONERGIA to incorporate the Brazilian subsidiary company. After the operation, on 24 August 2017, IBERDROLA ENERGÍA changes to have 52.45% (opposed to 39% before the transaction), incorporating in consideration of the businesses of ELEKTRO. NEOENERGIA taking control has been recorded based on the requirements of the business combinations in stages.

## Year 2016

On 14 June 2016, the IBERDROLA Group sold its stake in the Italian companies SER S.p.A. (SER) and SER 1 S.p.A. (SER 1). Following the acquisition on February 2016 of 50.1% of the company SER and 2% of SER 1, the IBERDROLA Group owned 100% of SER and 4% of SER 1, being the remaining 96% of the equity owned by SER.

The total amount of the disinvestment amounted to EUR 193,720 thousand, of which EUR 1 million have been collected, EUR 83,980 thousand were received on 28 November 2016 and EUR 108,740 thousand will be received on 31 May 2017.

This transaction has resulted in a gross capital loss of EUR 8,844 thousand which has been registered Consolidated income statement for the period ended on 31 December 2016.

### Summary of Financial Information

The summarised financial information as of 31 December 2017 (at 100% and before intercompany eliminations) for the major subgroups/companies accounted for using the equity method is as follows:

Thousand euros	NORTE ENERGIA	TELES PIRES	EAPSA	Subgroup NEONERGIA	Subgroup Flat Rock	
	31.12.2017	31.12.2017	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Segment	Deregulated-Brazil			Various-Brazil	Renewables – USA	
Current assets	175,235	63,182	21,034	1,597,685	3,330	2,961
Non-current assets	10,443,300	1,279,910	375,217	6,952,143	258,311	316,958
<b>Total assets</b>	<b>10,618,535</b>	<b>1,343,092</b>	<b>396,251</b>	<b>8,549,828</b>	<b>261,641</b>	<b>319,919</b>
Current Liabilities	949,420	86,188	23,256	2,410,958	715	590
Non-Current Liabilities	6,803,595	742,725	121,243	3,062,941	13,064	13,581
<b>Total assets</b>	<b>7,753,015</b>	<b>828,913</b>	<b>144,499</b>	<b>5,473,899</b>	<b>13,779</b>	<b>14,171</b>
Income from ordinary activities	721,344	242,853	69,178	3,815,832	14,728	14,201
Depreciation and amortisation	(92,205)	(48,704)	(6,230)	(300,786)	(14,391)	(21,048)
Income from interests	26,905	6,252	2,269	214,438	32	18
Expenses from interests	(209,149)	(79,032)	(8,794)	(538,630)	(347)	(346)
Tax (expense)/income	(86,548)	22,135	(3,928)	(41,292)	386	–
Profit for the year from continuing operations	(77,168)	(41,461)	23,171	92,057	(12,049)	(19,870)
Other global profit	–	–	–	(69,300)	–	–
<b>Total global profit</b>	<b>(77,168)</b>	<b>(41,461)</b>	<b>23,171</b>	<b>22,757</b>	<b>(12,049)</b>	<b>(19,870)</b>
<b>Other information</b>						
Cash and cash equivalents	(2,998)	(26,662)	(8,184)	412,444	2,057	1,474
Current financial liabilities (*)	479,081	42,609	16,708	1,463,175	47	–
Non-Current financial liabilities (*)	6,564,756	681,784	74,074	2,698,621	–	–

(\*) Excluding trade and other payables

### 14.b) Non-current equity instruments

All the financial assets included under this heading in the Consolidated statement of financial position at 31 December 2017 and 2016 were classified as available-for-sale assets.

### 14.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 is as follows:

Thousand euros	31.12.2017	31.12.2016
<b>Non-current</b>		
Collection rights in Brazil (Notes 4.b and 12)	2,084,988	315,073
Long-term deposits and guarantees	282,156	133,522
Fixed-income securities	4,116	16,461
Concessional guarantee of the sufficiency tariff in Brazil (Note 12)	55,642	48,672
Long-term deposits	28,757	32,375
Credits to third parties	87,576	48,567
Assets for pension plans (Note 24)	3,326	–
Other investments in companies accounted for using the equity method	4,824	5,272
Others	79,995	117,144
Bad debt provisions	(18,815)	(21,418)
<b>Total</b>	<b>2,612,565</b>	<b>695,668</b>
<b>Current</b>		
Collection rights in Brazil (Notes 4.b and 12)	17,167	–
Short-term cash deposits	2,065	3,929
Fixed-income securities		
Related to equity instruments having the substance of a financial liability	–	3,018
Others	–	1,593
Concessional guarantee of the sufficiency tariff in Brazil (Note 12)	129,244	66,524
Accounts receivable for financing imbalance in revenues in 2017	215,889	–
Accounts receivable for financing imbalance in revenues in 2016	–	240,917
Other investments in companies accounted for using the equity method	5,970	54,843
Short-term deposits	158,126	202,420
Others	78,216	210,679
Bad debt provisions	(7,794)	(7,582)
<b>Total</b>	<b>598,883</b>	<b>776,341</b>

#### Collection rights in Brazil

The heading “Collection rights in Brazil” relates to the compensation receivable by the Brazilian companies upon expiry of their service concession arrangements (Note 4.b and 12). 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.

The acquisition of NEOENERGIA Group (Note 7) results in an increase of non-current and current balance for said amount of EUR 1.747,731 and 17,167 thousand, respectively.

#### Long-term deposits and guarantees

The "Long term deposits and guarantees" heading 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 29) and have been deposited with the competent Public Authorities in accordance with the current legislation in Spain.

#### Collection right due to imbalanced financing

Act 24/2013 of the Electricity Sector establishes that, in the case that in a period an imbalance occurs due to an income deficit in the settlements of the electricity sector, its quantity may not exceed 2% of the estimated incomes for the system for this period. Furthermore, the accumulated debt due to imbalances in preceding periods may not exceed 5% of the income estimated for the system. If these limits are exceeded, the entrance tolls will be reviewed at least in a total equivalent to the excess of these limits. This law establishes, furthermore, that the part of the imbalance due to an income deficit that, without exceeding these limits, is not compensated via the increase of tolls and charges, will be financed by those subject to the settlement system proportionally to the remuneration that corresponds to them for the activity they carry out.

In fiscal years 2017 and 2016, the IBERDROLA Group estimated that the final settlement of the Spanish electrical system corresponding to 2017 and 2016, respectively, would have a surplus, even though, the provisional settlements made until 31 December 2017 and 2016 had an income deficit. IBERDROLA Group's financed deficit as of 31 December 2016 has been collected in 2017.

## 15. COMMERCIAL DEBTORS AND OTHER ACCOUNTS RECEIVABLE

The detail of "Non-current trade and other receivables" in the Consolidated statements of financial position is as follows:

Thousand euros	31.12.2017	31.12.2016
Receivables from Brazilian customers	107,840	27,317
CFE (Note 4.u)	302,870	303,877
Account receivable for the sale to NEOENERGIA of COELBA and COSERN (Note 21)	–	231,800
Others	432,241	327,921
Bad debt provisions	(4,261)	(3,832)
<b>Total</b>	<b>838,690</b>	<b>887,083</b>

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 its fair value.

## 16. MEASUREMENT AND COMPENSATION OF FINANCIAL INSTRUMENTS

Most of the financial assets and liabilities registered in the Consolidated statements of financial position correspond to the financial instruments classified under the category of loans and receivables, charges and payables.

Fair value in the heading "Financial debt - loans and other receivables" in current and non-current liabilities in the consolidated financial statements of IBERDROLA Group as of 31 December 2017 and 2016 amounts to EUR 38,208,032 and 33,442,203 thousand. Book value is EUR 36,690,498 and 31,220,682, respectively. Said value is classified in Level 2. The fair value of the derivative financial instruments does not differ significantly from book value thereof.

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-sterling pound exchange rates is as follows:

Thousand euros	2017		2016	
	Depreciation 5%	Appreciation 5%	Depreciation 5%	Appreciation 5%
Debt's value variation:				
US dollar	(276,383)	305,476	(261,883)	289,449
Sterling Pound	(126,534)	139,854	(145,134)	160,412
Brazilian reals	(221,734)	245,074	(42,440)	46,907

The estimated fair value of borrowings bearing fixed interest rates, after the effect of hedge accounting at 31 December 2017 and 2016, calculated by discounting future cash flows at market interest rates, amounted to EUR 18,675,372 thousand and EUR 16,557,885 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:

Thousand euros	31.12.2017		31.12.2016	
	+0.25%	- 0.25%	+0.25%	- 0.25%
Interest rate variation				
Debt's value variation	(246,825)	253,059	(230,585)	237,119

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:

Thousand euros	Value at 31.12.2017	Level 1	Level 2	Level 3
Other financial investments – Brazil receivables (Note 14.c)	2,102,155	–	2,102,155	–
Derivative financial instruments (financial assets) (Note 27)	1,267,298	10,952	1,159,198	97,148
Derivative financial instruments (financial liabilities) (Note 27)	(604,016)	(87,528)	(501,210)	(15,278)
<b>Total</b>	<b>2,765,437</b>	<b>(76,576)</b>	<b>2,760,143</b>	<b>81,870</b>

Thousand euros	Value at 31.12.2016	Level 1	Level 2	Level 3
Other financial investments – Brazil receivables (Note 14.c)	315,073	–	315,073	–
Derivative financial instruments (financial assets) (Note 27)	1,603,047	30,402	1,415,860	156,785
Derivative financial instruments (financial liabilities) (Note 27)	(1,110,319)	(65,508)	(918,560)	(126,251)
<b>Total</b>	<b>807,801</b>	<b>(35,106)</b>	<b>812,373</b>	<b>30,534</b>

At 31 December 2017 and 2016 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 67,086 thousand and EUR 64,073 thousand, respectively.

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

Thousand euros	Derivative Financial instruments	
	2017	2016
<b>Initial balance</b>	<b>30,534</b>	<b>(23,327)</b>
Income and expense recognised in Consolidated income statement	15,544	60,183
Income and expense recognised in Consolidated income statement	(4,930)	(725)
Purchases	(1,736)	2,198
Sales and settlements	(5,990)	(6,271)
Translation differences	(6,247)	1,751
Transfers outside Level 3	54,695	(3,275)
<b>Final balance</b>	<b>81,870</b>	<b>30,534</b>

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 2017 and 2016 is as follows:

31.12.2017						
Thousand euros	Gross amount	Compensated amount	Net amount	Uncompensated amounts under compensation agreements		
				Financial instruments	Financial guarantee	Net amount
<b>ASSET DERIVATIVES</b>						
<b>Current</b>						
Raw materials	433,974	(297,850)	136,124	(46,882)	(10,735)	78,507
Others	9,605	(2,001)	7,604	–	(990)	6,614
<b>Non-current</b>						
Raw materials	119,594	(4,024)	115,570	(11,887)	(32,726)	70,957
Others	49,836	(17)	49,819	–	(48,675)	1,144
<b>Total</b>	<b>613,009</b>	<b>(303,892)</b>	<b>309,117</b>	<b>(58,769)</b>	<b>(93,126)</b>	<b>157,222</b>
<b>OTHER FINANCIAL ASSETS</b>						
Receivables	459,917	(385,027)	74,890	(35,157)	(5,009)	34,724
<b>LIABILITIES DERIVATIVES</b>						
<b>Current</b>						
Raw materials	384,035	(297,848)	86,187	(46,882)	(4,896)	34,409
Others	6,483	(2,001)	4,482	–	(1)	4,481
<b>Non-current</b>						
Raw materials	20,985	(4,026)	16,959	(11,887)	(2,469)	2,603
Others	17	(17)	–	–	–	–
<b>Total</b>	<b>411,520</b>	<b>(303,892)</b>	<b>107,628</b>	<b>(58,769)</b>	<b>(7,366)</b>	<b>41,493</b>
<b>OTHER FINANCIAL LIABILITIES</b>						
Payables	634,887	(385,027)	249,860	(35,157)	(8,301)	206,402

31.12.2016						
Thousand euros	Gross amount	Compensated amount	Net amount	Uncompensated amounts under compensation agreements		
				Financial instruments	Financial guarantee	Net amount
<b>ASSET DERIVATIVES</b>						
<b>Current</b>						
Raw materials	1,052,447	(790,604)	261,843	(125,678)	(21,509)	114,656
Others	51,185	(10,974)	40,211	–	–	40,211
<b>Non-current</b>						
Raw materials	166,693	(21,809)	144,884	(7,872)	(44,528)	92,484
Others	69,267	(277)	68,990	–	(59,029)	9,961
<b>Total</b>	<b>1,339,592</b>	<b>(823,664)</b>	<b>515,928</b>	<b>(133,550)</b>	<b>(125,066)</b>	<b>257,312</b>
<b>OTHER FINANCIAL ASSETS:</b>						
Receivables	569,327	(461,166)	108,161	(38,033)	(17,543)	52,585
<b>LIABILITIES DERIVATIVES</b>						
<b>Current</b>						
Raw materials	1,059,667	(790,604)	269,063	(125,678)	(47,213)	96,172
Others	17,634	(10,974)	6,660	–	(235)	6,425
<b>Non-current</b>						
Raw materials	56,759	(21,809)	34,950	(7,872)	(2,983)	24,095
Others	589	(277)	312	–	–	312
<b>Total</b>	<b>1,134,649</b>	<b>(823,664)</b>	<b>310,985</b>	<b>(133,550)</b>	<b>(50,431)</b>	<b>127,004</b>
<b>OTHER FINANCIAL LIABILITIES</b>						
Payables	740,552	(461,166)	279,386	(38,033)	(11,810)	229,543



## 17. NUCLEAR FUEL

The breakdown of the “Nuclear Fuel” heading in the Consolidated statement of financial position at 31 December 2017 and 2016, and of the changes therein in 2017 and 2016 is as follows:

Thousand euros	Fuel loaded into the reactor core	Nuclear fuel in progress	Total
<b>Balance at 01.01.2016</b>	<b>271,519</b>	<b>78,363</b>	<b>349,882</b>
Additions	–	104,214	104,214
Capitalised financing expenses (Notes 4.g and 43)	–	2,465	2,465
Transfers	112,860	(112,860)	–
Fuel consumed (Note 4.g)	(133,931)	–	(133,931)
<b>Balance at 31.12.2016</b>	<b>250,448</b>	<b>72,182</b>	<b>322,630</b>
Additions	–	135,311	135,311
Capitalised financing expenses (Notes 4.g and 43)	–	2,193	2,193
Transfers	141,188	(141,188)	–
Fuel consumed (Note 4.g)	(128,251)	–	(128,251)
<b>Balance at 31.12.2017</b>	<b>263,385</b>	<b>68,498</b>	<b>331,883</b>

The IBERDROLA Group’s nuclear fuel purchase commitments at 31 December 2017 and 2016 amount to EUR 433,577 thousand and EUR 628,794 thousand, respectively.

## 18. INVENTORIES

The breakdown of the “Inventories” heading (Note 4.h) in the Consolidated statements of financial position at 31 December 2017 and 2016 is as follows:

Thousand euros	31.12.2017	31.12.2016
Energy sources	212,475	344,213
Emission allowances and renewable certificates	338,534	61,977
Real estate inventories	1,224,092	1,278,139
Land and plot	985,623	1,008,944
Developments in construction	229,361	247,792
Developments completed	9,108	21,403
Other inventories	226,644	74,378
Real estate inventories impairment allowance	(131,624)	(125,205)
<b>Total</b>	<b>1,870,121</b>	<b>1,633,502</b>

The variations in the impairment allowance in 2017 and 2016 are as follows:

Thousand euros	2017	2016
<b>Initial balance</b>	<b>125,205</b>	<b>121,827</b>
Charges	20,832	21,703
Reversals	(13,404)	(12,120)
Translation differences	–	(868)
Applications and others	(1,009)	(5,337)
<b>Final balance</b>	<b>131,624</b>	<b>125,205</b>

The heading “Net revenue” in the 2017 and 2016 Consolidated financial statements includes EUR 169,045 thousand and EUR 29,898 thousand, respectively, relating to sales of inventories and real estate.

On the other hand, at 31 December 2017, the IBERDROLA Group has in place “take or pay” contracts with several natural and liquefied natural gas suppliers for the supply of 29 bcm of gas during the period from 2018 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 11 bcm of natural gas in the National Balancing Point (NBP).

The information in relation to the undertaking for said contracts at 31 December 2017 is as follows:

Thousand euros	31.12.2017
2018	2,173,513
2019	524,497
2020	443,350
2021	458,485
2022	455,271
From 2023 onwards	5,245,587
<b>Total</b>	<b>9,300,703</b>

## 19. COMMERCIAL DEBTORS AND OTHER ACCOUNTS RECEIVABLE

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

Thousand euros	31.12.2017	31.12.2016
Customers	5,753,703	4,793,479
Receivables <sup>(1)</sup>	735,201	814,044
Other investments in companies accounted for using the equity method	9,610	21,140
Bad debt provisions	(642,142)	(412,953)
<b>Total</b>	<b>5,856,372</b>	<b>5,215,710</b>

(1) The heading “Other receivables” includes, among other, best receivable estimates IBERDROLA Group expects to collect due to favourable rulings by the preme Court due to non-inclusion of territorial supplements, following the amendment introduced by Royal Decree Law 20/2012 in the tolls Order (Order IET/221/2013 and Order IET/1491/2013) for 2013. This amount, totalling EUR 133,864 thousand was recognised as debit in the heading “Taxes” in the consolidated financial statements of 2016 in the amount of EUR 119,337 thousand. The financial update registered with a debit in “Financial income” in the consolidated financial statements for 2017 and 2016 amounts to EUR 11,600 and 2,927 thousand, respectively.

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

The variations in the impairment allowance in 2017 and 2016 are as follows:

Thousand euros	2017	2016
<b>Initial balance</b>	<b>412,953</b>	<b>390,982</b>
Charges	219,397	190,157
Bad debt provision	(212,575)	(139,666)
Translation differences	(53,594)	(9,689)
Transfers	1,674	(10,656)
Excess	(5,202)	(8,175)
Modification of the consolidation perimeter (Note 7)	279,489	–
<b>Final balance</b>	<b>642,142</b>	<b>412,953</b>

Most of this provision relates basically entirely to gas and electricity consumers.

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

Thousand euros	31.12.2017	31.12.2016
Provisioned trade receivables and other non-current receivables	4,261	3,832
Provisioned trade receivables and other current receivables	642,142	412,953
Non-provisioned financial assets in default	1,116,557	804,566
Financial assets not in default and not provisioned	5,578,505	5,298,227
Provisions	(646,403)	(416,785)
<b>Total</b>	<b>6,695,062</b>	<b>6,102,793</b>

The breakdown of the age of financial assets in default for which no provision was considered necessary as at 31 December 2017 and 2016 is as follows:

Thousand euros	31.12.2017	31.12.2016
Up to 90 days	663,099	421,462
Between 90 and 180 days	170,729	201,800
More than 180 days	282,729	181,304
<b>Total</b>	<b>1,116,557</b>	<b>804,566</b>

The IBERDROLA Group considers that it is not necessary to allocate these balances based on historic payment behaviour and the counter party credit solvency analysis.

## 20. CASH AND CASH EQUIVALENTS

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

Thousand euros	31.12.2017	31.12.2016
Cash	188,165	181,692
Short-term deposits	3,009,175	1,250,994
<b>Total</b>	<b>3,197,340</b>	<b>1,432,686</b>

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.

## 21. EQUITY

### Share capital

Changes in 2017 and 2016 in the different items of share capital of IBERDROLA are as follows:

	Date	% Capital	Number of shares	Nominal	Euros
<b>Balance at 01.01.2016</b>		–	<b>6,336,870,000</b>	<b>0.75</b>	<b>4,752,652,500</b>
Free capital increase	26 January 2016	0.952	60,327,000	0.75	45,245,250
Share capital reduction	26 April 2016	2.457	(157,197,000)	0.75	(117,897,750)
Free capital increase	22 July 2016	1.956	122,079,000	0.75	91,559,250
<b>Balance at 31.12.2016</b>		–	<b>6,362,079,000</b>	<b>0.75</b>	<b>4,771,559,250</b>
Free capital increase	25 January 2017	1.539	97,911,000	0.75	73,433,250
Share capital reduction	24 May 2017	3.410	(219,990,000)	0.75	(164,992,500)
Free capital increase	21 July 2017	1.242	77,515,000	0.75	58,136,250
<b>Balance at 31.12.2017</b>			<b>6,317,515,000</b>	<b>0.75</b>	<b>4,738,136,250</b>

The capital increases taken place in 2017 and 2016 correspond to the different execution approved by the General Shareholders' Meeting through which the *Iberdrola dividendo flexible* 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
	Number	Thousand euros	Number
<b>Free capital increase</b>			
26 January 2016	3,320,519,969	421,706	31
22 July 2016	746,444,927	92,559	43
25 January 2017	1,956,083,947	264,071	38
21 July 2017	2,596,794,942	381,729	37

Additionally, on 26 April 2016 and 24 May 2017, capital decreases were performed by redeeming treasury shares already held, as approved at the General Shareholders Meeting of 8 April 2016 and 31 March 2017, 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 2017 and 2016, 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 2017 IBERDROLA Group's Annual Corporate Governance Report.

Among direct or indirect shareholders with a significant stake, IBERDROLA treats as a "significant shareholder" any shareholder who exerts a significant influence on the company's financial and operating decisions when they i) attend the Board of Directors or a similar committee or ii) they have the possibility of exercising the proportional representation system. Therefore, the company treats Qatar Investment Authority as significant shareholder, being the only shareholder who satisfied that condition as of 31 December 2017 and 2016.

Holder	% of voting rights 2017			Financial instruments 2017	Directors in IBERDROLA 2017
	Direct	Indirect	Total		
Qatar Investment Authority <sup>(1)</sup>	–	8.570	8.570	–	–

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

Holder	% of voting rights 2016			Financial instruments 2016	Directors in IBERDROLA 2016
	Direct	Indirect	Total		
Qatar Investment Authority <sup>(1)</sup>	–	8.509	8.509	–	–

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

In addition, the breakdown of other companies having at 31 December 2017 and 2016 direct and indirect voting rights higher than 3% of the share capital is as follows:

Holder	% of voting rights 2017			% of voting rights 2016		
	Direct	Indirect	Total	Direct	Indirect	Total
Norges Bank	3.210	–	3.210	3.196	–	3.196
Blackrock, Inc	–	3.030	3.030	–	3.011	3.011
Kutxabank, S.A.	–	–	–	–	3.003	3.003
Capital Research and Management Company (CRMC)	–	3.100	3.100	–	–	–

## 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.

As of 31 December 2017 Moody's, Standard & Poor's and Fitch's ratings were Baa1 (positive), BBB+ and BBB+, respectively.

Leverage ratios at 31 December 2017 and 2016 stand at:

Thousand euros	31.12.2017	31.12.2016
Bank borrowings and other financial liabilities - Loans and others (Note 26)	36,690,498	31,220,682
Equity instruments having the substance of a financial liability (Note 22)	47,281	137,054
Derivative financial liabilities	377,398	668,010
<b>Gross debt</b>	<b>37,115,177</b>	<b>32,025,746</b>
Derivative financial assets	969,398	1,119,077
Other current financial assets	63,970	59,933
Cash and cash equivalents (Note 20)	3,197,340	1,432,686
Cash assets	4,230,708	2,611,696
<b>Net debt</b>	<b>32,884,469</b>	<b>29,414,050</b>
<b>Equity</b>		
Of the parent company	35,509,260	36,690,965
Of Minority shareholders	5,671,380	3,445,898
Of subordinated perpetual obligations	1,552,546	550,526
	<b>42,733,186</b>	<b>40,687,389</b>
<b>Leverage</b>	<b>43.49%</b>	<b>41.96%</b>

Derivative financial instruments detailed in the table above only include the ones relating to financing operations which breakdown is as follows (Note 27):

Thousand euros	2017					
	Derivative assets			Derivative liabilities		
	Short term	Long term	Total	Short term	Long term	Total
Interest rate hedges	42,810	104,531	147,341	31,367	(69,300)	(37,933)
Exchange rate hedges	502,059	301,682	803,741	(168,028)	(141,488)	(309,516)
<b>Total hedging derivatives</b>	<b>544,869</b>	<b>406,213</b>	<b>951,082</b>	<b>(136,661)</b>	<b>(210,788)</b>	<b>(347,449)</b>
Exchange rate derivatives	3,017	-	3,017	(12,255)	-	(12,255)
Interest rate derivatives	-	2,621	2,621	(596)	(4,420)	(5,016)
Treasury shares derivatives	-	12,678	12,678	-	(12,678)	(12,678)
<b>Total non-hedging derivatives</b>	<b>3,017</b>	<b>15,299</b>	<b>18,316</b>	<b>(12,851)</b>	<b>(17,098)</b>	<b>(29,949)</b>
<b>Total</b>	<b>547,886</b>	<b>421,512</b>	<b>969,398</b>	<b>(149,512)</b>	<b>(227,886)</b>	<b>(377,398)</b>

2016						
Thousand euros	Derivative assets			Derivative liabilities		
	Short term	Long term	Total	Short term	Long term	Total
Interest rate hedges	31,449	181,928	213,377	40,545	(125,931)	(85,386)
Exchange rate hedges	318,110	554,748	872,858	(383,536)	(174,555)	(558,091)
<b>Total hedging derivatives</b>	<b>349,559</b>	<b>736,676</b>	<b>1,086,235</b>	<b>(342,991)</b>	<b>(300,486)</b>	<b>(643,477)</b>
Exchange rate derivatives	22,429	188	22,617	(7,893)	(183)	(8,076)
Interest rate derivatives	–	3,112	3,112	(2,253)	(7,091)	(9,344)
Treasury shares derivatives	–	7,113	7,113	–	(7,113)	(7,113)
<b>Total non-hedging derivatives</b>	<b>22,429</b>	<b>10,413</b>	<b>32,842</b>	<b>(10,146)</b>	<b>(14,387)</b>	<b>(24,533)</b>
<b>Total</b>	<b>371,988</b>	<b>747,089</b>	<b>1,119,077</b>	<b>(353,137)</b>	<b>(314,873)</b>	<b>(668,010)</b>

### Powers delegated by the General Shareholders' Meeting

The General Shareholders' Meeting on 8 April 2016 resolved, in respect of items seven and eight on the agenda, to delegate powers to the Board of Directors, with express powers of substitution, for a period of five years, to:

- increase share capital in the terms and to the limits stipulated in Article 297.1 b) of the Spanish Companies Law ("Ley de Sociedades de Capital"), with authorisation to exclude preferential subscription rights, and
- issue bonds or debentures swappable for and/or convertible into shares in the Company or other companies, and warrants on new or existing shares in the Company or other companies, to a maximum amount of EUR 5,000 million. This authorisation includes the delegation of powers to, where applicable: (i) determine the basis and procedures for conversion, swap or exercise; (ii) increase share capital by the amount required to cover applications for conversion; and (iii) exclude shareholders' preferential subscription rights on the issue.

Both authorisations have a joint limit to a maximum nominal amount of 20% of the share capital.

### **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.

### Non-controlling interests

The variations in this headings in 2017 and 2016 are as follows:

Thousand euros	Subgroup AVANGRID	Subgroup NEONERGIA	Other	Total
<b>Balance at 01.01.2016</b>	<b>3,099,986</b>	<b>19,353</b>	<b>126,948</b>	<b>3,246,287</b>
Result of the year non-controlling interests	98,769	1,594	14,548	114,911
Other global result	(10,753)	–	13,954	3,201
Dividends	(89,880)	–	(11,202)	(101,082)
Translation differences	165,356	4,724	1,868	171,948
Others	13,631	(884)	(2,114)	10,633
<b>Balance at 31.12.2016</b>	<b>3,277,109</b>	<b>24,787</b>	<b>144,002</b>	<b>3,445,898</b>
Modification of the consolidation perimeter (Note 7)	–	2,320,651	–	2,320,651
Share capital increase	–	318,086	241	318,327
Result of the year non-controlling interests	294,822	30,412	8,496	333,730
Other global result	(2,784)	8,595	135	5,946
Dividends	(89,880)	(2,453)	(8,999)	(101,332)
Translation differences	(412,362)	(142,085)	(1,530)	(555,977)
Transactions with non-controlling interests	–	–	(67,503)	(67,503)
Others	(5,943)	(19,990)	(2,427)	(28,360)
<b>Balance at 31.12.2017</b>	<b>3,060,962</b>	<b>2,538,003</b>	<b>72,415</b>	<b>5,671,380</b>



On 27 December 2017, NEOENERGIA approved an increase of capital for the amount of 2,585 thousand Brazilian reales (659,175 thousand euros). The IBERDROLA Group took part in this increase in its shareholding percentage by means of the cash delivery for an amount of 60,062 thousand euros and the termination of receivables with NEOENERGIA for the amount of 285,643 thousand euros, which includes the receivables that the IBERDROLA Group held for sale to NEOENERGIA in 2015 for the entirety of its direct interest in the distributors of Companhia de Electricidade do Estado da Bahia, S.A. (COELBA) and Companhia de Electricidade do Rio Grande do Norte, S.A. (COSERN) (Note 15).

The summarised financial information as of 31 December 2016 related to subgroups in which IBERDROLA Group does not have a 100% stake refers to amounts consolidated before intercompany eliminations:

	Subgroup AVANGRID		Subgroup NEOENERGIA
Thousand euros	31.12.2017	31.12.2016	31.12.2017
Current assets	1,452,916	1,727,499	2,772,747
Non-current assets	30,197,275	35,559,240	9,769,105
<b>Total assets</b>	<b>31,650,191</b>	<b>37,286,739</b>	<b>12,541,852</b>
Current Liabilities	2,647,748	2,604,176	2,929,339
Non-Current Liabilities	12,620,537	17,116,473	4,484,977
<b>Total assets</b>	<b>15,268,285</b>	<b>19,720,649</b>	<b>7,414,316</b>
Gross operating profit (EBITDA)	1,834,662	1,833,064	577,588
Amortisations and provisions	(1,968,444)	(908,339)	(249,016)
Result of companies accounted for using the equity method - net of taxes	(29,207)	2,322	(9,160)
Financial result	(172,378)	(209,227)	(171,945)
Non-current asset profit/(loss)	1,006	31,371	44,098
Corporate tax	1,923,433	(216,746)	(43,157)
Non-controlling interests	(1,034)	(328)	(30,412)
<b>Net profit for the year</b>	<b>1,588,038</b>	<b>532,117</b>	<b>117,996</b>

### 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, when the IBERDROLA Group announced said coupons were to be depreciated. 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.

On 22 November 2017, the IBERDROLA Group's perpetual subordinated bonds issuance was completed and disbursed, in the amount of EUR 1,000 million. The issue price was set at 100% of the face value, with a fixed annual coupon of 1.875% as from the issue date to 22 May 2023. From the first repricing date on, the coupon will be equal to the applicable five-year swap rate plus a 1.592% annual spread during the following five years, a 1.8492% annual spread during each of the five-year repricing periods beginning on 22 May 2028, 2033 and 2038, and a 2.5992% 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 22 May 2023, 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 32,242 and EUR 22,948 thousand, under the heading "Subordinated perpetual obligations owners" of the Consolidated income statement at 31 December 2017 and 2016, 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 2017 and 2016 is as follows:

Thousand euros	01.01.2016	Change in fair value and others	Allocation to the values of hedged assets	Amounts allocated to income	31.12.2016	Change in fair value and others	Allocation to the values of hedged assets	Amounts allocated to income	31.12.2017
<b>Unrealised assets and liabilities revaluation reserve of companies accounted for using the equity method (net of tax):</b>	<b>19,504</b>	<b>(16,559)</b>	<b>-</b>	<b>14</b>	<b>2,959</b>	<b>10,442</b>	<b>-</b>	<b>16</b>	<b>13,417</b>
<b>Available-for-sale assets</b>									
Others	51	(13)	-	-	38	577	-	-	615
	<b>51</b>	<b>(13)</b>	<b>-</b>	<b>-</b>	<b>38</b>	<b>577</b>	<b>-</b>	<b>-</b>	<b>615</b>
<b>Cash flow hedges:</b>									
Interest rate swaps	(378,045)	(225,436)	-	141,870	(461,611)	51,156	-	51,561	(358,894)
Collars	(4,127)	(716)	-	593	(4,250)	(130)	-	128	(4,252)
Derivatives on commodities	33,538	12,221	-	71,847	117,606	88,042	-	31,070	236,718
Currency forwards	22,619	123,824	(7,884)	(5,009)	133,550	(46,442)	(24,965)	(13,950)	48,193
	<b>(326,015)</b>	<b>(90,107)</b>	<b>(7,884)</b>	<b>209,301</b>	<b>(214,705)</b>	<b>92,626</b>	<b>(24,965)</b>	<b>68,809</b>	<b>(78,235)</b>
<b>Tax effect on available-for-sale assets and cash flow hedges</b>	<b>84,409</b>	<b>23,983</b>	<b>1,512</b>	<b>(47,590)</b>	<b>62,314</b>	<b>(22,220)</b>	<b>4,787</b>	<b>(22,932)</b>	<b>21,949</b>
<b>Total</b>	<b>(222,051)</b>	<b>(82,696)</b>	<b>(6,372)</b>	<b>161,725</b>	<b>(149,394)</b>	<b>81,425</b>	<b>(20,178)</b>	<b>45,893</b>	<b>(42,254)</b>

## 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 2017 y 2016 the balances of the various instruments are as follows:

	31.12.2017		31.12.2016	
	No. of shares	Thousand euros	No. of shares	Thousand euros
Treasury shares of IBERDROLA	75,710,149	507,175	151,224,777	868,936
Treasury shares of SCOTTISH POWER	1,156,863	8,417	1,374,405	9,580
Swaps over treasury shares	6,000,000	41,646	1,867,929	11,899
Accumulators (exercised shares)	1,835,379	11,561	1,624,221	9,283
Accumulators (potential shares)	4,592,392	28,998	31,870,828	183,669
<b>Total</b>	<b>89,294,783</b>	<b>597,797</b>	<b>187,962,160</b>	<b>1,083,367</b>

### (a) Treasury shares

The changes in 2017 and 2016 in the treasury shares of IBERDROLA (Note 4.m) are as follows:

	IBERDROLA		SCOTTISH POWER	
	No. of shares	Thousand euros	No. of shares	Thousand euros
<b>Balance at 01.01.2016</b>	<b>67,636,166</b>	<b>405,457</b>	<b>1,638,563</b>	<b>10,163</b>
Additions	245,721,539	1,450,724	404,154	2,464
Share capital reduction	(157,197,000)	(946,566)	–	–
<i>Iberdrola dividendo flexible</i> <sup>(1)</sup>	1,504,604	–	56,040	–
<i>Iberdrola dividendo flexible</i> <sup>(2)</sup>	–	(1,992)	–	–
Disposals <sup>(3)</sup>	(6,440,532)	(38,687)	(724,352)	(3,047)
<b>Balance at 31.12.2016</b>	<b>151,224,777</b>	<b>868,936</b>	<b>1,374,405</b>	<b>9,580</b>
Additions	154,508,438	1,002,731	318,172	2,159
Share capital reduction	(219,990,000)	(1,280,176)	–	–
<i>Iberdrola dividendo flexible</i> <sup>(1)</sup>	1,896,638	–	95,524	–
<i>Iberdrola dividendo flexible</i> <sup>(2)</sup>	–	(9,379)	–	–
Disposals <sup>(3)</sup>	(11,929,704)	(74,937)	(631,238)	(3,322)
<b>Balance at 31.12.2017</b>	<b>75,710,149</b>	<b>507,175</b>	<b>1,156,863</b>	<b>8,417</b>

(1) Shares received

(2) Free of charges allocation rights disposed.

(3) Includes awards to employees.

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

During 2017 and 2016, 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 corresponding to the shares paid out to the financial entity. On the expiration date IBERDROLA will buy the shares at the strike price set out in the contract.

The characteristics of these contracts at 31 December 2017 and 2016 are as follows:

	No. of shares as of 31.12.2017	Strike price	Maturity date	Interest rate	2017 Thousand euros
Total Return Swap	6,000,000	6.941	24/07/2018	Euribor 3 months + 0.45%	41,646
<b>Total</b>	<b>6,000,000</b>				<b>41,646</b>

	No. of shares as of 31.12.2016	Strike price	Maturity date	Interest rate	2016 Thousand euros
Total Return Swap	1,867,929	6.370	18/04/2017	Euribor 3 months + 0.55%	11,899
<b>Total</b>	<b>1,867,929</b>				<b>11,899</b>

- 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 market 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 2017 and 2016 are as follows:

2017	No. of shares	Average Price of the period	Maturity date	Thousand euros
Exercised shares	1,835,379	6.2990	18/07/2018	11,561
Potential maximum <sup>(1)</sup>	4,592,392	6.3144	10/01/2018 - 18/07/2018	28,998

2016	No. of shares	Average Price of the period	Maturity date	Thousand euros
Exercised shares	1,624,221	5.7154	26/01/2017 - 10/02/2017	9,283
Potential maximum <sup>(1)</sup>	31,870,828	5.7629	26/01/2017 - 10/02/2017	183,669

(1) Maximum number of additional shares that could be accumulated according to the described mechanism until the maturity of the structures (assuming that the cash price during the remaining life of the structure is always below the strike price).

### Distribution of dividends with charge to 2017 results

IBERDROLA's Board of Directors has agreed to propose at the General Shareholders' Meeting, the distribution, chargeable to the results of 2017 and the retained earnings from previous years, a gross dividend whose gross amount will be the same as the following amounts:

- (a) 8,220,427.60 euros that were paid out in an interim dividend payment on 29 January 2018 to the holders of 58,717,340 IBERDROLA shares that chose to receive their remuneration in cash under the framework of the second execution of the Iberdrola scrip dividend system corresponding to 2017 through the collection of an amount corresponding to the 2017 dividend payment of 0.140 gross euros per share; and
- (b) the determinable amount will be determined by multiplying:
  - (i) the gross amount per share that, in final dividends, the Company will distribute under the framework of the first execution of the 2018 Iberdrola scrip dividend system (the final dividend), and will be equal to the cash remuneration; by
  - (ii) the total number of shares with respect to those which their shareholders have chosen to receive cash remuneration for under the framework of the aforementioned execution

On the date of authorisation of these annual accounts, it is not possible to know the cash remuneration. Therefore the amount of the final dividend or, consequently, the amount of the Dividend cannot be determined.

The payment of the Final dividend shall be made together with the execution of the increase in share capital that will be proposed at the General Shareholders' Meeting, to offer the shareholders the possibility of receiving their remuneration in cash (through the payment of the Final dividend) or in the free shares of the new issuance of the Company (through the aforementioned increase in share capital).

The payment of the Final dividend is configured as one of the alternatives that the shareholder may choose when receiving their remuneration on the first execution of the Iberdrola scrip dividend corresponding to 2018. As a consequence of the aforementioned, it will be understood that these shareholders who choose to receive their remuneration in cash by means of the Final dividend with respect to all or part of their shares, expressly, automatically and irrevocably waive the free allocation rights corresponding to these shares and the possibility of putting them on the market.

## Share-based compensation plans

### 2011-2013 Strategic Bonus Programme

On 24 June 2014, based on a proposal from the former 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 were also approved by the Board of Directors. In the first half of 2016, therefore, the three annual payments were made in the form of 2,872,129 shares. These shares included those delivered to executive directors (Note 48) and to senior management (Note 50).

The heading "Staff expenses" of the Consolidated income statement does not include any amount for 2017 (for 2016 it includes a credit of EUR 2,068 thousand corresponding to the amount accrued for this incentive plan that was recorded in the sub-headings "Other reserves" of the Consolidated statement of financial position ).

### 2014-2016 Strategic Bonus Programme

On 25 April 2017 the Board of Directors, on the recommendation of the Appointments and Remuneration Committee, decided to pay the 2014 and 2016 Strategic Bonus on determining that 93.20% of the objectives had been met. In the second half of 2017 the first annual payments were made in the form of 2,908,151 shares and EUR 1,578 thousand in cash. These shares included those delivered to executive directors (Note 48) and to senior management (Note 50).

The heading "Staff costs" of the consolidated income statement from 2017 includes a charge of EUR 22,031 thousand respectively corresponding to the amount accrued for this incentive plan, which has been recorded with charge and debit to the sub-headings "Other reserves" and "Other payables" of the consolidated statement of financial position, EUR 19,935 and 2,096 thousand, respectively. The heading "Staff Costs" in the 2016 Income statement includes EUR 5,879 thousand for this item.

As a result of UIL's integration in 2015, the 2014-2016 Strategic Bonus for AVANGRID's company directors will be liquidated in cash for the accrued amount for 2015 and 2014, and was replaced in 2016 by a new one, which will be referenced to AVANGRID's shares. The first settlement as scheduled was made in the first quarter of 2017 for EUR 4.860 million, and the second and final settlement will take place in the first quarter of 2018. The accumulated amount at 31 December 2017, which amounts to EUR 4,611 thousand has been reclassified into the heading "Other non-current payables" of the Consolidated statement of financial position.

### Strategic bonus 2017-2019

The General Shareholders Meeting of 31 March 2017 approved under agenda item seven on the establishment of a Strategic Bonus for the executive directors, senior executives and other executive personnel of IBERDROLA and its subsidiaries (300 beneficiaries), tied to the IBERDROLA Group's performance in relation to certain metrics throughout the assessment period, from 2017 to 2019:

- a) Average annual accumulated growth of the net benefit during the period from 2017-2019 greater than 5%, calculated from the close of fiscal year 2016. It shall be understood that this target is not met if this growth does not improve the 2016 income.

- b) Total profitability for the shareholder during the period from 2017-2019 greater than the total profitability for the shareholder of EUROSTOXX UTILITIES INDEX. It shall be understood that this target is not met if the total profitability for the shareholder is 5 percentage points lower than the profitability of EUROSTOXX UTILITIES INDEX. It shall be understood that it is fully met if it is 5 percentage points greater.
- c) Financial strength as measured by the ratio FFO/Net Debt is maintained. It shall be understood that this target is not met if this ratio falls lower than the close of fiscal year 2016.
- d) Reduction of CO 2 emissions in line with UN ODS 7 and 13. The target shall be considered met if it reaches a reduction of 5% in the average intensity of emissions in the period from 2017-2019 compared with the average of the period from 2014-2016. This target will be treated as unmet if average emissions are not reduced.

The specific weight of each of these parameters in the global assessment of the performance in the period from 2017-2019 will be 30% for the first and second, and 20% for the third and fourth.

The maximum number of shares to be delivered to the beneficiaries of the 2017-2019 Strategic Bonus will be 14,000,000 shares, equal to 0.22% of the share capital at the time this resolution is adopted. A maximum of 2,500,000 shares will be delivered to the executive directors in compliance with the terms and conditions of the scheme. As of 31 December 2017 12,765,000 shares were issued.

The payment period for the scheme will run from 2020 to 2022. Payments will be made in the form of shares on a deferred basis in those three years.

The heading "Staff expenses" of the consolidated income statement from 2017 includes a charge of EUR 12,576 thousand respectively corresponding to the amount accrued for this incentive plan, which has been recorded with charge and debit to the sub-headings "Other reserves" and "Other payables" of the consolidated statement of financial position, EUR 11,878 and 698 thousand, respectively.

#### AVANGRID shares bonus

The General Shareholders Meeting of 16 June 2016 approved under agenda item seven on the establishment of a Strategic Bonus for the executive directors, senior executives and other executive personnel of IBERDROLA and its subsidiaries (80 beneficiaries), tied to the IBERDROLA Group's performance in relation to certain metrics throughout the assessment period, from 2016 to 2019:

- a) The performance of consolidated net profit. The target is that the average annual growth from the period of 2014-2019, based on the closing of 2014, is 10% for excellent compliance, 8% for good compliance and it shall be understood that the target is not met if this growth does not reach 6%.
- b) Improvement of the AVANGRID financial strength, measured via the ratio Net Debt/EBITDA (Net Debt/Operating income-EBITDA) that is 2.6 for excellent compliance, 2.7 for good compliance and it shall be understood that the target is not met if this growth exceeds 2.8.
- c) The relative position of the share value respect to a group made up by AVANGRID (Nextera, ConEd, Eversource) and the S&P 500 Utilities Index (source: Bloomberg). it shall be understood that the target has been met excellently if the relative position is the first, second position for good compliance, third position for satisfactory compliance and it shall be understood that the target is not met if below the third position.



Each indicator weighs a third of the total.

The maximum number of gross shares to be delivered to the group of the Bonus beneficiaries will be 2,500,000 shares, of which 1,252,893 shares are delivered.

The payment period for the scheme will run from 2020 to 2022. Payments will be made in the form of shares on a deferred basis in those three years. If each of the three performance targets is reached at a good level on 31 December 2018, an advanced credit of the bonus could be made for each participant in 2019.

The number of transactions of stock options are as follows:

No. of shares	2017	2016
<b>Initial balance</b>	<b>1,313,540</b>	<b>124,749</b>
Additions	85,759	1,279,491
Exercised	(146,406)	(90,700)
<b>Final balance</b>	<b>1,252,893</b>	<b>1,313,540</b>

The heading "Staff expenses" of the consolidated income statement from 2017 and 2016 includes a charge of EUR 4,569 and 2,152 million respectively corresponding to the amount accrued for this incentive plan has been recorded with charge and debit to the sub-headings "Other reserves" of the consolidated statement of financial position.

#### SCOTTISH POWER share-based incentive plan

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 2017 and 2016 Consolidated income statements includes EUR 904 and 1,558 thousand, respectively for this concept.

The number of transactions of stock options are as follows:

	Number of accounts	Number of shares
<b>Balance at 01.01.2016</b>	<b>2,878</b>	<b>6,039,443</b>
Exercised	(60)	(58,211)
Derecognised	(202)	(449,551)
<b>Balance at 31.12.2016</b>	<b>2,616</b>	<b>5,531,681</b>
Exercised	(90)	(125,025)
Derecognised	(117)	(279,308)
<b>Balance at 31.12.2017</b>	<b>2,409</b>	<b>5,127,348</b>

- 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 GBP 50 monthly. The shares purchased with the company's 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 purchased 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 after the date of purchase. The matching shares acquired by the trust at 31 December 2017 and 2016 amount to 1,151,594 and 1,370,213, respectively. Additionally, at 31 December 2017 and 2016, the trust holds 5,269 and 4,192 shares, respectively, yet not assigned to employees.

The contributions of the Company are made in cash on a monthly basis and are charged to the income statement during the three years the employee must remain in the company in order to be entitled to these shares.

The "Staff costs" heading in the 2017 and 2016 Consolidated income statements includes EUR 2,257 and 2,615 thousand, respectively for this concept.

## 22. EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY

The change in this heading of the Consolidated statements of financial position at 31 December 2017 and 2016 is as follows (Note 4.1):

Thousand euros	2017	2016
<b>Initial balance</b>	<b>137,054</b>	<b>216,430</b>
Financial expenses accrued in the year	6,230	8,821
Payments	(76,427)	(94,156)
Translation differences	(13,294)	5,959
Debt depreciation	(6,282)	–
<b>Final balance</b>	<b>47,281</b>	<b>137,054</b>

The amount in this heading as of 31 December 2017 and 2016 accrues an average interest rate in USD of 8.63% and 5.46% respectively.

## 23. DEFERRED INCOME

The change in this heading of the Consolidated statements of financial position at 31 December 2017 and 2016 is as follows :

Thousand euros	Government Grants	Investment Tax Credits	Emission allowances	Transfer of assets from third parties	Assets financed from third parties	Other deferred income	Total deferred income
<b>Balance at 01.01.2016</b>	<b>300,787</b>	<b>1,395,656</b>	<b>31</b>	<b>2,671,500</b>	<b>1,974,701</b>	<b>168,777</b>	<b>6,511,452</b>
Additions	12,944	–	354	81,291	282,421	2,435	379,445
Disposals	(24)	–	(31)	(3,178)	(1,013)	(2)	(4,248)
Transfers	(2,252)	–	–	994	1,279	(21)	–
Translation differences	3,747	69,974	–	(7,798)	(92,434)	7,759	(18,752)
Allocation to the income statement (Note 4.n)	(17,507)	(61,394)	(354)	(113,560)	(70,615)	(14,165)	(277,595)
<b>Balance at 31.12.2016</b>	<b>297,695</b>	<b>1,404,236</b>	<b>–</b>	<b>2,629,249</b>	<b>2,094,339</b>	<b>164,783</b>	<b>6,590,302</b>
Additions	10,385	29,568	257	92,921	228,651	2,808	364,590
Disposals	(92)	(1,423)	–	(2)	(8,213)	(3)	(9,733)
Translation differences	(9,392)	(174,808)	–	(4,381)	(79,672)	(19,103)	(287,356)
Allocation to the income statement (Note 4.n)	(16,200)	(58,635)	(257)	(116,001)	(73,743)	(12,216)	(277,052)
Modification of the consolidation perimeter (Note 7)	(223)	–	–	–	–	101	(122)
Liabilities held for sale (Note 34)	–	–	–	–	–	(1,527)	(1,527)
<b>Balance at 31.12.2017</b>	<b>282,173</b>	<b>1,198,938</b>	<b>–</b>	<b>2,601,786</b>	<b>2,161,362</b>	<b>134,843</b>	<b>6,379,102</b>

## 24. PROVISION FOR PENSIONS AND SIMILAR COMMITMENTS AND SIMILAR OBLIGATIONS

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

Thousand euros	31.12.2017	31.12.2016
Defined benefit plans (Spain)	402,883	510,299
Long-service bonuses and other long-term benefits (Spain)	42,539	43,062
Defined benefit plans (United Kingdom)	637,521	519,754
Defined benefit plans (United States)	918,186	1,103,160
Defined benefit plans (Brazil)	248,537	–
Defined benefit plans and other long term benefits (Spain and other countries)	58,376	67,409
Restructuring plans	266,027	146,677
<b>Total</b>	<b>2,574,069</b>	<b>2,390,361</b>

Each year IBERDROLA estimates, based on an independent actuarial report, the payments for pensions and similar benefits that it will have to meet in the coming year. These are recognised as current liabilities in the Balance sheet.

### 24.a) Defined benefit plans and other non-current employee benefits

#### Spain

IBERDROLA Group's main commitments to providing defined benefits for its employees, in addition to those provided by Social Security, are as follows:

- Employees subject to IBERDROLA Group's Collective Labour Agreement who retired before 9 October 1996, are covered by a defined benefit retirement pension scheme, the actuarial value of which was fully externalised at 31 December 2017 and 2016.

IBERDROLA Group has no liability of any kind for this group and has no claim on any potential excess generated in the assets of this plan over the defined benefits.

- Also, in relation to serving employees and employees who have retired after 1996 and are subjected to IBERDROLA Group's Collective Labour Agreement and members/beneficiaries of the IBERDROLA Pension Plan, risk benefits (e.g. widowhood, permanent disability or orphanage) which guarantee a defined benefit at the time the event giving rise to such benefits occurs, are instrumented through a pluriannual insurance policy. The guaranteed benefit consists of the difference between the present actuarial value of the above mentioned defined benefit at the time of the event and the member's vested rights at the time of the event, if the latter were lower. The premiums on the insurance policy for 2017 and 2016 are recognised under "Staff costs" heading in the Income statement and came to EUR 10,065 thousand and EUR 11,112 thousand, respectively.
- In addition, IBERDROLA maintains a provision against certain commitments to its employees other than those indicated above, which are covered by internal funds linked to social security benefits, consisting mainly of free electricity supply, with an annual consumption limit, for retired employees and other long term benefits, primarily consisting of long-service bonus for active employees at 10, 20 and 30 years of service.

#### 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: ScottishPower Pension Scheme (SPPS) and Manweb Group of Electricity Supply Pension Scheme (Manweb).

#### **USA (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. (hereinafter, ARHI), 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 the AVANGRID 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).

UIL Group's employees were covered by several defined benefit retirement plans (Qualified Pension Plans, Non Qualified Pension Plans) and health plans (Postretirement Welfare Plans).

#### **Brazil**

Such as is indicated in Notes 2.c. and 7, on 24 August 2017 NEOENERGIA was acquired through the incorporation of ELEKTRO. ELEKTRO, CELPE, COELBA and COSERN employees are covered by several defined benefit retirement plans. COELBA employees are covered by a health plan too.

#### **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 funds.

The most significant information related to plans is as follows:

	Spain		United Kingdom		United States				Brazil				Other		Total			
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	ARHI	UIL	AVANGRID NETWORKS	ELEKTRO <sup>(1)</sup>	NEOENERGIA <sup>(2)</sup>									
Thousand euros																		
Present value of the obligation	(445,422)	(553,361)	(6,189,753)	(6,261,592)	(63,425)	(72,785)	(1,015,714)	(1,126,064)	(2,389,049)	(2,629,032)	(303,237)	(336,323)	(542,248)	–	(58,376)	(67,409)	(11,007,224)	(11,046,566)
Fair value of plan assets	–	–	5,552,232	5,741,838	34,622	37,722	661,511	695,330	1,853,869	1,991,669	343,432	376,175	348,118	–	–	–	8,793,784	8,842,734
<b>Net asset / (Net provision)</b>	<b>(445,422)</b>	<b>(553,361)</b>	<b>(637,521)</b>	<b>(519,754)</b>	<b>(28,803)</b>	<b>(35,063)</b>	<b>(354,203)</b>	<b>(430,734)</b>	<b>(535,180)</b>	<b>(637,363)</b>	<b>40,195</b>	<b>39,852</b>	<b>(194,130)</b>	<b>–</b>	<b>(58,376)</b>	<b>(67,409)</b>	<b>(2,213,440)</b>	<b>(2,203,832)</b>
<b>Amounts recognised in the Consolidated statement of financial position:</b>																		
Provision for pensions and similar commitments and similar obligations	(445,422)	(553,361)	(637,521)	(519,754)	(28,803)	(35,063)	(354,203)	(430,734)	(535,180)	(637,363)	–	–	(248,537)	–	(58,376)	(67,409)	(2,308,042)	(2,243,684)
Assets for pensions and similar commitments and similar obligations (Note 14.c)	–	–	–	–	–	–	–	–	–	–	–	–	3,326	–	–	–	3,326	–
<b>Net assets / (Net provision)</b>	<b>(445,422)</b>	<b>(553,361)</b>	<b>(637,521)</b>	<b>(519,754)</b>	<b>(28,803)</b>	<b>(35,063)</b>	<b>(354,203)</b>	<b>(430,734)</b>	<b>(535,180)</b>	<b>(637,363)</b>	<b>–</b>	<b>–</b>	<b>(245,211)</b>	<b>–</b>	<b>(58,376)</b>	<b>(67,409)</b>	<b>(2,304,716)</b>	<b>(2,243,684)</b>

- (1) The related amounts have not been recognised in the Consolidated statement of financial position at 31 December 2017 and 2016, respectively, since the requirements set forth in the current legislation for their accounting treatment are not met.
- (2) On 24 August 2017 (Note 7) NEOENERGIA's pension allowance amounted to EUR 281,885 thousand. A surplus of EUR 67,688 thousand due to the application of IFRIC 14 was not recognised: "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction". As of 31 December said surplus amounts to EUR 51,081 thousand euros.

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The changes in provisions for the commitments detailed in the previous section in 2017 and 2016 is as follows:

Thousand euros	Spain		United Kingdom	United States			Brazil <sup>(1)</sup>		Other	Total
	Electricity tariff	long-service bonus		ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGÍA		
<b>Balance at 01.01.2016</b>	<b>459,986</b>	<b>41,046</b>	<b>6,272,818</b>	<b>73,133</b>	<b>1,055,586</b>	<b>2,595,775</b>	<b>206,387</b>	–	<b>62,698</b>	<b>10,767,429</b>
Normal cost (Note 38)	6,981	3,227	63,851	420	14,538	35,986	840	–	5,147	<b>130,990</b>
Cost for past services (Note 38)	–	–	18,080	–	–	–	–	–	–	<b>18,080</b>
Financial expenses (Note 44).	9,575	678	209,637	2,686	43,918	101,485	26,233	–	1,966	<b>396,178</b>
Modification of plan (Note 38)	–	–	–	–	(8,989)	–	–	–	–	<b>(8,989)</b>
Actuarial gains and losses										
To profit (Note 38)	–	3,606	–	–	–	–	–	–	(838)	<b>2,768</b>
To reserves	48,802	–	859,441	(1,884)	19,006	(82,042)	60,057	–	1,343	<b>904,723</b>
Members contributions	–	–	10,507	–	–	–	925	–	–	<b>11,432</b>
Payments	(15,045)	(5,495)	(320,807)	(5,094)	(58,250)	(150,095)	(16,493)	–	(2,907)	<b>(574,186)</b>
Translation differences	–	–	(851,935)	3,524	60,255	127,923	58,374	–	–	<b>(601,859)</b>
<b>Balance at 31.12.2016</b>	<b>510,299</b>	<b>43,062</b>	<b>6,261,592</b>	<b>72,785</b>	<b>1,126,064</b>	<b>2,629,032</b>	<b>336,323</b>	–	<b>67,409</b>	<b>11,046,566</b>
Modification of the consolidation perimeter (Note 7)	–	–	–	–	–	–	–	584,319	–	<b>584,319</b>
Normal cost (Note 38)	8,117	3,557	66,610	571	15,967	33,062	2,098	500	2,665	<b>133,147</b>
Cost for past services (Note 38)	–	–	35,474	–	254	112	–	–	79	<b>35,919</b>
Other costs recognised under “Staff costs” (Note 38)	–	–	–	–	–	–	–	–	(33)	<b>(33)</b>
Financial expenses (Note 44).	7,619	339	171,036	2,431	42,817	96,178	34,086	19,747	2,046	<b>376,299</b>
Actuarial gains and losses										
To profit (Note 38)	2,878	551	–	–	–	–	–	–	–	<b>3,429</b>
To reserves	(113,255)	–	351,828	2,626	27,943	134,144	(5,791)	(23,912)	(2,080)	<b>371,503</b>
Members contributions	–	–	8,558	–	–	–	1,056	282	–	<b>9,896</b>
Payments	(12,775)	(4,970)	(458,571)	(3,062)	(54,219)	(168,499)	(18,969)	(15,187)	(7,171)	<b>(743,423)</b>
Translation differences	–	–	(246,774)	(9,273)	(143,112)	(334,980)	(45,566)	(23,501)	(4,539)	<b>(807,745)</b>
Liabilities held for sale (Note 34)	–	–	–	(2,653)	–	–	–	–	–	<b>(2,653)</b>
<b>Balance at 31.12.2017</b>	<b>402,883</b>	<b>42,539</b>	<b>6,189,753</b>	<b>63,425</b>	<b>1,015,714</b>	<b>2,389,049</b>	<b>303,237</b>	<b>542,248</b>	<b>58,376</b>	<b>11,007,224</b>

- (1) As the surplus was not recognised, the actuarial differences recognised in reserves were adjusted upwards in 2017 by EUR 5,258 thousand and in 2016 EUR 43,507 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”. Moreover, in the years 2017 and 2017, and for the same concept, the finance costs recognised were adjusted upwards by EUR 6,526 and 8,475 thousand, respectively.

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The average length at the end of the year of the liability for the employee benefits described previously is:

Years	Spain		United Kingdom	United States			Brazil	
	Electricity tariff	long-service bonus		ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGÍA
Average length	17	8	21	13	13	11	14	9

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

Thousand euros	United States				Brazil		Total
	United Kingdom	ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGÍA	
<b>Fair Value at 01.01.2016</b>	<b>5,915,545</b>	<b>38,284</b>	<b>647,357</b>	<b>1,893,611</b>	<b>270,711</b>	–	<b>8,765,508</b>
Modification of the consolidation perimeter	–	–	–	–	–	–	–
Revaluation (Note 44)	201,330	1,353	26,626	73,815	34,812	–	<b>337,936</b>
Actuarial gains and losses to reserves	552,312	864	20,218	38,298	16,502	–	<b>628,194</b>
Company contributions	182,845	493	21,757	38,313	783	–	<b>244,191</b>
Members contributions	10,507	–	–	–	925	–	<b>11,432</b>
Payments	(320,807)	(5,094)	(58,250)	(150,095)	(16,493)	–	<b>(550,739)</b>
Translation differences	(799,894)	1,822	37,622	97,727	68,935	–	<b>(593,788)</b>
<b>Fair Value at 31.12.2016</b>	<b>5,741,838</b>	<b>37,722</b>	<b>695,330</b>	<b>1,991,669</b>	<b>376,175</b>	–	<b>8,842,734</b>
Modification of the consolidation perimeter (Note 7)	–	–	–	–	–	370,102	<b>370,102</b>
Revaluation (Note 44)	160,311	1,221	26,101	73,009	38,353	13,839	<b>312,834</b>
Actuarial gains and losses to reserves	97,442	3,566	67,827	179,109	(2,734)	(8,293)	<b>336,917</b>
Company contributions	230,710	–	9,304	19,406	902	7,886	<b>268,208</b>
Members contributions	8,558	–	–	–	1,056	282	<b>9,896</b>
Payments	(461,680)	(3,062)	(46,827)	(153,102)	(18,969)	(15,187)	<b>(698,827)</b>
Translation differences	(224,947)	(4,825)	(90,224)	(256,222)	(51,351)	(20,511)	<b>(648,080)</b>
<b>Fair Value at 31.12.2017</b>	<b>5,552,232</b>	<b>34,622</b>	<b>661,511</b>	<b>1,853,869</b>	<b>343,432</b>	<b>348,118</b>	<b>8,793,784</b>

The main assumptions applied in the actuarial reports that determined the provisions needed to meet the abovementioned commitments at 31 December 2017 and 2016 are as follows:



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2017	Discount rate	Wage increase	Price kWh (euros)	Inflation	Survivorship table	Health insurance cost Pre-Medicare/medicare
<b>Spain</b>						
Electricity tariff <sup>(1)</sup>	1.64%	–	2018 0,120; 2019 0,119; 2020 0,113; 2021 0,112; 2022 0,112; [...]	–	PERMF 2000P	–
long-service bonus( 1)	0.80%	1.00%	–	–	PERMF 2000P	–
<b>United Kingdom</b>	2.60%	3.70%	–	3.20%	Pre-retirement/Post-retirement Men: 85% AMC00/Post-retirement:90% S2PMA CMI2016 (1,50% improvement rate) Women_ 85%/Post-retirement:100% S2PFA CMI2016 (1,50% improvement rate)	–
<b>United States</b>						
ARHI	3.80%	n.a.	–	2.00%	RP-2006 fully generational table using MP-2017	RX: 7,50%/8,50% (2018); 7,25%/8,25%(2019) ; [...]: 4,50%/4,50% (2030 onwards)
UIL	3.80%	3.50%-3.80%	–	2.00%	RP-2006 fully generational table using MP-2017	RX: 7,50%/8,50% (2018); 7,25%/8,25%(2019) ; [...]: 4,50%/4,50% (2030 onwards)
AVANGRID NETWORKS	3.63%	Based on the age and Union/ Non Union	–	2.00%	RP-2006 fully generational table using MP-2017	RX: 7,50%/8,50% (2018); 7,25%/8,25%(2019) ; [...]: 4,50%/4,50% (2030 onwards)
<b>Brazil</b>						
ELEKTRO	10.1%	6.60%	–	4.50%	AT – 2000 (1996 US Annuity 2000)	–
	Health plans 10.20%	n.a.	–	n.a.	AT 2000 Basic	–
NEOENERGIA	Saving benefits 9.93%	5.55%	–	4.50%	Coelba: SUSEP:BR EMSsb v.2015 (male) - 15%; Celpe:AT2000 Male; Cosern:AT2000 (40% male+60%female)-10%	–
	Risk benefits 9.59%	5.55%	–	4.50%	Coelba: AT 2000 Basic; Celpe:AT2000 Male; Cosern: AT2000 -10%	–

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2016	Discount rate	Wage increase	CPI increase	Inflation	Survivorship table	Health insurance cost Pre-Medicare/medicare
<b>Spain</b>						
Electricity tariff <sup>(1)</sup>	1.50%	–	2017 0,118 (Euro) 2018 1,30%; 2019 1,50%; 2020 1,60%; 2021 1,80%; 2022 on 2,00%	–	PERMF 2000P	–
long-service bonus <sup>(1)</sup>	0.80%	1.00%	-	–	PERMF 2000P	–
<b>United Kingdom</b>	2.90%	3.50%	–	3.00%	Pre-retirement/Post-retirement Men: 85% AMC00/Post-retirement:90% S2PMA CMI2013 (1,50% improvement rate) Women_ 85%/Post-retirement:100% S2PFA CMI2013 (1,50% improvement rate)	-
<b>United States</b>						
ARHI	3.81%	N/A	–	2.00%	RP-2006 fully generational table using MP-2016	RX: 6,75%/8,50% (2017); 6,50%/8,00%(2018) ; [...] : 4,50%/4,50% (2028 onwards)
UIL	4.24%	3.50%-3.80%	–	2.00%	RP-2006 fully generational table using MP-2016	RX: 6,75%/8,50% (2017); 6,50%/8,00%(2018) ; [...] : 4,50%/4,50% (2028 onwards)
AVANGRID NETWORKS	4.12%	Based on the age and Union/ Non Union	–	2.00%	RP-2006 fully generational table using MP-2016	RX: 6,75%/8,50% (2017); [...]; 4,50%/4,50% (2028 on.)
<b>Brazil</b>						
ELEKTRO	11.03%	7.63%	–	5.00%	AT – 2000 (1996 US Annuity 2000)	-

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

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

Thousand euros	2017	2016	2015	2014	2013
<b>Spain</b>					
Present value of the obligation	(445,422)	(553,361)	(501,032)	(639,903)	(555,265)
Net asset / (Net provision)	(445,422)	(553,361)	(501,032)	(639,903)	(555,265)
Experience adjustments	7,799	4,664	25,355	5,442	15,280
<b>United Kingdom</b>					
Present value of the obligation	(6,189,753)	(6,261,592)	(6,272,818)	(5,884,621)	(5,055,518)
Fair value of plan assets	5,552,232	5,741,838	5,915,545	5,491,355	4,656,454
Net asset / (Net provision)	(637,521)	(519,754)	(357,273)	(393,266)	(399,064)
Experience adjustments	46,097	(17,836)	27,541	59,629	(471)
Experience adjustments arising on plan assets	97,442	552,312	(77,098)	329,368	250,978
<b>ARHI</b>					
Present value of the obligation	(63,425)	(72,785)	(73,133)	(73,564)	(60,777)
Fair value of plan assets	34,622	37,722	38,284	38,519	33,813
Net asset / (Net provision)	(28,803)	(35,063)	(34,849)	(35,045)	(26,964)
Experience adjustments	(975)	1,626	7,834	(1,955)	2,259
Experience adjustments arising on plan assets	3,810	864	(2,695)	1,805	1,958
<b>UIL</b>					
Present value of the obligation	(1,015,714)	(1,126,064)	(1,055,586)	–	–
Fair value of plan assets	661,511	695,330	647,357	–	–
Net asset / (Net provision)	(354,202)	(430,734)	(408,229)	–	–
Experience adjustments	27,026	(30,075)	182	–	–
Experience adjustments arising on plan assets	67,787	20,218	(10,620)	–	–
<b>AVANGRID NETWORKS</b>					
Present value of the obligation	(2,389,049)	(2,629,032)	(2,595,775)	(2,460,863)	(1,921,426)
Fair value of plan assets	1,853,869	1,991,669	1,893,611	1,824,332	1,671,768
Net asset / (Net provision)	(535,180)	(637,363)	(702,164)	(636,531)	(249,658)
Experience adjustments	(25,591)	37,797	(11,669)	(17,729)	(17,831)
Experience adjustments arising on plan assets	179,082	38,298	(95,019)	40,051	78,020
<b>ELEKTRO</b>					
Present value of the obligation	(303,237)	(336,323)	(206,387)	(273,740)	(248,859)
Fair value of plan assets	343,432	376,175	270,711	336,762	317,751
Net asset / (Net provision)	40,195	39,852	64,324	63,022	68,892
Experience adjustments	17,615	(15,966)	(5,980)	(3,507)	(1,827)
Experience adjustments arising on plan assets	(2,734)	16,502	(10,632)	47	(48,654)
<b>NEOENERGIA</b>					
Present value of the obligation	(542,248)	–	–	–	–
Fair value of plan assets	348,118	–	–	–	–
Net asset / (Net provision)	(194,130)	–	–	–	–
Experience adjustments	(7,298)	–	–	–	–
Experience adjustments arising on plan assets	(8,293)	–	–	–	–

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The sensitivity at 31 December 2017 of the present value of the obligation of these commitments to changes in the discount rate:

Increase/decrease	Spain		United Kingdom	United States			Brazil	
	Electricity tariff	long-service bonus		ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGÍA
<b>Increase/decrease (basic points)</b>								
+ 10	(7,019)	(339)	(116,217)	(808)	(13,568)	(25,868)	(3,244)	(5,082)
- 10	7,218	344	125,157	826	13,861	26,341	3,974	5,555
<b>Inflation (basic points)</b>								
+ 10	-	-	116,601	-	-	-	-	-
- 10	-	-	(113,440)	-	-	-	-	-
<b>Wage increase (basic points)</b>								
+ 10	-	367	-	-	2,307	2,276	730	-
- 10	-	(356)	-	-	(2,288)	(2,255)	(631)	-
<b>Survivorship table (years)</b>								
+ 1	-	-	231,057	-	-	-	4,125	-
<b>Health insurance cost (basic points)</b>								
+ 25	-	-	-	200	1,289	1,333	-	-
- 25	-	-	-	(179)	(1,230)	(1,279)	-	-
<b>Price increase (basic points)</b>								
+ 10	7,558	-	-	-	-	-	-	-

### Category of assets

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

2017	Equity securities	Fixed income securities	Cash and cash equivalents	Others
United Kingdom	18%	41%	6%	35%
ARHI				
<i>Retirement plan</i>	35%	46%	–	19%
<i>Retiree Benefits Plan</i>	50%	47%	4%	–
UIL				
<i>Qualified Pension Plans</i>	53%	42%	–	5%
<i>Postretirement Welfare Plans</i>	69%	23%	5%	3%
AVANGRID NETWORKS				
<i>Qualified Pension Plans</i>	41%	32%	2%	25%
<i>Postretirement Welfare Plans</i>	49%	38%	2%	11%
ELEKTRO	6%	84%	–	10%
NEOENERGÍA	3%	82%	10%	6%

2016	Equity securities	Fixed income securities	Cash and cash equivalents	Others
United Kingdom	24%	51%	5%	20%
ARHI				
<i>Retirement plan</i>	31%	48%	1%	20%
<i>Retiree Benefits Plan</i>	45%	55%	-	-
UIL				
<i>Qualified Pension Plans</i>	54%	41%	-	5%
<i>Postretirement Welfare Plans</i>	72%	24%	3%	1%
AVANGRID NETWORKS				
<i>Qualified Pension Plans</i>	35%	37%	2%	26%
<i>Postretirement Welfare Plans</i>	49%	35%	3%	13%
ELEKTRO	8%	85%	-	7%

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

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

Thousand euros	Value at 31.12.2017	Level 1	Level 2	Level 3
United Kingdom	5,552,232	55,522	4,774,919	721,791
ARHI	34,622	3,462	25,274	5,886
UIL	661,511	66,151	482,903	112,457
AVANGRID NETWORKS	1,853,869	185,387	1,353,324	315,158
ELEKTRO	343,432	247,272	78,988	17,172
NEOENERGÍA	348,118	3,481	302,863	41,774
<b>Total</b>	<b>8,793,784</b>	<b>561,275</b>	<b>7,018,271</b>	<b>1,214,238</b>

Thousand euros	Value at 31.12.2016	Level 1	Level 2	Level 3
United Kingdom	5,741,838	278,660	4,968,932	494,246
ARHI	37,722	126	32,781	4,815
UIL	695,330	3,000	655,052	37,278
AVANGRID NETWORKS	1,991,669	393,345	1,092,734	505,590
ELEKTRO	376,175	224,180	108,280	43,715
<b>Total</b>	<b>8,842,734</b>	<b>899,311</b>	<b>6,857,779</b>	<b>1,085,644</b>

#### 24.b) Defined contribution plans

The active employees of IBERDROLA and employees who have retired after 9 October 1996, are members of the IBERDROLA pension plan with joint promoters, are covered by an occupational, defined-contribution retirement pension system independent of the Social Security system.

In accordance with this system and IBERDROLA's effective Collective Labour Agreement, the periodic contribution to be made is calculated as a percentage of the annual pensionable salary of each employee, except for employees joining the Company after 9 October 1996, who from 1 June 2017 are subject to a contributory system where the Company pays 56,45% and the employee 43,55% (before this date, the Company paid 55% and the employee 45%). For the ones hired after 20 July 2015 the company pays 1/3 and the employee 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 under 65.

IBERDROLA's contributions in 2017 and 2016 were EUR 26,205 thousand and EUR 22,823 thousand, respectively, and are recognised under "Staff costs" heading in the Income statement.

The contribution made on behalf of SCOTTISH POWER, AVANGRID and NEOENERGY employees in 2017 and 2016 is recognised under "Staff costs" in the Consolidated income statements.

Thousand euros	2017	2016
SCOTTISH POWER	10,464	8,169
AVANGRID	31,598	30,217
NEOENERGIA	2,912	-
<b>Total</b>	<b>44,974</b>	<b>38,386</b>

## 24.c) Restructuring plans

Given the interest shown by some of the employees in requesting early retirement, IBERDROLA Group offered these employees mutually agreed termination of the employment relationship Spain. IBERDROLA Group has carried out a process of individual termination contracts. At 31 December 2017, the existing provisions in this regard correspond to the following restructuring plans:

Thousand euros	31.12.2017		31.12.2016	
	Provisions	No. of contracts	Provisions	No. of contracts
2012 restructuring plan	3,396	66	10,538	180
2014 restructuring plan	54,986	309	78,904	368
2015 restructuring plan	15,717	82	21,587	94
2016 restructuring plan	12,531	63	16,831	64
2017 restructuring plan	140,934	439	–	–
<b>Total</b>	<b>227,564</b>	<b>959</b>	<b>127,860</b>	<b>706</b>

In addition, from 2015, The Company of the IBERDROLA Group, Iberdrola Ingeniería y Construcción, S.A.U. signed a total of 72 individual contracts terminating the employment relationship in Spain, for which the IBERDROLA Group has registered a provision of EUR 18,106 thousand at 31 December 2017.

Additionally, SCOTTISH POWER, has a provision at 31 December 2017 regarding various restructuring plans amounting to EUR 5,057 thousand. In addition, as of 31 December 2017 the allowance linked to other restructuring plans mainly in NEOENERGIA amount to EUR 15,300 thousand.

The discount to present value of the provisions is charged to “Finance cost” heading in the Income statement.

The movement in provisions for the commitments detailed in the previous section in 2017 and 2016 is as follows:

Thousand euros	2017	2016
<b>Initial balance</b>	<b>146,677</b>	<b>177,611</b>
Charge	172,154	26,412
Financial Cost	29	1,134
Actuarial gain and losses and other	(1,931)	(1,313)
Payments and translation differences(*)	(50,902)	(57,167)
<b>Final balance</b>	<b>266,027</b>	<b>146,677</b>

(\*) Payments made during 2017 and 2016 amount to EUR 49,302 thousand and EUR 56,093 thousand, respectively.

The main assumptions applied in the actuarial reports that determined the provisions needed to meet the abovementioned commitments relating to the restructuring plans at 31 December 2017 and 2016 are as follows:

	2017		2016	
	Discount rate	Inflation	Survivorship table	Discount rate
Employment regulation plan	0.38%	0.70%	PERM	0.40%
Other Restructuring plans	0.45%	1.00%	F 2000P	0.50%

## 25. OTHER PROVISIONS

The movement and breakdown of the heading "Other provisions" in the liabilities in the Balance sheet in 2017 and 2016 is as follows:

Thousand euros	Provisions for litigation, indemnity payments and similar costs	Provision for CO 2 emissions (Note 4.q)	Provision for facility closure costs (Notes 4.r and 6.a)	Other provisions	Total
<b>Balance at 01.01.2016</b>	<b>766,520</b>	<b>121,500</b>	<b>1,634,778</b>	<b>483,866</b>	<b>3,006,664</b>
Charge or reversals for the year with a debit/credit to "Property, Plant and Equipment" (Note 4.d)	–	–	(68,806)	(9,416)	(78,222)
Charge for discount to present value (Note 44)	(1,551)	–	31,954	–	30,403
Charge for the year to income statement	57,962	55,275	–	6,565	119,802
Reversal due to excess	(46,506)	(1,873)	(5,695)	(14,048)	(68,122)
Modification of the consolidation perimeter	–	–	–	11,830	11,830
Translation differences	16,308	(8,406)	(18,713)	21,699	10,888
Payments made, transfers and other	(192,000)	–	(43,457)	(27,254)	(262,711)
Emission allowances and Green certificates	–	(112,375)	–	–	(112,375)
<b>Balance at 31.12.2016</b>	<b>600,733</b>	<b>54,121</b>	<b>1,530,061</b>	<b>473,242</b>	<b>2,658,157</b>
Charge or reversals for the year with a debit/credit to "Property, Plant and Equipment" (Note 4.d)	–	–	215,234	–	215,234
Charge for discount to present value (Note 44)	31,879	–	28,096	1,817	61,792
Charge for the year to income statement	206,650	508,885	–	58,760	774,295
Reversal due to excess	(89,489)	–	–	(4,792)	(94,281)
Modification of the consolidation perimeter (Note 7)	302,193	–	9,942	2,610	314,745
Translation differences	(42,261)	(4,944)	(59,398)	(59,606)	(166,209)
Transfers	10,228	296,624	(3,881)	(99)	302,872
Payments made and other	(61,886)	–	(4,356)	(21,991)	(88,233)
Emission allowances and Green certificates	–	(438,780)	–	–	(438,780)
<b>Balance at 31.12.2017</b>	<b>958,047</b>	<b>415,906</b>	<b>1,715,698</b>	<b>449,941</b>	<b>3,539,592</b>

The IBERDROLA Group has 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 provisions to meet a series of costs needed for dismantling work at its nuclear and thermal power plants, its wind farms, and at 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 of dismantling events, or to include new statutory or regulatory requirements.



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

Thousand euros	31.12.2017	31.12.2016
Thermal power plants	80,123	66,920
Nuclear power plants	590,023	519,670
Wind-powered farms and other alternative stations	853,387	754,560
Combined cycle power plant	154,954	146,843
Other facilities	37,211	42,068
<b>Total</b>	<b>1,715,698</b>	<b>1,530,061</b>

The amount related to nuclear plants covers the costs in which the plant operator will incur from the end of its useful life until ENRESA (Note 4.y) 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:

Country	Currency	Discount rate 2017		Discount rate 2016	
		5 years	30 years	5 years	30 years
Spain	Euro	0.37%	2.84%	0.26%	2.61%
United Kingdom	Sterling Pound	0.72%	1.76%	0.47%	1.87%
United States	US dollar	2.21%	2.74%	1.93%	3.07%

The estimated dates on which the IBERDROLA Group considers that it will have to meet the payments relating to the provisions included in this caption of the Consolidated statement of financial position at 31 December 2017 are as follows:

Thousand euros	
2018	586,237
2019	144,645
2020	48,746
2021 on	2,759,964
<b>Total</b>	<b>3,539,592</b>

## 26. BANK BORROWINGS AND OTHER FINANCIAL LIABILITIES – LOANS AND OTHERS

The detail of the bank borrowings pending of amortization at 31 December 2017 and 2016 stand at:

Thousand euros	Borrowings at 31 December 2017 and maturing in							2023 and following	Total long term
	Balance at 31.12.2017 (*)	Short term			Long term				
		2018	2019	2020	2021	2022			
<b>Euros</b>									
Financial leases	62,613	2,044	2,043	2,044	2,045	2,045	52,392	60,569	
Debentures and bonds	17,713,790	3,433,833	1,214,088	1,779,269	1,214,524	2,011,035	8,061,041	14,279,957	
Other financing transactions	5,486,334	528,585	932,592	2,290,352	474,598	623,023	637,184	4,957,749	
Unpaid accrued interest	264,594	264,594	–	–	–	–	–	–	
	<b>23,527,331</b>	<b>4,229,056</b>	<b>2,148,723</b>	<b>4,071,665</b>	<b>1,691,167</b>	<b>2,636,103</b>	<b>8,750,617</b>	<b>19,298,275</b>	
<b>Foreign currency</b>									
US dollars	5,744,380	1,078,307	398,758	578,907	175,897	306,610	3,205,901	4,666,073	
Sterling Pound	2,613,166	239,555	46,093	46,095	382,168	44,598	1,854,657	2,373,611	
Brazilian reals	4,617,130	1,529,724	639,776	925,103	493,172	432,907	596,448	3,087,406	
Others	43,925	3,551	2,953	3,163	3,389	3,633	27,236	40,374	
Unpaid accrued interest	144,566	144,566	–	–	–	–	–	–	
	<b>13,163,167</b>	<b>2,995,703</b>	<b>1,087,580</b>	<b>1,553,268</b>	<b>1,054,626</b>	<b>787,748</b>	<b>5,684,242</b>	<b>10,167,464</b>	
<b>Total</b>	<b>36,690,498</b>	<b>7,224,759</b>	<b>3,236,303</b>	<b>5,624,933</b>	<b>2,745,793</b>	<b>3,423,851</b>	<b>14,434,859</b>	<b>29,465,739</b>	

(\*) As at 31 December 2017, financial debt includes EUR 833,417 thousand from drawdowns on credit lines and credit facilities, and EUR 2,026,949 thousand from issues of domestic promissory notes (USCP) and the Euro Commercial Paper (ECP).

## Annual Financial Report

Iberdrola, S.A. and subsidiaries / Financial Year 2017

Thousand euros	Borrowings at 31 December 2016 and maturing in							Total long term
	Balance at 31.12.2016 (*)	Short term			Long term			
		2017	2018	2019	2020	2021	2022 and following	
<b>Euros</b>								
Financial leases	64,403	1,986	1,985	1,985	1,985	1,985	54,477	62,417
Debentures and bonds	16,530,475	2,683,621	1,666,937	1,537,720	1,793,616	1,151,514	7,697,067	13,846,854
Other financing transactions	4,860,516	613,332	210,201	2,014,804	931,899	328,536	761,744	4,247,184
Unpaid accrued interest	274,405	274,405	–	–	–	–	–	–
	<b>21,729,799</b>	<b>3,573,344</b>	<b>1,879,123</b>	<b>3,554,509</b>	<b>2,727,500</b>	<b>1,482,035</b>	<b>8,513,288</b>	<b>18,156,455</b>
<b>Foreign currency</b>								
US dollars	5,431,403	483,493	445,128	346,032	708,460	302,321	3,145,969	4,947,910
Sterling Pound	2,984,923	314,449	199,211	47,969	47,972	338,197	2,037,125	2,670,474
Brazilian reals	879,500	192,501	216,738	73,358	89,449	87,435	220,019	686,999
Others	51,088	3,874	3,575	3,367	3,347	3,586	33,339	47,214
Unpaid accrued interest	143,969	143,969	–	–	–	–	–	–
	<b>9,490,883</b>	<b>1,138,286</b>	<b>864,652</b>	<b>470,726</b>	<b>849,228</b>	<b>731,539</b>	<b>5,436,452</b>	<b>8,352,597</b>
<b>Total</b>	<b>31,220,682</b>	<b>4,711,630</b>	<b>2,743,775</b>	<b>4,025,235</b>	<b>3,576,728</b>	<b>2,213,574</b>	<b>13,949,740</b>	<b>26,509,052</b>

(\*) As at 31 December 2016, financial debt includes EUR 710,852 thousand from drawdowns on credit lines and credit facilities, and EUR 1,454,416 thousand from issues of domestic promissory notes and the Euro Commercial Paper (ECP).

The borrowings previously mentioned refer to the amounts drawn down and outstanding at 31 December 2017 and 2016.

Significant transactions carried out by IBERDROLA during 2017 are as follows:

2017						
Lessor	Operation	Millions of euros	Currency	Coupon	Extension	Maturity
<b>Main new financing transactions</b>						
AVANGRID Inc	Green bonds	600	USD	3.15%	-	7 years
COELBA / CELPE	Loan 4131 <sup>(1)</sup>	235	USD	-	-	3 years
COSERN	Infrastructure debentures	370	BRL	IPCA+4.7%	-	5/7 years
ELEKTRO	Promissory notes	350	BRL	105% CDI	-	1 year
	Loan 4131 <sup>(1)</sup>	50	USD	-	-	3 years
Iberdrola S.A.	Bilateral loan <sup>(2)</sup>	350	EUR	-	option +1 year	4 years
Iberdrola Financiación, S.A.U.	Bilateral loan <sup>(2)</sup>	600	EUR	-	option +1 year	3 years
	Bilateral loan	300	EUR	-	-	5 years
	Bilateral loan	100	EUR	-	-	18 months
	BEI loan	500	EUR	-	-	7 years
	Bilateral green loan	500	EUR	-	option 6 + 6 months	18 months
Iberdrola Finanzas, S.A.U.	Private issuance <sup>(1)</sup>	1,000	NOK	2.70%	-	10 years
	Extension	150	EUR	Euribor 3m+0.67%	-	7 years
	Extension	50	EUR	1.67%	-	12 years
	Green bonds	1,000	EUR	1.00%	-	8 years
	Green bonds	750	EUR	1.25%	-	10 years
	Private issuance	300	EUR	1.62%	-	12 years
	Private issuance	60	EUR	1.78%	-	13 years
	Private issuance	50	EUR	1.67%	-	12 years
	Green Private issuance	100	EUR	Euribor 3m+0.67%	-	7 years
Iberdrola International, B.V.	Hybrid Green bonds	1,000	EUR	1.88%	-	Perpetual
Itapebí Geração de Energia, S.A.	Debentures 476	100	BRL	119.2% CDI	-	5 years
Lagoa I, S.A.	BEI loan	330	BRL	-	-	16 years
COELBA	Loan 4131 <sup>(1)</sup>	115	USD	-	-	3 years
CELPE	Loan 4131 <sup>(1)</sup>	90	USD	-	-	3 years
ELEKTRO	Loan 4131 <sup>(1)</sup>	110	USD	-	-	3 years
Rochester Gas and Electric Corp.	Bond market US	300	USD	3.10%	-	10 years
Termopernambuco.S.A.	Debentures 476	200	BRL	118.4% CDI	-	5 years
<b>Main transaction for extending existing financing</b>						
Iberdrola S.A.	Syndicated loan	2,331	EUR	-	+1 year	5 years
	Syndicated loan	1,856	EUR	-	+1 year	5 years
	Syndicated loan	500	EUR	-	+1 year	5 years
Iberdrola Financiación, S.A.U.	Syndicated loan	900	EUR	-	+1 year	3 years
	Bilateral loan	75	EUR	-	+1 year	3 years
	Bilateral green loan	500	EUR	-	+6 months	18 months

(1) Currency swaps to company currency.

(2) Reconfiguration, does not involve entry of funds.

The most significant financial transactions performed by the IBERDROLA Group during the year 2016 have been the following:

2016						
Lessor	Operation	Millions of euros	Currency	Coupon	Extension	Maturity
<b>Main new financing transactions</b>						
Avangrid, Inc.	Syndicated loan	1,500	USD	-	option 1 +1 year	5 years
	Commercial paper program	1,000	USD	-	-	-
ELEKTRO	BEI loan <sup>(1)</sup>	50	EUR	-	-	8 years
Iberdrola Distribución Eléctrica S.A.U.	BEI loan <sup>(1)</sup>	325	EUR	-	-	7 years
Iberdrola Financiación, S.A.U.	BEI loan	200	EUR	-	-	6 years
Iberdrola Finanzas, S.A.U.	Green bond	750	EUR	1.00%	-	8 years
	Green bond	1,000	EUR	1.13%	-	10 years
Iberdrola Internacional, B.V.	Green bond	700	EUR	0.38%	-	9 years
	Private issuance	200	EUR	Euribor 3m+0.35%	-	2 years
	Private issuance	50	EUR	Euribor 6m+0.75%	-	7 years
Iberdrola México, S.A. de C.V.	Bank loan <sup>(1)</sup>	300	USD	-	-	2 years
Iberdrola S.A.	Syndicated loan	500	EUR	-	option 1 +1 year	5 years
	Bilateral loans	49.5	EUR	-	option 1 +1 year	3 years
New York State Electric & Gas Corp.	Bond 144A	500	USD	3.25%	-	10 years
Pier II Quecholac Felipe Ángeles, S.A. de C.V.	Bank loan	560.5	PESOS MXN	-	-	7 years
	Bank loan	560.5	PESOS MXN	-	-	13 years
<b>Main transaction for extending existing financing</b>						
Iberdrola S.A.	Syndicated loan	2,406	Euro	-	+1 year	5 years
	Syndicated loan	1,837	Euro	-	+1 year	5 years
	Leasing	91.8	Euro		+11.5 years	18.5 years
	Bilateral loans	150	Euro	-	+1 year	3 years
Iberdrola Financiación, S.A.U.	Bilateral loan	600	Euro	-	+1 year	3 years

(1) Disposal of financing executed in 2015 does not result in new debt.

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 47). The fair value of real property investments in operation fully amortised intangible assets at 31 December 2017 and 2016 amounted to EUR 436 and 166 thousand, respectively. In some of these loans, 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.

In relation to credit ratings covenants, IBERDROLA has arranged funding with the European Investment Bank, amounting to EUR 1,323 million and EUR 1,349 million at 31 December 2017 and 2016, respectively, which may have to be renegotiated or shored up with additional guarantees in the event of a significant rating downgrade. Also, at 31 December 2017 and 2016, the IBERDROLA Group has arranged loans and credits amounting to EUR 1,320 and 1,381 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.

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 2017 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 2,039,499 thousand approximately, except in the case when the change of control cannot be prejudicial.
- Moreover, approximately BRL 5,668,987 thousand (equivalent to EUR 1,442,843 thousand) in issues and BRL 12,164,196 thousand (equivalent to EUR 3,096,048 thousand) in loans corresponding to NEONERGIA 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 13,635,472 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 644,468 thousand and USD 1,700,000 thousand (equivalent to EUR 1,429,172 thousand) corresponding to issuances and loans by the IBERDROLA Group would be subject to an anticipated maturity if a change of control of the lender takes place.

At 31 December 2017 and 2016, IBERDROLA was fully up to date on all its financial debt payments. None of the amounts in the table above matured prior to 31 December 2017.

At the date of authorization for issue of these Financial statements, neither IBERDROLA nor any of its material subsidiaries were in breach of their financial commitments or any kind of obligation that could trigger the early redemption of their financial undertakings.

The average cost of debt of the IBERDROLA Group in 2017 and 2016 was 2.91% and 3.17%, respectively.

## 27. DERIVATIVE FINANCIAL INSTRUMENTS

The breakdown of items contributing to derivatives at 31 December 2017 and 2016, is as follows:

	2017				2016			
	Assets		Liabilities		Assets		Liabilities	
Thousand euros	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
<b>INTEREST RATE HEDGES</b>	<b>42,810</b>	<b>104,531</b>	<b>31,367</b>	<b>(69,300)</b>	<b>31,449</b>	<b>181,928</b>	<b>40,545</b>	<b>(125,931)</b>
<b>Cash flow hedges</b>	<b>7,264</b>	<b>1,436</b>	<b>(11,169)</b>	<b>(62,034)</b>	–	–	<b>(10,638)</b>	<b>(117,934)</b>
Interest rate swaps	7,264	1,436	(11,169)	(62,034)	–	–	(10,609)	(117,934)
Collar	–	–	–	–	–	–	(29)	–
<b>fair value hedges</b>	<b>35,546</b>	<b>103,095</b>	<b>42,536</b>	<b>(7,266)</b>	<b>31,449</b>	<b>181,928</b>	<b>51,183</b>	<b>(7,997)</b>
Interest rate swaps	34,354	96,959	42,536	–	31,449	173,705	49,754	–
Others	1,192	6,136	–	(7,266)	–	8,223	1,429	(7,997)
<b>EXCHANGE RATE HEDGES</b>	<b>502,059</b>	<b>301,682</b>	<b>(168,028)</b>	<b>(141,488)</b>	<b>318,110</b>	<b>554,748</b>	<b>(383,536)</b>	<b>(174,555)</b>
<b>Cash flow hedges</b>	<b>180,447</b>	<b>56,721</b>	<b>(84,465)</b>	<b>(28,504)</b>	<b>223,638</b>	<b>92,717</b>	<b>(51,167)</b>	<b>(49,130)</b>
Interest rate swaps	(4,051)	43,627	(58,008)	(23,053)	63,364	53,170	6,436	(44,525)
Currency forwards	184,498	13,094	(26,457)	(5,451)	160,274	39,547	(57,603)	(4,605)
<b>fair value hedges</b>	<b>178,666</b>	<b>244,961</b>	<b>25,435</b>	<b>(112,984)</b>	<b>30,152</b>	<b>462,031</b>	<b>29,809</b>	<b>(76,031)</b>
Interest rate swaps	178,651	244,439	25,435	(112,984)	30,152	460,988	29,792	(76,031)
Others	15	522	–	–	–	1,043	17	–
<b>Fair net investment abroad</b>	<b>142,946</b>	<b>–</b>	<b>(108,998)</b>	<b>–</b>	<b>64,320</b>	<b>–</b>	<b>(362,178)</b>	<b>(49,394)</b>
Interest rate swaps	(3,346)	–	(28,156)	–	(3,804)	–	(4,128)	(42,886)
Currency forwards	146,292	–	(80,842)	–	68,124	–	(341,075)	(6,508)
Collar	–	–	–	–	–	–	(16,975)	–
<b>RAW MATERIALS HEDGES</b>	<b>120,806</b>	<b>35,111</b>	<b>(65,261)</b>	<b>(11,654)</b>	<b>195,991</b>	<b>66,921</b>	<b>(236,756)</b>	<b>(38,082)</b>
<b>Cash flow hedges</b>	<b>120,806</b>	<b>35,111</b>	<b>(65,261)</b>	<b>(11,654)</b>	<b>195,991</b>	<b>66,921</b>	<b>(236,756)</b>	<b>(38,082)</b>
Futures	120,806	35,111	(65,261)	(11,654)	195,991	61,095	(236,756)	(38,082)
Others	–	–	–	–	–	5,826	–	–
<b>NO HEDGE DERIVATIVES</b>	<b>356,773</b>	<b>107,418</b>	<b>(382,979)</b>	<b>(100,565)</b>	<b>949,894</b>	<b>127,670</b>	<b>(914,321)</b>	<b>(101,347)</b>
<b>Treasury shares derivatives</b>	<b>–</b>	<b>12,678</b>	<b>(2)</b>	<b>(12,678)</b>	<b>1</b>	<b>7,113</b>	<b>–</b>	<b>(7,113)</b>
Swaps over treasury shares	–	12,678	(2)	(12,678)	1	7,113	–	(7,113)
<b>Interest rate derivatives</b>	<b>3,017</b>	<b>–</b>	<b>(12,255)</b>	<b>–</b>	<b>22,429</b>	<b>188</b>	<b>(7,893)</b>	<b>(183)</b>
Currency forwards	3,017	–	(12,255)	–	22,429	82	(7,893)	(66)
Interest rate swaps	–	–	–	–	–	106	–	(117)
<b>Derivatives on commodities</b>	<b>353,756</b>	<b>92,119</b>	<b>(370,126)</b>	<b>(83,467)</b>	<b>927,464</b>	<b>117,257</b>	<b>(904,175)</b>	<b>(86,960)</b>
Futures	353,751	90,050	(370,114)	(83,467)	924,572	117,257	(900,825)	(86,960)
Others	5	2,069	(12)	–	2,892	–	(3,350)	–
<b>Interest rate derivatives</b>	<b>–</b>	<b>2,621</b>	<b>(596)</b>	<b>(4,420)</b>	<b>–</b>	<b>3,112</b>	<b>(2,253)</b>	<b>(7,091)</b>
Interest rate swaps	–	1,831	1,525	–	–	2,097	(131)	6
Others	–	790	(2,121)	(4,420)	–	1,015	(2,122)	(7,097)
<b>NETTED OPERATIONS (Note 16)</b>	<b>(299,851)</b>	<b>(4,041)</b>	<b>299,851</b>	<b>4,041</b>	<b>(801,579)</b>	<b>(22,085)</b>	<b>801,579</b>	<b>22,085</b>
<b>Total</b>	<b>722,597</b>	<b>544,701</b>	<b>(285,050)</b>	<b>(318,966)</b>	<b>693,865</b>	<b>909,182</b>	<b>(692,489)</b>	<b>(417,830)</b>

The maturity schedule of the notional underlyings of derivative instruments contracted by IBERDROLA Group and outstanding at 31 December 2017, is as follows:

Thousand euros	2018	2019	2020	2021	2022 and following	Total
<b>INTEREST RATE HEDGES</b>	<b>1,157,334</b>	<b>258,400</b>	<b>1,630,956</b>	<b>671,664</b>	<b>5,384,863</b>	<b>9,103,217</b>
<b>Cash flow hedges</b>	<b>7,334</b>	<b>7,556</b>	<b>65,956</b>	<b>86,164</b>	<b>4,044,363</b>	<b>4,211,373</b>
Interest rate swaps	7,334	7,556	65,956	86,164	4,044,363	4,211,373
<b>fair value hedges</b>	<b>1,150,000</b>	<b>250,844</b>	<b>1,565,000</b>	<b>585,500</b>	<b>1,340,500</b>	<b>4,891,844</b>
Interest rate swaps	1,150,000	194,794	1,565,000	575,000	1,303,000	4,787,794
Others	–	56,050	–	10,500	37,500	104,050
<b>EXCHANGE RATE HEDGES</b>	<b>11,033,942</b>	<b>1,601,465</b>	<b>531,740</b>	<b>1,049,507</b>	<b>1,002,711</b>	<b>15,219,365</b>
<b>Cash flow hedges</b>	<b>5,444,413</b>	<b>123,363</b>	<b>45,726</b>	<b>44,213</b>	<b>570,659</b>	<b>6,228,374</b>
Interest rate swaps	498,804	–	–	–	495,235	994,039
Currency forwards	4,945,609	123,363	45,726	44,213	75,424	5,234,335
<b>fair value hedges</b>	<b>997,905</b>	<b>1,478,102</b>	<b>486,014</b>	<b>1,005,294</b>	<b>432,052</b>	<b>4,399,367</b>
Interest rate swaps	997,905	1,474,502	486,014	1,005,294	432,052	4,395,767
Others	–	3,600	–	–	–	3,600
<b>Fair net investment abroad</b>	<b>4,591,624</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4,591,624</b>
Interest rate swaps	46,520	–	–	–	–	46,520
Currency forwards	4,545,104	–	–	–	–	4,545,104
<b>RAW MATERIALS HEDGES</b>	<b>1,855,761</b>	<b>268,845</b>	<b>65,244</b>	<b>23,121</b>	<b>77,938</b>	<b>2,290,909</b>
<b>Cash flow hedges</b>	<b>1,855,761</b>	<b>268,845</b>	<b>65,244</b>	<b>23,121</b>	<b>77,938</b>	<b>2,290,909</b>
Futures	1,855,761	268,845	65,244	23,121	77,938	2,290,909
<b>NO HEDGE DERIVATIVES</b>	<b>4,023,475</b>	<b>626,554</b>	<b>62,140</b>	<b>121,295</b>	<b>1,154,896</b>	<b>5,988,360</b>
<b>Treasury shares derivatives</b>	<b>33</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1,000,000</b>	<b>1,000,033</b>
Treasury shares derivatives	33	–	–	–	1,000,000	1,000,033
<b>Interest rate derivatives</b>	<b>356,836</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>356,836</b>
Currency forwards	356,836	–	–	–	–	356,836
<b>Derivatives on commodities</b>	<b>3,636,606</b>	<b>576,554</b>	<b>62,140</b>	<b>46,295</b>	<b>154,896</b>	<b>4,476,491</b>
Futures	3,569,686	544,500	62,140	46,295	154,896	4,377,517
Others	66,920	32,054	–	–	–	98,974
<b>Interest rate derivatives</b>	<b>30,000</b>	<b>50,000</b>	<b>–</b>	<b>75,000</b>	<b>–</b>	<b>155,000</b>
Interest rate swaps	–	50,000	–	–	–	50,000
Others	30,000	–	–	75,000	–	105,000
<b>Total</b>	<b>18,070,512</b>	<b>2,755,264</b>	<b>2,290,080</b>	<b>1,865,587</b>	<b>7,620,408</b>	<b>32,601,851</b>

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



The heading “Finance expense” in the 2017 and 2016 Consolidated income statements includes EUR thousand 127,358 and EUR 105,759 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 44 are partially ineffective. The “Finance income” heading in the Consolidated income statements for the same years also includes EUR 122,244 thousand and EUR 168,332 thousand, respectively, for the abovementioned items (Note 43).

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

2017							
Hedge rate	Thousand US dollars	Thousand Japanese Yens	Thousand Norwegian Kroner	Thousand Mexican Pesos	Thousand Swiss Francs	Thousand Sterling Pound	Thousand euros
Cash flow	500,000	–	1,450,000	1,500,000	–	–	–
Fair value	3,851,604	28,000,000	–	–	–	700,000	76,306

2016							
Hedge rate	Thousand US dollars	Thousand Japanese Yens	Thousand Norwegian Kroner	Thousand Mexican Pesos	Thousand Swiss Francs	Thousand Sterling Pound	Thousand euros
Cash flow	705,000	–	450,000	1,500,000	250,000	–	–
Fair value	2,283,266	28,000,000	–	–	–	700,000	–

The nominal value of the most significant liabilities for which interest rate hedges (Note 5) have been arranged is as follows:

2017			
Hedge rate	Thousand euros	Thousand Sterling Pound	Thousand Brazilian reals
Cash flow	338,611	225,000	–
Fair value	4,891,844	–	348,574

2016		
Hedge rate	Thousand euros	Thousand Sterling Pound
Cash flow	145,672	225,000
Fair value	5,323,844	–

## 28. STATEMENT OF CASH FLOWS

The 2017 transactions of the liabilities classified as financing activities in the Cash flow statement excluded from the equity sub-headings, is the following:

Thousand euros	Cash flow				Other non-cash changes				Modification of the consolidation perimeter (Note 7)	Liabilities held for sale (Note 34)	Transfers and other	Balance at 31.12.2017
	Balance at 01.01.2017	Issues and disposals <sup>(1)</sup>	Redemptions/charge instalments paid	Interest payments	Accrual of interest	Foreign currency exchange <sup>(2)</sup>	Change in fair value and others	Accrual of amortisable costs				
Financial leases	167,467	–	(26,853)	(4,100)	2,506	(11,590)	–	–	–	–	–	127,430
Debentures and bonds	24,216,780	5,656,673	(3,336,573)	–	–	(1,149,075)	(95,415)	53,762	1,070,943	(30,617)	(133,619)	26,252,859
Other financing transactions	6,213,210	7,930,778	(7,064,800)	–	–	(389,275)	30,534	10,690	2,788,035	–	299,672	9,818,844
Unpaid accrued	418,374	–	–	(1,093,571)	1,072,649	6,682	–	–	–	–	5,026	409,160
Derivatives on the company's own shares with a physical settlement (Note 21) <sup>(3)</sup>	204,851	688,499	(539,400)	–	–	–	–	–	–	–	(271,745)	82,205
<b>Total Bank borrowings</b>	<b>31,220,682</b>	<b>14,275,950</b>	<b>(10,967,626)</b>	<b>(1,097,671)</b>	<b>1,075,155</b>	<b>(1,543,258)</b>	<b>(64,881)</b>	<b>64,452</b>	<b>3,858,978</b>	<b>(30,617)</b>	<b>(100,666)</b>	<b>36,690,498</b>
Derivative financial instruments associated with financing	(706,674)	49,722	85,059	120,364	(144,320)	224,434	(37,912)	–	37,224	–	(185,585)	(557,688)
<b>Total</b>	<b>30,514,008</b>	<b>14,325,672</b>	<b>(10,882,567)</b>	<b>(977,307)</b>	<b>930,835</b>	<b>(1,318,824)</b>	<b>(102,793)</b>	<b>64,452</b>	<b>3,896,202</b>	<b>(30,617)</b>	<b>(286,251)</b>	<b>36,132,810</b>

(1) Net emissions of expenses.

(2) Includes differences in exchange rates.

(3) In cash-flows from financing activities in the financial statements for the year ended on 31 December 2017, issues and disposals and reimbursements/instalments paid related to derivatives on treasury shares with physical settlement does not report issues and disposal changes of financial debt because its effect is included in treasury shares changes.

## 29. OTHER NON-CURRENT PAYABLES AND CURRENT LIABILITIES

The detail of “Non-current payables ” in the Consolidated statements of financial position is as follows:

Thousand euros	31.12.2017	31.12.2016
Long term deposits and guarantees (Note 14.c.)	157,912	134,781
Concessional guarantee of the sufficiency tariff in Brazil (Note 12)	–	68,933
Payables to group companies and associates	356	32,735
Others	847,527	500,820
<b>Total</b>	<b>1,005,795</b>	<b>737,269</b>

The detail of “Current payables ” in the Consolidated statements of financial position is as follows:

Thousand euros	31.12.2017	31.12.2016
Short-term deposits and guarantees (Note 14.c.)	167,507	135,340
Concessional guarantee of the sufficiency tariff in Brazil (Note 12)	–	97,475
Payables to group companies and associates	111,994	224,255
Short-term intangible trade	869,597	637,951
Staff pending remuneration	231,044	210,577
Others	485,805	486,178
<b>Total</b>	<b>1,865,947</b>	<b>1,791,776</b>

## 30. DEFERRED TAXES AND CORPORATE INCOME TAX

As in 2016, in 2017 IBERDROLA as the parent company of the Group 2/86, filed a consolidated annual tax return in Spain 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 2017 and 2016 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 2017 and 2016, arose as a result of the temporary differences relating to the difference between the carrying amount of certain assets and liabilities and their tax bases. The main differences are:

- 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 24).
- Temporary differences associated with the tax treatment of the financial goodwill generated in the acquisition of securities relating to holdings in non-resident entities.

The breakdown between current and deferred Income Tax is as follows:

Thousand euros	31.12.2017	31.12.2016
Current taxes	799,440	603,501
Deferred taxes	(2,265,046)	301,118
<b>Expense/(income) from continuing and discontinued activities (Note 34)</b>	<b>(1,465,606)</b>	<b>904,619</b>

The detail of “Deferred tax assets” and “Deferred tax liabilities” in the Consolidated statement of financial position is as follows:

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Thousand euros	Balance at 01.01.2016	Modification of the consolidation perimeter	Translation differences	Credit (charge) to income statement	Credit (charge) to Unrealised gains/(losses) reserve	Credit (charge) to "Other reserves"	Balance at 31.12.2016	Modification of the consolidation perimeter (Note 7)	Differences in exchange rates	Credit (charge) to income statement	Credit (charge) to Unrealised gains/(losses) reserve	Credit (charge) to "Other reserves"	Balance at 31.12.2017
<b>Deferred tax assets:</b>													
Measurement of financial instruments Derivatives	584,421	–	(4,993)	(28,634)	(4,147)	–	546,647	384	(43,754)	31,866	(231,531)	–	303,612
Balance sheet revaluation 16/2012	1,712,477	–	–	(152,273)	–	–	1,560,204	–	–	(120,181)	–	–	1,440,023
Pensions and similar commitments	686,736	–	12,123	33,101	–	15,420	747,380	102,884	(178,588)	(35,283)	–	(121,449)	514,944
Allocation of non-deductible negative goodwill arising on consolidation	68,737	–	–	(1,856)	–	–	66,881	–	–	(1,856)	–	–	65,025
Provision for facility closure costs	56,064	–	356	437	–	–	56,857	–	(1,767)	19,347	–	–	74,437
Tax credits for losses and deductions	2,041,321	–	97,944	360,133	–	–	2,499,398	–	(242,949)	(587,448)	–	–	1,669,001
Other deferred tax assets	1,479,752	446	19,600	(19,011)	–	–	1,480,787	73,217	13,970	(252,643)	–	–	1,315,331
<b>Total</b>	<b>6,629,508</b>	<b>446</b>	<b>125,030</b>	<b>191,897</b>	<b>(4,147)</b>	<b>15,420</b>	<b>6,958,154</b>	<b>176,485</b>	<b>(453,088)</b>	<b>(946,198)</b>	<b>(231,531)</b>	<b>(121,449)</b>	<b>5,382,373</b>

Thousand euros	Balance at 01.01.2016	Modification of the consolidation perimeter	Translation differences	Credit (charge) to income statement	Credit (charge) to Unrealised gains/(losses) reserve	Balance at 31.12.2016	Modification of the consolidation perimeter (Note 7)	Differences in exchange rates	Credit (charge) to income statement	Credit (charge) to Unrealised gains/(losses) reserve	Balance at 31.12.2017	
<b>Deferred tax liabilities:</b>												
Available-for-sale assets	–	–	–	–	–	–	–	–	–	–	306	306
Measurement of financial instruments Derivatives	543,812	–	(16,087)	16,887	10,937	555,549	–	(20,165)	(2,821)	(188,315)	344,248	
Accelerated amortisation	6,016,951	–	183,652	528,145	–	6,728,748	–	(744,049)	(1,595,784)	–	4,388,915	
Overprice in business combinations	4,560,656	76,894	84,761	107,233	–	4,829,544	432,330	(437,438)	(1,558,693)	–	3,265,743	
Other deferred tax Liabilities	775,058	–	11,012	(159,250)	–	626,820	20,586	(34,253)	(53,946)	–	559,207	
<b>Total</b>	<b>11,896,477</b>	<b>76,894</b>	<b>263,338</b>	<b>493,015</b>	<b>10,937</b>	<b>12,740,661</b>	<b>452,916</b>	<b>(1,235,905)</b>	<b>(3,211,244)</b>	<b>(188,009)</b>	<b>8,558,419</b>	

At 31 December 2017 and 2016, 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 2017.

Income Tax expense breakdown for 2017 and 2016 is calculated as follows:

Thousand euros	31.12.2017	31.12.2016
<b>Profit for the year from continuing activities before tax</b>	<b>2,025,850</b>	<b>3,878,662</b>
<b>Profit for the year from discontinued activities before tax) (Note 34)</b>	<b>(321,490)</b>	<b>(131,201)</b>
<b>Consolidated profit before tax</b>	<b>1,704,360</b>	<b>3,747,461</b>
Non-deductible expenses and non-computable income:	-	-
- from individual companies	(145,236)	(46,208)
- from consolidation adjustments	417,238	1,662
Profit of companies accounted for using the equity method	28,405	(48,723)
<b>Adjusted accounting result</b>	<b>2,004,767</b>	<b>3,654,192</b>
<b>Gross tax calculated at the tax rate in force in each country (a)</b>	<b>645,715</b>	<b>1,030,738</b>
Tax credits deductions due to reinvestment of extraordinary profits and other tax credits	(48,889)	(41,172)
Adjustment of prior years Income Tax expense (b)	(47,757)	(74,901)
Net movement in provisions for litigation, indemnity payments, similar costs and other provisions (c)	71,065	11,551
Adjustment of deferred tax assets and liabilities (d)	(2,065,500)	(82,682)
Taxes related to non-distributed earnings	(12,206)	56,264
Others	(8,034)	4,821
Income Tax from continuing operations	(1,397,127)	935,157
Income Tax from discontinued operations (Note 34)	(68,479)	(30,538)
<b>Income Tax</b>	<b>(1,465,606)</b>	<b>904,619</b>

- 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.
- In 2017 and 2016 the main amount EUR 55,390 and 54,795 thousand correspond to the obligation of the income and expense temporal imputation criteria, derived from the Supreme Courts' case law, related to the returns, in execution of sentence, of amounts related to taxes and other concepts.
- 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 rulings in the period.
- The revenue recorded for this concept in 2016 mainly reflects the effect arising from the US Tax reform. On 22 December 2017 the US tax reform was passed. The new law establishes the following:
  - reduction of corporate income tax to 21%, effective as of 2018.
  - elimination of the Alternative Minimum Tax (AMT).
  - Limit of negative tax bases at 90% rate;

By virtue of the above, deferred tax assets and liabilities have been valued at the new tax rate. A debit of EUR 2,025,508 thousand has been recognised in heading "Income Tax" in the consolidated financial statements for 2017. Likewise, with regards to deferred tax assets previously charged to equity a charge of EUR 90,772 thousand has been recognised.

The income recorded for this concept in 2016 mainly reflects the effect arising from the recalculation of prepaid and deferred taxes of UK's Group companies due to rate reduction from 18% to 17% (EUR 96,894 thousand) and the negative effect from the application in Spain of the Royal Decree-law 3/2016, of 2 December, by which deferred tax assets have been regularized amounting to EUR 29,843 thousand. Likewise, during 2016 deferred tax assets amounting to EUR 38,083 thousand have been registered when its recovery has been confirmed.

In general terms, the IBERDROLA companies keep 2014 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 2012 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.

On December of 2015, inspection minutes have been issued regarding Income tax for the 2008 to 2011 year-ends (specific to transfer pricing), and in accordance (with zero quota) with respect to withholding tax on Personal Income Tax, as well as withholding tax on investment income and on account of the imposition of non-residents.

Agreement and disagreement minutes were signed in the first half of 2016 in connection with Corporate Income Tax for the years 2008 to 2011 and in connection with Value-Added Tax for the years 2010 and 2011, and the settlement agreements confirming the disagreement minutes were received.

The major adjustments in the agreement minutes concern the inclusion of IBERDROLA DISTRIBUCIÓN in Tax Group 2/86 for Corporate Income Tax in respect of the years 2008 and 2009 following the Supreme Court Rulings of November 2014.

Minutes with agreements and conformity minutes were paid during the first six months of 2016, and did not have any material effects on equity in the Consolidated income statement, as provision had already been made for the liabilities in the financial statements of previous years.

The main adjustments in the settlement agreements arising from the disagreement minutes signed in the first half of 2016 are as follows:

- Measurement of the financial goodwill liable for fiscal amortisation due to the acquisition of SCOTTISH POWER.
- Elimination of the dividend exemption of SCOTTISH POWER as the inspectors understood this is incompatible with an adjustment in the value of the portfolio due to coverage of a net investment.
- Discrepancies in tax consolidation criteria.
- Observation of circumstances established in Article 15.1 of Spain's General Tax Law in a debtor-swap operation in a number of bond issues.

With respect to the minutes of disagreement signed, and its settlement agreements, the IBERDROLA Group considers that its actions concerning these issues are in accordance with reasonable interpretations of the regulations applicable, and has thus submitted economic-administrative claims in due time and format to the Central Economic Administrative Court against the settlement agreements confirming the minutes of disagreement, and has requested automatic suspension of execution of the settlements through the furnishing of the necessary bank guarantees.

On the date these Consolidated Financial Statements were drawn up, all claims are pending a decision by the Central Administrative Economic Court, as the Company has submitted to said Court the corresponding allegations of the principle claims.

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 2017.

In addition to the above mentioned actions, other inspections have taken place at different times, both from the same tax authorities and from other tax authorities, which have resulted in the initiation of inspection reports to several Group companies, some of which have been signed in disagreement and are appealed. The administrators of the IBERDROLA Group and its tax advisors estimate that the amounts resulting from such actions or resources will not produce additional liabilities of consideration with respect to those already recorded.

### 31. 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 is as follows:

Thousand euros	31.12.2017	31.12.2016
<b>Public Administrations receivables</b>		
Public Treasury, Corporate income tax receivables	546,304	503,403
Public Treasury, VAT refundable	193,359	79,505
Tax withholdings and prepayments	76,136	44,046
Public Treasury, other Receivables	49,087	19,828
<b>Total</b>	<b>864,886</b>	<b>646,782</b>
<b>Public Administrations Payables</b>		
Public Treasury, Corporate income tax Payables	259,633	237,123
Public Treasury, VAT payable	182,294	103,463
Public Treasury, withholdings payable	60,698	54,145
Public Treasury, other payables	717,298	736,408
Social Security Agencies, payables	28,636	20,477
<b>Total</b>	<b>1,248,559</b>	<b>1,151,616</b>

### 32. TRADE PAYABLES

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

Thousand euros	31.12.2017	31.12.2016
Suppliers	3,311,243	3,284,406
Service payables	1,696,247	1,799,671
Trade payables	211,197	223,011
Customer advances	88,864	183,546
<b>Total</b>	<b>5,307,551</b>	<b>5,490,634</b>

The majority of these accounts payable do not accrue interest.



### 33. INFORMATION ON AVERAGE PAYMENT PERIOD TO SUPPLIERS. THIRD ADDITIONAL PROVISION. "DUTY OF INFORMATION" OF LAW 15/2010, OF 5 JULY

The breakdown of the required information at 31 December 2017 and 2016 is the following:

	Number of days	
	2017	2016
Average payment period to suppliers.	16	19
Paid transactions ratio	16	19
Outstanding payment transactions ratio	29	24

Thousand euros	2017	2016
Total payments made	13,754,653	11,886,390
Total payments due	269,561	313,897

The information in the table above has been prepared in accordance with 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 the Balance sheet.
- 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.

### 34. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

#### Discontinued operations

In 2017, the activities related to the provision of engineering and construction services were abandoned, meeting the requirements to be considered a discontinued activity (Note 2.c). Profit or loss after tax of the discontinued operations is included in sub-heading 'Net profit for the year from discontinued operations (net)' of the Consolidated income statement.

Thousand euros	31.12.2017	31.12.2016
Net revenue	233,719	456,234
Provisions	(470,647)	(475,433)
<b>GROSS MARGIN</b>	<b>(236,928)</b>	<b>(19,199)</b>
Staff costs	(117,715)	(150,248)
Capitalised Staff costs	75,251	75,639
Staff costs	(42,464)	(74,609)
External services	(34,836)	(35,661)
Other operating income	2,632	4,505
Net External services	<b>(32,204)</b>	<b>(31,156)</b>
Net Operating Expenses	<b>(74,668)</b>	<b>(105,765)</b>
Taxes	(585)	(974)
<b>Gross operating profit (EBITDA)</b>	<b>(312,181)</b>	<b>(125,938)</b>
Amortisations and provisions	165	(5,879)
<b>Operating profit (EBIT)</b>	<b>(312,016)</b>	<b>(131,817)</b>
Result of companies accounted for using the equity method - net of taxes	328	1,464
Financial revenue	16,654	19,176
Financial Expense	(26,364)	(19,462)
Financial result	<b>(9,710)</b>	<b>(286)</b>
Gains on disposal of non-current assets	25	113
Losses on disposal of non-current assets	(117)	(675)
Non-current asset profit/(loss)	<b>(92)</b>	<b>(562)</b>
<b>PROFIT BEFORE TAX</b>	<b>(321,490)</b>	<b>(131,201)</b>
Corporate tax	68,479	30,538
<b>PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS (NET)</b>	<b>(253,011)</b>	<b>(100,663)</b>

Below the summarised statement of cash flows corresponding to said discontinued operations is shown:

Thousand euros	31.12.2017	31.12.2016
Cash flows from operating activities	(426,860)	(73,070)
cash flows from investing activities	87,787	55,805
cash flows from financing activities	333,349	(74)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(5,724)</b>	<b>(17,339)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>27,644</b>	<b>44,983</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>21,920</b>	<b>27,644</b>

Non-current assets held for sale

At the closing of 2017, the US and Canada gas business complied with the requirements set in IFRS 15: “Non-current assets held for sale and discontinued operations” for their recognition as such in the consolidated financial statements, as long as i) there was a sale plan at a reasonable cost compared to fair value of assets subject to the transaction and ii) the sale could be expected to be completed in less than a year.

The IBERDROLA Group has received binding offers for the sale of the above for a value below the book value of the assets and liabilities for sale. Therefore, a loss for impairment of intangible assets, property, plant and equipment and inventories has been recognised in the amount of EUR 743,571 thousand (Note 41). Before the decision to sell and the reception of the binding offers, the impairment of the assets was not required as long as its value in use was above its book value.

The IBERDROLA Group reports assets and liabilities linked to the gas business in the US and Canada for sale in the heading “Assets held for sale” and “Liabilities linked to assets held for sale” The breakdown of the headings above is as follows:

Thousand euros	Note	
<b>ACTIVE</b>		<b>31.12.2017</b>
Intangible assets.	9	82,661
Property, plant and equipment	11	17,370
Current Financial investments		7,213
<b>Non-current assets</b>		<b>107,244</b>
Inventories		73,358
Commercial debtors and other accounts receivable		115,652
Current Financial investments		48,819
Cash and cash equivalents		10,658
<b>Current assets</b>		<b>248,487</b>
<b>Total Assets held for sale</b>		<b>355,731</b>
<b>LIABILITIES</b>		<b>31.12.2017</b>
Deferred income	23	1,527
Provision for pensions and similar commitments and similar obligations	24	2,653
Financial Debt	28	6,066
<b>Non-current liabilities</b>		<b>10,246</b>
Financial Debt	28	24,551
Trade and other payables		99,747
<b>Non-current liabilities</b>		<b>124,298</b>
<b>Total liabilities linked to assets held for sale</b>		<b>134,544</b>

Following the closing of the year two agreements for the sale of trading and gas storage business were executed (Note 52).

### 35. NET REVENUE

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

Thousand euros	31.12.2017	31.12.2016 Restated- (Note 2.c)
<b>Deregulated Business</b>	<b>19,484,837</b>	<b>18,723,372</b>
Spain	12,079,307	11,880,533
United Kingdom	4,875,291	5,468,329
Mexico	2,314,967	1,494,954
Brazil	368,183	71,695
ROW	17,286	48,036
Eliminations	(170,197)	(240,175)
<b>Renewable Business</b>	<b>2,585,282</b>	<b>2,399,633</b>
Spain	790,153	777,243
United Kingdom	539,908	423,614
United States	971,106	963,972
Mexico	73,768	71,792
Brazil	84,386	39,112
ROW	125,961	123,900
<b>Network Business</b>	<b>10,694,131</b>	<b>8,806,734</b>
Spain	2,017,233	2,049,676
United Kingdom	1,222,028	1,319,093
United States	4,083,179	3,979,421
Brazil	3,371,691	1,458,544
<b>Other business, Corporation and adjustments</b>	<b>(1,500,988)</b>	<b>(1,170,591)</b>
<b>Total</b>	<b>31,263,262</b>	<b>28,759,148</b>

### 36. CONSTRUCTION CONTRACTS

At 31 December 2017 y 2016 the balances of the various instruments are as follows:

Thousand euros	Accumulated revenue recognised by reference to percentage of	Amount billed to clients since the beginning of the contract	Work in progress at 31 December	Advances received from clients at 31 December
2017	5,371,555	5,186,803	254,932	70,180
2016	5,747,300	5,537,079	293,789	83,568

The amount recognised in the financial statements for 2017 and 2016 for these contracts amounts to EUR 276,677 and 500,168 thousand respectively.

### 37. PROVISIONS

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

Thousand euros	31.12.2017	31.12.2016 Restated- (Note 2.c)
<b>Deregulated Business</b>	<b>15,247,050</b>	<b>14,089,368</b>
Spain	9,389,333	8,809,080
United Kingdom	4,079,234	4,468,779
Mexico	1,668,931	985,925
Brazil	279,001	65,273
ROW	458	463
Eliminations	(169,907)	(240,152)
<b>Renewable Business</b>	<b>258,756</b>	<b>220,132</b>
Spain	13,083	13,552
United Kingdom	46,797	38,466
United States	188,263	161,636
Mexico	2,576	2,919
Brazil	6,657	2,557
ROW	1,380	1,002
<b>Network Business</b>	<b>3,907,433</b>	<b>2,646,188</b>
Spain	14,354	21,496
United Kingdom	48,385	52,240
United States	1,329,213	1,442,312
Brazil	2,515,481	1,130,140
<b>Other business, Corporation and adjustments</b>	<b>(1,513,785)</b>	<b>(1,131,961)</b>
<b>Total</b>	<b>17,899,454</b>	<b>15,823,727</b>

### 38. STAFF COSTS

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

Thousand euros	31.12.2017	31.12.2016 Restated (Note 2.c)
Wages and salaries	1,926,519	1,741,299
Company social security costs	262,223	233,264
Additional provisions for pensions and similar obligations and defined contributions to the external pension plan (Notes 4.o and 24)	413,463	235,296
Remuneration stipulated in by-law 48.1 (Note 48)	17,000	17,000
Token payments Art. 48.4	3,398	3,761
Other social expenses	153,391	136,433
	<b>2,775,994</b>	<b>2,367,053</b>
Capitalised Staff costs		
Intangible assets (Note 9)	(42,299)	(31,073)
Property, plant and equipment (Note 4.d)	(558,874)	(525,156)
Nuclear fuel (Note 17)	(3,225)	(958)
	<b>(604,398)</b>	<b>(557,187)</b>
<b>Total</b>	<b>2,171,596</b>	<b>1,809,866</b>

The average number of IBERDROLA Group employees in 2017 and 2016 has increased to 28,750 and 26,411 employees, of which 6,711 and 6,148 are women, 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.

### 39. OPERATING LEASES

The “External services” heading on the Income statements includes operating lease payments of EUR 148,810 thousand and EUR 146,659 thousand for 2017 and 2016, respectively. The breakdown of future minimum payments under non-cancellable operating leases outstanding at 31 December 2016 is as follows:

Thousand euros	
2018	120,969
2019	104,279
2020	102,099
2021	94,303
2022	83,279
From 2023 onwards	1,034,459
<b>Total</b>	<b>1,539,388</b>

The IBERDROLA Group's enters into lease agreements acting as lessor mainly for land, buildings and vehicles located at wind farms. The payments broken down in the table above corresponds to the remaining useful life of wind farms, as well as the payments resulting from the termination of the agreement at the end of the useful life.

The information is presented in deducted terms, using the incremental rate of the lessee's loans, and may differ from the impact on the financial liabilities for the first implementation of the IFRS 16: 'Leases' depending on the various alternative choices that the new regulation offers in both the transition and scope.

On the other hand, the IBERDROLA Group acts as lessor in certain operating leases consisting basically on the rental of investment property (Note 10) and the lease of fibre optics. The heading “Net revenue” in the Consolidated income statements in 2017 and 2016, includes EUR 47,885 thousand and EUR 60,782 thousand, respectively, related to this concept and the detail of the estimated future minimum proceeds under non-cancellable leases at 31 December 2017 is as follows:

Thousand euros	
2018	46,687
2019	30,257
2020	27,274
2021	25,104
2022	22,927
From 2023 onwards	109,395
<b>Total</b>	<b>261,644</b>

## 40. TAXES

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

Thousand euros	31.12.2017	31.12.2016 Restated (Note 2.c)
<b>Deregulated Business</b>	<b>1,057,110</b>	<b>876,124</b>
Spain	914,757	756,767
United Kingdom	135,051	114,321
Mexico	3,211	2,123
Brazil	84	8
Others	4,007	2,905
<b>Renewable Business</b>	<b>159,980</b>	<b>142,342</b>
Spain	96,130	79,581
United Kingdom	18,302	18,091
United States	39,655	40,075
Mexico	319	547
Brazil	1,971	124
ROW	3,603	3,924
<b>Network Business</b>	<b>636,772</b>	<b>638,025</b>
Spain	89,384	86,877
United Kingdom	101,948	103,170
United States	444,319	446,619
Brazil	1,121	1,359
<b>Other business, Corporation and adjustments</b>	<b>20,641</b>	<b>(120,735)</b>
<b>Total</b>	<b>1,874,503</b>	<b>1,535,756</b>

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" of the Consolidated income statements of 2017 and 2016:

- 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 225,225 thousand and EUR 213,582 thousand in 2017 and 2016 respectively.
- A tax on spent nuclear fuel, amounting to in 2017 and 2016, whose expense has amounted to EUR 129,315 thousand and EUR 134,131 thousand, 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 2017 and 2016, amounting to EUR 82,365 thousand and EUR 132,162 thousand, respectively.
- A green cent tax levied against energy products used in electricity production, entailing a cost for the IBERDROLA Group of EUR 46,648 thousand and EUR 45,492 in 2017 and 2016, respectively. This payment was recognised under "Procurements" in the Consolidated income statement.

Additionally, the sub-heading 'Taxes' of the 2017 and 2016 Consolidated income statement includes EUR 165,264 and 174,499 thousand euros, respectively, as the best estimate available of the accrued expenses originated by Royal Decree-Law 6/2009 (Note 4.y).

#### 41. AMORTISATIONS AND PROVISIONS

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

Thousand euros	31.12.2017	31.12.2016 Restated (Note 2.c)
Tangible assets depreciation allowances:		
Property, plant and equipment (Note 11)	2,636,990	2,635,586
Investment in real property (Note 10)	6,965	7,446
Intangible assets depreciation allowances (Note 9):	542,093	443,553
Allowances for impairments and write-offs of non-financial assets:		
Goodwill write off of Renewables in USA (Notes 9 and 13)	449,480	–
Reversal of impairment of intangible assets in Renewables in USA (Notes 9 and 13)	(42,959)	(68,182)
impairment of intangible assets in Gas in USA Canada (Notes 9 and 34)	68,715	–
impairment of PPE in Gas in USA Canada (Notes 11 and 34)	633,003	–
Other impairments in Gas in USA (Note 34)	41,853	–
Reversal of impairment in PPE (Note 11)	(24,357)	–
Other impairment in PPE (Note 11)	37,499	29,246
Changes in provisions	256,787	200,178
<b>Total</b>	<b>4,606,069</b>	<b>3,247,827</b>

#### 42. GAINS AND LOSSES ON DISPOSAL OF NON-CURRENT ASSETS

The breakdown of this heading “Financial expense” in the Consolidated statements of financial position is as follows:

Thousand euros	31.12.2017	31.12.2016 Restated (Note 2.c)
Gain on the disposal of intangible assets and PPE	3,420	6,369
Gain on the disposal of equity investments	295,673	46,550
<b>Total</b>	<b>299,093</b>	<b>52,919</b>

The breakdown of this heading “Losses due to disposal of non-current assets” in the Consolidated statements of financial position is as follows:

Thousand euros	31.12.2017	31.12.2016
Loss on the disposal of intangible assets and PPE	2,611	2,755
Loss on the disposal of equity investments	17,428	1,456
<b>Total</b>	<b>20,039</b>	<b>4,211</b>

#### Year 2017

- As a consequence of the merger of the wind energy businesses SIEMENS and GAMESA (Note 14), there was a dilution in the percentage of shares held by the IBERDROLA Group, from 19.69% to 8.07%. The result obtained as a result of the aforementioned dilution of the operation reached EUR 250,695 thousand, which were registered under sub-heading 'Gains on disposal of non-current assets' in the 2017 Consolidated income statement .



- In April 2017, the IBERDROLA Group sold its shareholding in Amara, S.A.U. for an amount of EUR 8,000 thousand, which implied a gross capital loss of EUR 14,502 thousand and was registered under the sub-heading 'Losses on disposal of non-current assets' in the 2017 Consolidated income statement.
- In August 2017 the incorporation of ELEKTRO HOLDING in NEONERGIA was completed (Note 7). The result obtained as a result of the aforementioned dilution of the operation reached 44,012 thousand euros, which were registered under sub-heading 'Gains on disposal of non-current assets' in the 2017 Consolidated income statement.

### Year 2016

- In the first half of 2016, the IBERDROLA Group sold in the USA its shareholding in Iroquois Gas Transmission System, L.P. (Minority interest in local gas grid) for an amount of EUR 48,599 thousand, which implied a gross capital profit of EUR 28,738 thousand and was registered under the sub-heading 'Gains on disposal of non-current assets' in the 2016 Consolidated income statement.
- In 1 June 2016, the IBERDROLA Group sold 50% stake in Oceanic Center, S.L. for an amount of EUR 61,500 thousand, which implied a gross capital profit of EUR 17,000 thousand and was registered under the sub-heading 'Gains on disposal of non-current assets' in the 2016 Consolidated income statement.

## 43. FINANCIAL REVENUE

The breakdown of this heading "Financial Revenue" in the Consolidated income statement is as follows:

Thousand euros	31.12.2017	31.12.2016 Restated (Note 2.c)
Income from equity investments	2,082	4,063
Financial income related to assets at amortised cost:		
Other financial interests and income	223,238	130,729
Other interest and finance income due to credits to associated companies	96	27,474
Non-hedge derivatives and inefficiencies (Note 27)	122,244	168,332
Positive differences in foreign currency for financing activities	273,000	475,483
Other positive differences in foreign currency	164,808	123,124
Capitalised finance expense		
Intangible assets (Note 9)	21,506	15,500
Property, plant and equipment (Note 11)	112,536	93,770
Nuclear fuel (Note 17)	2,193	2,465
Real estate inventories (Note 18)	87	65
<b>Total</b>	<b>921,790</b>	<b>1,041,005</b>

The average capitalisation rates used in 2017 and 2016 for external financing of property, plant and equipment was 2.63% and 3.68%, respectively (Note 4.d).

#### 44. FINANCIAL EXPENSE

The breakdown of this heading "Financial expense" in the Consolidated income statement is as follows:

Thousand euros	31.12.2017	31.12.2016 Restated (Note 2.c)
Financial expenses related to liabilities at amortised cost:		
Financial expenses and similar expenses	1,055,901	1,027,798
Other financial expenses and similar expenses	80,186	100,531
Equity instruments having the substance of a financial liability (Note 22)	6,230	8,821
Non-hedge derivatives and inefficiencies (Note 27)	127,358	105,759
Negative differences in foreign currency for financing activities	279,193	468,998
Other negative differences in foreign currency	178,212	134,343
Financial revaluation of other provisions (Note 25)	61,792	30,403
Financial revaluation of provisions for pensions and similar commitments (Note 24)	70,020	67,510
<b>Total</b>	<b>1,858,892</b>	<b>1,944,163</b>

#### 45. 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:

##### Contingent liabilities

- a) Contentious-administrative appeal No. 222/2013 imposed by IBERDROLA DISTRIBUCIÓN before the Court for Contentious Administrative Proceedings No. 6 of Murcia, against two rate settlements of the Lorca City Council for the granting of the activity licence for the Carril and Nogalte transformer substations, respectively, located in this municipality, for a total amount of EUR 6,360 thousand, plus interest. The judicial procedure is currently in the trial phase, pending the request for clarifications on the expert report designated by the court at the appearance that shall take place on 20 March 2018.
- b) 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, being also granted the suspension of the execution of the sanction. The IBERDROLA Group believes its action was proper and legal, and did not therefore make any provision for this during the year. The procedure is currently suspended due to prejudication issues.

- c) Claim filed by Banco Mare Nostrum (BMN) against IBERDROLA INMOBILIARIA in Madrid Court of First Instance No 14. Ordinary Proceedings No 496/2014, to which two other court proceedings, formerly conducted in another Madrid court and in a Murcia court, have been joined. This is a claim for a specified amount in which the claimant seeks a declaration that the deed of sale of 20% of the undivided joint title to the lots located at Cabo Cope is a nullity, an order that the deed be discharged by reason of supervening absence of its objects or frustration, with a refund of the price paid, the return of the commercial paper made over by BMN, and an award of damages. The preliminary hearing was held on 15 November 2017 without an agreement between the parties, on which the amount of the claim was definitively set at EUR 19,214 thousand. 30 May 2018 has been indicated for the trial date.

#### Contingent assets

- a) On 9 May 2016, IBERDROLA filed a claim against Bankia, S.A. (BANKIA) to recover damages sustained as a consequence of IBERDROLA's purchase of shares in the context of the bank's IPO in 2011. IBERDROLA's decision to subscribe for shares was taken in reliance on the information provided in the prospectus published for that purpose by BANKIA. The business and financial information contained in that prospectus has been shown to be severely inaccurate, incorrect and false, with material omissions; therefore, IBERDROLA made a clear mistake when placing orders to subscribe shares, which mistake is excusable and invalidates the transaction.

The overruling judgement was received on 23 March 2017. IBERDROLA presented its appeal on 24 April 2017, which shall be ruled by the Provincial Court of Madrid. BANKIA presented its written opposition to the appeal and challenge of the sentence on 31 May 2017. On 27 June 2017, IBERDROLA presented its written opposition to the challenge of the sentence made by BANKIA, having forwarded the documents to the Provincial Court of Madrid for its decision.

The value of IBERDROLA's claim comes to EUR 12,400 thousand in respect of losses sustained as a result of that investment.

- b) Ordinary Proceedings 62/2016 in Madrid Court of First Instance No 77, where IBERDROLA ESPAÑA applied for a declaration in its favour of ownership of lot number 1 of the Expropriation Procedure, located at Gallur street, Carabanchel district, carried out by the Madrid City Council. Iberdrola has applied for a declaration that it is the owner of the land, as against parties now disputing that ownership, on the basis of IBERDROLA ESPAÑA's title to the property. The benefit of securing this declaration would be that IBERDROLA ESPAÑA would then receive the fair value of the land as appraised in the course of the compulsory expropriation procedure; that amount has so far been paid into court until the dispute as to ownership is resolved. The action was brought on 30 December 2015 and the proceedings are now at the stage of service of claim and filing of the defence (18 defendants). The statement of defence has been served and the previous hearing is pending of fixing the date. This amount stands at EUR 6,708 thousand.

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. Therefore, they concern regulatory dispositions that were in force at the time of appeal.

IBERDROLA Group'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 Group against general regulatory provisions:

- a) 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. On 1 July 2016, the Supreme Court dismissed the appeal, although there were three strongly worded dissenting opinions. The Court takes the view that the new remuneration framework does not constitute a prohibited retrospective exercise of power, because it is designed to take account of the reasonable return earned by the facility throughout its entire useful life, even where this approach involves reviewing past remuneration. Neither does the Court believe that there has been any violation of the principles of legal certainty and legitimate expectation, insofar as no one could have assumed that the former remuneration framework was immune to change.

An appeal having been lodged with the Constitutional Court, on 2 September 2016 the ancillary suit for the nullity of proceedings was formally filed with the Supreme Court. On 26 October 2016 IRE was served with notice of the dismissal of its ancillary suit formality of the proceedings. Appeals to the Constitutional Court were lodged on behalf of Energyworks Carballo and Energyworks Cartagena on 29 November and 2 December 2016, respectively. On 5 December 2016, an appeal to the Constitutional Court was filed on behalf of IRE. On 15 March 2017, the denial was notified for the appeal to the proceedings presented by IRE for lacking specific constitutional importance. The appeal was presented before the European Court of Human Rights in Strasbourg, which was rejected because of formal defects, although IRE returned to present it again.

- b) IBERDROLA DISTRIBUCIÓN has implemented various contentious-administrative resources against the regulatory ministerial orders of the electricity tolls corresponding to 2014, 2015 and 2016, which refer to the determination of the loss incentives for 2010 to 2013 from understanding that calculations were incorrectly made, negatively affecting the remuneration of electricity distribution activities in this respect. The aforementioned jurisdictional resources were substantiated before the Contentious Administrative Proceedings Division of the Supreme Court, having already issued a final favourable judgement in which it refers to the incentives in 2012, 2013 (3.1 and EUR 1.8 million, respectively). Both judgements upheld by the appeal are currently pending execution for having been ordered by the energy management. A new calculation of the aforementioned incentives will be issued, adjusted to the considerations contained in the judgement of 5 September and 4 December 2017, respectively.

The appeal lodged against the liquidations of the 2010, 2011 incentive for losses was rejected, although the official amendment of the order regulating these incentives (Order IET/107/2014, of the 2014 tolls) was brought before the Ministry of Energy, Tourism and Digital Agenda after section 8 therein was declared void in the two previously mentioned judgements, which contained the regulation of these incentives. The amount of the 2010, 2011 incentives rose to a total of EUR 6.5 million euros.

- c) The contentious-administrative appeal No. 356/2017 by Renovables Energía, S.A., to the National Court against Order ETU/130/2017, of 17 February updating the mechanism for financing certain electricity production facilities from renewable sources, cogeneration and waste, for the purposes of its application to the regulatory half-period starting on 1 January 2017. Complaint filed on 6 September 2017. The orders are in a conclusions period.

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:

- a) Concerning the Extremadura "green tax", applications for judicial review have been submitted in respect of the settlements for the period 2006-2016 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 corresponding to the years 2006, 2007, 2008 and 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.

Following these favourable rulings, IBERDROLA Group considers there is a contingent asset for the periods challenged that are pending a ruling. The Consolidated financial statement for 2017 does not include any income for these periods. The income would amount to EUR 450 million including late payment interest.

- b) In the matter of the wind power levy assessed by the devolved region of Castilla La Mancha, the High Court of Justice referred a prior issue for a preliminary ruling by the Court of Justice of the European Union and an issue of unconstitutionality to the Constitutional Court. The Constitutional Court refused leave to proceed to the issue of unconstitutionality. The ECJ issued a judgement on 20 September 2017, in which the right of the EU was not considered violated. The High Court of Justice of Castilla-La Mancha changed this judgement and term to lodge pleadings on the possible approach of the unconstitutional issues.

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:

Contingent liabilities

- a) Arbitration proceedings in the International Chamber of Commerce instigated by the consortium (led by EDF) which purchased 30 wind farms owned by Iberdrola Renovables Energía, S.A. in France through its French subsidiary. The sale was concluded in May 2013. The claim is based on a purported breach by IBERDROLA of the representations and warranties set out in the contract as to compliance with maximum noise levels permitted by French law. In January 2016, the purchaser consumption submitted a request for arbitration. In July 2016, the parties agreed on the terms of reference of the arbitration and the procedural timetable (four months for filing the statement of claim, four months for filing the answer, three months for a counter-answer and three months for the final answer). We have already received the arbitration claim, which sets the amount sought to be recovered at EUR 52 million, subject to review (as against the originally claimed amount of EUR 78.4 million). The statement of claim cleaves to the line of reasoning presented from the outset: the alleged breach by IBERDROLA of the representations and warranties set out in the contract and breach of the noise levels permitted by French law.

On 1 March 2017, IBERDROLA presented its reply to the request for arbitration. On 17 May, the Arbitration Tribunal rejected the branching request made by the plaintiffs. On 1 June, the reply was presented. The consortium adjusted its claim to the amount of EUR 49.5 millions. IBERDROLA presented its rejoinder on 1 September. A delay was notified for the hearing of witnesses and experts, due to the unavailability of the witness of the plaintiffs. The Court issued a new procedural order on 2 October 2017, establishing the holding of the hearing for the week of 5 to 8 March 2018.

On 31 October 2017, the lawyers of the Consortium issued a letter to the Court, in which they requested the admission of 11 new noise studies (and their corresponding curtailment plans) connected to a new quantification of damage and currently quantified at EUR 42.2 million. On 10 November 2017, the allegations were presented. This past 20 November 2017, IBERDROLA was informed of the decision of the Arbitration Tribunal to permit the request of the counterparty to include the 11 new reports, giving us until 31 January 2018 to present our comments on this matter. The reports contain new wind information. Although they do not change the method, they reduce the claimed amount to EUR 42.2 million. IBERDROLA presenting the possibility of requesting an increase in the term granted to reply.

- b) 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.
- c) The subcontractor of the component assembly of a project in the United States started an arbitration against the subsidiary in the United States, in which it makes a complaint for damages due to interferences and delays incurred by the Group. The group presented its reply to the claim, which includes the counter-claim for the delays incurred by the subcontractor in the execution of the works.



- d) The client of a project in Costa Rica presented a request for arbitration before the International Chamber of Commerce with headquarters in New York, issuing a complaint against IBERDROLA INGENIERÍA and its partner in this project for the damages allegedly incurred from the delay in the delivery of the works. The consortium in which IBERDROLA INGENIERÍA participates is issuing a complaint against the client for excusable delays and additional costs incurred from causes attributable to the client.
- e) There are several labour, civil and tax complaints filed in Brazil against several NEOENERGIA Group companies. The IBERDROLA Group considers that the risk assessment of the possible losses is made by the companies, based on the opinions of the administration and external legal advisors, making the corresponding provisions based on the likelihood of loss depending on the available evidence, legal hierarchy and most recent case-law.
- f) ELEKTRO Redes is a party to collection actions driven by state highway concessionaires and other parties involved to prevent the Company from freely acting for the installation of energy distribution infrastructure in intermediate and lateral strips of the highways, free of any charge. Based on this scenario, the company adopted competent legal measures against the Department of Highways of the State of São Paulo (DER) and its respective concessionaires. In the actions in which the matter is disputed, there are favourable and unfavourable decisions tried in different instances. Therefore, up until September 2016, the company held the provision established for this process. Considering the evolution of the case law on the matter, especially ADIn trial No. 2,418 by the STF, whose judgement was published in October 2016, and the favourable trials on merit by the Court of Justice of São Paulo in December 2016 for appeals recognising the unlawfulness of collection, as well as the possible prospects of success determined by the legal advisors of the case, the company made the reversal of the provision established for that purpose in 2016.
- g) In December 2016, ELEKTRO was given a tax assessment notice for 1,205 million Brazilian reals, issued by the federal tax body (*Receita Federal do Brasil*) for the collection of capital gains tax originating from the acquisition of ELEKTRO by IBERDROLA in 2011. ELEKTRO presented its administrative defence and the federal tax body sustained the allegations of the Company, deciding upon the complete cancellation of the tax assessment notice at the court of first instance. The process is pending an appeal trial at the Administrative Board of Tax Appeals (CARF), mandatory by virtue of the relevance of the disputed amount.
- h) With respect to the public proceedings that the Public Ministry of Labour lodged against ELEKTRO Redes requesting that it prohibit the subcontracting of the core activities of the company, these must be performed by employees directly contracted by the distributor, in which an unfavourable decision was made for ELEKTRO Redes in first and second instance, in addition to the appeal lodged before the High Labour Court. An appeal was subsequently lodged before the Federal Supreme Court which is pending a decision. The lawyers responsible for the matter believe that there are favourable arguments for the reversal of the decision.
- i) In December 2017, ELEKTRO was given a tax assessment notice under No. 16561-720169/2017-11 issued by the federal tax body for the collection of capital gains tax and CSLL referred to the exchange differences' amortization originating from the acquisition of ELEKTRO by IBERDROLA in 2011. The tax assessment notice is at the administrative court of first instance.

- j) Claim by the California Public Utilities Commission: In 2002, just after the energy crisis in the state of California, the California Public Utilities Commission and the California Electricity Oversight Board (CPUC and CEOB, respectively) submitted a claim to the FERC against a number of electricity producers, alleging that these companies had manipulated the market and that the prices set in energy purchase contracts were "unfair and unreasonable", and demanded modifications to the contracts.

FERC dismissed the claim and, following a review by the Californian courts, the Supreme Court ordered FERC to review the case, which had remained dormant since 2008.

In 2014, FERC reopened the case at the behest of the California Public Utilities Commission and appointed an investigating judge, who in April 2016 issued an initial ruling that dismissed any market manipulation by Avangrid Renewables, but considered that the prices in its energy purchase contract were excessive and to the detriment of end consumers. Damages were set at USD 259 million plus interest. This recommendation is not binding for FERC.

AVANGRID submitted its written plea at the end of May, and its written conclusions on 27 June 2016. The opinion of FERC's technical unit was favourable, and recommended the proceedings be suspended without sanctions. Following these proceedings, FERC is expected to issue a final ruling in the last quarter of the year, and its decision may be appealed in the courts.

The IBERDROLA Group expects that the proceedings will eventually be suspended without any sanction.

#### Contingent assets

- a) In August 2013, the subsidiary of AVANGRID, New York State Electric & Gas Corporation (NYSEG), sued two insurance companies, Century Indemnity and OneBeacon, that granted NYSEG an excess coverage of liabilities. NYSEG issued a complaint against the payment of cleaning costs associated with the pollution of 22 old gas plants. Based on the cleaning costs of USD 282 million, the part corresponding to the carriers shall be equal to or greater than approximately USD 89 million, excluding interest pending trial, although this amount may significantly vary based on evidence and legal circumstances determined during the case. Century Indemnity and One Beacon responded by admitting the issuance of excessive policies; however, they have contested the coverage and have provided documentation proving that they received notice of the claims in the 1990s. On 31 March 2017, the District Court granted motions completed by Century Indemnity and One Beacon, dismissing all the claims of NYSEG against both defendants claiming past-due notification. NYSEG completed a request with the District Court on 14 April 2017, requesting that it reconsider the verdict of the Court and that it is studying possible actions for a future appeal in case the reconsideration request is denied. Any recovery derived from this matter shall have a significant impact on NYSEG taxpayers.
- b) The subsidiary of IBERDROLA INGENIERÍA in Canada (IEPC) started an arbitration according to the Act on Arbitration of British Columbia before an arbitration court of three arbitrators, with headquarters in Vancouver (BC), against the client of two biomass projects in Canada for claims derived from the construction of the projects. The client also presented a claim against the IEPC for delivery delays of the plants. The arbitration hearing is to be held in June 2018.



- c) In September 2016, IBERDROLA INGENIERÍA initiated arbitration proceedings in the London Court of International Arbitration (LCIA), based in London, United Kingdom, to recover damages caused by the client's actions in a network and substation construction project in Kenya awarded to IBERDROLA INGENIERÍA. The client also filed a claim against the IEPC for delivery delays of the plants claiming several damages supposedly caused by the termination of the agreement between the parties. The hearing is scheduled for March 2018.
- d) The subsidiary of IBERDROLA INGENIERÍA in Canada initiated two arbitrations before the International Chamber of Commerce, at its headquarters in Paris, against the boiler supplier of the two biomass projects in Canada. One arbitration is on non-compliance with the supply contracts, issuing a complaint for damages and the other to issue a claim against the return of amounts paid to the supplier on the price of the supply contracts. The arbitrations are currently suspended given that the supplier is involved in insolvency proceedings in the United States.
- e) IBERDROLA INGENIERÍA initiated an arbitration before the International Chamber of Commerce, at its headquarters in Paris, in which it issued a complaint against the client of a project being executed in Germany for damages incurred by the decision of the client to restrict the work hours at the site. The process should be resolved throughout 2018.
- f) The subsidiary of IBERDROLA INGENIERÍA in the United States (IEPC) presented various claims against its client for a generation project being carried out in the United States. The claims are derived from several interferences and delays that IEPC is experiencing in the execution of this project.
- g) In 2017, NC Energia filed a request before the Delegate of the Large Tax Contributors' Office of the Receita Federal de Brasil in R o de Janeiro to discuss the calculation base of the PIS/COFINS in relation to the years following Law n1 12973/14 and exclude from the calculation base the value of ICMS and ISS following the legislation changes introduced by this law. There was a favourable ruling in first instance stages but Receita Federal filed an appeal.

The contingent assets and liabilities at 31 December 2016 are described in the Consolidated Financial statements of IBERDROLA of that year.

## 46. INTERESTS IN JOINT VENTURES

The detail (at 100%) of the most significant economic aggregates in 2017 and 2016 relating to the main joint ventures involving the IBERDROLA Group is as follows:

Thousand euros	Joint property of nuclear and thermal plants									
	Almaraz	Trillo	Vandellós	Ascó	Aceca	A.I.E. Almaraz-Trillo	A.I.E. Ascó-Valdellós	West of Duddon Sands	Wikinger OSS	Torre Iberdrola
Year 2017										
Segment	Deregulated					Renewables				Other businesses
Intangible assets.	-	-	-	-	-	4,437	-	-	-	27
Property, plant and equipment										
Technical instalations	751,698	1,042,424	1,038,075	674,207	-	-	-	1,478,192	155,274	-
Other fixed assets	377	4,511	14,435	-	1,811	2,283	-	-	-	192,514
Non-Current financial Assets	22,507	11,290	43,090	9,864	2,430	1,945	118,902	-	-	-
Current assets	703,117	386,376	410,124	359,494	732	53,103	159,062	5,476	-	1,581
<b>Total assets</b>	<b>1,477,699</b>	<b>1,444,601</b>	<b>1,505,724</b>	<b>1,043,565</b>	<b>4,973</b>	<b>61,768</b>	<b>277,964</b>	<b>1,483,668</b>	<b>155,274</b>	<b>194,122</b>
<b>Non-Current Liabilities</b>	<b>331,443</b>	<b>462,493</b>	<b>499,855</b>	<b>225,358</b>	<b>-</b>	<b>40,277</b>	<b>128,831</b>	<b>-</b>	<b>-</b>	<b>1,437</b>
<b>Current Liabilities</b>	<b>1,021,982</b>	<b>957,884</b>	<b>916,211</b>	<b>756,556</b>	<b>4,289</b>	<b>21,491</b>	<b>129,901</b>	<b>37,264</b>	<b>-</b>	<b>1,209</b>
<b>Income</b>	<b>867,501</b>	<b>427,055</b>	<b>477,885</b>	<b>409,159</b>	<b>328</b>	<b>156,918</b>	<b>270,279</b>	<b>1,293</b>	<b>-</b>	<b>13,034</b>
<b>Expenses</b>	<b>765,143</b>	<b>412,696</b>	<b>422,650</b>	<b>360,119</b>	<b>559</b>	<b>156,918</b>	<b>287,994</b>	<b>33,732</b>	<b>-</b>	<b>10,571</b>

Thousand euros	Joint property of nuclear and thermal plants									
	Almaraz	Trillo	Vandellós	Ascó	Aceca	A.I.E. Almaraz-Trillo	A.I.E. Ascó-Valdellós	West of Duddon Sands	Wikinger OSS	Torre Iberdrola
Year 2016										
Segment	Deregulated					Renewables				Other businesses
Intangible assets.	-	-	-	-	-	4,524	-	-	-	21
Property, plant and equipment										
Technical instalations	789,148	1,095,139	1,098,376	701,214	-	-	-	1,534,710	117,158	-
Other fixed assets	395	4,889	14,599	-	1,811	1,789	-	-	-	231,023
Non-Current financial Assets	22,710	11,290	44,311	9,864	2,430	2,087	143,569	-	-	-
Current assets	736,438	385,149	382,552	341,594	769	64,441	160,618	18,433	-	1,592
<b>Total assets</b>	<b>1,548,691</b>	<b>1,496,467</b>	<b>1,539,838</b>	<b>1,052,672</b>	<b>5,010</b>	<b>72,841</b>	<b>304,187</b>	<b>1,553,143</b>	<b>117,158</b>	<b>232,636</b>
<b>Non-Current Liabilities</b>	<b>286,556</b>	<b>438,858</b>	<b>484,165</b>	<b>206,035</b>	<b>-</b>	<b>47,619</b>	<b>152,480</b>	<b>-</b>	<b>-</b>	<b>1,483</b>
<b>Current Liabilities</b>	<b>1,287,877</b>	<b>1,130,214</b>	<b>1,160,643</b>	<b>870,211</b>	<b>4,036</b>	<b>25,222</b>	<b>132,474</b>	<b>41,673</b>	<b>-</b>	<b>31,984</b>
<b>Income</b>	<b>600,645</b>	<b>330,146</b>	<b>285,468</b>	<b>306,241</b>	<b>1,489</b>	<b>165,476</b>	<b>292,017</b>	<b>7,965</b>	<b>-</b>	<b>12,564</b>
<b>Expenses</b>	<b>639,002</b>	<b>413,596</b>	<b>428,230</b>	<b>342,988</b>	<b>1,430</b>	<b>165,476</b>	<b>261,906</b>	<b>32,134</b>	<b>-</b>	<b>9,842</b>

## **47. 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 normal management of the Group's activities.

In this regard, 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.

Furthermore, 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.

In 2016, the signing of nonconformity has taken place regarding the corporate Income Tax for the years 2008 to 2011 and regarding the Value Added Tax, for years 2010 and 2011. IBERDROLA has filed the corresponding claims to the Economic Administrative Court against the liquidation agreements, which confirm the acts of nonconformity, requesting the automatic suspension of the execution of the settlements by means of the necessary bank guarantees (Note 30).

In addition, at 31 December 2017 and 2016, there were outstanding obligations resulting from bond issues in the United States amounting to EUR 1,701,555 and EUR 1,657,533 thousand that were secured by the items in the property, plant and equipment of the subgroup AVANGRID.

At 31 December 2017 and 2016 there were no outstanding obligations resulting from mortgage loans secured by items of the property, plant and equipment.

IBERDROLA considers that any additional liability other than those provisioned at 31 December 2017 and 2016, arising from the guarantees provided at that date, if any, would not be significant.

Moreover, 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 2017 and 2016. The detail, by company, of the shares pledged is as follows:

Company	2017			2016		
	Carrying amount	Percentage of IBERDROLA Group's ownership	Carrying amount by percentage of IBERDROLA Group's	Carrying amount	Percentage of IBERDROLA Group's ownership	Carrying amount by percentage of IBERDROLA Group's
<b>Renewable business - Spain</b>						
Energía de Castilla y León, S.A.	–	–	–	7,755	85.50%	6,631
Energías Eólicas de Cuenca, S.A.	–	–	–	20,514	100.00%	20,514
Eólica 2000, S.L.	5,268	51.00%	2,687	4,985	51.00%	2,542
Eólica Campollano, S.A. <sup>(1)</sup>	27,090	25.00%	6,773	24,512	25.00%	6,128
Molinos de La Rioja, S.A. <sup>(1)</sup>	13,372	42.37%	5,666	11,467	42.37%	4,859
Molinos del Cidacos, S.A. <sup>(1)</sup>	38,305	31.78%	12,173	35,606	31.78%	11,316
<b>Renewable business – USA</b>						
Colorado Green Holdings, LLC	–	–	–	82,020	40.75%	33,423
<b>Renewable business - Brazil</b>						
Arizona 1 Energia Renovável, S.A.	12,795	52.45%	6,711	13,910	69.50%	9,667
Caetité 1 Energia Renovável, S.A.	21,512	52.45%	11,283	22,020	69.50%	15,304
Caetité 2 Energia Renovável, S.A.	26,374	52.45%	13,833	25,436	69.50%	17,678
Caetité 3 Energia Renovável, S.A.	20,015	52.45%	10,498	20,932	69.50%	14,548
Calango 1 Energia Renovável, S.A.	16,882	52.45%	8,855	17,560	69.50%	12,204
Calango 2 Energia Renovável, S.A.	13,611	52.45%	7,139	12,383	69.50%	8,606
Calango 3 Energia Renovável, S.A.	13,787	52.45%	7,231	14,254	69.50%	9,907
Calango 4 Energia Renovável, S.A.	14,878	52.45%	7,804	13,513	69.50%	9,392
Calango 5 Energia Renovável, S.A.	15,565	52.45%	8,164	15,482	69.50%	10,760
Calango 6 Energia Renovável, S.A.	43,590	52.45%	22,863	–	–	–
Canoas Energia Renovável, S.A.	42,184	52.45%	22,126	–	–	–
Energias Renováveis do Brasil, S.A.	133,891	52.45%	70,226	35,840	100.00%	35,840
Força Eolica do Brasil 1, S.A.	–	–	–	96,495	69.50%	67,064
Força Eolica do Brasil 2, S.A.	–	–	–	76,889	69.50%	53,438
FE Participações, S.A.	59,857	52.45%	31,395	–	–	–
Lagoa I, S.A.	50,428	52.45%	26,449	–	–	–
Lagoa II, S.A.	42,626	52.45%	22,357	–	–	–
Mel 2 Energia Renovável, S.A.	7,536	52.45%	3,953	8,271	69.50%	5,748
Santana 1, Energia Renovável, S.A.	47,585	52.45%	24,958	–	–	–
Santana 2, Energia Renovável, S.A.	37,796	52.45%	19,824	–	–	–
<b>Deregulated business - Spain</b>						
Tirme, S.A. <sup>(1)</sup>	24,860	20.00%	4,972	20,057	20.00%	4,011
<b>Deregulated business - Brazil</b>						
Baguari Geração de Energia Elétrica, S.A.	37,240	52.45%	19,532	36,950	39.00%	14,411
Bahia PCH I, S.A.	–	–	–	39,779	39.00%	15,514
Belo Monte Participações, S.A.	317,238	52.45%	166,391	314,407	39.00%	122,619
Companhia Hidrelétrica Teles Pires, S.A.	511,804	26.75%	136,908	618,428	19.89%	123,005
Energetica Aguas da Pedra, S.A. <sup>(1)</sup>	112,378	26.75%	30,061	127,360	19.89%	25,332
Energética Corumba III <sup>(1)</sup>	40,117	13.11%	5,259	–	–	–
Geração CIII, S.A.	55,890	52.45%	29,314	63,058	39.00%	24,593
Goias Sul Geração de Energia, S.A.	–	–	–	62,750	39.00%	24,473
Rio PCH I, S.A.	–	–	–	38,111	27.30%	10,404
Norte Energia, S.A. <sup>(1)</sup>	2,939,875	5.25%	154,343	–	–	–
Teles Pires Participações, S.A. ( 1)	488,323	26.52%	129,503	–	–	–
<b>Deregulated business - Mexico</b>						
PIER II Quecholac Felipe Ángeles, S.A. de	20,083	51.00%	10,242	21,012	51.00%	10,716
<b>Network business - Brazil</b>						
Potiguar Sul Transmissao de Energia, S.A.	67,966	52.45%	35,648	–	–	–
<b>Total</b>	<b>5,320,721</b>		<b>1,075,141</b>	<b>1,901,756</b>		<b>730,647</b>

(1) Companies accounted for using the equity method.

## 48. REMUNERATION OF THE BOARD OF DIRECTORS

### 48.1 By-law stipulated remuneration for the year 2017

Article 48 of IBERDROLA's by-laws provides that the Company shall assign, as an expense, an amount equal to a maximum of 2% of the profit obtained in the year by the consolidated group for the following purposes:

- a) 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.
- b) 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).

Assignment of up to 2% may be accrued only if the previous year 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 at least 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 2017 and the same amount in 2015 and 2016.

These amounts have been registered under the "Staff costs" heading in the consolidated income statements (Note 38).

#### a) Fixed remuneration and attendance fees

The fixed annual remuneration and attendance premium received by board and committee members depends on the duties assigned to them in the Board of Directors and its commissions in 2017 and 2016. The detail of which is as follows:

Thousand euros	Fixed remuneration		Attendance premium	
	2017	2016	2017	2016
Chairman of the Board	567	567	4	4
Chairperson of Committees	440	440	4	4
Committee members	253	253	2	2
Board members	165	165	2	2

#### b) Remuneration of the executive directors for their executive duties

The Board of Directors decided to maintain in 2017 the chairman and chief executive officer's fixed remuneration for the executive duties in EUR 2,250 thousand. The Board of Directors also decided to maintain the limit of variable annual remuneration in EUR 3,250 thousand.

Moreover, the Board of Directors decided on a fix remuneration in 2017 of EUR 1,000 thousand for the former business chief executive officer and set a limit of variable annual remuneration of EUR 1,000 thousand.

**c) Board member's remunerations paid and accrued**

The detailed fixed remuneration accrued by the members of the Board of Directors, individually, during 2017 and 2016, respectively, is detailed as follows:

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Thousand euros	Salaries	Fixed remuneration <sup>(1)</sup>	Remuneration for belonging to Committees <sup>(1)</sup>	Attendance premium	Short-term variable remuneration	Retribution in kind	Total 2017	Total 2016
<b>Chairman of the Board</b>								
José Ignacio Sánchez Galán	2,250	567	–	92	3,185	55	6,149	6,219
<b>Chairperson of Committees</b>								
Inés Macho Stadler	–	165	275	74	–	3	517	509
Samantha Barber	–	165	275	72	–	2	514	502
María Helena Antolín Raybaud	–	165	275	42	–	5	487	490
Georgina Kessel Martínez	–	165	275	58	–	1	499	501
<b>Committee members</b>								
Iñigo Víctor de Oriol Ibarra	–	165	88	42	–	4	299	300
Braulio Medel Cámara	–	165	88	32	–	3	288	286
Angel Jesús Acebes Paniagua	–	165	88	58	–	2	313	311
Denise Mary Holt	–	165	88	38	–	1	292	290
José Walfredo Fernández	–	165	88	38	–	1	292	288
Manuel Moreu Munaiz	–	165	88	60	–	2	315	313
Xabier Sagredo Ormaza <sup>(2)</sup>	–	165	88	38	–	2	293	205
Juan Manuel González Serna <sup>(3)</sup>	–	124	66	20	–	–	210	–
Francisco Martínez Córcoles <sup>(4)</sup>	750	124	–	12	–	19	905	–
<b>Ceased members</b>								
Xabier de Irala Estévez <sup>(5)</sup>	–	–	–	–	–	–	–	81
Santiago Martínez Lage <sup>(6)</sup>	–	41	22	12	–	2	77	285
José Luis San Pedro Guerenabarrena <sup>(7)</sup>	–	41	22	12	–	1	76	296
<b>Total</b>	<b>3,000</b>	<b>2,712</b>	<b>1,826</b>	<b>700</b>	<b>3,185</b>	<b>103</b>	<b>11,526</b>	<b>10,876</b>

(1) Remuneration accrued in 2017. This amount is not satisfied until the approval of 2017 by-law stipulated remuneration by the General Shareholders Meeting 2018.

(2) Appointed member on 8 April 2016. Furthermore, on 26 April 2016 the appointment was approved as a member of the Audit and Risk Supervision Committee.

(3) Appointed member on 31 March 2017. On that same date, the Board of Directors approved the appointment as a member of the Audit and Risk Supervision Committee.

(4) Appointed member-business CEO on 31 March 2017. The remuneration received by Francisco Martínez Córcoles prior to his appointment as member-business CEO is included in Note 50 dedicated to senior directive's remuneration.

(5) Ceased as member of the Board of Directors at their meeting on 8 April 2016.

(6) Ceased as member of the Board of Directors at their meeting on 31 March 2017.

(7) Ceased as member of the Board of Directors at their meeting on 31 March 2017.

(8) Amount relates to variable remuneration received in the year, based on attainment of targets and personal performance in 2016.

Currently, all members of the Board of Directors of IBERDROLA, except for Francisco Martínez Córcoles, assume responsibility for any of the five committees of the Board.

#### **d) Civil Liability Insurance**

The fee paid to cover directors' Civil Liability Insurance amounts to EUR 71 thousand and EUR 62 thousand in 2017 and 2016, respectively.

#### **e) Other concepts**

The expenses of the Board of Directors related to external services and other items during 2017 and 2016 amounted to EUR 1,855 thousand and EUR 1,826 thousand, respectively.

In 2017 and 2016 rebates were received amounting to EUR 53 thousand and EUR 287 thousand, respectively, with respect to the adjustment of the pension insurance policies relating to former Members of the Board of Directors.

The undistributed by-law stipulated remuneration for 2017 amounting to EUR 3,600 thousand can be externalized to cover the obligations incurred by the Company to ensure them, in the event they should be materialized.

The Company does not have any commitment, neither contribution or defined benefit, to any retirement scheme or long term savings for any director.

At 31 December 2017 and 2016 there are no loan or advance granted by the IBERDROLA Group to the members of the Board of Directors of IBERDROLA.

### **48.2 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.

The General Shareholders Meeting of 27 May 2011 and 28 March 2014 approved the Strategic Bonus 2011-2013 and the Strategic Bonus 2014-2016, respectively, as a long-term incentive tied to the IBERDROLA Group's performance in relation to certain metrics as described in Note 21.

Regarding the Strategic Bonus 2011-2013, during the first quarter of 2016 the third and last annual settlements were made. The Chairman and CEO received 536,359 IBERDROLA shares. The former Chief Operating Officer received 90,640 shares.

On 25 April 2017 the Board of Directors, on the recommendation of the Appointments and Remuneration Committee, decided to pay the 2014 -2016 Strategic Bonus on determining that of the objectives had been met in 93.20%. In the first half of 2017 the first of the three annual payments were made. The Chairman and CEO received 510,596 IBERDROLA shares. The shares thus granted to Francisco Martínez Córcoles, 120,931 shares, correspond to his performance prior to his appointment as member-business CEO.

### **48.3 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 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.

#### **48.4 By-law stipulated remuneration in 2018**

At the proposal of the Remuneration Committee, the Board of Directors unanimously resolved to freeze, for the 2017 fiscal year, directors' compensation in the form of fixed annual remuneration based on position and meeting attendance fees, as it has done since 2008.

Moreover, the Board of Directors decided on a fix remuneration in 2018 of EUR 2,250 and EUR 1,000 thousand respectively for the former business chief executive officer and maintain the limit of variable annual remuneration of EUR 3,250 and 1,000 thousand respectively.

#### 49. 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.

The president and CEO and the member-business CEO were absent during the deliberation of all the agreements related to his system of remuneration and assurance.

Finally, Mr. Sagredo Ormaza was absent during the deliberation of that agreements involving Kutxabank, S.A.

#### 50. 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 31 December 2017 and 2016, the Company had 5 and 6 senior executives respectively.

The staff costs relating to senior executives amounting to EUR 10,373 thousand and EUR 10,657 thousand in 2017 and 2016, respectively, are recognised under the "Staff costs" heading in the consolidated income statements of the mentioned years.

The remuneration and other compensation received by senior executives in 2017 and 2016 are detailed below:

Thousand euros	31.12.2017 <sup>(1)</sup>	31.12.2016 <sup>(2)</sup>
Retribution in cash	4,227	5,447
Performance-based compensation	2,909	3,193
Retribution in kind	421	453
Payments to account not charged	36	58
Social Security	70	86
Promoter contribution pension plan / social prevention insurance	40	41
Complementary policy accrual	2,171	979
Complementary policy risk	499	400
<b>Total</b>	<b>10,373</b>	<b>10,657</b>

Number of shares	31.12.2017	31.12.2016
Share-based payment plan, <i>Strategic bonus</i>	261,106	364,173
Charged taxes and payments in cash <i>Strategic bonus</i> (thousand euros)	2,503	2,317

(1) Includes the proportional part of remuneration and other payments to the Business CEO until 31 March 2017, then appointed member-business CEO.

Includes the proportional part of remuneration and other payments, as well as the settlement of the *Strategic bonus 2014-2016* for the Director of Internal Audit, until the date of retirement.

Includes the proportional part of the Internal Audit Officer until the date of appointment, on 21 February 2017.

During the first semester of 2017, 261,106 shares corresponding to the Strategic Bonus 2014-2016, were delivered to senior management, as described in Note 21; thus, the members of senior management received IBERDROLA shares in equal amounts in 2017, 2018 and 2019.

- (2) Includes the proportional part of remuneration and other payments, as well as the settlement of the strategic bonus 2011-2013 for the General Secretary, until 9 January 2016.

Includes the proportional part for the Legal Services Director from 9 January 2016.

During the first semester of 2016, 364,173 shares corresponding to the Strategic Bonus 2011-2013, were delivered to senior management, as described in Note 21; thus, the members of senior management received IBERDROLA shares in equal amounts in 2014, 2015 and 2016.

A maximum of 1,000,000 shares in aggregate are to be delivered to senior executives under the 2017-2019 Strategic Bonus (Note 21), tied to their success in achievement of objectives. As of 31 December 2017, EUR 1,551 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 48.

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 2017 and 2016 there were no other transactions with the executives outside the normal course of the business.

## 51. RELATED PARTY TRANSACTIONS AND BALANCES

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 significant shareholders

The most noteworthy transactions in 2017 and 2016 are as follows:

	Significant shareholders <sup>(1)</sup>	
	2017	2016
Thousand euros	Qatar Investment Authority	Qatar Investment Authority
<b>Other transactions</b>		
Dividends and other distributed profit <sup>(2)</sup>	18,948	21,571

In 2017 and 2016 there are no significant transactions by other IBERDROLA Group companies with major shareholders.

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### Other transactions within companies accounted for using 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:

Thousand euros	2017						2016					
	Asset acquisition	Trade payables	Trade receivables	Sales and services provided	Procurements	Received services	Asset acquisition	Trade payables	Trade receivables	Sales and services provided	Procurements	Received services
SIEMENS-GAMESA	365,038	126,339	2,678	2,898	1,836	55,445	483,113	356,036	8,961	3,127	785	62,521
Amara, S.A.U.	–	27	–	666	30	3,611	11,635	4,737	–	2,169	362	13,798
East Anglia Offshore Wind, Ltd.	–	–	–	226	–	–	18,328	7,407	740	203	–	–
Societa Energie Rinnovabili, S.p.A.(Note 14.a)	–	–	–	–	–	–	–	–	–	774	1,923	–
Societa Energie Rinnovabili 1, S.p.A.(Note 14.a)	–	–	–	–	–	–	–	–	–	172	2,132	–
Nuclenor, S.A.	325	41,848	1,147	1,617	–	–	–	27,719	27	586	87	–
NGET/SPT Upgrades Ltd. (Note 14.a)	117,397	–	891	2,848	–	–	63,707	(285)	699	3,109	–	–
Bidelek Sareak, A.I.E	–	–	–	–	–	–	5,952	18,671	–	1,562	–	–
Termopernambuco, S.A.	–	–	–	–	–	–	–	–	7,324	21,715	–	–
Neoenergia, S.A.	–	–	–	–	–	–	–	665	266,274	205	–	–
Iberdrola Renovables de la Rioja, S.A.	–	–	–	517	2,811	–	–	774	54	535	–	8,017
Morecambe Wind, Ltd.	–	–	–	1,041	13,284	–	–	606	–	1,151	14,605	–
Companhia Hidrelétrica Teles Pires, S.A.	–	9,598	19	530	101,526	–	–	–	–	–	–	–
Norte Energia, S.A.	–	15,809	–	–	125,112	–	–	–	–	–	–	–
Other companies	13	46,648	15,669	16,794	5,548	1,603	22	39,383	30,337	15,801	10,861	–
<b>Total</b>	<b>482,773</b>	<b>240,269</b>	<b>20,404</b>	<b>27,137</b>	<b>250,147</b>	<b>60,659</b>	<b>582,757</b>	<b>455,713</b>	<b>314,416</b>	<b>51,109</b>	<b>30,755</b>	<b>84,336</b>

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 effect 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:
  - o 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.
  - o The extension of the current maintenance services, in the following terms and conditions:
    - Spare Parts and Repair Supply Contract (GPRSA): entered into effect from 1 January 2016 and will remain in effect during a period of five years. Supply and repair of spare parts, small and large, for the GAMESA technology fleet in Spain.
    - Energy Thrust technical improvement: On 1 October 2015 and 22 December 2016, IBERDROLA and GAMESA have signed two contracts under which IBERDROLA will incorporate in its G8X wind turbines the Energy Thrust technical improvement in 2,220 MW in Spain, Portugal, Italy, Romania, Greece and Cyprus, with the aim of increasing the average production of its wind turbines, as it enables that the turbines adapt perfectly to the specific conditions of the site, which improves the energy delivered to the net in all wind conditions and increase the efficiency and performance of the machines. These contracts are valid for five years.
    - Maintenance agreement in Spain and Portugal

Location	Farm	No. Turbines	MW	Family	Model	Start	End
Spain	Some	1,188		G4X	-	01/01/2015	01/01/2018 <sup>(3)</sup>
Spain	Some	1,136		G5X	-	01/01/2015	01/01/2018 <sup>(3)</sup>

Minimum number of wind turbines in maintenance( 3)				
	Year 1	Year 2	Year 3	Year 4 (and expansion 1 and 2)
Risk Service scope <sup>(1)</sup>	2,168 MW (92 MW in Portugal)	1,800 MW	1,600 MW	1,400 MW
Scope AT+R <sup>(2)</sup>	338 MW	Rest of wind farms	Rest of wind farms	Rest of wind farms

(1) Risk Service scope includes the preventive maintenance, as well as the Technical Assistance, for a fixed annual price per turbine.

(2) AT+R scope refers to the Technical Assistance and refill supplies (optional).

(3) Contract extended until 28 February 2018, when the contracts resulting from the bid awarded in January 2018 will become effective.

▪ Maintenance agreements in Romania, Mexico and Brazil

Location	Farm	No. Turbines	MW	Technology	Model	Start	End
Romania	Mihai Viteazu	40	80	G8X		31/01/2016	31/01/2019 <sup>(1)</sup>
Mexico <sup>(3)</sup>	Some	246		G5X		01/11/2016	01/11/2018 <sup>(2)</sup>
	Mel 2	10	20	G8X	G90	15/06/2016	15/06/2018
		10	20	G8X	G90	16/06/2018	(4)
	Arizona 1	14	28	G8X	G90	01/08/2018	
	Caetité 1	15	30	G8X	G90	01/01/2018	(4)
	Caetité 2	15	30	G8X	G90	01/01/2018	(4)
	Caetité 3	15	30	G8X	G90	01/01/2018	(4)
Brazil <sup>(3)</sup>	Santana 1	15	30	G8X	G114	01/04/2019	(4)
	Santana 2	12	24	G8X	G114	01/04/2019	(4)
	Calango 1	15	30	G8X	G87	01/09/2018	(4)
	Calango 2	15	30	G8X	G87	01/09/2018	(4)
	Calango 3	15	30	G8X	G90	01/09/2018	(4)
	Calango 4	15	30	G8X	G90	01/09/2018	(4)
	Calango 5	15	30	G8X	G87	01/09/2018	(4)
	Calango 6	15	30	G8X	G114	01/04/2019	(4)

(1) Extendible at IBERDROLA's criteria for 2 consecutive additional periods of 6 months each.

(2) Extendible at IBERDROLA's criteria for 1 consecutive additional periods of 1 year.

(3) Together with Mel 2 and Arizona wind farms, including under the contract executed on 27 December 2017, Gamesa was awarded on the same bid the wind farms in Brazil and the maintenance of Pier II in Mexico when the guarantee runs up, expected throughout 2018.

(4) 3 year duration, extendible at IBERDROLA's criteria for 2 consecutive additional periods of 1 year each.

## Transactions with directors and senior executives

Thousand euros	Significant shareholders <sup>(1)</sup>			
	2017		2016	
	Directors	Executives	Directors	Executives
<b>Transaction type</b>				
<b>Expenses and income</b>				
Received services <sup>(1)</sup>	–	–	648	–
<b>Other transactions</b>				
Dividends and other distributed profit <sup>(2)</sup>	765	179	649	81

(1) The contracts to which this amount is related to 2016, were awarded respecting the provisions of the Procedure, regarding conflicts of interest and transactions related to directors, significant shareholders and senior managers. Those contracts gather the billing of the company Soil Tratamiento de Aguas Industriales S.L. company's billing was USD 722 thousand (about EUR 648 thousand), linked to the member of the Board Iñigo Victor de Oriol Ibarra, contractor for the supply, transport, assembly and start-up of Cogeneración Ramos en México S.A.'s water treatment plant. There are no transactions in 2017.

(2) 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 31 March 2017, 8 April 2016, and 27 March 2015, respectively have been sold to IBERDROLA at a guaranteed fixed price in accordance with the terms and conditions of the aforementioned increases.

## 52. SUBSEQUENT EVENTS AS OF 31 DECEMBER 2017

After 31 December 2017 the main events have been as follows:

### Iberdrola dividendo flexible

On 9 January 2018, the facts in relation to the implementation of the second paid-up capital increase (*Iberdrola dividend flexible*) approved at the IBERDROLA General Shareholders' Meeting on 31 March 2017, under item 13 of the agenda, were determined and were as follows:

- The maximum number of shares to be issued under the capital increase is 137,337,282.
- The number of free allocation rights required to receive one new share is 46.
- The maximum nominal value of the capital increase amounts to EUR 103,002,962
- The acquisition price of the free allocation rights under the purchase commitment made by IBERDROLA is EUR 0.140.
- Gross dividend amount per share was EUR 0.140.

At the end of the trading period for free allocation rights:

- The holders of 699,283,602 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 97,900 thousand.

- During the period established for this purpose, the holders of 58,717,340 shares of the Company decided to receive interim dividends. Thus, the gross total of distributed interim dividends was EUR 8,220,428. As a result, these shareholders have expressly forgone 58,717,340 free allocation rights and therefore 1,276,464 new shares.
- The final number of new ordinary shares with a nominal value of EUR 0.75 to be issued will be 120,859,000, giving a nominal capital increase from this implementation of EUR 90,644 thousand. This will add 1.913% to IBERDROLA's pre-issue share capital.
- As a result, the share capital of Iberdrola following the capital increase amounts to EUR 4,828,780,500, represented by 6,438,374,000 ordinary shares of EUR 0.75 par value each, fully subscribed and paid.
- 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 6 February 2018. The ordinary trading of new shares is expected to start on 7 February 2018.

#### Transactions with treasury shares

From the 2017 year-end until 16 February 2018 23,420,543 treasury shares have been acquired and 866,659 shares have been delivered. As of 16 February 2018 Iberdrola, S.A. had EUR 98,264,033 in treasury shares.

#### Other transactions

Following the closing of the year, Avangrid Renewables Holdings, Inc., subsidiary of AVANGRID, has entered into the following agreements (Note 34):

- Final agreement for the sale of the gas trading business, operated under the name Tensor Energy Services, LLC, to CCI U.S Asset Holdings LLC, subsidiary of Castleton Commodities International, LLC. The transaction is subject to the acceptance of the usual terms and conditions and it is expected to be completed in March 2018, and
- Final agreement for the sale of Enstor Gas, LLC, operating the gas storage business unit, to Amphora Gas Storage USA, LLC, subsidiary of ArcLight Capital Partners, LLC. The transaction, subject to the acceptance of the usual closing terms and conditions, is expected to be completed during the the second quarter of 2018.



Banking Market

Significant transactions carried out by IBERDROLA after 31 December 2017 are as follows:

2017						
Lessor	Operation	Million of euros	Currency	Coupon	Extension	Maturity
<b>Main new financing transactions</b>						
Iberdrola S.A. <sup>(1)</sup>	Syndicated credit	2,979	EUR	-	option to extend it for 1 +1 year	5 years
	Syndicated credit	2,321	EUR	-	option to extend it for 1 +1 year	5 years
Iberdrola Finanzas	Private issuance	200	EUR	Euribor3m +0.35%	-	2 years
	Bond extension	200	EUR	1,621%	-	11.75 years
CELPE <sup>(2)</sup>	Loan 4131	45	USD	-	-	3 years
CELPE	Credit	100	BRL			1 year
COELBA	Credit	100	BRL			1 year
COSERN	Credit	50	BRL	-	-	1 year
ELEKTRO	Credit	50	BRL			1 year
<b>Main transaction for extending existing financing</b>						
Iberdrola Financiación	Bilateral green loan	500	EUR	-	+6 months	18 months

(1) Reconfiguration operation that includes the extension of the due date of the existing EUR 4,187 million for 1 year and EUR 213 million for 2 years, both already existing, and a credit increase of EUR 900 million with the option of extension for 1+1 years.

(2) Currency swaps to company's functional currency.

The IBERDROLA Group has arranged derivatives for future financing for a nominal amount of EUR 1,180,000 thousand.

**53. FEES FOR SERVICES PROVIDED BY AUDITORS**

The fees resulted from the services provided in 2017 and 2016 by the statutory auditor are detailed in the chart below:

Thousand euros	TO IBERDROLA			To the rest of the Group Companies			Total		
	Main Auditor	Other auditors	Total	Main Auditor	Other auditors	Total	Main Auditor	Other auditors	Total
Year 2017									
Auditing services	3,744	-	3,744	21,266	371	21,637	25,010	371	25,381
Other provided services related to auditing	1,386	-	1,386	2,336	1,633	3,969	3,722	1,633	5,355
	5,130	-	5,130	23,602	2,004	25,606	28,732	2,004	30,736
Other professional services	-	-	-	-	481	481	-	481	481
<b>Total</b>	<b>5,130</b>	<b>-</b>	<b>5,130</b>	<b>23,602</b>	<b>2,485</b>	<b>26,087</b>	<b>28,732</b>	<b>2,485</b>	<b>31,217</b>

Thousand euros	TO IBERDROLA			To the rest of the Group Companies			Total		
	Main Auditor	Other auditors	Total	Main Auditor	Other auditors	Total	Main Auditor	Other auditors	Total
Year 2016									
Auditing services	2,553	–	2,553	21,082	61	21,143	23,635	61	23,696
Other provided services related to auditing	918	–	918	1,523	111	1,634	2,441	111	2,552
	3,471	–	3,471	22,605	172	22,777	26,076	172	26,248
Other professional services	–	3,204	3,204	60	5,220	5,280	60	8,424	8,484
<b>Total</b>	<b>3,471</b>	<b>3,204</b>	<b>6,675</b>	<b>22,665</b>	<b>5,392</b>	<b>28,057</b>	<b>26,136</b>	<b>8,596</b>	<b>34,732</b>

#### 54. EARNINGS PER SHARE

The weighted average number of ordinary shares used in the calculation of the basic and diluted earnings per share at 31 December 2017 and 2016 (Note 4.z) is as follows:

	2017	2016 Restated (Note 2.c)
Average number of shares during the year	6,525,767,288	6,709,045,000
Average number of treasury shares held	(125,969,679)	(83,102,299)
<b>Number of shares outstanding</b>	<b>6,399,797,609</b>	<b>6,625,942,701</b>

The breakdown of the basic and diluted earnings per share at 31 December 2017 and 2016 is the following:

	2017	2016 Restated (Note 2.c)
Net profit from continuing operations (thousand euros)	3,057,005	2,805,646
Net profit from discontinuing operations (thousand euros)	(253,011)	(100,663)
Number of shares outstanding	6,399,797,609	6,625,942,701
<b>Basic and diluted earnings per share (euros) from continuing operations</b>	<b>0.478</b>	<b>0.423</b>
<b>Basic and diluted earnings per share (euros) from discontinued operations</b>	<b>(0.040)</b>	<b>(0.015)</b>

In the Consolidated financial statements of the IBERDROLA Group for the years ended 31 December 2017 and 2016, 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.

As described in Note 21 and 52 of these Consolidated financial statements, in July 2017 and January 2018 two free capital increases took place in the context of the *Iberdrola dividendo flexible* 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 2016 year end included in the Consolidated financial statements for that year, and they have been taken into account to calculate the 2017 year share basic and diluted earnings per share.

## **55. PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The Consolidated financial statements for the year ended on 31 December 2017 have been formally prepared by the directors of IBERDROLA on 20 February 2018.

## **56. 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.

**APPENDIX I**

## YEAR 2017 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:

G Full consolidation

E: Integration by equity method

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
<b>Deregulated Business</b>					
<b>Spain</b>					
Cobane, A.I.E.	Spain	Energy	100.00	100.00	G
Cogeneración Gequisa, S.A.	Spain	Energy	50.00	50.00	E
Enercrisa, S.A.	Spain	Energy	50.00	50.00	E
Energía Portátil Cogeneración, S.A.	Spain	Energy	50.00	50.00	E
Energyworks Aranda, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Carballo, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Cartagena, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Fonz, S.L.	Spain	Energy	100.00	100.00	G
Energyworks Milagros, S.L.	Spain	Energy	100.00	100.00	G
Energyworks Monzón, S.L.	Spain	Energy	100.00	100.00	G
Energyworks San Millán, S.L.	Spain	Energy	100.00	100.00	G
Energyworks Villarrobledo, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Vit-Vall, S.L.	Spain	Energy	99.00	99.00	G
Fudepor, S.L.	Spain	Energy	50.00	50.00	E
Fuerzas Eléctricas de Navarra, S.A.	Spain	Energy	100.00	100.00	G
Hidroeléctrica Ibérica, S.L.U.	Spain	Energy	100.00	100.00	G
Iberdrola Clientes, S.A.U.	Spain	Retailer	100.00	100.00	G
Iberdrola Cogeneración, S.L.U.	Spain	Holding	100.00	100.00	G
Iberdrola Comercialización de Último Recurso, S.A.U.	Spain	Retailer	100.00	100.00	G
Iberdrola Generación España, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Generación Nuclear, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Generación, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Operación y Mantenimiento, S.A.U.	Spain	Services	100.00	100.00	G
Iberdrola Servicios Energéticos, S.A.U.	Spain	Services	100.00	100.00	G
Iberduero, S.L.U.	Spain	Energy	100.00	100.00	G
Intermalta Energía, S.A.	Spain	Energy	50.00	50.00	E
Nuclenor, S.A.	Spain	Energy	50.00	50.00	E
Peninsular Cogeneración, S.A.	Spain	Energy	50.00	50.00	E
Productos y Servicios de Confort, S.A.	Spain	Services	100.00	100.00	G
Subgrupo Tirme <sup>(2)</sup>	Spain	Energy	20.00	20.00	E
Tarragona Power, S.L.U.	Spain	Energy	100.00	100.00	G
Tecnatom, S.A. <sup>(5)</sup>	Spain	Services	30.00	30.00	-
Iberdrola Clientes Portugal, Unipessoal Ltda.	Portugal	Retailer	100.00	100.00	G
Ibertâmega – Sistema Electroprodutor Do Tâmega, S.A.	Portugal	Energy	100.00	-	G
Iberdrola Suporte Projecto Tamega, Unipessoal Lda. (Formerly Iberdrola Engenharia e Construção Portugal, Unipessoal Lda.)	Portugal	Energy	100.00	100.00	G
<b>United Kingdom</b>					

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Manweb Energy Consultants, Ltd.	United Kingdom	Energy	100.00	100.00	G
Scottish Power Generation Holdings Ltd.	United Kingdom	Holding	100.00	100.00	G
ScottishPower (DCL), Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower (SCPL), Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower Energy Management (Agency), Ltd.	United Kingdom	Services	100.00	100.00	G
ScottishPower Energy Management, Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower Energy Retail, Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower Generation, Ltd.	United Kingdom	Energy	100.00	100.00	G
SMW, Ltd.	United Kingdom	Other	100.00	100.00	G
SP Dataserve, Ltd.	United Kingdom	Debt management	100.00	100.00	G
SP Gas Transportation Cockenzie, Ltd.	United Kingdom	Inactive	100.00	100.00	G
SP Gas Transportation Hatfield, Ltd.	United Kingdom	Inactive	100.00	100.00	G
SP Smart Meter Assets, Ltd.	United Kingdom	Energy	100.00	-	G
<b>Rest of Europe</b>					
Iberdrola Energy Deutschland, GmbH.	Germany	Services	100.00	100.00	G
Iberdrola Energie France, S.A.S.	France	Services	100.00	100.00	G
Iberdrola Clienti Italia, S.R.L. (formerly Iberdrola Energía Italia, S.R.L.)	Italy	Services	100.00	100.00	G
<b>United States</b>					
Caledonia Energy Partners, LLC	USA	Energy	81.50	81.50	G
E.O. Resources, LLC	USA	Energy	81.50	81.50	G
Enstor Energy Services, LLC	USA	Energy	81.50	81.50	G
Enstor Gas, LLC	USA	Holding	81.50	81.50	G
Enstor Grama Ridge Storage and Transportation, LLC	USA	Energy	81.50	81.50	G
Enstor Houston Hub Storage and Transportation, Ltd.	USA	Energy	81.50	81.50	G
Enstor Inc.	USA	Holding	81.50	81.50	G
Enstor Katy Storage and Transportation, LLC	USA	Energy	81.50	81.50	G
Enstor Louisiana, LLC	USA	Energy	81.50	81.50	G
Enstor Operating Company, LLC	USA	Holding	81.50	81.50	G
Enstor Sundance Storage and Transportation, LLC	USA	Energy	81.50	81.50	G
Enstor Waha Storage and Transportation, LLC	USA	Energy	81.50	81.50	G
Freebird Assets Inc.	USA	Holding	81.50	81.50	G
Freebird Gas Storage, LLC	USA	Energy	81.50	81.50	G
Gemini Capital, LLC	USA	Energy	81.50	81.50	G
<b>Mexico</b>					
Hidro I, S.L.U.	Spain	Holding	100.00	100.00	G
Cinergy, S.R.L. de C.V.	Mexico	Services	100.00	100.00	G
Electricidad de Veracruz, S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Enertek, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Iberdrola Clientes, S.A. de C.V.	Mexico	Retailer	100.00	100.00	G
Iberdrola Cogeneración Altamira, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Cogeneración Bajío, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Cogeneración Ramos, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Altamira de Servicios, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Iberdrola Energía Altamira, S.A. de C.V.	Mexico	Energy	100.00	100.00	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Iberdrola Energía Baja California, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía del Golfo, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Escobedo, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía La Laguna, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Iberdrola Energía Monterrey, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Iberdrola Energía Noroeste, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Tamazunchale, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Iberdrola Energía Topolobampo, S.A. de C.V.	Mexico	Energy	100.00	-	G
Iberdrola Generación, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Iberdrola Generación México, S.A. de C.V.	Mexico	Holding	100.00	100.00	G
Iberdrola México, S.A. de C.V.	Mexico	Holding	100.00	100.00	G
Iberdrola Servicios Corporativos, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Administrative services Tamazunchale, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Servicios de Operación La Laguna, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Industrial and administrative services del Noreste, S.R.L. de C.V.	Mexico	Gas	51.12	51.12	G
<b>Brazil</b>					
Baguari Geração de Energia Elétrica, S.A.	Brazil	Energy	52.45	39.00	G
Bahia PCH II, S.A. Bahía Pequeña C. Hidroeléctrica	Brazil	Energy	52.45	39.00	-
Bahia PCH III, S.A. Bahía Geração de Energia	Brazil	Energy	52.45	39.00	-
Belo Monte Participações, S.A.	Brazil	Energy	52.45	39.00	G
Companhia Hidrelétrica Teles Pires, S.A.	Brazil	Energy	26.75	19.89	E
Elektro Comercializadora de Energia Ltda.	Brazil	Retailer	52.45	100.00	G
Energetica Aguas da Pedra, S.A.	Brazil	Energy	26.75	19.89	E
Energética Corumba III, S.A. <sup>(4)</sup>	Brazil	Energy	13.11	9.75	E
Geração Ceu Azul, S.A.	Brazil	Energy	52.45	39.00	G
Geração CIII, S.A.	Brazil	Energy	52.45	39.00	G
Itapebí Geração de Energia, S.A.	Brazil	Energy	52.45	39.00	G
Meridiano 1 Energia renovavel, S.A. <sup>(5)</sup>	Brazil	Energy	52.45	39.00	-
Meridiano 2 Energia renovavel, S.A. <sup>(5)</sup>	Brazil	Energy	52.45	39.00	-
Meridiano 3 Energia renovavel, S.A. <sup>(5)</sup>	Brazil	Energy	52.45	39.00	-
Meridiano 4 Energia renovavel, S.A. <sup>(5)</sup>	Brazil	Energy	52.45	39.00	-
Meridiano 5 Energia renovavel, S.A. <sup>(5)</sup>	Brazil	Energy	52.45	39.00	-
Meridiano 6 Energia renovavel, S.A. <sup>(5)</sup>	Brazil	Energy	52.45	39.00	-
NC Energia, S.A.	Brazil	Energy	52.45	39.00	G
Neoenergia Operação e Manutenção, S.A.	Brazil	Services	52.45	39.00	G
Norte Energia, S.A. <sup>(4)</sup>	Brazil	Energy	5.25	3.90	E
PCH Alto do Rio Grande, S.A.	Brazil	Energy	52.45	39.00	G
Sever RJ Participações S.A. <sup>(5)</sup>	Brazil	Energy	52.45	39.00	-
Soumaya RJ Participações S.A. <sup>(5)</sup>	Brazil	Energy	52.45	39.00	-
Tacca RJ Participações S.A. <sup>(5)</sup>	Brazil	Energy	52.45	39.00	-
Teles Pires Participações, S.A.	Brazil	Holding	26.52	19.72	E
Termopernambuco, S.A.	Brazil	Energy	52.45	39.00	G
Titanum RJ Participações S.A. <sup>(5)</sup>	Brazil	Energy	52.45	39.00	-
<b>Canada</b>					
Iberdrola Canadá Energy Services, Ltd.	Canada	Gas	100.00	100.00	G
<b>Renewable Business</b>					
<b>Spain</b>					
Anselmo León Hidráulica, S.L. <sup>(1)</sup>	Spain	Energy	100.00	100.00	E
Biocantaber, S.L.	Spain	Energy	50.00	50.00	E
Bionor Eólica, S.A.	Spain	Energy	57.00	57.00	G
Biovent Energía, S.A.	Spain	Energy	95.00	95.00	G
Cantaber Generación Eólica, S.L.	Spain	Energy	69.01	69.01	G
Ciener, S.A.U.	Spain	Holding	100.00	100.00	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Desarrollo de Energías Renovables de La Rioja, S.A. <sup>(2)</sup>	Spain	Energy	40.51	40.51	E
Ecobarcial, S.A. <sup>(2)</sup>	Spain	Energy	43.78	43.78	E
Electra de Malvana, S.A. <sup>(2)</sup>	Spain	Energy	48.00	48.00	E
Electra Sierra de los Castillos, S.L.	Spain	Energy	97.00	97.00	G
Electra Sierra de San Pedro, S.A.	Spain	Energy	80.00	80.00	G
Eléctricas de la Alcarria, S.L.	Spain	Energy	90.00	90.00	G
Eme Hueneja Cuatro, S.L.	Spain	Energy	100.00	100.00	G
Energía de Castilla y León, S.A.	Spain	Energy	85.50	85.50	G
Energías Ecológicas de Tenerife, S.A. <sup>(3)</sup>	Spain	Energy	50.00	50.00	G
Energías Eólicas de Cuenca, S.A.U.	Spain	Energy	100.00	100.00	G
Energías Renovables de la Región de Murcia, S.A.U.	Spain	Energy	100.00	100.00	G
Eólica Campollano, S.A. <sup>(2)</sup>	Spain	Energy	25.00	25.00	E
Eólica 2000, S.L.	Spain	Holding	51.00	51.00	G
Eólicas de Euskadi, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Energía Solar de Puertollano, S.A.	Spain	Energy	90.00	90.00	G
Iberdrola Eólica Marina, S.A.U.	Spain	Energy	100.00	-	G
Iberdrola Renewables Solutions, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Renovables Galicia, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables Andalucía, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables Aragón, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables Canarias, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables Castilla – La Mancha, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables Castilla y León, S.A.	Spain	Holding	95.00	95.00	G
Iberdrola Renovables Energía, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables La Rioja, S.A. <sup>(2)</sup>	Spain	Holding	63.55	63.55	E
Ibernova Promociones, S.A.U.	Spain	Holding	100.00	100.00	G
Iberjalón, S.A.	Spain	Energy	80.00	80.00	G
Minicentrales del Tajo, S.A.	Spain	Energy	66.58	66.58	G
Molinos de La Rioja, S.A. <sup>(2)</sup>	Spain	Energy	42.37	42.37	E
Molinos del Cidacos, S.A. <sup>(2)</sup>	Spain	Energy	31.78	31.78	E
Parque Eólico Cruz del Carrutero, S.L.	Spain	Energy	76.00	76.00	G
Peache Energías Renovables, S.A.	Spain	Energy	95.00	95.00	G
Producciones Energéticas Asturianas, S.L.	Spain	Energy	80.00	80.00	G
Producciones Energéticas de Castilla y León, S.A. <sup>(2)</sup>	Spain	Energy	85.50	85.50	E
Renovables de la Ribera, S.L. <sup>(5)</sup>	Spain	Energy	50.00	50.00	-
Sistemas Energéticos Altamira, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos Chandrexa, S.A.	Spain	Energy	96.07	96.07	G
Sistemas Energéticos del Moncayo, S.A.	Spain	Energy	75.00	75.00	G
Sistemas Energéticos La Gomera, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos La Higuera, S.A.	Spain	Energy	55.00	55.00	G
Sistemas Energéticos de la Linera, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos La Muela, S.A.	Spain	Energy	80.00	80.00	G
Sistemas Energéticos Mas Garullo, S.A.	Spain	Energy	78.00	78.00	G
Sistemas Energéticos Nacimiento, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos Tacica de Plata, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos Torralba, S.A.	Spain	Energy	60.00	60.00	G
Sistemas Energetics Savalla del Comtat, S.A.U.	Spain	Energy	100.00	100.00	G
Sociedad Gestora de Parques Eólicos de Andalucía, S.A.	Spain	Energy	63.91	63.91	G
Sotavento Galicia, S.A. <sup>(4)</sup>	Spain	Energy	8.00	8.00	E
<b>United Kingdom</b>					
Celtpower, Ltd.	United Kingdom	Energy	50.00	50.00	E
Coldham Windfarm, Ltd.	United Kingdom	Energy	80.00	80.00	G
East Anglia Offshore Wind, Ltd.	United Kingdom	Energy	50.00	50.00	E
East Anglia One, Ltd.	United Kingdom	Energy	100.00	100.00	G



Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
East Anglia Three, Ltd.	United Kingdom	Energy	100.00	100.00	G
East Anglia One North Ltd.	United Kingdom	Energy	100.00	-	G
East Anglia Two Ltd.	United Kingdom	Energy	100.00	-	G
Morecambe Wind, Ltd.	United Kingdom	Energy	50.00	50.00	E
ScottishPower Renewable Energy, Ltd.	United Kingdom	Holding	100.00	100.00	G
ScottishPower Renewables (WODS), Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower Renewables UK, Ltd.	United Kingdom	Energy	100.00	100.00	G
<b>United States</b>					
Aeolus Wind Power II, LLC <sup>(6)</sup>	USA	Holding	61.13	61.13	G
Aeolus Wind Power III, LLC	USA	Holding	81.50	61.13	G
Aeolus Wind Power IV, LLC <sup>(6)</sup>	USA	Holding	61.13	61.13	G
Atlantic Renewable Energy Corporation	USA	Holding	81.50	81.50	G
Atlantic Renewable Projects II, LLC	USA	Holding	81.50	61.13	G
Atlantic Renewable Projects, LLC <sup>(6)</sup>	USA	Holding	61.13	61.13	G
Atlantic Wind, LLC	USA	Holding	81.50	81.50	G
Aurora Solar, LLC	USA	Energy	81.50	81.50	G
Avangrid Arizona Renewables, LLC	USA	Energy	81.50	81.50	G
Avangrid Logistic Services, LLC	USA	Energy	81.50	81.50	G
Avangrid Renewables Holdings, Inc.	USA	Holding	81.50	81.50	G
Avangrid Renewables, LLC	USA	Holding	81.50	81.50	G
Avangrid Texas Renewables, LLC	USA	Energy	81.50	81.50	G
Avangrid Vineyard Wind, LLC	USA	Holding	81.50	-	G
Bakeoven Wind, LLC	USA	Energy	81.50	81.50	G
Barton Windpower, LLC	USA	Energy	81.50	81.50	G
Big Horn II Wind Project, LLC	USA	Energy	81.50	81.50	G
Big Horn Wind Project, LLC	USA	Energy	81.50	61.13	G
Blue Creek Wind Farm, LLC	USA	Energy	81.50	81.50	G
Buffalo Ridge I, LLC	USA	Energy	81.50	81.50	G
Buffalo Ridge II, LLC	USA	Energy	81.50	81.50	G
Casselman Wind Power, LLC <sup>(6)</sup>	USA	Energy	61.13	61.13	G
Coyote Ridge Wind, LLC	USA	Energy	81.50	-	G
Deerfield Wind, LLC	USA	Energy	81.50	81.50	G
Desert Wind Farm, LLC	USA	Energy	81.50	81.50	G
Dillon Wind, LLC	USA	Energy	81.50	81.50	G
El Cabo Wind, LLC	USA	Energy	80.69	81.50	G
El Cabo Wind Holdings	USA	Holding	80.69	81.50	G
El Cabo Partners, LLC	USA	Energy	81.50	-	G
Elk River Wind Farm, LLC <sup>(6)</sup>	USA	Energy	61.13	61.13	G
Elm Creek Wind II, LLC	USA	Energy	81.50	81.50	G
Elm Creek Wind, LLC	USA	Energy	81.50	81.50	G
Farmers City Wind, LLC	USA	Energy	81.50	81.50	G
Flat Rock Windpower II, LLC	USA	Energy	40.75	30.56	E
Flat Rock Windpower, LLC <sup>(6)</sup>	USA	Energy	30.56	30.56	E
Flying Cloud Power Partners, LLC	USA	Energy	81.50	81.50	G
Golden Hills Wind Farm, LLC	USA	Energy	81.50	-	G
Goodland Wind, LLC	USA	Energy	81.50	81.50	G
Groton Wind, LLC	USA	Energy	81.50	81.50	G
Hardscrabble Wind Power, LLC	USA	Energy	81.50	81.50	G
Hay Canyon Wind, LLC	USA	Energy	81.50	81.50	G
Hazelwood Australia, Inc. <sup>(5)</sup>	USA	Holding	81.50	81.50	-
Hazelwood Ventures, Inc. <sup>(5)</sup>	USA	Holding	81.50	81.50	-
Heartland Wind, LLC	USA	Energy	81.50	81.50	G
Helix Wind Power Facility, LLC	USA	Energy	81.50	81.50	G
Juniper Canyon Wind Power II, LLC	USA	Energy	81.50	81.50	G
Juniper Canyon Wind Power, LLC	USA	Energy	81.50	81.50	G
Kitty Hawk Wind, LLC	USA	Energy	81.50	-	G
Klamath Energy, LLC	USA	Energy	81.50	81.50	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Klamath Generation, LLC	USA	Energy	81.50	81.50	G
Klondike Wind Power II, LLC	USA	Energy	81.50	81.50	G
Klondike Wind Power III, LLC <sup>(6)</sup>	USA	Energy	61.13	61.13	G
Klondike Wind Power, LLC	USA	Energy	81.50	81.50	G
Lakeview Cogeneration, LLC	USA	Energy	81.50	81.50	G
Leaning Juniper Wind Power II, LLC	USA	Energy	81.50	81.50	G
Leipsic Wind, LLC	USA	Energy	81.50	81.50	G
Lempster Wind, LLC	USA	Energy	81.50	81.50	G
Locust Ridge II, LLC	USA	Energy	81.50	81.50	G
Locust Ridge Wind Farms, LLC <sup>(3)</sup>	USA	Energy	37.74	37.74	G
Loma Vista, LLC	USA	Energy	81.50	81.50	G
Manzana Power Services, Inc.	USA	Services	81.50	81.50	G
Manzana Wind, LLC	USA	Energy	81.50	81.50	G
Midland Wind, LLC	USA	Energy	81.50	81.50	G
Minndakota Wind, LLC <sup>(6)</sup>	USA	Energy	61.13	61.13	G
Mohawk Solar, LLC	USA	Energy	81.50	-	G
Montague Wind Power Facility, LLC	USA	Energy	81.50	81.50	G
Moraine Wind II, LLC	USA	Energy	81.50	81.50	G
Moraine Wind, LLC	USA	Energy	81.50	81.50	G
Mount Pleasant Wind, LLC	USA	Energy	81.50	81.50	G
Mountain View Power Partners III, LLC	USA	Energy	81.50	81.50	G
New England Wind, LLC	USA	Energy	81.50	81.50	G
New Harvest Wind Project, LLC	USA	Energy	81.50	81.50	G
Northern Iowa WindPower II, LLC <sup>(6)</sup>	USA	Energy	61.13	61.13	G
Otter Creek Wind Farm, LLC	USA	Energy	81.50	81.50	G
Pacific Harbor Capital, Inc.	USA	Other	81.50	81.50	G
Pacific Solar Investments, Inc.	USA	Energy	81.50	81.50	G
Pacific Wind Development, LLC	USA	Energy	81.50	81.50	G
Pebble Springs Wind, LLC	USA	Energy	81.50	81.50	G
Phoenix Wind Power, LLC	USA	Energy	81.50	81.50	G
PPM Colorado Wind Ventures, Inc.	USA	Holding	81.50	81.50	G
PPM Roaring Brook, LLC	USA	Energy	81.50	81.50	G
PPM Technical Services, Inc.	USA	Services	81.50	81.50	G
PPM Wind Energy, LLC	USA	Holding	81.50	81.50	G
Providence Heights Wind, LLC	USA	Energy	81.50	81.50	G
Rugby Wind, LLC	USA	Energy	81.50	81.50	G
San Luis Solar, LLC	USA	Energy	81.50	81.50	G
ScottishPower Financial Services, Inc.	USA	Holding	81.50	81.50	G
ScottishPower Group Holdings Company	USA	Holding	81.50	81.50	G
ScottishPower International Group Holdings Company	USA	Holding	81.50	81.50	-
Shiloh I Wind Project, LLC <sup>(6)</sup>	USA	Energy	61.13	61.13	G
Solar Star Oregon II, LLC	USA	Energy	81.50	-	G
South Chestnut, LLC	USA	Energy	81.50	81.50	G
Start Point Wind Project, LLC	USA	Energy	81.50	81.50	G
Streator Cayuga Ridge Wind Power, LLC	USA	Energy	81.50	81.50	G
Streator Deer Run Wind Farmer, LLC	USA	Energy	81.50	81.50	G
Tatanka Ridge Wind. LLC (antes Buffalo Ridge III, LLC)	USA	Energy	81.50	81.50	G
Trimont Wind I, LLC <sup>(6)</sup>	USA	Energy	61.13	61.13	G
Tule Wind, LLC	USA	Energy	81.50	81.50	G
Twin Buttes Wind, LLC	USA	Energy	81.50	61.13	G
Twin Buttes Wind II, LLC	USA	Energy	81.50	81.50	G
Vineyard Wind, LLC	USA	Energy	40.75	-	E
West Valley Leasing Company, LLC	USA	Gas	81.50	81.50	-
Winnebago Windpower II, LLC	USA	Energy	81.50	81.50	G
Winnebago Windpower, LLC	USA	Energy	81.50	81.50	G
Wyeast Solar, LLC	USA	Energy	81.50	-	G
<b>Mexico</b>					
BII NEE Stipa Energía Eólica, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Corporativo Iberdrola Renovables México, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Energías Renovables Venta III, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Eólica Dos Arbolitos S.A.P.I. de C.V.	Mexico	Energy	100.00	100.00	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Iberdrola Energía Norte, S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Iberdrola Renovables Centro, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Renovables del Bajío, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Impulsora de Generación Fotovoltaica de México, S.A. de C.V. (antes Iberdrola Renovables del Irapuato, S.A. de C.V.)	Mexico	Energy	100.00	100.00	G
Infraestructuras de Generación Eléctrica, S.A. de C.V. (antes Iberdrola Renovables del Zacatecas, S.A. de C.V.)	Mexico	Energy	100.00	100.00	G
Iberdrola Renovables México, S.A. de C.V.	Mexico	Holding	100.00	100.00	G
Iberdrola Renovables Noroeste, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Renovables Norte, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Parque de Generación Renovable, S.A. de C.V.	Mexico	Energy	100.00	-	G
Parque energías Renovables de México, S.A. de C.V.	Mexico	Energy	100.00	-	G
Parque Industrial de Energía Renovables, S.A. de C.V.	Mexico	Energy	51.00	51.00	G
Parques Ecológicos de México, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Pier II Quecholac Felipe Ángeles, S.A. de C.V.	Mexico	Energy	51.00	51.00	G
Pier IV, S.A. de C.V.	Mexico	Energy	51.00	51.00	G
Proyecto Alternativa Energética de México, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Servicios de Operación Eoloeléctrica de México, S.A. de C.V.	Mexico	Services	100.00	100.00	G
<b>Brazil</b>					
Arizona 1 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Caetitê 1 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Caetitê 2 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Caetitê 3 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 1 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 2 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 3 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 4 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 5 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 6 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Canoas Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Elektro Renováveis do Brasil, S.A.	Brazil	Energy	52.45	100.00	G
Energias Renováveis do Brasil, S.A.	Brazil	Energy	52.45	100.00	G
FE Participações, S.A.	Brazil	Energy	52.45	69.50	G
Força Eólica do Brasil 1, S.A.	Brazil	Energy	52.45	69.50	G
Força Eólica do Brasil 2, S.A.	Brazil	Energy	52.45	69.50	G
Força Eólica do Brasil, S.A.	Brazil	Energy	52.45	69.50	G
Lagoa I, S.A.	Brazil	Energy	52.45	69.50	G
Lagoa II, S.A.	Brazil	Energy	52.45	69.50	G
Mel 2 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Santana 1, Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Santana 2, Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
<b>ROW</b>					
Baltic Eagle, GmbH.	Germany	Energy	100.00	-	G
Iberdrola Renovables Offshore Deutschland, GmbH.	Germany	Energy	100.00	100.00	G
Iberdrola Renovables Deutschland, GmbH.	Germany	Energy	100.00	100.00	G
ScottishPower Hazelwood, Pty. Ltd.	Australia	Holding	100.00	100.00	-
Iberdrola Renewables Bulgaria, EOOD.	Bulgaria	Energy	100.00	100.00	G
Iberdrola Renewables Canadá, Ltd.	Canada	Holding	100.00	100.00	G
Rokas Aeoliki Cyprus, Ltd.	Cyprus	Energy	74.82	74.82	G
Ailes Marine, S.A.S.	France	Energy	70.00	70.00	G
Iberdrola Renovables France, S.A.S.	France	Energy	100.00	100.00	G
C. Rokas Industrial Commercial Company, S.A.	Greece	Holding	99.76	99.76	G
PPC Renewables Rokas, S.A.	Greece	Energy	50.88	50.88	G
Rokas Aeoliki Peloponnisos II, S.A.	Greece	Energy	99.76	99.76	G
Rokas Aeoliki Thraki III, S.A.	Greece	Energy	99.61	99.61	G

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Iberdrola, S.A. and subsidiaries / Financial Year 2017

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Rokas Construction, S.A.	Greece	Energy	99.76	99.76	G
Rokas Hydroelectric, S.A.	Greece	Energy	99.76	99.76	G
Iberdrola Renovables Magyarország, KFT.	Hungary	Holding	100.00	75.00	G
Iberdrola Renovables Italia, S.p.A.	Italy	Holding	100.00	100.00	G
Societa Energie Rinnovabili 2, S.p.A. <sup>(2)</sup>	Italy	Energy	50.00	50.00	E
Eonergi Energia Eolica, S.A.	Portugal	Energy	100.00	100.00	G
Iberdrola Renewables Portugal, S.A.	Portugal	Holding	100.00	100.00	G
Parque Eólico da Serra do Alvao, S.A.	Portugal	Energy	100.00	100.00	G
Eolica Dobrogea One, S.R.L.	Romania	Energy	100.00	100.00	G
Iberdrola Renewables Romania, S.R.L.	Romania	Holding	100.00	100.00	G
Iberdrola Renewables South Africa (PTY), Ltd.	South Africa	Energy	100.00	-	G
<b>Innovation</b>					
Algaenergy, S.A. <sup>(5)</sup>	Spain	Energy	17.81	17.81	-
Arborea Intellbird, S.L. <sup>(2) (4)</sup>	Spain	Services	18.89	18.89	E
Atten2 Advanced Monitoring Technologies, S.L. <sup>(2)</sup>	Spain	Services	21.22	21.22	E
GDES Tecnology for services, S.L. <sup>(2)</sup>	Spain	Services	40.00	40.00	E
Iberdrola Servicios de Innovación, S.L.	Spain	Services	100.00	100.00	G
Inversiones Financieras Perseo, S.L.	Spain	Holding	100.00	100.00	G
Oceantec Energías Marinas, S.L. <sup>(2)</sup>	Spain	Energy	44.39	44.39	E
Iberdrola QSTP, LLC	Qatar	Energy	100.00	100.00	G
<b>Network Business</b>					
<b>Spain</b>					
Anselmo León Distribución, S.L. <sup>(1)</sup>	Spain	Energy	100.00	100.00	E
Anselmo León, S.A.U. <sup>(1)</sup>	Spain	Holding	100.00	100.00	E
Distribuidora de Energía Eléctrica Enrique García Serrano, S.L. <sup>(1)</sup>	Spain	Energy	100.00	100.00	E
Distribuidora Eléctrica Navasfrías, S.L. <sup>(1)</sup>	Spain	Energy	100.00	100.00	E
Eléctrica Conquense Distribución, S.A.	Spain	Energy	53.59	53.59	G
Eléctrica Conquense, S.A.	Spain	Holding	53.59	53.59	G
Electro-Distribuidora Castellano-Leonesa, S.A. <sup>(1)</sup>	Spain	Energy	100.00	100.00	E
Empresa Eléctrica del Gabriel, S.L. <sup>(1)</sup>	Spain	Energy	100.00	100.00	E
Herederos María Alonso Calzada – Venta de Baños, S.L. <sup>(1)</sup>	Spain	Energy	100.00	100.00	E
San Cipriano de Rueda Distribución, S.L. <sup>(1)</sup>	Spain	Energy	100.00	100.00	E
Iberdrola Distribución Eléctrica, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Infraestructuras y Servicios de Redes, S.A.	Spain	Services	100.00	100.00	G
Iberdrola Redes España, S.A.U.	Spain	Holding	100.00	100.00	G
Sociedad Distribuidora de Electricidad de Elorrio, S.A. <sup>(1)</sup>	Spain	Energy	97.95	97.95	E
<b>United Kingdom</b>					
Manweb Services, Ltd.	United Kingdom	Energy	100.00	100.00	G
NGET/SPT Upgrades, Ltd.	United Kingdom	Energy	50.00	50.00	E
Scottish Power Energy Networks Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	G
SP Distribution, Plc.	United Kingdom	Energy	100.00	100.00	G
SP Gas, Ltd.	United Kingdom	Inactive	100.00	100.00	G
SP Manweb, Plc.	United Kingdom	Energy	100.00	100.00	G
SP Network Connections, Ltd.	United Kingdom	General use connections	100.00	100.00	G
SP Power Systems, Ltd.	United Kingdom	Asset management services	100.00	100.00	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
SP Transmission, Plc.	United Kingdom	Energy	100.00	100.00	G
<b>United States</b>					
Avangrid, Inc.	USA	Holding	81.50	81.50	G
Avangrid Enterprises, Inc.	USA	Holding	81.50	81.50	G
Avangrid Management Company, LLC	USA	Holding	81.50	81.50	G
Avangrid Service Company	USA	Services	81.50	81.50	G
Avangrid New York TransCo, LLC	USA	Holding	81.50	81.50	G
Avangrid Networks, Inc.	USA	Holding	81.50	81.50	G
Avangrid Solutions, Inc.	USA	Marketing	81.50	81.50	G
Berkshire Energy Resources	USA	Holding	81.50	81.50	G
Cayuga Energy, Inc.	USA	Energy	81.50	81.50	G
Central Maine Power Company	USA	Electricity	81.50	81.50	G
Chester SVC Partnership <sup>(5)</sup>	USA	Electricity	40.75	40.75	G
CMP Group, Inc.	USA	Holding	81.50	81.50	G
CNE Energy Services Group, LLC	USA	Services	81.50	81.50	G
CNE Peaking, LLC	USA	Services	81.50	81.50	G
Connecticut Energy Corporation	USA	Holding	81.50	81.50	G
Connecticut Natural Gas Corporation	USA	Gas	81.50	81.50	G
CTG Resources, Inc.	USA	Holding	81.50	81.50	G
GCE Holding, LLC	USA	Holding	40.75	40.75	-
GenConn Devon, LLC	USA	Generation	40.75	40.75	-
GenConn Energy, LLC	USA	Generation	40.75	40.75	-
GenConn Middletown, LLC	USA	Generation	40.75	40.75	-
Maine Electric Power Company, Inc.	USA	Energy	63.80	63.80	G
Maine Natural Gas Corporation	USA	Gas	81.50	81.50	G
Maine Yankee Atomic Power Company <sup>(5)</sup>	USA	Electricity	30.97	30.97	-
MaineCom Services	USA	Telecommunications	81.50	81.50	G
New York State Electric & Gas Corporation	USA	Electricity and Gas	81.50	81.50	G
NORVARCO	USA	Holding	81.50	81.50	G
Nth Power Technologies Fund I, LP. <sup>(5)</sup>	USA	Other	21.92	21.92	-
RGS Energy Group, Inc.	USA	Holding	81.50	81.50	G
Rochester Gas and Electric Corporation	USA	Electricity and Gas	81.50	81.50	G
South Glens Falls Energy, LLC <sup>(5)</sup>	USA	Energy	69.28	69.28	-
TEN Transmission Company	USA	Gas	81.50	81.50	G
The Berkshire Gas Company	USA	Gas	81.50	81.50	G
The Southern Connecticut Gas Company (SCG)	USA	Gas	81.50	81.50	G
The Union Water Power Company	USA	Services	81.50	81.50	G
The United Illuminating Company	USA	Energy	81.50	81.50	G
Thermal Energies, Inc. <sup>(5)</sup>	USA	Inactive	81.50	81.50	-
Total Peaking Services, LLC	USA	Services	81.50	81.50	G
UIL Distributed Resources	USA	Services	81.50	81.50	G
UIL Group, LLC	USA	Holding	81.50	81.50	G
UIL Holdings Corporation	USA	Holding	81.50	81.50	G
United Capital Investments	USA	Inactive	81.50	81.50	G
United Resources, Inc.	USA	Holding	81.50	81.50	G
WGP Acquisition, LLC <sup>(5)</sup>	USA	Inactive	81.50	81.50	-
Xcelcom Inc.	USA	Inactive	81.50	81.50	G
Xcel Services, Inc. <sup>(5)</sup>	USA	Inactive	81.50	81.50	-
<b>Brazil</b>					
Afluente Transmissao de Energia Elétrica, S.A.	Brazil	Energy	54.57	42.76	G
Companhia de Eletricidade do Estado do Bahia, S.A.	Brazil	Energy	50.53	37.57	G
Companhia Energética de Pernambuco, S.A.	Brazil	Energy	47.02	34.96	G
Companhia Energetica do Rio Grande do Norte, S.A.	Brazil	Energy	47.98	35.67	G
EKTT 12-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Inactive	52.45	-	G
EKTT 13-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Inactive	52.45	-	G
EKTT 14-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Inactive	52.45	-	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
EKTT 15-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Inactive	52.45	-	G
Elektro Operação e Manutenção, Ltda.	Brazil	Services	52.45	99.99	G
Elektro Redes, S.A.	Brazil	Energy	52.28	99.68	G
Lanmóvil Amara Celular da Bahia Ltd. (Lanmara) <sup>(1)</sup>	Brazil	Retail/Wholesale	65.00	65.00	-
Neoenergia Investimentos, S.A.	Brazil	Services	52.45	39.00	G
Neoenergia Servicios, Ltd.	Brazil	Services	52.45	39.00	G
Neoenergia, S.A.	Brazil	Holding	52.45	39.00	G
Potiguar Sul Transmissao de Energia, S.A.	Brazil	Energy	52.45	39.00	G
S.E. Narendiba, S.A.	Brazil	Energy	52.45	39.00	G
Garter Properties, Inc.	British Virgin Islands.	Inactive	52.45	39.00	G
<b>Other businesses</b>					
<b>Engineering</b>					
Adícora Servicios de Ingeniería, S.L.U.	Spain	Engineering	100.00	100.00	G
Empresarios Agrupados Internacional, S.A. <sup>(2)</sup>	Spain	Engineering	25.46	25.46	E
Empresarios Agrupados, A.I.E. <sup>(2)</sup>	Spain	Engineering	25.46	25.46	E
Ghesa Ingeniería y Tecnología, S.A. <sup>(2)</sup>	Spain	Engineering	42.15	41.18	E
Iberdrola Ingeniería de Explotación, S.A.U.	Spain	Engineering	100.00	100.00	G
Iberdrola Ingeniería y Construcción, S.A.U.	Spain	Engineering	100.00	100.00	G
Ingeniería, Estudios y Construcciones, S.A.	Spain	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction Saudi Arabia, LLC	Saudi Arabia	Engineering	100.00	100.00	G
Iberdrola Construção e Serviços, Ltd.	Brazil	Engineering	100.00	100.00	G
Iberdrola Energy Projects Canada Corporation	Canada	Engineering	100.00	100.00	G
Iberdrola Ingeniería y Construcción Costa Rica, S.A.	Costa Rica	Engineering	100.00	100.00	G
Iberdrola Energy Project, Inc.	USA	Engineering	100.00	100.00	G
Iberinco Hellas Techniki kai Kataskevastiki EPE	Greece	Engineering	100.00	100.00	G
Iberdrola Ingegneria e Costruzioni Italia, SRL.	Italy	Engineering	100.00	100.00	G
Enermón S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Iberdrola Ingeniería y Construcción México, S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Iberservicios, S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction Poland, SP. Z.O.O.	Poland	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction Networks, Ltd.	United Kingdom	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction UK, Ltd.	United Kingdom	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction Ro, SRL.	Romania	Engineering	100.00	100.00	G
Iberdrola Inzhiniring I Stroiteistvo, LLC	Russia	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction South Africa	South Africa	Engineering	100.00	100.00	G
Iberdrola Ingeniería y Construcción. Venezuela, S.A.	Venezuela	Engineering	99.81	99.81	G
<b>Real Estate</b>					
Arrendamiento de Viviendas Protegidas Siglo XXI, S.L.	Spain	Real estate	100.00	100.00	G
Camarate Golf, S.A. <sup>(2)</sup>	Spain	Real estate	26.00	26.00	E
Fiuna, S.A.	Spain	Real estate	100.00	100.00	G
Iberdrola Inmobiliaria Patrimonio, S.A.U.	Spain	Real estate	100.00	100.00	G
Iberdrola Inmobiliaria, S.A.	Spain	Real estate	100.00	100.00	G
Promotora la Castellana de Burgos, S.A.	Spain	Real estate	100.00	100.00	G
Urbanizadora Marina de Cope, S.L.	Spain	Real estate	80.00	80.00	G
Iberdrola Inmobiliaria Real State Investment, EOOD	Bulgary	Real estate	100.00	100.00	G



Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Desarrollos Inmobiliarias Laguna del Mar, S.A. de C.V.	Mexico	Real estate	100.00	100.00	G
Promociones La Malinche, S.A. de C.V.	Mexico	Real estate	50.00	50.00	E
<b>Other businesses</b>					
Subgrupo Corporación IBV Participaciones Empresariales	Spain	Inactive	50.00	50.00	E
Siemens Gamesa Renewable Energy, S.A. (previously Gamesa Corporación Tecnológica, S.A.) <sup>(4)</sup>	Spain	Holding	8.07	19.69	E
Iberdrola Inversiones 2010, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Participaciones, S.A.U.	Spain	Holding	100.00	100.00	G
Investigación y Desarrollo de Equipos Avanzados, S.A.U. <sup>(1)</sup>	Spain	Services	100.00	100.00	E
<b>Corporation</b>					
CarteraPark, S.A.U. <sup>(5)</sup>	Spain	Inactive	100.00	100.00	-
Iberdrola Corporación, S.A. <sup>(5)</sup>	Spain	Inactive	100.00	100.00	-
Iberdrola España, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Energía, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Financiación, S.A.U.	Spain	Financial	100.00	100.00	G
Iberdrola Finanzas, S.A.U.	Spain	Financial	100.00	100.00	G
Iberdrola International, B.V.	Holland	Financial	100.00	100.00	G
Iberdrola Finance Ireland, DAC	Ireland	Financial	100.00	100.00	G
Iberdrola Re, S.A.	Luxembourg	Insurance	100.00	100.00	G
Demon Internet, Ltd. <sup>(5)</sup>	United Kingdom	Inactive	100.00	100.00	-
Manweb Nominees, Ltd. <sup>(5)</sup>	United Kingdom	Inactive	100.00	100.00	-
Manweb Share Scheme Trustees, Ltd. <sup>(5)</sup>	United Kingdom	Inactive	100.00	100.00	-
Scottish Power UK Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	G
Scottish Power UK, Plc	United Kingdom	Holding	100.00	100.00	G
Scottish Power, Ltd.	United Kingdom	Holding	100.00	100.00	G
ScottishPower Investments, Ltd.	United Kingdom	Holding	100.00	100.00	G
ScottishPower Overseas Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	G
SPW Investments Ltd.	United Kingdom	Holding	100.00	100.00	G

## JOINT OPERATIONS OF THE GROUP STRUCTURED THROUGH AN INDEPENDENT VEHICLE FOR THE YEARS 2016 AND 2017

Company	Registered office	Activity	Percentage of direct or indirect stake	
			31.12.2017	31.12.2016
<b><u>Deregulated Business</u></b>				
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
<b><u>Renewable Business</u></b>				
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	40.75
Colorado Wind Ventures, LLC	USA	Holding	40.75	40.75
<b><u>Other businesses</u></b>				
Torre Iberdrola, A.I.E.	Spain	Real estate	68.10	68.10



## GROUP COMPANIES AT 31 DECEMBER 2015 WHICH HAVE LEFT THE PERIMETER IN 2017 AS A RESULT OF DISPOSAL, MERGER OR LIQUIDATION

Company	Registered office	Activity	Percentage of direct or indirect stake	
			31.12.2017	31.12.2016
<b>Deregulated Business</b>				
S.E.D.A. Cogeneración, S.A.	Spain	Energy	-	50.00
Scotash, Ltd.	United Kingdom	Other	-	50.00
ScottishPower (DCOL), Ltd.	United Kingdom	Inactive	-	100.00
Iberdrola Energie Romania, S.R.L.	Romania	Energy	-	100.00
<b>Renewable Business</b>				
Rokas Aeoliki Achladotopos, S.A.	Greece	Energy	-	99.63
Rokas Aeoliki Macedonia I, Ltd.	Greece	Energy	-	99.76
Rokas Aeoliki Macedonia II, Ltd.	Greece	Energy	-	99.76
Rokas Aeoliki Peloponnisos I, Ltd.	Greece	Energy	-	99.76
Rokas Aeoliki Vorios Ellas I, Ltd.	Greece	Energy	-	99.76
Rokas Aeoliki Vorios Ellas II, Ltd.	Greece	Energy	-	99.76
Rokas Aeolos, Ltd.	Greece	Energy	-	99.76
Rokas Energy, S.A.	Greece	Energy	-	99.72
Eólica Lucana, S.R.L.	Italy	Energy	-	100.00
Uppm-Rokas Cranes, S.I.A	Latvia	Energy	-	49.88
<b>Network Business</b>				
Bidelek Sareak, A.I.E.	Spain	Other	-	54.00
Iberdrola Distribución de Gas, S.A.U.	Spain	Inactive	-	100.00
Afluenta Geração de Energia Elétrica, S.A.	Brazil	Energy	-	42.76
Bahia PCH I, S.A.	Brazil	Energy	-	39.00
Capuava Energy, Ltda.	Brazil	Energy	-	39.00
Elektro Holding, S.A.	Brazil	Holding	-	100.00
Energyworks do Brasil, Ltda.	Brazil	Energy	-	39.00
Goiás Sul Geração de Energia, S.A.	Brazil	Energy	-	39.00
Rio PCH I, S.A.	Brazil	Energy	-	27.30
<b>Other businesses</b>				
Amara, S.A.U.	Spain	Services and goods	-	100.00
Keytech Sistemas Integrales, S.A.	Spain	Security systems	-	37.00
Amara Brasil, Ltd.	Brazil	Services	-	100.00
Ergytech Inc.	USA	Purchases agent	-	100.00
Ameryg Mexicana, S.A. de C.V.	Mexico	Retail/Wholesale	-	100.00
Ameryg Servicios de México S.A. de C.V.	Mexico	Services	-	99.00
<b>Corporation</b>				
Iberdrola Corporate Services, Inc.	USA	Services	-	100.00
Iberdrola Portugal Electricidade e Gas, S.A.	Portugal	Energy	-	100.00
Clubcall Telephone Services, Ltd.	United Kingdom	Inactive	-	100.00
Clubline Services, Ltd.	United Kingdom	Inactive	-	100.00
Manweb Pensions Trustee, Ltd.	United Kingdom	Inactive	-	100.00

Company	Registered office	Activity	Percentage of direct or indirect stake	
			31.12.2017	31.12.2016
Teledata (Holdings), Ltd.	United Kingdom	Inactive	-	100.00
Teledata (Outsourcing), Ltd.	United Kingdom	Inactive	-	100.00
Teledata Scotland, Ltd.	United Kingdom	Inactive	-	100.00
The CallCentre Service Limited	United Kingdom	Other	-	100.00
The Information Service, 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 2017, the total aggregate assets value and the profit for the year corresponding to these companies amounts to EUR 29,357 thousand and EUR 4,446 thousand, respectively. On 31 December 2016, the aggregate total assets and results of the corresponding period of such companies amounted to EUR 87,244 thousand and EUR 6,587 thousand, 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.

## APPENDIX II

## 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. Below there is a description of the main regulations affecting the IBERDROLA Group.

### 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 implementations of the single gas and electricity markets in order to facilitate the exchange of energy flows 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% vs. "Business as Usual" case, 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, and the national objectives on renewable energy.

Since 2009, the EU institutions and Member States have worked to implement the regulation approved in that year related to, on 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.

The regulation resulting from these agreements is still pending of development. 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. 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.

In October 2014, the European Council agreed new targets for 2030: a 40% reduction in GHGs compared to 1990, a share of 27% for renewable energy and a reduction in consumption, also of 27% (to be potentially upgraded to 30% following new proposals as explained below regarding the Clean Energy for all Europeans package). It also agreed to ensure that in 2020 the electricity exchange capacity among countries was at least 10% of the installed capacity.

On 25 February 2015, the European Commission launched a framework strategy for a resilient 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 (2014-2019), 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, facilitating the compliance of 2030 Targets set by the European Council in October 2014. Since November 2015, the EC presents on annual basis the advanced achieved and the steps to be undertaken in the following years.

On 15 July 2015, the European Commission (EC) has published a package of documents that anticipated legislative action in the field of energy markets and emissions trading. Through the Communication on Market Design, the EC analysed the functioning of the EU electricity markets, arose key proposals for improvement and opened the discussion on capacity mechanisms. The Communication on retail market ("New Deal" for customers) made proposals to fully liberalise retail markets and facilitate more interaction with customers. It also attached a document on "best practices" in self-consumption.

Regarding the emissions trading, in July 2015 the EC sent its legislative proposal to reform the ETS Directive to the European Parliament and the Council. In November 2017, the EC, the European Parliament and Council reached an agreement to reform said Directive, which will become valid once approved by Parliament's Plenary Session and its publication in the OJEU in 2018. The reform's most relevant features are:

- The reductions applied annually to the stock of rights auctioned is increased from 1.74% to 2.2% from 2021 on (the so-called linear reduction factor). This parameter is associated with the mechanism's "aim", upon expecting that a gradual reduction of rights auctioned implies less total emissions from the sectors involved in emissions trading.
- The rate of withdrawal of allowances of the Market Stability Reserve (MSR) is fixed at 24% from 2019 to 2023, and 12% for subsequent years. Beginning in 2019, an amount of allowances corresponding to 12 % of the number of allowances in circulation should be deducted each year from the auction volumes and placed in the Reserve. If the total number of allowances in the market is less than 400 million, then the MSR releases 100 million into the market. No obstante, los derechos que se encuentren en la reserva en 2023 quedarán cancelados, evitando así que retornen al mercado.

This mechanism is intended to stabilize the EU ETS (EU Emissions Trading System) and strengthen the carbon price signal reducing gradually the surplus allowances. The MSR is included in the EU ETS review currently in discussion.

- Conversely, the procedures for allocation of allowances to sectors subject to the risk of carbon leakage are amended.
- Lastly, support for modernizing the electric sector in countries with lower GDP is provided but cannot target coal (a point of contention in the negotiations)

On 30 November 2016 the EC has published the package Clean Energy for all Europeans, containing the legislative proposals to complete the implementation of the energy internal market and to achieve the environmental 2030 Targets, materialising the ideas drafted in July 2015 communications. November 2016 package involves the wholesale and retail markets and the frameworks for renewable energy sources and energy efficiency. Other documents of interest are also included such as the application of capacity mechanisms in different countries (among them Spain) as well as an Energy Prices and Costs study. This report concludes that the "taxes and other" item has increased the most in electricity bills in recent years, exceeding 50% in 2016 for consumers in 4 countries, among them Spain.

The full package represents over 70 documents of which 8 are legislative proposals of high impact on energy markets that are being discussed by the European Parliament and Council. Practical implementation to market operation is expected to take in place by 2020.

In November 2017, the EC published in its Clean Mobility Package, which outlines measures to reduce transport sector emissions in 2020-2030, and adapt Europe's industry to comply with the Paris Agreements without losing global market share. This package of proposals is now being processed in the European Councils and Parliaments.

The Clean Mobility Package consists mainly of:

- New emissions standard: vehicles sold between 2025 and 2030 must emit 15%-30% less than those sold in 2021. For this, annual goals will be established annually per manufacturer, and incentives will be granted to those with a lower percent than what is established for zero-emission and low-emission vehicles (<50gCO<sub>2</sub>/km principally plug-in hybrids)
- Clean Vehicle Directive: promotes the acquisition and leasing of vehicles for public administration. Each State will include a goal for 2025 – 2030 (Spain: 1/light vehicles, 33% set for entire period; 2/heavy vehicles, trucks 10%-14% and buses 50%-75%).
- Communication regarding action plans to promote the use of alternative fuels (electricity, LNG, biogas, etc.): for the purpose of evaluating the investment needs (from EUR 16,000 to 22,000 million in recharge and supply infrastructures) and proposes a strategy to adapt specific States' regulation. The EC will provide EUR 800 million to finance the projects.

## 2. Other EU regulation

The following regulations of significance to the energy sector were approved in 2015 and 2016:

- In January, the OJEU published Delegated Regulation 2016/89 amending Regulation 347/2013, concerning the Union's list of projects of common interest. It is an update of the first list of Projects of Common Interest of 2013. This list is updated every year by the European Commission on 18 November 2015, at the time of the State of the Energy Union Report.
- Paris Agreement: On 11 April, Decision (EU) 2016/590 of the Council was published, regarding the signing, on behalf of the European Union, of the Paris Agreement approved by virtue of the United Nations Framework Convention on Climate Change. The signing took place in New York on 22 April 2016. The Agreement came into force on 5 October 2016 and was ratified in December 2017 by 171 of the 195 signing countries.
- On 17 November 2016, the OJEU published the Regulation 2016/1952/EU on European statistics on natural gas and electricity prices and it repeals the Directive 2008/92/EC. This legislation establishes a harmonised framework to elaborate and disclose the statistics on gas and electricity prices, both for residential customers and for companies. The new rules allow more transparent understanding of the different price components, splitting energy, networks and "taxes and other". This last component reflects, inter alia the VAT, other taxes and support to policies through customer charges, particularly the support to renewable energies. EC's Energy Costs and Prices Study included in the "Clean Energy Package" is based on this statistic methodology.
- On 19 December 2016, the OJEU published the Directive (EU) 2016/2284 on the reduction of national emissions of certain atmospheric pollutants, amending Directive 2003/35/EC and repealing Directive 2001/81/EC. This new Directive establishes stricter emission limits for each Member State in the period 2020 – 2030 for five pollutants: sulphur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>), non-methane volatile organic compounds (NMVOC) and ammonia (NH<sub>3</sub>). Levels for 2020 are equivalent to the adopted by the UE in previous regulations but levels for 2030 are significantly reinforced. The Directive shall be transposed to local regulation by 30 June 2018. Each Member State shall develop a national air pollution control programme by 2019 to ensure the compliance of the targets of this Directive regarding transport, agriculture and energy sectors.
- On 17 August 2017, the Official Journal of the European Union (OJEU) published Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 establishing best available techniques (BAT) conclusions for large combustion plants (> 50 MW). Member States must adapt to these new limits on acid gas emissions [nitrogen oxides (NO<sub>x</sub>), sulphur dioxide (SO<sub>2</sub>), small particulates and, for the first time, mercury] by 2021.
- The new Regulation 2017/1938 on the Security Supply of Gas repealing Regulation 994/2010 was published on 28 October 2017 in the Official Journal of the European Union. The Regulation's general purpose is to reinforce the European Union's energy security, reduce foreign dependence and enable it to confront possible gas supply crises with more speed and efficiency. Main novelties:  
Main novelties:
  - o Principle of solidarity: In the event of a serious gas crisis that puts the supply at risk, the Member States will help their neighbouring states to ensure the supply of gas to homes and necessary social services.

- Reinforcement of regional cooperation: Common security risks of one Regional Group's supply will be jointly assessed and preventive and common emergencies measures will be agreed on.
- Reinforcement of system security tools: Preventive action plans and mandatory regional emergency plans are established, along with regional risk analysis, which will be prepared jointly by all Member States that belong to the same risk group.
- Transparency of risks: To facilitate better supervision of the contracts' risks and clauses, the gas companies must notify the long term contracts that are relevant to the security of the supply (those that represent 28% of the annual gas consumption in the Member State).

The approval of this Regulation together with the above of the Decision regarding intergovernmental agreements (published 2 May 2017 in the OJEU) culminates the reform of the European gas security regulations.

- On 26 June 2017, the EC published Directives regarding environmental and social information, complementary to Directive 95/2014 requirements regarding non-financial information. Said Directive is applicable to firms with more than 500 employees, to report information relevant to environmental, social, and labour policies and risks, human rights issues, anti-corruption efforts and gender policies. These Directives include a voluntary guide to help firms complete the required information. They do not add an administrative fee. They include best practices and among others, experience in monitoring Sustainable Development Objectives and the Paris Agreement.
- Electricity balance sheet: EC Regulation 2195/2017 was published on 28 November 2017, establishing a directive on the electricity balance sheet including the common principles for the contracting and settlement of reserves for the containment and recovery of the frequency and replacement reserves, as well as a common method for the activation of said reserves. This applies to all transmission and interconnections networks of the European Union, except for island transmission networks that are not connected to other transmission networks through interconnections.
- Grid code for emergencies and service restoration: The Grid Code published on 28 November, establishes a) the management by the Transmission Network Managers on the states of emergency, power outage and restoration; b) the coordination of the operation of the system throughout the entire Union in a state of emergency, power outage and restoration; c) the simulations and tests to guarantee a reliable, effective and fast restoration of the interconnected transmission networks to their normal state after a state of emergency or power outage.
- Aid to renewables: EC Decision SA.40348 (2015/NN) was published in December 2017, authorising the Spanish system for aid to renewables. The EC has come to the conclusion that the Spanish system of aid to electricity production from renewable energy sources, cogeneration of high efficiency heat, electricity and wastes is in accordance with the state aid standards of the European Union.

### 3. Industry regulation in Spain



The National Commission for Market and Competition (CNMC) is as a public body attached to the Ministry of Energy, Tourism and Digital Agenda and is subjected to parliamentary scrutiny. It has the functions of market regulation and supervision.

- **Industry regulation and functioning of the electric system in Spain**

The electric sector is regulated by the Electric Industry Law 24/2013, of 26 December 2013.

**1. Activity separation**

It establishes the legal and accounting separation of regulated activities (economic and technical management of the system, transmission and distribution) and deregulated activities (generation, wholesale and retail or other activities unrelated to electricity or activities abroad). However, a group of companies can carry out incompatible activities provided that these are performed by different companies within it and meet independence criteria.

**2. Generation activities:**

Generation activity is carried out in free market competition, subject to a schedule of approvals, with its remuneration established in the market:

- The daily hour price for energy is established in the wholesale market by marginalist criteria; the dispatch determined by the lowest price until the demand is satisfied. Intra-day markets are also established to adjust the position with regard to the daily schedule. Conversely, certain production plants obtain additional remuneration to provide additional necessary services to guarantee supply.
- Additionally, Order ITC 3127/2011 regulating payments for capacity, which consist of an investment incentive, an environmental incentive and an availability service is established. Facing 2018, the EU/1133/2017 Order amends the incentive to the availability of the generation centres, limiting payment to the first 6 months and excluding hydraulic centres.
- Royal Decree 413/2014 on electricity generation by means of renewable, cogeneration and waste facilities establishes the remuneration scheme for existing and new facilities. For facilities prior to July 2013, the remuneration system consists of the sum of:
  - o Investment remuneration (EUR/MW) to cover, where applicable, the investment costs that cannot be recovered from the sale of electricity in market, defined on the basis of the average yield on 10 year government bonds plus a differential, initially fixed at 300 basis points for the first regulatory period ending on 31 December 2019 (that is, 7.398% before taxes).
  - o Operation remuneration (EUR/MWh) to cover, where applicable, the difference between the operating costs and income obtained in the electric market. 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/1046/2017.

The remuneration will be on the basis of six-year periods and some of them may be revised every three years.

On the other hand, the Order IET/1045/2014 established a classification of standard facilities in terms of the technology, installed capacity or any another characteristic already in place for the application of this remunerative scheme. These have been revised by Order ETU/130/2017 for the period 2017-2019.

The remuneration for renewable facilities, cogeneration and waste will be set by a competitive tendering process. Thus, in 2017 the following renewable capacity tenders have taken place:

- The first through Royal Decree 359/2017, which stipulates a call for the granting of the specific remuneration regime to new biomass-based electricity production plants within the peninsular power system and to wind technology farms up to a maximum of 3,000 MW. The allocation procedure and the remuneration parameters are set out in the Ministerial Order IET/315/2017, of 6 April. The auction was called by the State Secretariat for Energy's resolution of 10 April 2017.

Said auction took place on 17 May, resulting in a 3,000 MW award for wind, with the specification that the auction carries the maximum discount, thus no bidder will receive additional remuneration with the current market prices. Only in the case of going below a determined limit would they receive additional remuneration to the market.

- The second through Royal Decree 650/2017, which stipulates a call for the granting of the specific remuneration regime to new wind and photovoltaic electricity production plants within the peninsular power system up to a maximum of 3,000 MW. The allocation procedure and the remuneration parameters are set out in the Ministerial Order IET/615/2017, of 28 June. The auction was called by the State Secretariat for Energy's resolution of 30 June 2017. The allocation procedure and the remuneration parameters are set out in the Ministerial Order IET/615/2017, of 28 June. The auction was called by the State Secretariat for Energy's resolution of 30 June 2017.

Said auction took place on 26 July, resulting in a 3,909 MW award for photovoltaics and 1,128 MW award for wind, with the same specification that the auction carries the maximum discount, thus no bidder will receive additional remuneration with the current market prices, unless the latter go below a determined limit.

### **3. Agents that guarantee the proper functioning of the market**

- System Operator (SO): 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.
- Market Operator (MO): Iberian Market Operator (OMI) is responsible for the operation of MIBEL manages Portuguese and Spanish daily, intra-day and forward markets in Spain and Portugal.

### **4. Transmission and Distribution**

The Electric Industry Law [LSE] establishes that distribution and transmission are regulated activities that are classified as low-risk, whose remuneration is determined by six-year regulatory periods.

- It introduces the concept of "efficient and well-managed company, and the financial remuneration rate will be based on ten year government bonds plus an appropriate spread for a low risk activity.

- It sets the collection of the remuneration generated by new facilities that entered into operation in the year n starts in the year n+2.

On 30 December 2013 two royal decrees regulating the new remuneration methodology of the transmission (Royal Decree 1047/2013) and distribution (Royal Decree 1048/2013) activities were published, following the regulatory and tax measures that started in the second half of 2013.

The methodology set out in the Royal Decree 1048/2013 is based on new standard investment and operation costs.

It also 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 has been created, which may reach 1.5% of the company's remuneration.

The remuneration system culminates with Orders IET/2659/2015 and IET/2660/2015 determine the type of facilities and unit values to consider when calculating the remuneration for 2016 onwards.

Order 2017 ETU/1976/2016 of 23 December for tolls, keeps the remuneration values for distribution published for 2016 (EUR 5,175 million for the sector and EUR 1,655.5 million for IBERDROLA) and for transmission (EUR 1,709 million for the sector), without calculating the amount corresponding to 2017, which must be performed considering the new investments and amendment of  $\lambda$  parameter, which affects the valuation of the assets. The Ministry of Energy, Tourism and Digital Agenda has opened a hearing process to review the remuneration of the 2016 distribution.

## 5. Access tolls

Access tolls are defined as the consideration consumers will pay for use of the networks and other unrelated supply costs included in the invoice, designated as charges. Access tariffs are uniform across the country and are collected by the distributors, which act as the collector agents of the electric system.

Currently, the government establishes these access tolls for each year that consumers must pay in each voltage level, in absence of regulatory implementation that outlines an allocation methodology and calculates the tolls per network use as well as unrelated supply charges.

The Royal Decree-law 14/2010, of 23 December 2010, developed by Royal Decree 1544/2011, of 31 October 2011, extended the application of access tolls to electricity producers and established that an access toll of EUR 0.5 per MWh fed into the grid.

The Order IET/1976/2016, of 23 December, establishes the access tolls for 2017.

The Order IET/1282/2017, of 22 December, establishes the access tolls for 2018. This Order:

- It freezes all the tolls and current capacity payments.
- It provisionally maintains the transmission and distribution remuneration, until the orders with definitive values for 2018 are published.

- It establishes the possibility of allocating part of the historical surplus so that there are no maladjustments in 2017 and 2018 (up to EUR 200 million in 2017 and EUR 500 million in total).
- The 2017 receivable income is considered to be the balances of the accounts allocated to quality improvement, service and clearing vegetation plans, for the amount of EUR 54 million.
- It modifies the aspects related to social bonus eligibility criteria and access procedure, for pensioners and large families.
- It makes the gas meter replacement plan more flexible in granting exceptions: The distributors can remain at up to 2% of non-replaced gas meters starting January 2019.
- It establishes the provision remuneration of the OS and OM, recognising 9 and 5 million additional euros, respectively, for the adaptation of systems to the European market, which increases the prices to be paid by generators and retailers.

## 6. Retail activity

From 1 July 2009 consumers may freely contract their supply of electricity with a trader of their choice.

The government, however, maintains a Voluntary Price for the Small Consumer (VPSC), a regulated tariff for consumers that have a contracted power rating less than 10kW, and for those that do not meet the requirements to sign up for it but who temporarily do not have a valid contract with a free market operator.

Royal Decree 216/2014, of 28 March establishes the legal regimen for contracting the VPSC and methodology for calculating it, such as sum of energy cost, access tolls and charges, and commercial margin. In addition, as established by Law 3/2014, it provides the option for consumers to contracting an electricity price fixed for a year with the reference trader.

On 25 November 2016, arising from the judgment issued by the Supreme Court on 3 November 2015. Cancelling the commercial fix margin used to establish the PVPC, the Royal Decree 469/2016 was published. It modified the Royal Decree 216/2014. Now the commercial margin is based on the costs of three most efficient reference traders plus remuneration for the year of activity (1.05% on the energy price) and excludes face-to-face channel.

On 24 December, a Ministerial Order was published with the concrete values, both for the past (from 1 April 2014) and the future (until 2018), establishing a fixed and variable term for the allocation of the Reference Trader's margin.

The reference traders will regularize the past through a customer rebilling in 2017.

## 7. Social tariff

The Social tariff was created in 2009 as a measure to protect vulnerable customers. It offers a discount on the regulated rate for certain groups.

On 24 December, the Royal Decree-law 7/2016, which regulates the mechanism for financing the cost of Social tariff and other measures to protect vulnerable electricity consumers, was published. It was subsequently developed by Royal Decree 897/2017, which governs who qualifies as vulnerable consumer, the social tariff and other protections measures for home electricity consumers, and by Order ETU/943/2017.

Three categories of vulnerable consumers were defined based on criteria entailing income, number of minors in the household and other conditions, and a VPSC discount applied to their bill up to an annual consumption limit.

- Vulnerable consumer: 25% discount on PVPC.
- Severe vulnerable consumer: 40% discount on PVPC.
- Consumer at social exclusion risk: 100% discount on PVPC. They must be helped by social services, who will cover at least 50% of their bill at PVPC.

The rate subsidy is financed by all matrices of the business activity Groups according to the method for calculating the percentages for distribution and the procedure for settling the quantities to finance, according to the legislation in force. In 2017 IBERDROLA is responsible for 35.5%.

The procedures to suspend supply in the event of non-payment is also reviewed in this legislation. Information requirements are added for all retailers, payment terms and suspension of supply for non-payment in the free and regulated market is equalised, with special consideration to consumers in social exclusion risk, whose service is deemed essential and therefore cannot be suspended.

## **8. Load Manager**

The Royal Decree-law 6/2010 introduced the load manager as another agent in the electrical system.

The Royal Decree 647/2011 regulates the functions of load managers, 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 for the applicable community regulations.” The Royal Decree 647/2011 sets forth the requirements and obligations of load managers. 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.

There is currently a public hearing on a proposal to amend Royal Decree 647/2011, whose purpose is to simplify the load managers' requirements, promoting the installation of charging points for electric vehicles, especially in the tertiary sector (hotels, malls, etc.)

## **9. Self-consumption**

Self-consumption is regulated for the first time in the Electric Industry Law 24/2013 and defined as the electric energy provided by generation facilities associated with a consumer.

In accordance with said Law, self-consumers must pay the same access tariff for the consumed energy as other customers (from the network or from your own installation). Also, they must register themselves on the self-consumption facilities registry.

Later, the Royal Decree-law 9/2015 of 10 July modified Law 24/2013 to establish the possibility of setting exemptions for small power self-consumers (up to 10 kW). They are exempt from the payment of fees and costs. This measure is exceptional and it will be implemented as long as the safety and economic and financial sustainability of the system is ensured.

Finally, the Royal Decree 900/2015 of 10 October regulated the administrative, technical and financial conditions of the self-consumption modalities.

- Supply with self-consumption: a consumer in a single electricity supply point or installation, with an internal network of one or more facilities to generate electricity for self-consumption. In this case, the consumer is a single subject. The contracted power shall not exceed 100 kW and discharges of energy to the grid do not receive monetary compensation.
- Production with self-consumption: a consumer in an electricity supply point or installation associated with one or several production facilities duly registered in the administrative record of energy production facilities. In this case there are two subjects - 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 and a variable charge applicable to the self-consumed energy. However, those consumers who fall into the supply with self-consumption modality and have contracted power less than or equal to 10 kW will be exempt from the temporary charge for the self-consumed energy, the insulated electrical systems (Canarian Island, Ceuta, Melilla, Ibiza and Formentera), and cogeneration until 31 December 2019. Self-consumers also pay network tolls for the use of the network, like other consumers.

## 10. Interruptibility

The interruptibility service for a consumer consists in the reduction of its contracted capacity in response to a reduction order from the system operator following a need that may arise in the electricity system in accordance with certain technical, security and financial criteria.

- Technical criteria: As a rapid response mechanism in emergency situations in the operation of the system.
- Economic criteria: In situations where the application of the service has a lower cost than that of the adjustment services 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 the Order IET/2013/2013. Finally, the resolution published on 12 August 2016 approves the rules of the competitive procedure of auctions for the allocation of the service of interruptibility. It also approves the model of adhesion to the legal framework established for participation in the auctions.

## 11. Emission allowances

Directive 2003/87/CE places the obligation to deliver an emission allowance for each ton of CO<sub>2</sub> emitted by a plant, and the cap is reduced over time so that total emissions fall. In 2020, emissions from sectors covered by the EU ETS will be 21% lower than in 2005.

Emission allowances may be acquired by companies through:

- Issuances in capital markets: European Energy Exchange-EEX and Futures Europe – ICE
- In some cases, free temporary allocation where the amount of allowances is determined on the European Union level

Since 2013, IBERDROLA has no longer had the right to receive any free allocation.

A surplus of emission allowances has built up in the 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 (EC) 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, changes will be introduced to reform the ETS by establishing an MSR as of 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 in 2019-20, instead they will be introduced in MSR.

On the other hand, Spain ratified in January 2017 the Paris Agreements, thus reinforcing its commitment to the fight against climate change and the decarbonisation of its economy.

## 12. Tariffs balance

The difference between collection of tariffs and access tolls set by the Government and real costs related to the same, produced a revenue shortfall between 2000 and 2013, which was financed by the electric companies. Recovery of this shortfall is deferred through annuities incorporated in the annual tariff.

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, the Law 15/2012 established new tax measures and the Royal Decree-law 9/2013, was approved, adopting urgent measures to guarantee the financial stability of the electric system and modified the 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 deficits 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 limits from 2014 onwards 2% 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 thus contributed will be returned in the corresponding settlements during the following five years together with an interest rate equivalent to the market rate.

The excess income that could arise will be used to compensate imbalances from previous years and, in 2017, by virtue of the Central State Budgets 2017, to compensate companies for the litigation resulting from the electricity regulation. Specifically, on 30 October the companies were paid EUR 316 million as a refund for the 2015 and 2016 Social tariff including interests, of which IBERDROLA has received EUR 121 million as long as there are debts pending from previous years, the access tolls and fees may not be revised downward.

The 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 Budgets, 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 Budgets.

Final settlements for 2014, 2015 and 2016 were closed with an excess of EUR 550, 469 and 421 million, respectively. This accumulated excess of EUR 1,124 million, deducting the return of the Social tariff, will be paid into an account held by the CNMC.

### 13. Energy efficiency

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) 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.

Law 8/2015, of 21 May, 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. Order ETU/258/2017, of 24 de March, establishes the 2017 contributions to the National Energy Efficiency Fund.



- **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 about natural gas intern market in European directives (2009/73/EC Directive 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 the Hydrocarbon Industry Law 34/1998, which began the deregulation process and, more recently, through the Law 12/2007 and the Royal Decree-law 13/2012 which completed this process.

The Hydrocarbon Industry Law of 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, basic 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, the Royal Decree-law 13/2012 was approved, transposing Directive 2009/73/EC, and establishing further measures of separation in management of the transmission network.

Although the Hydrocarbon Industry Law established the general principles of the new Spanish gas system, the sector's deregulation did not come into practice until 2001, after the publication of the Royal Decree-law 6/2000, on urgent measures to intensify competition in the goods and services markets, and the Royal Decree 949/2001, regulating third party access to gas facilities 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, the Royal Decree 949/2001, established firstly the specific terms and conditions for third-party network access and, 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 Energy, Tourism and Digital Agenda.

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 the Royal Decree 1434/2002.

As for the technical operation of the system, the operating regulations are established in the 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 regulation upholds the state's obligation to ensure the safety and continuity of supply. To this end, the 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%.

Additionally, the resolution approving the Gas Winter Plan was published. Retailers are required to maintain an "internal reserve" (November-March) as required in LNG, equal to 3.5 days of the contracted input capacity to the transmission and distribution network. This reserve may only be moved in the event of a cold snap or significant electricity demand, prior to authorisation by the GTS.

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, determining 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 indicative only. In 2012, the 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/CE. The two key changes enacted by this law were the elimination of regulated supply and the functional separation between network activities and deregulated activities.

In the Spanish electric system, the market deregulation process was completed on 1 July 2008 with the elimination of regulated supply for customers and the creation of last-resort supply. Currently, low-pressure customers with annual consumption of less than 50,000 kWh who do not choose another supply option shall be supplied by a last-resort supplier at a price calculated automatically. This additional rate is called the last resort tariff.

Law 18/2014, on measures for growth, competitiveness and efficiency, 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 deficit accumulated as at 31 December 2014 will be financed by the owners of the facilities 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. The first regulatory period ends on 31 December 2020. Every three years adjustments may be made to the remuneration parameters within the gas system in the event that there are significant changes in revenues or costs.

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, 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.
- With respect to the Efficiency Fund (Fondo Nacional de Eficiencia Energética) the law permits the refund of contributions when necessary (in case of mistake, for example).
- A new fiscal regime is established, benefiting the landowners and regions (Comunidades Autónomas) where the activities of exploration, investigation 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, the Royal Decree 984/2015 of 30 October 2015 regulated 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 standardised products by an electronic platform managed by the Market Operator (MIBGAS - OMEL). In addition, this market will centralise the hiring capacity through an electronic platform managed by the Technical System Operator (ENAGAS), with standardised products and auction procedures.

Lastly, the Council of Ministers approved the agreement that establishes the conditions for the provision of the mandatory market maker service by the controlling operators of the natural gas market. Natural gas retailers that hold a dominant operator position or form part of a business group that holds it, are required to present natural gas purchase and sale offers of a determined volume in the organised gas market (MIBGAS). This requirement is established for four years, unless the liquidity is satisfied before.

At the end of 2017, the Resolution was published establishing the conditions for the provision of the mandatory market maker service by the controlling operators of the natural gas market (Endesa and GNF). They are obligated to maintain a minimum volume of purchase and sale offers up to a maximum annual volume of 5.68% of its volume from supplying gas to Spain. The separation of prices between the purchase and sales offers must be equal to or less than 0.50 euros per MWh.

- **Alternative energies for transport**

The Royal Decree 639/2016, of 9 December, establishes a framework of measures for the implementation of an infrastructure for alternative fuels. This is the transposition of the Directive, which requires each State to set specific objectives and measures to foster infrastructures that allow the deployment of alternative mobility to oil. It contemplates the use of electricity for transportation by road and the supply in ports and airports. It also contemplates the use of natural gas (CNG or LNG) in transport by road or ports.

#### **4. 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, the Energy Act 2016 and various EU Directives (subject to any changes arising from the UK's forthcoming exit from the EU). These specific energy laws are implemented by UK and 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 Business, Energy and Industrial Strategy (BEIS). *GEMA* is supported by the Office of Gas and Electricity Markets (*OFGEM*). The main instrument of regulation used by *GEMA* is the licensing 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 provisions concerning the duties of GEMA have 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.

## **2. 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, provision of information, debt and disconnection, cost reflective pricing, in relation to payment methods, information supply to customers and on treating customers fairly.

- 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 CMA 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 currently be made without the right of appeal in pursuance of a European Union obligation, using powers in the European Communities Act 1972.

A market investigation was initiated on 26 June 2014 by GEMA. The report 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.

However, a number of adverse effects on competition were identified in the retail market, some due to ill-conceived regulation, but mainly focussed on the 'weak customer response' from the ~70% of customers who are on standard variable tariffs (SVT) and who lose out through lack of engagement in the market. Most of the CMA's remedies are focussed on increasing competition in the SVT segment, including creating a database of disengaged customers which could be used by rival suppliers for marketing, and a programme of trials to develop more effective customer prompts. However, in the case of customers with prepayment meters the CMA decided to impose a transitional safeguard tariff cap, to be set above the "efficient" level of pricing, with the aim of mitigating the damage to competition that might otherwise arise. Other remedies include location-dependent charging for transmission losses, changes to industry settlement processes and code governance, and recommendations to the Government on a number of subjects including GEMA's duties.

The CMA made a number of orders in December 2016 to implement relevant remedies, ahead of its statutory deadline of 23 December to complete implementation. It will remain involved to monitor the implementation and effectiveness of remedies.

Government policy changed during the second half of 2016 and in 2017 to a view that the CMA remedies did not go far enough to protect customers on SVTs. On 12 October 2017 the Government published for pre-legislative scrutiny a draft Bill which would require Ofgem to cap prices on SVT and other default tariffs. The scrutiny is being undertaken by the House of Commons BEIS Select Committee and is expected to last until at least January 2018 after which the Bill is expected to be introduced into the legislative process. The cap is unlikely to come into effect before 2019.

### **3. 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.

### **4. Price controls**



Prices for the sale of electricity and gas by utilities to the great majority of final consumers are not currently controlled in Great Britain, though any price variation by payment method must be cost reflective. Other retail rules in place include information requirements, requirements for notifying customers of lower tariffs, and standards of conduct for customer treatment.

As a result of a remedy imposed by the CMA, prices for supply to customers with prepayment meters (PPMs) are however subject to a transitional safeguard cap applying between 1 April 2017 and 31 December 2020. In the light of wider concerns about over-charging SVT customers, Ofgem has undertaken a statutory consultation on a new licence condition which would extend the CMA's PPM cap to customers on the Warm Home Discount (WHD) This cap is expected to start in February 2018 and end no later than 31 December 2019. Together these caps cover around [25%] of the market. Ofgem has indicated an intention to extend this latter cap to further vulnerable customers in later 2018. As noted above, the Government is consulting on draft legislation that would create a price cap for all customers on SVT or default tariffs; this would effectively govern the market as a whole.

All the major suppliers must offer special discounts for certain disadvantaged customers under the WHD programme. The total cost of discounts of the Warm Home Discount programme for SCOTTISH POWER in 2016-2017 was about GBP 6.40 per customer (counting gas and electricity separately) and, like any other costs, suppliers are free to pass on the cost to their tariffs. Where tariffs are capped, this cost is taken into account.

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 actions in balance markets. OFGEM has published guidelines on the interpretation and application of the TCLC. The condition was renewed and made permanent on 16 July 2017; some elements were removed to address potential overlap with REMIT.

OFGEM has implemented electricity market liquidity obligations for large integrated retail and generation businesses, including SCOTTISH POWER. These include obligations to facilitate trading with smaller companies and also an obligation to create market 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 licensees in fast or volatile markets. To date, we have incurred some limited costs in complying with this obligation.

The networks are considered to be a natural monopoly. Therefore, their revenues have been controlled and this is now achieved through the new RIIO framework (Revenue = Incentives + Innovation + Outputs). This framework includes a greater emphasis on outputs and innovation, as well as on the role that network companies can play in developing a sustainable energy sector. It involves setting a revenue profile for an eight year period (with the opportunity for Ofgem to propose a limited revision every four years) which would deliver a target return on investments 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). The formula also includes various incentives and takes account of inflation. 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.

In the transmission business, SPTL's new RIOT1 framework became effective from April 2013. In distribution, the new RIIO-ED1 for the Scottish Power network in the South of Scotland and in the Manweb area came into force on 1 April 2015. Following an appeal made to the CMA by British Gas Trading Ltd, a small adjustment was made, which affected the prices set for 2016/17 and later years.

Ofgem is reviewing the RIIO framework ahead of the second round of controls, which will start with RIIO-T2 in April 2021. Ofgem has also signalled that large, new and separable transmission projects may be tendered or made subject to a bespoke (lower) rate of return.

## **5. Other issues**

Other key elements of the regulatory regime in the United Kingdom include:

### **The Renewables Obligation (RO)**

For some time, the United Kingdom Government has intended to source at least 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 percent 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 RO is closed for new projects no later than 31 March 2017 and Government has implemented the Contract for Difference (CFDs) mechanism that was part of Electricity Market Reform (EMR). For solar photovoltaic generation plants above 5MW, the RO closed in April 2015. The RO closed in March 2016 for solar photovoltaic plants at 5 MW or below and in May 2016 for onshore wind, in both cases subject to grace periods. The wind farms in Scottish Power's onshore renewables pipeline that received planning permission in time to qualify for the relevant grace period, will be eligible to accredit under the RO. The RO remains 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 dated projects. The Energy Act 2013 foresees changing from the RO to a premium payment on substantially similar terms.

### **Electricity Market Reform (EMR)**

The principal elements of the United Kingdom Government's EMR programme are:

- a new incentive scheme, based on CFDs to support low carbon generation; and
- a Capacity Market to support security of supply (market-wide auction mechanism).



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. The second round concluded on 11 September 2017 and procured some 3.2GW of offshore wind, mostly at a clearing price of £57.50 per MWh. Government has now announced a further CFD Allocation Round for less established technologies which is due to commence in 2019. A budget allocation of GBP 557 million (2011/12 prices) has been made in aggregate for allocation rounds between now and about 2025; given the prices being discovered in the auctions, this is likely to be sufficient for a very large offshore wind programme.

Annual Capacity Market auctions took place in December 2014, 2015 and 2016, for capacity delivery in winter 2018, 2019 and 2020, respectively. The auction for delivery in winter 2021 is expected to take place in February 2018. A T-1 top-up auction for delivery in winter 2018 is expected to take place in January 2018.

### **EU-ETS and United Kingdom Carbon Price Support**

As in all EU Member States, generators in the United Kingdom participate in the EU-ETS. This is expected to remain the case for 2018 despite Brexit, but the position for 2019 and later years is not currently defined. Since 2013, the Government is required to auction all allocations to the power sector. 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. In recent years, this charge has been set at GBP 18 per tonne CO2. The Government announced in Budget 2017 that it will set the charge so that the sum of the charge and any applicable carbon trading cost remains broadly constant until unabated coal fired generation is no longer used.

### **The Energy Companies Obligation (ECO)**

Energy suppliers who supply over 250,000 domestic customers are required to achieve energy efficiency improvements or heating cost reductions by domestic customers. As with any other cost, the costs of making those improvements can be incorporated by suppliers into tariffs, subject to the need to remain competitive in the market. These costs will need to be taken into account in any price caps that may be proposed. The current transitional ECO scheme started in April 2017 with an indicative industry wide cost of GBP 640 million a year. A new scheme is due to start in April 2018 or soon after with the same indicative cost, but final details are yet to be confirmed.

### **Coal plants closure**

In November 2015, the then Secretary of State Amber Rudd announced plans to consult on requirements for all coal power stations without CCS to close by 2025 (subject to any security of supply issues). In late 2016 the Government published a consultation on possible regulatory options to facilitate this. In January 2018 the Government confirmed its intention of eliminating coal generation from the system in 2025. The impact of any such measures on ScottishPower is limited due to the 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 (SO<sub>2</sub>), oxides of nitrogen (NO<sub>x</sub>) and particles from power plants, whereby operators of such plants have the option of meeting those requirements or accepting a limited hour derogation prior to their 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's 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.

The Medium Combustion Plants Directive places emission limits on smaller generating and other combustion plants. As part of the implementation of this, Defra is expected to impose NO<sub>x</sub> limits on diesel generators, which could reduce the air quality implications of allowing such plants to participate in the capacity mechanism.

## 5. Industry regulation in USA

### 1. Electricity and natural gas distribution

Some of the most important specific regulatory processes that affect AVANGRID Networks, Inc. (hereinafter, AVANGRID NETWORKS) include the New York rate settlement for NYSEG and RG&E, the Connecticut United Illuminating distribution rate case decision, the Maine and Connecticut transmission Federal Energy Regulatory Commission (FERC) Return on Equity (ROE) case and the Reforming Energy Vision (REV) process of New York.

The revenues of AVANGRID 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 and Connecticut that allows 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 eight supply companies in AVANGRID 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 Connecticut) and provide reasonable returns on equity, protection and automatic adjustments for exceptional costs incurred and efficiency incentives.

## 2. New York

New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E) Tariff Plans:

- **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.

On 19 February 2016, the NYSEG, RG&E and other signatory parties filed a Joint Proposal, or the Proposal, with the NYPSC for a three-year rate plan commencing on 1 May 2016. The Proposal balances the varied interests of the signatory parties including but not limited to maintaining the companies' credit quality and mitigating the rate impacts to customers. The Proposal reflects many customer attributes including: acceleration of the companies' natural gas leak prone main replacement programs and enhanced electric vegetation management to provide continued safe and reliable service. The delivery rate increase can be summarized as follows:

Utility	01 May 2016		01 May 2017		01 May 2018	
	Rate Increase (Millions USD)	Delivery Rate Increase (%)	Rate Increase (Millions USD)	Delivery Rate Increase (%)	Rate Increase (Millions USD)	Delivery Rate Increase (%)
NYSEG Electric	29.6	4.10	29.9	4.10	30.3	4.10
NYSEG Gas	13.1	7.30	13.9	7.30	14.8	7.30
RGE Electric	3.0	0.70	21.6	5.00	25.9	5.70
RGE Gas	8.8	5.20	7.7	4.40	9.5	5.20

The allowed rate of return on common equity for NYSEG Electric and NYSEG Gas is 9%. The equity ratio for both Electric and Gas is 48%. The Proposal includes an Earnings Sharing Mechanism (ESM) applicable. The customer share of earnings would increase at higher earnings levels, with customers receiving 50%, 75% and 90% of earnings over 9.5%, 10% and 10.5% of ROE, respectively, in the first year. Earnings thresholds would increase in subsequent years.

The Proposal reflects the recovery of deferred NYSEG Electric storm costs of approximately USD 262 million, of which USD 123 million will be amortized over 10 years and the remaining USD 139 million will be amortized over five years. The Proposal also continues reserve accounting for qualifying Major Storms (USD 21.4 million annually). Incremental maintenance costs incurred to restore service in qualifying divisions will be chargeable to the Major Storm Reserve provided that they meet certain thresholds.

The Proposal maintains current electric reliability performance measures (and associated potential negative revenue adjustments for failing to meet established performance levels) which include the system average interruption frequency index and the customer average interruption duration index. The Proposal also modifies certain gas safety performance measures at the company, including those relating to the replacement of main leak prone, leak backlog management, emergency response, and damage prevention.

The Proposal establishes threshold performance levels for designated aspects of customer service quality and continues and expands bill reduction and arrears forgiveness Low Income Programs at increased funding levels. The Proposal provides for the implementation of NYSEG's Energy Smart Community ("ESC") Project in the Ithaca region which will serve as a test-bed for implementation and deployment of Reforming the Energy Vision (REV) initiatives. The ESC Project will be supported by NYSEG's planned rollout of Distribution Automation and Advanced Metering Infrastructure (AMI) to customers on circuits in the Ithaca region. REV-related incremental costs and fees will be included in the Rate Adjustment Mechanism (RAM) to the extent cost recovery is not provided for elsewhere. Under the Proposal, we will implement a RAM, which will be applicable to all customers, to return or collect RAM eligible deferrals and costs, including: (1) property taxes; (2) Major Storm deferral balances; (3) gas leak prone pipe replacement; (4) REV costs and fees which are not covered by other recovery mechanisms; and (5) Electric Pole Attachment revenues.

The Proposal provides for partial or full reconciliation of certain expenses including, but not limited to: pensions, other postretirement benefits; property taxes; variable rate debt and new fixed rate debt; gas research and development; environmental remediation costs; Major Storms; nuclear electric insurance limited credits; economic development; and Low Income Programs. The Proposal also includes a downward-only Net Plant reconciliation. In addition, the Proposal includes downward-only reconciliations for the costs of: electric distribution and gas vegetation management; pipeline integrity; and incremental maintenance. The Proposal provides that we continue the electric RDMs on a total revenue per class basis and the gas RDMs on a revenue per customer basis.

A hearing on the Proposal was held on 7 April 2016 and a NYPSC order adopting the Proposal was issued on 15 June 2016, with retroactive application beginning on 1 May 2016. The Commission also provided for additional modifications including a timeline for developing the Earnings Adjustment Mechanism described in the Commission's REV Track 2 Order.

- **Reforming the Energy Vision**

Reforming the Energy Vision: In 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. 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.

REV is also intended to promote greater use of advanced energy management products to enhance demand elasticity and efficiencies. Track 1 of this initiative involves a collaborative process to examine the role of distribution utilities in enabling market based deployment of distributed energy resources to promote load management and greater system efficiency, including peak load reductions. We are participating in the initiative with other New York utilities and are providing our unique perspective. The NYPSC has issued a 2015 order in Track 1, which acknowledges the utilities' role as a Distribution System Platform (DSP) provider, and requires the utilities to file an initial Distribution System Implementation Plan (DSIP) by June 30, 2016. The DSIP was filed on 30 June 2016 and included information regarding the proposed deployment of Automated Metering Infrastructure (AMI). A supplemental DSIP filing is due to be filed November 1, 2016. Various proceedings have also been initiated by the NYPSC which are REV related, and each proceeding has its own schedule. These proceedings include the Clean Energy Fund, Demand Response Tariffs, Net Energy Metering/Value of Distributed Energy Resources and Community Choice Aggregation.

Track 2 of the REV initiative is also underway, and through a NYPSC Staff Whitepaper review process, is examining potential changes in current regulatory, tariff, market design and incentive structures which could better align utility interests with achieving New York state and NYPSC's policy objectives. New York utilities will also be addressing related regulatory issues in their individual rate cases. A Track 2 Order was issued in May, 2016. The Track 2 Order includes requirements for all electric utilities to file: a system efficiency proposal, an interconnect survey process and proposed Earnings Adjustment Mechanism (EAM), a progress report on aggregated data reporting, an aggregated data privacy policy statement, revisions to their standby service tariffs, a review of their standby rate allocations and proposed revisions, one or more Smart Home Rate demonstration proposals, and revisions to voluntary time of use rates, as well as to propose EAMs for Energy Efficiency and Customer Engagement. Additionally, the order requires electric utilities to participate in a scorecard metric collaborative and a stakeholder process to develop Clean Energy Standard EAM(s).

On 1 December 2016, NYSEG and RG&E filed their proposed Earnings Adjustment Mechanism (EAM) in compliance with the Commission's REV Track 2 Order and the NYSEG and RG&E Rate Plan Order. Although collaborative sessions have been held in the first and second quarters of 2017, the companies cannot forecast the result of the proceeding.

On 20 December 2016, NYSEG and RG&E filed a petition for the full deployment of Automated Metering Infrastructure (AMI) with the Commission. The AMI petition requests authorization to implement full-scale AMI at NYSEG Electric, NYSEG Gas, RG&E Electric and RG&E Gas. Approximately 1.8 million electric AMI meters and gas modules will be deployed. The Companies also requested to implement a surcharge to recover the investment until such values can be included in base delivery rates in their next rate cases. The Companies expect the Commission to address its petition in 2018.

- **Reliability Support Service Agreement in the Ginna Nuclear Power Plant**

Ginna Nuclear Power Plant, LLC (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 pressurized water reactor located in Ontario, New York. In May 2014, the New York Independent System Operator (NYISO) produced 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 initiates a proceeding to examine a proposal for the continued operation of the Ginna Facility. Ginna asserted that in the two preceding calendar years, 2012 and 2013, it had sustained cumulative losses at the Facility of nearly USD 100 million (including the allocation of CENG corporate overhead) and that CENG had 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: Based on the results of the 2014 Reliability Study, GNPP requested that: 1) the NYPSC determines that the continued operation of the Ginna Facility is required to preserve system reliability; and 2) the NYPSC issues an order directing RG&E to negotiate and file a Reliability Support Services Agreement (RSSA) for the continued operation of the Ginna Facility.

In November 2014, the NYPSC ruled that GNPP had demonstrated that the Ginna nuclear plant was necessary to maintain the system's reliability and that its actions regarding 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 RSSA between RG&E and GNPP. RG&E requested that the NYPSC accepted the RSSA and approve cost recovery by RG&E from its customers of all amounts payable to GNPP under the RSSA utilizing the cost recovery surcharge mechanism.

On 21 October 2015, RG&E, GNPP, New York Public Service Commission, Utility Intervention Unit and Multiple Intervenors 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 15.4 million. RG&E will be entitled to 70% of revenues from Ginna's sales into the 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 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 FERC Settlement agreement in the Settlement Docket. 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 2.3 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 2.3 million per month until the final payment has been recovered by RG&E from ratepayers. In the month following the expiration of the term on 31 March 2017, Ginna shall prepare and issue an invoice to RG&E for, and RG&E shall pay to Ginna, a one-time payment in the amount of USD 11.5 million. This amount is being accrued pro-rata over the term of the agreement and will be recovered from ratepayers. On 23 February 2016, the NYPSC unanimously adopted the Joint Proposal in the Ginna RSSA proceeding as in the public interest.

- **NY Transco**

AVANGRID NETWORKS holds an approximate ownership of 20% in the New York Transco. The New York Transco was established by the New York transmission utilities to develop, own, and operate the electric transmission in New York. In December 2014, New York Transco filed for regulatory approval of its tariffs, terms, and conditions with FERC. The filing requests a base ROE of 10.6%, plus 150 basis points as incentives, recognition of construction work in progress, a tariff formula mechanism, and a proposed cost allocation. Various parties, including the NYPSC, have protested the filing with FERC, including the base ROE, the ROE incentives, and the cost. The New York Transco will not make final decisions on transmission project development until a FERC decision.allocation.

On 2 April 2015, the FERC issued an order granting, inter alia, the New York Transco's owners' request for a 50 basis points adder for NY Transco's membership in the NYISO RTO, 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 FERC also set the formula rate and base ROE issue for hearing and settlement judge procedures. In addition, the FERC rejected the New York Transco's owners' cost allocation method for the Transmission Owner Transmission Solutions, or TOTS, Projects because it would allocate costs to Power Supply Long Island and New York Power Authority that they did not voluntarily agree to pay.



On 5 November 2015, the New York Transco's owners, filed the Settlement with the FERC 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. The issues regarding certain other projects remain pending. The Settlement addressed the financial terms that are components of New York TransCo's revenue requirement for the proposed Transmission Owner Transmission Solution (TOTS) Projects, including the base ROE of 9.50%, and a 50-basis point ROE adder, the capital structure of 53%, and the cost allocation under the New York Independent System Operator, Inc. (NYISO) Open Access Transmission Tariff (OATT) for the TOTS Projects. La FERC aprobó la Solución el 17 de marzo de 2016.

- **Net Energy Metering**

On 16 October 2015, the NY Commission issued an Order Establishment Interim Ceilings on the Interconnection of Net Metered Generation (the Floating Cap Order). There the Commission directed that net metering limitations should "float" until completion of a proceeding to develop an interim method of evaluating the benefits of distributed energy resources.

Following the issuance of the Floating Cap Order and the launch of the CDG program, the Joint Utilities experienced a surge in new applications for net metered resources, ultimately leading to more than 4000 MW of interconnection applications. The Commission started the proceeding "Value of DER" in reply to the decision to leave the limit of net measure open and the promise to adopt a "new regulatory approach" for assessing Distributed Energy Resources (RED).

- **The Commission is expected to rule of the proceeding in 1Q2017. New York State Department of Public Service Investigation of the Preparation for and Response to the March 2017 Windstorm**

At the direction of Governor Andrew Cuomo, on March 11, 2017 the New York State Department of Public Service (the "Department") commenced an investigation of NYSEG's and RG&E's preparation for and response to the March 2017 wind storm, which affected more than 219,000 customers. The Department investigation will include a comprehensive review of NYSEG's and RG&E's preparation for and response to the windstorm, including all aspects of the companies' filed and approved emergency plan. The Department held public hearings on April 12 and 13, 2017. On November 16, 2017 the NYPSC issued an Order Instituting Proceeding and Show Cause whereby the Commission indicated that the Companies had twelve violations of its Emergency Response Plan (4 at NYSEG and 8 at RG&E) and indicated the Companies could be subject to penalties of several million dollars.

### 3. Connecticut

- **UI rate case**

On 1 July 2016, UI filed an application with the Connecticut Public Utilities Regulatory Authority, or PURA, requesting approval of a three-year rate plan commencing 1 January 2017, and extending through 31 December 2019. UI's application requests an increase of USD65.6 million in 2017, an additional USD 21.1 million in 2018, and an additional USD 13.4 million in 2019, totaling USD 100.1 million over the three years. During the litigation of the case, the three-year cumulative request was modified to USD 98.3 million. The original application includes a rate levelization proposal to moderate the customer impact of the necessary revenue increases. The proposal results in levelized revenue requirement increases of USD 40.7 million in 2017, USD 47.4 million in 2018 and USD 39.1 million in 2019, followed by an offset of USD 25.6 million at the end of the three year rate plan to equate the levelized recovery to the non-levelized revenue requirement increase.

UI's rate request is attributable primarily to the amount of capital expenditures devoted to its electric distribution system for the purpose of reliability and system resiliency, both in relation to routine operations and during major storm events. UI's application also proposes continuation of its revenue decoupling mechanism and proposes a new Earnings Sharing Mechanism (ESM). Under the proposed ESM, 50% of UI's earnings in excess of the allowed ROE, plus a deadband above the allowed ROE, would be flowed through to the benefit of customers. The proposed ESM includes a 20-basis point deadband in 2017 above the authorized ROE, within which there would be no sharing. This deadband would be 30 basis points in 2018 and 40 basis points in 2019. UI proposes to continue applying any dollars due to customers to reduce the storm regulatory asset, if one exists. If none exists, then the customer share would be provided through a bill credit.

On 15 December 2016, the PURA issued its Final Decision authorizing a cumulative three year rate of USD 57 million for the years 2017, 2018 and 2019. The 2017 rate increase is USD 43.0 M, an additional USD 11.5 million in 2018, and an additional USD 2.9 million in 2019. The PURA requested a 9.10% ROE and 50% equity ratio. The three year rate plan retains the existing earnings sharing level whereby earnings above the allowed ROE are shared equally between customers and shareholders. The Company's revenue decoupling mechanism continues. The PURA did reduce the residential basic service charge to USD 9.65 per month.

- **SGC's rate case**

On June 30, 2017, The Southern Connecticut Gas Company (SCG) filed an application with PURA for new tariffs to become effective January 1, 2018. SCG requested a three-year rate plan for calendar years 2018, 2019 and 2020 and a proposed ROE of 9.95%. SCG also requested to implement a RDM and Distribution Integrity Management Program (DIMP) mechanism similar to the mechanisms authorized for Connecticut Natural Gas Corporation (CNG).

On October 16, 2017, SCG, Prosecutorial Staff from PURA, and the Connecticut Office of Consumer Counsel (OCC) filed an amended settlement agreement with PURA for approval, which includes among other items the implementation of an RDM, ESM and the DIMP as proposed by SCG, the amortization of certain regulatory liabilities (most notably accumulated hardship deferral balances and certain accumulated deferred income taxes) and tariff increases based on an ROE of 9.25% and approximately 52% equity level. The parties also agreed on a three-year rate plan with rate increases of \$1.5 million, \$4.7 million and \$5.0 million in 2018, 2019, and 2020, respectively.



On 13 December 2017, PURA approved the amended settlement agreement and a Final Decision is expected on 1 January 2018.

#### **4. FERC**

CMP's and UI'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 ROE of 11.14% and additional ROE incentives applicable to assets based upon vintage, voltage and other factors.

On 30 September 2011, the Massachusetts Attorney General, Massachusetts Department of Public Utilities, Connecticut Public Utilities Regulatory Authority, New Hampshire Public Utilities Commission, Rhode Island Division of Public Utilities and Carriers, Vermont Department of Public Service, numerous New England consumer advocate agencies and transmission tariff customers collectively filed a complaint (Complaint I) with the FERC pursuant to sections 206 and 306 of the Federal Power Act. The filing parties sought an order from the FERC reducing the 11.14% base return on equity (ROE) used in calculating formula rates for transmission service under the ISO-New England Open Access Transmission Tariff (OATT) to 9.2%. CMP and UI are New England Transmission Owners (NETOs) with assets and service rates that are governed by the OATT and will thereby be affected by any FERC order resulting from the filed complaint.

On 19 June 2014, the FERC issued its decision in Complaint I, establishing a ROE methodology and setting an issue for a paper hearing. On 16 October 2014, FERC issued its final decision in the Complaint I setting the base ROE at 10.57% and a maximum total ROE of 11.74% (base plus incentive ROEs) for the October 2011 – December 2012 period as well as prospectively from 16 October 2014, and ordered the NETOs to file a refund report. On 17 November 2014, the NETOs filed the requested refund report. On 17 November 2014, the NETOs filed the requested refund report.

On 3 March 2015, the FERC issued an order on requests for rehearing of its 16 October 2014 decision. The March order upheld the FERC's 19 June 2014 decision and further clarified that the 11.74% ROE cap will be applied on a project specific basis and not on a transmission owner's total average transmission return. In June 2015 the NETOs and complainants both filed an appeal in the U.S. Court of Appeals for the District of Columbia of the FERC's final order. On April 14, 2017, the Court of Appeals (the Court) vacated FERC's decision on Complaint I and remanded it back to FERC. The Court held that FERC, as directed by statute, did not determine first that the existing ROE was unjust and unreasonable before determining a new ROE. The Court ruled that FERC should have first determine that the then existing 11.14% base ROE was unjust and unreasonable before selecting the 10.57% as the new base ROE. The Court also found that FERC did not provide reasoned judgment as to why 10.57%, the point ROE at the midpoint of the upper end of the zone of reasonableness, is a just and reasonable ROE. Instead, FERC had only explained in its order that the midpoint of 9.39% was not just and reasonable and a higher base ROE was warranted. On June 5, 2017, the NETOs made a filing with FERC seeking to reinstate transmission rates to the status quo ante. The effect of the Court vacating order is to return the parties to the rates in effect prior to FERC Final decision as of June 8, 2017, the date the Court decision became effective. In that filing, the NETOs stated that they will not begin billing at the higher rates until 60 days after FERC has a quorum of commissioners. On October 6, 2017, FERC issued an order rejecting the NETOs request to collect transmission revenue requirements at a higher ROE (11.14%), pending FERC order on remand. In reaching this decision, FERC stated that it has broad remedial authority to make whatever ROE it eventually determines to be just and reasonable effective for the Complaint I refund period and prospectively from October 2014, the effective date of the Complaint I Order. Therefore the NETOs will not be harmed financially by not immediately returning to their pre-Complaint I ROE. We anticipate FERC to address the Court decision during 2018. We cannot predict the outcome of action by FERC.

On 26 December 2012, a second, ROE complaint (Complaint II) for a subsequent rate period was filed requesting the ROE be reduced to 8.7%. On 19 June 2014, FERC accepted Complaint II, established a 15-month refund effective date of 27 December 2012, and set the matter for hearing using the methodology established in the Complaint I.

On 31 July 2014, a third ROE complaint (Complaint III) was filed for a subsequent rate period requesting the then effective ROE of 11.14% be reduced to 8.84%. On 24 November 2014, FERC accepted Complaint II, established a 15-month refund effective date of 31 July 2014, And set the matter for hearing using the methodology established in the Complaint I. Hearings relating to the refund periods and going forward period were held in June 2015 on Complaints II and III before a FERC Administrative Law Judge. On 29 July 2015, post-hearing briefs were filed by parties and on 26 August 2015 reply briefs were filed by parties. On 13 July 2015, the NETOs filed a petition for review of FERC's orders establishing hearing and consolidation procedures for Complaints II and III with the U.S. Court of Appeals. The FERC Administrative Law Judge issued an Initial Decision on March 22, 2016. The Initial Decision determined that, 1) for the 15-month refund period in Complaint II, the base ROE should be 9.59% and that the ROE Cap (base ROE plus incentive ROEs) should be 10.42% and 2) for the 15-month refund period in Complaint III and prospectively, the base ROE should be 10.90% and that the ROE Cap should be 12.19%. The Initial Decision is the Administrative Law Judge's recommendation to the FERC Commissioners. The FERC is expected to make its final decision in early 2018.

CMP and UI reserved for refunds for Complaints I, II and III consistent with the FERC's 3 March 2015 final decision in Complaint I. Refunds were provided to customers for Complaint I. The CMP and UI total reserve associated with Complaints I, II and III is USD 22.2 million and USD 4.4 million, respectively, as of 30 September 2017, which has not changed since December 31, 2016, except for the accrual of carrying costs. If adopted as final, the impact of the initial decision would be an additional aggregate reserve for Complaints II and III of USD 17.1 million, which is based upon currently available information for these proceedings. We cannot predict the outcome of the Complaint II and III proceedings.

On 29 April 2016, a fourth ROE complaint (Complaint IV) was filed for a subsequent rate period requesting the then effective ROE of ROE be reduced to 11.24%. The NETOs filed a response to the Complaint IV on June 3, 2016. On 20 September 2016, FERC accepted Complaint II, established a 15-month refund effective date of 29 April 2016, and set the matter for hearing and settlement judge procedures. On February 1, 2017, the complainants filed their initial testimony recommending a base ROE of 8.59%. On March 23, 2017, the NETOs filed their answering testimony supporting the continuation of the base ROE from Complaint I of 10.57%. In April 2017, the NETOs filed for a stay in the hearings pending FERC on the Court order described above. That request was denied by the Administrative Law Judge. Hearings are being held later this year with an expected Initial Decision from the Administrative Law Judge in March 2018.

On October 5, 2017, the NETOs filed a Motion for Dismissal of Pancaked Return on Equity Complaints in light of the decision by the Court in April 2017 that became effective on June 8, 2017. The NETOs assert that all four complaints should be dismissed because the complainants have not shown that the existing ROE of 11.14% is unjust and unreasonable as the Court decision requires. In addition, the NETOs assert that Complaints II, III and IV should also be dismissed because the Court decision implicitly found that FERC's acceptance of Pancaked FPA Section 206 complaints was statutorily improper as Congress intended that the 15-month refund period under Section 206 applies whenever FERC does not complete its review of a complaint within the 15-month period. In the event FERC chooses not to dismiss the complaints, the NETOs request that FERC consolidate the complaints for decision as the evidentiary records are either closed or advanced enough for FERC to address the requirements of the Court decision and expeditiously issue a final order.

- **Net Energy Metering**

On 14 September 2016, the MPUC issued a Notice of Rulemaking regarding Amendments to the Net Energy Metering Rule. The Commission initiated a rulemaking to consider several proposed amendments to its net energy billing rule (Chapter 313). First, the proposed amended rule would increase the maximum size for an eligible generating facility from 660 kilowatts to one megawatt. Second, the proposed amended rule would gradually reduce the T&D portion of a customer's bill which is eligible to be netted against the generating facility's output, while netting of the supply portion of the bill will remain largely unchanged. Third, the proposed amended rule would grandfather existing NEB customers for a fifteen year period. Fourth, the proposed amended rule would add specific provisions that allow and provide consumer protections for community net energy billing and net energy billing leases. As noted by the Commission in its Notice of Rulemaking, these proposed amendments would do little to impact existing NEB customers.

CMP filed initial and reply comments in response to the Commission's Notice of Rulemaking. Other parties, including industry experts also provided comments. The MPUC made a decision on its Notice of Rulemaking on 31 January 2017. The MPUC has not yet issued the final rule but did issue a notice stating that the resulting rule a) grandfathers existing customers for fifteen years, b) for new entrants it locks in the phase down level, at the year in which they enter, for fifteen years, and c) maintains incentive margins consistent with the declining costs of solar technology. Below is additional detail of the ruling.

- Grandfathering of existing NEB Customers. All existing customers and new customer facilities that occur prior to 1 January 2018 will be grandfathered for fifteen years. This means those customers will receive the current incentives and terms as they exist today.

- Grandfathering of New Entrants to NEB. As new customers sign up over the next 10 years, netting of the transmission and distribution (T&D) portion of the bill will be gradually decreased to reflect reductions in the costs of small renewable generation technology. For example, in the first year NEB customers will receive the full value of the supply portion, and 90% of the T&D portion for each year of the fifteen years.
- Maintaining Incentive Levels. The incentives to NEB customers under the new Rule should not change the length of time it takes for a customer to recoup their investment. The estimated payback for new facilities will be similar to what it has been historically. As noted above, for a customer installation signed in year one, the full incentive for supply and 90% of the incentive for T&D is received for fifteen years. As the cost of technology declines, the incentive for T&D also declines for new entrants. For a new customer installation in year two, for example, the cost of the solar panels will have declined but the incentive will also decline to 80% for T&D and the full incentive for supply.
- The rule only applies to residential solar installation on roofs. Many projects are being built across the state today based on existing market mechanisms. The Commission decided not to address larger scaled projects and community projects as part of the NEB rules to ensure we stayed within our regulatory function, and in light of legislative initiatives in these areas.
- Includes Renewable Energy Credit (REC) Based Revenue Stream. The new Rule allows to a NEB customer to choose to monetize the value of their solar generation and receive a credit for that value. NEB facilities will be automatically classified as a Maine Class I Renewable Resource.

## 5. Electricity generation from renewable energy resources

Numerous State Governments and the Federal Government have adopted measures and implemented numerous regulations designed to foster the development of electricity production from renewable resources. State programs have generally come in the form of: 1) Renewable Portfolio Standards (RPS's) 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.

### State Law

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 program 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 and Oregon in 2016 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 2017 California legislators approved and Gov. Brown signed Assembly Bill 398, extending and expanding the State's greenhouse gas regulations and authorizing the use of the cap-and-trade program through 2030. Maryland enacted an RPS increase over Gov. Hogan's veto. The Nevada Legislature passed an RPS increase to 40% by 2030 but Gov. Sandoval vetoed the bill. The California Senate passed a bill to accelerate and increase its RPS requirements but the Assembly did not act on it before adjournment. Further action in 2018 is possible. No state has moved forward yet with RPS rollback legislation. Texas legislators passed and Gov. Abbott signed a bill to deny property tax incentives to new wind projects near certain military facilities. An 18-month wind-siting moratorium provision was added by the North Carolina Senate to a popular solar bill passed by the House. Gov. Cooper signed the bill into law, which would not impede completion of the Desert Wind II development. Proposals to provide financial support to operating nuclear plants appear to be stalled in Ohio and Pennsylvania. Connecticut passed a nuclear assistance bill that will be triggered by a study and finding of commercial hardship for the Millstone plant. New Jersey legislators are examining whether to assist the fleet of nuclear plants in that state but no legislation has been introduced yet.

### Federal Law

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 several times and extended to include the generation of electricity from other renewable sources, such as biomass, geothermal power, waster and hydro power.

In 2005 the Congress established a 30% Investment Tax Credit (ITC) for solar power projects. The PTC, which is currently valued at USD 24 per MWh, was extended and phased out by the Congress on 18 December 2015. 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. Congress also phased down the solar ITC. 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. In addition to the PTC and ITC, renewable energy facilities are eligible for accelerated five-year tax depreciation on their investments. This program 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. In December 2015, 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.

On 22 December 2017, President Trump signed the tax reform, Tax Cuts and Jobs Act, which implied a cut of 1.5 trillion US dollars. The new law establishes the following:

- The permanent reduction of corporate income tax from 35 to 21%, effective as of 1 January 2018.
- The elimination of the corporate Alternative Minimum Tax (AMT).
- The maintenance of corporate deductions for local and state taxes.
- The limitation on the deduction of interests.

- The exclusion of the utilities (regulated public services) from the total expense and their exemption from the limitation on the deduction of interests.
- The inclusion of normalisation and the excess provisions of deferred taxes.
- The maintenance of tax on dividends and capital gains.
- The maintenance of the elimination and gradual reduction of the PTC (Production Tax Credits) and the ITC (Investment Tax Credits), without modifications.
- The enforcement of a Base Erosion Anti-Abuse Tax on the deductions for the costs paid or accrued to a foreign subsidiary.

The Ministry of Finance will publish the guides and regulations necessary to implement the law.

AVANGRID does not anticipate a direct impact from BEAT under current conditions. However, most U.S. providers of tax equity for renewable energy projects (generally, large banks and other corporations) meet the criteria to be subject to the BEAT.

### FERC

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.

## **6. Industry regulation in Mexico**

The Mexican Energy Reform, which began at the end of 2013 with the amendment of Mexican Constitution, set in motion the deep transformation of the electric sector, through the creation of a completely new regulatory framework and the promotion of competitiveness, non-existent up until now in the country, As a consequence of this constitutional reform, nine new laws were enacted during 2014 and 2015 and 25 regulations were either created or reformed.

Besides having an impact on the hydrocarbons sector, the Proposal also introduced new business opportunities in the generation, transmission, distribution and management of electricity infrastructure. This transformation opens the energy sector to private investment in activities that were previously reserved to the Government. It also respects the regulatory framework of existing businesses and facilities.

The Hydrocarbons Law (LH) regulates activities like petroleum treatment and refining natural gas processing export and import of hydrocarbons and petroleum products; transportation, 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. All these activities are now open to private investment and subject to the Hydrocarbons Law.



One of the goals of the industry restructuring is to improve the power generation, promoting the use of renewable sources or low carbon emissions. Thus, the Government introduced Clean Energy Certificates (CECs) through the Electricity Industry Law (Ley de la Industria Eléctrica - LIE). 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, bringing a strong legal framework to the development of clean energy projects in Mexico.

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 (SEC), as well as the energy distribution and transmission public service are competency of the Government of Mexico. Power generation, excluding nuclear, is open to private investment, as well as power sales to the end users.

The transmission and Distribution networks (T&D) will remain under State ownership as regulated activities, but the Mexican Government may grant service contracts to private companies, creating opportunities to participate in the construction, operation and maintenance of T&D infrastructure.

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.

From the regulatory side, three agencies will have primary responsibility for the sector. The Energy Secretariat ("SENER") will have the policy function; the Energy Regulatory Commission ("CRE") will have the regulatory function; and the National Energy Control Center ("CENACE"), a new decentralized agency, will manage the power grid and the wholesale electric market.

## **2. Energy Secretary**

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 Clean Energy Certificates (CECs) for year 2018, with a target of 5% of the total consumption and in March 2016 established a target of 5.8% for 2019. A year later, in March 2017, the targets for CECs for 2020, 2012 and 2022 (7.4%, 10.9% and 13.9%, respectively) were established. Penalties for non-compliance with the requirements of CECs have been issued.

During the second half of 2015, SENER issued the Wholesale Electric Market guidelines and called for the first long term auction for CECs, capacity and energy; eleven companies awarded contracts to develop more than 1.8 GW of new solar and wind capacity.

Through the first half of 2016 SENER called for the second long term auction, and twenty three companies were awarded contracts to develop 2.8 GW of the renewable capacity; the energy-CECs cost was 30% lower than the first auction.

In 2017 the first medium-term auction was called. It will award in 2018 energy and capacity contracts for 1 to 3 years. As happens every year, a long-term auction was held where the award prices were again decreased (-40% with respect to the previous auction) of 2 GW of new allocated renewable generation.

Throughout this process, SENER has been responsible for publishing updates of all wholesale electricity market Operational Manuals that outline the fundamental aspects of the market Guidelines.

Regarding the coordination and planning of the National Electric System, SENER issued, in May 2017 -as every year- the yearly versions of the National Electric Grid Development Programme (Programa de Desarrollo del Sector Eléctrico Nacional - PRODESEN) including projections of power generation, demand and infrastructure requirements for the 15 years following its publication (2017-2031).

Another highlight of 2017 was the publication of the Smart Power Grid Programme, which defines a roadmap for the short, medium and long terms, and describes projects linked to developing smart grids.

### **3. Regulatory Body**

As part of the energy reform in Mexico, the country enacted the Regulatory Body Law in August 2014. 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).

CRE and the CNH are the two most relevant regulatory authorities in the energy sector. They have their own legal status, budget, technical and governance autonomy. Both commissions have a similar governance authority of seven commissioners and an executive secretary.

CRE has existed since 1995 as a public body with power and authority to grant permits and issue 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, CRE's field of authority was expanded significantly, to transportation and commercialisation of hydrocarbon and derivatives, such as gasoline, petrol, diesel fuel oil, etc.

Regarding the electricity sector, the main faculties of CRE are to define terms and conditions of auctions and bidding processes; to supervise the wholesale market operation; to authorise the contract and auction models; to regulate reliability, capacity requirements and operational costs; to determine the regulated tariffs and contract models for services involving transmission, distribution and basic supply of electricity, to authorise models related to technical specifications for connecting power stations and users, intelligent networks, etc. Other roles of CRE include granting permits to market participants and the CECs registry as well as to resolve controversies and to enforce 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 of all hydrocarbons. In this regard, the natural gas market deregulation began in 2017, for the purpose of promoting fair conditions for participation of new retailers in the market and protection of natural gas end users in the country.



The CNH has the fundamental task 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**

Mexico 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 System 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; and summon and manage the auctions of capacity, energy and CECs.

CENACE guarantees open access to the transmission and distribution facilities to all market participants, public and private.

Additionally, 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 2016, CENACE launched the first phase of the Wholesale Electric Market, conducted the second auction for CECs, Clean Energy and Capacity and issued the first result of the Capacity Balance Market process.

In 2017, CENACE developed the Clearinghouse that allows all Responsible Load Entities (Users and/or Suppliers) to buy products from the Wholesale Electricity Market in auction. Additionally, it outlines the Market Information System, a key piece of the WEM's operations.

#### **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, Treasury, 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.

The new CFE will operate through separate affiliated companies that will participate in generation, transmission, distribution and supply, so that other parties will have open access to the grid and levelled play roles for the wholesale electricity market.

In the second half of 2016 CRE assigned CFE's electric power plants through its six different generation companies.

During 2016, CFE published the terms and conditions of the strict legal separation and asset restructuring, and cautiously commenced the operation of the newly created subsidiaries as separated entities in the wholesale electric market. A very significant success of CFE during 2016 was the renegotiation of the Labour Union Contract, which significantly reduced the burden of the pension liability in CFE's Balance Sheet.

## **6. Transmission and Distribution**

As ruled by the LIE, the Mexican Government will continue performing electric transmission and distribution (T&D) as a strategic regulated public service through state-owned production company CFE, or its subsidiaries. CFE's legal separation allows 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. Thus, in December 2017, the preliminary guidelines for the first bidding for transmission lines were published following the Reform's implementation. Called by SENER, this bid invitation will award the High Voltage Direct Current (HVDC) project that connects the National Interconnected System with Baja California.

One of the key elements in this matter is the implementation of a high voltage direct current transmission line that will connect Istmo de Tehuantepec (one of the most important wind energy generation zones in Mexico) with the central area of the country; the bidding request and the preliminary bidding package was issued in the last quarter of 2016.

## **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.

These are two types of permits required for electric retail: 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 upper.

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, only mandatory for new costumers.

Accordingly, several Qualified Services Supplier (SSC) licenses have been issued, which in a free access and not unduly discriminatory environment, have competed since 2016 with the CFE affiliate dedicated to said service. The proliferation and consolidation of these new SSCs is one of the keys to making the electricity market's deregulation a success.

## **8. Geothermal energy**

The Geothermal Energy Law regulates 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 exploitation of your thermal resources under the Geothermal Energy Law.

## 9. Wholesale electricity market

The wholesale electric market commenced operation at the beginning of 2016 as provided under LIE. It is a nodal marginal price market operated by CENACE, where generators, suppliers and qualified costumers of the electric energy can interact to buy and sale the energy, capacity, ancillary services, CECs and financial transmission rights in Day Ahead, Hour Ahead and Real Time.

The entire Market Rules have not yet been fully developed, although a high degree of progress has been reached and many aspects of said Market are already operational. The Market Guidelines were issued in the second half of 2015, since then more than 20 WEM Operational Manuals have been published. The remaining pending Manuals outlining all aspects of the WEM's management and operations will be made public in 2018.

## 10. 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.

## 11. Previous regime for permits, centrals and electric industry contracts

All the permits and contracts granted and executed under the previous 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 market starts operating, the holders of these legacy contracts - self supply and Independent Power Producers ("IPP") have the alternative to migrate partially or completely to the new LIE. Existing IPP will remain in effect to the end of their contractual term prior to the migration and 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 were resolved under the LSPEE terms and conditions, provided that the facilities under such permits must start operation before 31 December 2019.

## 12. Electricity tariffs

In December 2017, the CRE published the new calculation methodology for regulated tariffs that apply to basic supply. This responsibility falls on the regulatory body in accordance to LIE provisions. The principle of the new tariffs is to be based on the recovery of all generation costs, connection services, transport and distribution costs, clean energy certificates and other recoverable costs and collection targets.

Undoubtedly this is one of the electricity reform's most significant milestone, although its implementation is gradual and the real impact of said methodological update will not be seen until the second quarter of 2018.

As the main mechanism to promote the reduction of non-technical losses arising from customer's fraud, CRE has imposed collection targets on the T&D companies.

### 13. Natural Gas 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 was transferred from PEMEX to CENAGAS, the National Operator of the Natural Gas Pipeline Grid in order to promote an open market for its transportation, distribution and commercialisation. According to the principle of asymmetrical regulation, PEMEX cannot integrate transportation and commercialisation of gas under the same company any more.

CENAGAS has issued the 5 year programme (2015-2019) for the Expansion of the National Natural Gas Transmission and Storage System governing its operation, of which two revisions have been issued.

As part of the programme to reduce fuel oil consumption, CFE called for several bidding processes to contract natural gas transportation services from pipelines to be owned by private companies. The 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.

During the second half of 2016 CENAGAS was empowered to conduct the future bidding processes for natural gas transportation auctions, (no longer CFE or Pemex). Additionally, all capacity rights of the SISTRANGAS were transferred to CENAGAS to control manage.

SENER issued a Public Policy to create a Natural Gas Open Market by 2018, in order to promote new players and to reduce the role of Pemex in the commercialization.

As part of this public policy in 2017, CENAGAS issued an Open Season for Transportation Capacity in the SISTRANGAS, which will grant firm capacity rights to the winning bidders for year 2017 and will help to identify the sections that need to be expanded in the future. The Open Season is for all the capacity available that has not been reserved or contracted under pre-existing long term supply agreements.

## 7. Industry regulation in Brazil

### 1. Generation

#### The Brazilian system

Although hydroelectric generation's share has decreased in recent years, Brazil's generation system is predominantly hydraulic. In terms of the energy matrix, from 2000 to 2016, hydraulic participation has decreased from 83% to 64%, in reference to installed capacity. On the other hand, wind's share has increased to 7%. In upcoming years, Brazil's government expects the system to expand mainly through wind and solar energy.

The Brazilian system is interconnected and the power plants are spread over four electric regions: southeast, south, northeast and north. These regions have distinct hydrology and the synergies between them can be used.

Electricity dispatch is centralised to an independent operator. This operator uses computer programs to optimize resources considering hydrological uncertainty, reserve storage capacity and thermal power plants' costs. In addition to defining power plants' dispatch, these programs calculate the marginal energy price cost, used as the market's cash price.

### Assured energy

Since the system is predominantly hydraulic, the installed capacity is insufficient to measure the supply guarantee. Therefore, each hydroelectric station has a related insured energy, calculated by the Brazilian government, which represents the contribution in terms of the reliability of each power plant interconnected to the system. This value is calculated by computer programs when the plant engages in the auction.

Although the regulation establishes that insured energy must be reviewed every five years, the first one was conducted in 2017 following a public hearing.

The following table contains the insured energy before this review, which is valid until 2017; and the new values valid from 2018. These values are shown in MWMed.

Utility	Avg MW	
	Former	New
Baguari	80.2	84.7
Corumbá III	50.9	49.3
Itapebi	214.3	209.1

This revision applied solely for electricity plants who had been commissioned for a minimum of 5 years.

### Energy reallocation mechanism

There is a financial mechanism that allows centralized dispatch and mitigates the hydrologic risk of hydraulic plants. This mechanism is called energy reallocation mechanism (ERM) and all hydroelectric plants must participate in this mechanism. The important thing for the ERM is total hydraulic generation and not each plant's individual generation. According to this mechanism, each month the total hydraulic generation is allocated between each hydroelectric plant in proportion to its share in the system's total insured energy for financial purposes.

In other words, each month the GSF (Generation Scaling Factor) is calculated. This number corresponds to the total hydraulic generation of the group of ERM generators divided by their total physical guarantee (insured energy). The energy allocated to each generator is the GSF applied to its insured energy.

This mechanism worked well until 2012. Since then, hydrological conditions and other issues have reduced the GSF and this has provoked a significant financial impact to hydroelectrical stations.

### Recent hydrology and claims

In recent years, total hydraulic generation has been systematically less than the total insured energy (GSF under 100%). Part of this can be explained due to hydrology. For example, in the southeast region, which is the most important in hydraulic generation terms, in 2014, 2015, and 2016 the average rainfall was 69%, 85% and 95% of the historic values. With respect to the northeast region, averages of 48%, 39% and 43% were registered. There are other reasons, however, for low hydraulic generation.

- Thermal power generation outside the order of merit. In several occasions the operator decided to replace hydraulic generation with thermal with costs over the short-term market price, for the purposes of conserving the storage reserve.
- Delays in the transmission line construction: some new hydraulic power plants were finished before the transmission lines necessary for their evacuation of energy were operational. However, the hydraulic plants participate in the ERM with their total insured energy but cannot generate their full capacity. This scenario reduces the energy allocated for all participants of the mechanism.
- Insured energy expectation: all the insured energy of some hydraulic plants are recognized before constructing all their generation units. That is, they have participated in the ERM with all the insured energy but without the corresponding generation. This has been a regular practice at big hydraulic plants, such as, Belo Monte, Santo Antonio and Jirau,
- Changes in the energy matrix: the increase of intermittent sources, such as wind, reduce hydraulic generation.

Given that ERM has energy allocated below its insured energy, producers must buy the difference in the short-term market at elevated prices. This has resulted in a huge financial impact. Because of this, since 2015 some companies have made claims to the government to review the ERM rules.

At the end of 2015, the government offered a solution to those generators with contracts with distributors. The solution was insurance to protect these generators against a GSF below a certain limit. Several options were offered for the GSF limit (from 89% to 100%) with the respective insurance premium to be paid by the generator. This process is called renegotiating the hydrological risk with consumers. All generators wishing to adhere to this system must pay a premium and abandon current and future hydrological risk claims.

However, the majority of claims of generators with contracts in the free market are currently in force. The five main companies and the government have negotiated conditions to withdraw the requirements during the last months but a solution has not been reached and is dependent on the publication of a specific law establishing the conditions to withdraw the requirements. Currently, these requirements total BRL 4.66 billion.

### Generation assets

NEOENERGIA is the leading private electricity group in Brazil's energy sector in terms of customer service and is present in 11 Brazilian states. The group operates in all segments of the Brazilian energy sector, that is, generation, transmission, distribution and marketing.

In the business of generation, NEOENERGIA has 4GW of installed capacity, of which 3.13 GW are already in operation, including hydroelectric, wind, and gas natural projects.

Assets	Location	Total installed capacity (MW)	NEONERGY quota (%)	NEOENERGIA installed capacity (MW)
UHE Baguari	Minas Gerais	140.00	51	71.40
UHE Itapebi	Bahia	462.01	100	462.01
UHE Corumbá III	Goiás	96.45	70	67.51
UHE Dardanelos	Mato Grosso	261.00	51	133.11
UHE Teles Pires	Mato Grosso/Pará	1,819.80	51	920.09
UHE Baixo Iguaçu	Paraná	350.20	70	245.14
UHE Belo Monte	Pará	11,233.10	10	1,123.31
UTE Termopernambuco	Pernambuco	532.76	100	532.76
EOL Rio do Fogo	Rio Grande do Norte	49.30	100	49.30
EOL Caetitê 1	Bahía	30.00	100	30.00
EOL Caetitê 2	Bahía	30.00	100	30.00
EOL Caetitê 3	Bahía	30.00	100	30.00
EOL Arizona	Rio Grande do Norte	28.00	100	28.00
EOL Mel	Rio Grande do Norte	20.00	100	20.00
EOL Calango	Rio Grande do Norte	30.00	100	30.00
EOL Calango 2	Rio Grande do Norte	30.00	100	30.00
EOL Calango 3	Rio Grande do Norte	30.00	100	30.00
EOL Calango 4	Rio Grande do Norte	30.00	100	30.00
EOL Calango 5	Rio Grande do Norte	30.00	100	30.00
EOL Calango 6	Rio Grande do Norte	30.00	100	30.00
EOL Santana I	Rio Grande do Norte	30.00	100	30.00
EOL Santana II	Rio Grande do Norte	24.00	100	24.00
EOL Canoas	Paraíba	31.50	100	31.50
EOL Lagoa 1	Paraíba	31.50	100	31.50
EOL Lagoa 2	Paraíba	31.50	100	31.50
<b>TOTAL in operation (November 2017)</b>				<b>3,139.52</b>
<b>TOTAL deployed</b>				<b>931.61</b>
<b>TOTAL gross</b>				<b>4,071.13</b>

Some of the projects are listed below.

- **Teles Pires hydroelectric power plant**

NEOENERGIA (50.1%) along with its partners, Furnas (24.5%), Electrosul (24.5%) and Odebrecht Participações e Investimentos (0.9%) obtained authorisation for the construction, use, and commercialisation of the Teles Pires hydroelectric plant's energy located in the Teles Pires river, between the cities of Paranaita / MT and Jacareacanga / PA in the 04/2010 auction held by ANEEL, which took place in December 2010.

The Teles Pires hydroelectric plant has an installed capacity of 1,820 MW and 930.7 MWMed insured energy. Its commercial exploitation began on 9 November 2015, and since then has been fully operational and in compliance with the energy sales contracts signed in the regulated environment (DISCO).

- **Belo Monte hydroelectric plant**

On 20 April 2010, during the 006/2009 auction held by ANEEL, Norte Energia SA obtained authorisation of the Belo Monte hydroelectric plant located in the state of Para, with an installed capacity of 11,233 MW and 4,571 MWMed of insured energy. NEOENERGIA has a 10% share in Norte Energia through SPE Belo Monte Participações S.A.



The plant has all of Pimental Site's generation units in commercial use (6UG) and 7 generator units of the main site in use, leaving 11 deployed units.

In 2017, Belo Monte renegotiated the hydrological risk for 2018 and thereafter. The product chosen was SPR100, which protects the amount sold to distributors against a GSF of less than 100%. The insurance premium the electric plant must pay is 10% of the contract price. In this product, the electric plant transfers the energy surplus to the distributor if the GSF is above 100%. In addition, the SPR100 product protects the electric plant against the insured energy's regular revisions.

- **Baixo Iguaçu hydroelectric plant**

In September 2008, NEOENERGIA, won the concession to construct and use the Baixo Iguaçu hydroelectric plant through its wholly owned subsidiary, Geração Céu Azul, during the 7th A-5 new energy auction organized by ANEEL. The plant, located in Parana, has an installed capacity of 350.20 MW and an average 172.8 MW insured energy.

Currently, NEOENERGIA owns 70% of the Baixo Iguaçu Consortium (CEBI) and the remaining 30% belongs to Copel G&T.

There were several incidents during the plant's construction (invasion by the movement of people affected by the dam (MAB in Portuguese) among others) that delayed the process. The cause of all these incidents were outside the consortium's responsibility, thus, NEOENERGIA requested ANEEL's recognition of exclusion of responsibility on 26 May 2015. After several months of ANEEL analysing the process, with several interactions to provide clarifications and evidence, the consortium succeeded in the process and on 11 May 2016, ANEEL acknowledged 756 days of exclusion of responsibility, postponing the start dates of the commercial exploitation and provided the CCEAR (contracts regulated with the distributors).

In 2017, given a new invasion by the MAB and the cessation of deployment works, NEOENERGIA presented a new process to ANEEL, obtaining partial success. In November, ANEEL acknowledged 46 days of the 104 days requested.

Upon completion of this process, a new appendix to the agreement was signed that altered the plant's implementation schedule; it also postponed the start of the supply to sales contracts until 12 November 2018. Start of the plant's commercial exploitation is scheduled for the second half of 2018.

In 2017, this electric plan renegotiated the hydrological risk. The product chosen was SP89, which protects the amount sold to distributors against a GSF of less than 89%. The insurance premium the electric plant must pay is BRL 2.14 per MWh. Furthermore, in this product the electric plant transfers the energy surplus to the distributor if the GSF is above 100%.

- **Wind energy assets**

Through a joint venture with IBERDROLA, the NEOENERGIA group has 466.5 MW of installed capacity in wind energy, with 100% of the energy contracted in the free and regulated markets.

Wind farms are located in the northeast, 3 in the state of Bahia (Caetite 1, Caetite 2 and Caetite 3) and 7 in the state of Rio Grande do Norte (Arizona 1, Calango 1, Calango 2, Calango 3, Calango 4, Calango 5 and Mel 2).



On 28 December 2016, new wind farms (Calango 6, Santana 1 and Santana 2), also located in Bahia began commercial exploitation to fulfil the energy sales agreements to DISCO (regulated market), initiated on 1 January 2017.

On 30 September 2017, commercial exploitation of the Canoas and Lagoa 2 wind farms began, on 31 October commercial exploitation of Parque Lagoa 1 began, all located in the state of Paraíba. These farms arose from the A-5 auction of 2014, whose energy supply for the energy sales contracts with DISCO (regulated market) is expected to begin on 1 January 2019. Until then, the energy generated by the farms is beginning to be used for energy sales contracts signed with NC Energia in the free market.

- **Termopernambuco thermal power plant**

Termopernambuco is a natural gas thermal power plant that arose from the Priority Thermal Power Program (PPT in Portuguese), established by the Minister of Mines and Energy in 2000, for the purpose of promoting energy generation and implementing thermal plants in Brazil's northeast region. In accordance with the PPT, among other government-adopted measures, the minister established that the gas supply guarantee would be provided by Petrobras.

Currently, there are only three thermal plants that belong to the PPT, among them, Termopernambuco.

In recent years, Petrobras has tried to disregard the fuel supply contracts signed under the regulatory framework established by the PPT, alleging excessive charges, and it has adopted different strategies with these contract's counterparts in order to achieve this goal.

In the particular case of Termopernambuco, Petrobras started an arbitration procedure in August 2010, initially to discuss tax collection of goods and services transactions (ICMS in Portuguese); the decision was favourable for Termopernambuco's. Subsequently, on August 2013, alleging excessive charges, Petrobras initiated a new arbitration process requesting review of the gas price and review of the first ICMS arbitration procedure.

This process is still incomplete and in 2017, the parties involved submitted the opinions of several technicians, including a face-to-face hearing to provide information to the arbitration judges and clarify questions regarding the history and regulations on this matter.

#### Generation auctions

The government held two new auctions in December 2017 (auction A-4 on 18 December, and auction A-6 on 20 December)

In auction A-4, hydroelectrical, biomass, wind farms and solar photovoltaic projects may participate. In auction A-6, hydroelectrical, wind farms, biomass and coal and natural gas combined cycle plants may participate. In the A-4 auction, 674.5 MW of installed power from 25 projects were contracted, of which 85% correspond to solar energy (574 MW); 9.5% correspond to wind power projects (64 MW), 3.7% to biomass (25 MW), and 1.7% to small hydraulics (11.5 MW). Contracting was low because of the distributors' low demand. NEOENERGÍA did not participate in this auction with generation projects.

In the A-6 auction, 3,841 MW of installed power was contracted from 63 projects, of which 49 were wind projects (1,386 MW), 6 were small hydraulic plant projects (139 MW), 6 biomass plants (177.05 MW) and 2 gas thermals (2,138 MW). No coal power plant was matched. NEOENERGIA was awarded 281 MW of wind power originating from 9 farms in the Santa Luzia area (state of Paraíba) at an average price of BRL 100.01 per MWh. The wind farms are: EOL Canoas 2; EOL Canoas 4; EOL Chafariz 1; EOL Chafariz 2; EOL Chafariz 3; EOL Chafariz 6; EOL Chafariz 7; EOL Lagoa 3 and EOL Lagoa 4. On 1 December, the Minister of Mines and Energy published Order No. 465, outlining the execution of auction A-4 on 4 April 2108[sic]. Hydroelectric, biomass, wind and solar photovoltaic projects may participate in this auction. At the auction, CCEAR (regulated contracts) will be negotiated with a supply term of 30 years for hydraulic projects and 20 years for biomass, wind and solar photovoltaic projects.

### Regulatory laws

On 18 April, ANEEL published resolution no. 764 establishing the quantity, price, and payment conditions for ERM participants for the impact caused by thermal generation outside the market's order of merit and impact of imports. Despite this publication, payments must start next year, retroactively.

On 9 October, ANEEL published resolution no 784, which sets the unit premium values for renegotiating hydrological risk in the regulated market. The new values are valid for renegotiation whose referencing begins in 2018.

On 10 October, ANEEL improved the methodology to define the criteria to review the insured energy of hydroelectric plants that sell energy under the quota system. The review basically anticipates ANEEL's dissemination of the allocation of quotas for the purpose of guaranteeing greater predictability for distributors to manage their energy contracts.

## **2. Distribution**

Electricity distribution performed 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 Redes S.A. (ELEKTRO), which operate in Sao Paulo and Mato Grosso do Sul, is subject to Brazil's federal regulation.

Distribution activities are regulated and executed in a 30-year concession under a monopoly. The concession term may be extended during the same period at the granting authority's (Union) discretion. At the end of the concession period, the assets will be reversed back to the Union and the concessionaire must be compensated for investments not depreciated or redeemed.

The Brazilian regulatory framework is based on a price cap system that is reviewed every four or five years, depending on each concession contract by the company and is updated annually by the regulator. COELBA and COSERN have a five-year term, whilst CELPE and ELEKTRO have a four-year term.

Tariffs are updated annually by the National Electric 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.

The purpose of the annual adjustment is to ensure that the charges, transmission and energy acquisition costs (known as Parcel A) are passed on to the tariff and to adjust the distribution costs (known as Parcel B) for inflation, discounting a predetermined efficiency factor (factor X). An annual tracking account mechanism is used to register Parcel A's unbalances, which should be passed on to tariffs in the following tariff review process.

On 18 April, ANEEL approved COELBA's annual tariff readjustment, which increased its tariffs by an average 3.0%, in effect as of 22 April. The most striking thing was the 2.72% increase in Parcel A (responsible for final rate increase of 2.30%) due to a hike in energy transmission costs. Parcel B increased some 2.01% as a result of the inflation adjustment index, IGP-M minus factor X, and was responsible for the 0.70% hike in the final rate.

On 18 April, ANEEL approved COSERN's annual tariff readjustment, which increased its tariffs by an average 3.38%, in effect as of 22 April. The most striking thing was the 3.48% increase in Parcel A (responsible for the final rate increase of 2.46%) due to a hike in energy transmission costs. Parcel B increased some 3.04% as a result of the inflation adjustment index, IGP-M less factor X, and was responsible for the 0.92% hike in the final rate.

On 25 April, ANEEL approved the 4th revision of CELPE's tariffs, which increased its tariffs by an average 7.62%, in effect as of 29 April. The most striking thing was the 5.34% increase of Parcel A also due to the energy transmission and acquisition costs. Parcel B increased 15.61% due to the remuneration in capital invested during the tariff cycle years and the increase for the purposes of covering the bad debt-financing regulator level. Furthermore, the regulatory energy distribution losses increased from 14.5% to 15.9% on average (4 years since the following tariff cycle).

On 22 April, ANEEL approved ELEKTRO's annual tariff adjustment, which increased its tariffs by an average 10.40%, in effect as of 27 August. The most striking thing was the 8.04% increase of Parcel A also due to the energy transmission costs. Parcel B decreased -4.08 by inflation index IGP-M minus factor X.

	COELBA Adjustment	CELPE Revision	COSERN Adjustment	ELEKTRO Adjustment
<b>2017 metering procedures</b>				
<b>Variation Parcel A</b>	<b>2.72 %</b>	<b>5.34 %</b>	<b>3.48 %</b>	<b>8.04 %</b>
Parcel B				
IGPM	4.86 %		4.86 %	-1.66 %
Factor X	2.84 %		1.81 %	2.42 %
Factor Xp - productivity component	0.84 %		0.89 %	1.28 %
Factor Xt - trajectory per OPEX efficient component	2.00 %		1.25 %	1.38 %
Factor Xq - quality component	0.00 %		-0.33 %	-0.24 %
TOTAL (IGPM minus Factor X)	2.01 %		3.04 %	-4.08 %
<b>Variation Plot B</b>	<b>2.01 %</b>	<b>15.61 %</b>	<b>3.04 %</b>	<b>-4.08 %</b>
<b>Economic adjustment Index</b>	<b>2.47 %</b>	<b>8.36 %</b>	<b>3.35 %</b>	<b>4.82 %</b>
<b>Package A monitoring account/Other financial components</b>	<b>4.12 %</b>	<b>2.11 %</b>	<b>-0.25 %</b>	<b>0.89 %</b>
<b>TOTAL</b>	<b>6.59 %</b>	<b>10.47 %</b>	<b>3.10 %</b>	<b>5.71 %</b>
Removal of previous year's financial components	-3.60 %	-2.85 %	0.28 %	4.69 %
<b>Consumer impact</b>	<b>3.00 %</b>	<b>7.62 %</b>	<b>3.38 %</b>	<b>10.40 %</b>

According to the tariff regulation calendar procedures (PRORET); two tariff review parameters must be recalculated for the purpose of applying them to 2018 and thereafter, taking into consideration the current methodologies and a database update.

- Weighted average cost of capital (WACC): the current WACC value is set at 8.09% ANEEL is currently discussing the distribution companies' new WACC value to be applied from 2018 to 2020. The value proposed in the public hearing reduces the current WACC value from 8.09% to 7.71% (actual, after taxes), but the distributors are arguing to keep the current value.
- OPEX Reference: is calculated over the base of a comparative evaluation methodology and its effects depend on each company's yield performance in comparison with its peers.

These parameter updates must be applied to the next tariff review for COELBA (2018), COSERN (2018) and ELEKTRO (2019).

According to current regulation, the distributors must sign PPAs with the generators in order to supply 100% of the estimated demand. The cost assumed by the distributors originating from the energy purchase to cover the estimated consumer demand is transferred to the final tariff. This cost may be transferred provided 100% to 105% of the estimated consumption is covered. If the distributor purchases energy for less than 100% of its estimated demand they may be penalised; conversely, if it has contracts over 105% of its demand, they will be exposed to spot price risk.

Since 2016, distributors had a surplus of energy contracts due to:

- Relocation<sup>1</sup> of instalments, which increased the quantity of PPAs of some DSO.
- The migration of consumers to the energy free market, such as special consumers, without the distributors being able to reduce the PPAs
- Significant market reduction, due to the economic crisis and the cumulative tariff increases of previous years.

In order to confront this issue, MME and ANEEL have carried out several actions, such as:

- Acknowledge that the additional energy received by the distributors by the quota system must be considered involuntary and transferred to the tariff (resolution 706/2016)
- Create a mechanism whereby the distributors and generators commonly agree to reduce their PPAs (resolution 711/2016)
- Determine the distributors right to reduce PPAs for the purpose of compensating the exit of special customers to the free market (customers with demand between 0.5 and 3MW (resolution 726/2016)
- Broaden the new energy relocation (MCSD de Energia Nova), thus allowing generators to offer reduction of the PPA (resolution 727/2016)
- Release the energy limit that must be acquired by distributors in A-1 auctions, for distributors with surplus energy (decree 8,828/2016)

On 28 March, ANEEL broadened the criteria for participation of generators in the new energy relocation mechanism edition that will be valid from 2018 to 2021 (MCSD +4), allowing more electric plants to participate. The decision increases the mechanism's potential to mitigate the distributors' energy surpluses.

On 23 August, ANEEL published decree 9,143/2017 regarding the new MCSD mechanism rules. The main changes are:

- Recognition of overcontracting arising from the migration of special customers to the deregulated market as involuntary, provided they participated in all possible rounds of the centralised energy surplus and deficits compensation mechanism between distributors and generators (MCSD). This decision is subject to ANEEL's approval, which may evaluate if the distributor has managed its energy position under the prudent "best effort" principle.

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<sup>1</sup> Energy from hydro power plants renewing their concessions in accordance with Law 12.783/2013.

- Permission for distributors to cancel "existing energy" contracts in the event of migration of special consumers (loads above 500 kV and up to 3 MW)
- Improvements in energy auctions' resolutions upon providing the contracting periods. It also defines that a yearly agenda must be published prior to auctions.
- Regulated sales permit for surplus energy contracts from distributors to generators, retailers and producers, as well as "free customers" (> 3 MW)
- Reduction from 95% to 90% of the insured energy volume considered for distributors' contractual coverage for generators that renew their concession contracts in 2013 under the "quota system." This measure decreases the risk of excess contracting from the distributors.

On 30 October, ANEEL approved changes in the energy marketing rules, in order to adapt them to the new energy relocation mechanism (MCS D de Energia Nova). The changes are associated with the inclusion of capacity mechanism PPAs (until this time only "quantity" PPAs could participate) and to some operational features. It also stated that distributors inside the mechanism had been prevented from participating by default for 12 months.

Given that short-term market prices had been higher throughout 2017 than long-term prices, the distributors were able to decrease their contract in the relocation of energy mechanism between agents.

Since 2015, distributors' tariffs have been complemented with tariff a flag, this additional cost fluctuates according to the marginal operation cost. The collection of the tariff flag partially mitigates the distributors' cash flow differences due to energy acquisition costs. The tariff flags will be reviewed annually by ANEEL. From January to October 2017, the flags were set in the following manner:

Flag	Thermal plants in operation (fuel cost)	Reaes brasileiros/MWh
Green	Up to 211.28 BRL/MWh	-
Yellow	211.28 - 422.56 BRL/MWh	20
Red - level 1	422.56 – 610.00 BRL/MWh	30
Red - level 2	More than 610.00 BRL/MWh	35

In 2017 the green flag was set for January, February and June, the yellow flag for March, July and September, the Level I red flag for April, May, August and December, and Level II red flag for October and November.

There is currently a public hearing in which ANEEL is proposing changes in the tariff flags methodology to bear in mind the water reserve level and the cash price. It also proposes lowering the yellow flag to 10 Brazilian reals per MWh and increases the red tariff's level 2 to 50 Brazilian reals per MWh, with values to be applied from November 2017 onwards.

ANEEL called a public hearing regarding the Energy Operations Account budget - CDE (by its Spanish call letters) for 2018, with a total amount of BRL 12,600 million, showing a 35% increase versus the previous year. The increase is fundamentally due to the increase in subsidies per distribution/transmission and fuel costs for the isolated system. There is no impact for the companies given this value is covered as a tariff.

On 24 October, ANEEL approved a Corporate Governance regulation for distributors, which must be implemented in one year, and will function on an experimental basis for two years. Any breach committed during this period could result in ANEEL's inspection of the distributor. Distributors may be waived from this regulation if their companies comply with the new market governance rules of Brazil's stock market (BM&F Bovespa). The impacts of the new regulation in the event BM&F Bovespa's new market governance is not migrated, are being studied.

On 7 February, ANEEL approved the conditions to incorporate subtransmission assets to distributors' asset base as a result of the 41/2015 public hearing. Mandatory transfer of a limited set of assets was determined; said process must take place at the distributors' next tariff review, which will also include the compensations payment. In addition, the regulation will prevent the construction of new subtransmission assets. In August, by legislative resolution no 781, ANEEL fulfilled CTEEP's request to not make the transfer of some of its assets mandatory. Therefore, Elektro will not receive any asset due to this process.

In 2015 CELPE and COELBA were chosen by ANEEL to develop an improvement plan on the operational behaviour, customer service and safety results. These companies must improve their services within a maximum of two years. The plan was laid out by the distributors and sent to ANEEL for approval, with a quarterly follow-up.

Both distributors completed the established plans, COELBA, however, had to send a new improvement plan for the following years. Therefore, this new plan was approved by ANEEL in 2017, and must produce the expected results until 2019.

On 8 August, ANEEL approved a revision of COELBA's universalisation plan, with regard to rural electrification which included new goals and intermediate terms. Its term had been previously postponed from 2016 to 2021.

On 19 December 2017, the Regulatory Regulation No. 796/2017 was published on the expected hydrological risk in the processes tariffed by the distributors. This regulation approves modifications in the submodules dealing with the rest of the financial components in the Tariff Regulation Procedures (PRORET). The adjustments made to these submodules establish that it must include the expected hydrological risk to be considered in the processes tariffed by the distributors as a financial component, specifically in the energy purchase account of Parcel A. It also establishes that a change to this provision will modify the parameters and therefore the balance to be compensated in the energy purchase account.

### 3. Electric transmission

In the electric transmission business, NEOENERGIA has 5 concession contracts between 2009 and 2013, which include transmission lines and substations, as well as reinforcements. Together, they generate an annual allowed profit (RAP in Portuguese) of approximately BRL 77 million.

Company	Annual profit allowed (BRL)
Afluyente T	38,011,193.43
SE Narandiba	9,533,800.58
SE Extremoz II	2,823,650.11
SE Brumado II	1,968,679.70
Potiguar Sul	24,645,827.14
<b>Total</b>	<b>76,983,150.96</b>

These assets are subject to tariff reviews every 5 years, in addition to annual adjustments made for monetary reformulation.



In 2017, SE Extremoz II submitted to a tariff review process; in 2018, SE Brumado II and Potigua will submit to a tariff review process

The only proposal they could directly impact the electric transmission business is the centralisation of the establishment and management of transmission contracts. Although it may be a transaction cost-reducing measure, a potential issue would be its impact on defaulted payments and its consequences an possible tax increases.

Another relevant issue in the transmission sector arena refers to auctions for projects in unexplored places. The auctions in 2016 and first half of 2017 were satisfactory; projects with a value of BRL 21 billion are expected to be auctioned in 2018.

- The 005/2016 auction entailed 35 available projects in April 2017, representing 7,400 km of transmission lines and substations with a transformation capacity of 13,200 MVA. ELEKTRO Holding (NEOENERGIA) won four projects in the states of Mato Grosso do Sul, Ceará, São Paulo and Santa Catarina.
- The second transmission auction in 2017 was held on 15 December 2017, offering 11 projects (4,919 km of transmission lines and substations with a transformation capacity of 10,416 MVA). ANEEL expects a total investment of BRL 8.8 billion. EXOENERGIC was the main winner of this auction, being awarded 1,074 km and a substation, which were amongst the most disputed projects.

#### **4. Other Regulatory Changes**

The Ministry of Mines and Energy - MME has initiated a Public Inquiry (33/2017) to address improvements in the current sector framework. The document is the basis for a future provisional measure and includes the following milestones:

- Broaden deregulation in the retail market for all high voltage consumers. Proposes a calendar between 2020 and 2028.
- The relative costs of surplus energy contracts due to the migration of consumers to the deregulated market must be paid by all the consumers.
- Separation of markets between capacity and energy. The separation between energy and capacity contracts shall be understood as a critical mechanism to ensure future expansion in a more deregulated market.
- Improvements in the cash price calculation, opening the potential of the asking price.
- Decrease of the contracting requirement.
- Possible voluntary finalisation of contracts with the high-cost thermal generation plants.
- Centralisation of generation and transmission contracts.
- Anticipation of the criteria to standardise the regulated charges (CDE Account) between regions. It proposes advancing standardisation from 2029 to 2023. This may produce sharp increases in the north/northeast regions (Coelba, Celpe, Cosern) and reduce tariffs in the south/southeast regions (ELEKTRO).

- Change of energy marketing regime for generators whose concessions were renewed in 2013, from energy quotas to regular energy contracts (market prices). According to MME estimates, this change will impact the electricity tariffs of regular clients by approximately 7%.
- Unification of energy prices for captive customers (distributors' consumers) throughout the country.
- Binomial tariff implementation for electricity services (revenue per distribution) in 2021.
- Ability to renegotiate losses due to GSF/Generation outside the order of merits (GFOM) currently under legal dispute. The proposal recommends an extension of the concession term to compensate for losses.
- Change of incentives in renewables from tariff subsidy to income premiums, valid until the current contracts expire. For new contracts, the income premium may have a given final term. For current contracts, the migration to the new model would be optional.

In addition to the subjects presented in the public inquiry, NEOENERGIA contributed some additional points:

- Purchase or lease rural lands by companies under foreign control.
- Solution to delays in the transmission lines.
- Coding of the electric sector rules and creation of a special court.

The following steps would be: i) formulation of the final proposal bearing in mind the formal contributions of agents from all sectors; ii) publication of a provisional measure by President Michel Temer; iii) approval in Congress, with or without amendments; iv) final sanction by President Michel Temer.

## **5. Privatisation of Eletrobras**

Published on 29 December in the Official Journal, Provisional Measure 814/2017 repeals the device of Act 10.848/2004 by means of which Eletrobras and its controlled companies remained exempt from the National Privatisation Programme. With this measure, the Government unblocks sales from Eletrobras distributors. It also modifies the legislation of the isolated systems (Northern regions not connected to the National Interconnected System, establishing the conditions for Eletrobras to ensure the collection of credits from sectorial funds for the distributors, which minimises the indebtedness to be assumed by the holding company.

In January 2018, this measure was suspended by the Federal Justice of the state of Pernambuco. In light of this judicial blocking, the President of the Government presented a draft law that allowed for increases of share capital to give access to private capital, thus diluting the holding of the State (the funds raised do not go to the company but to the state coffers). The draft law proposes altering the corporate bylaws of Eletrobras, preventing any shareholder from holding over 10% of the shares with a right to vote. This limit prevents market concentration and the hostile taking of control by another company. Additionally, after privatisation, the Government shall have a Gold Share that will grant it exclusive powers in the administration of the company, such as the indication of an additional Board Member. The text also proposes a corporate restructuring to maintain control over nuclear power and Itaipú Binacional (hydraulic power plant administered jointly between Brazil and Paraguay).



**CONSOLIDATED MANAGEMENT REPORT 2017**

*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

The company has undergone a major transformation over the last 15 years, staying clearly ahead of the energy transition in order to tackle the challenges posed by climate change and the need for clean electricity.

Boasting a track record that spans over 170 years, today Iberdrola is a multinational group leading the energy sector: the company produces and supplies electricity to some 100 million people in the countries in which it operates.

IBERDROLA is committed to low-emission energy: it is the leading producer of energy from renewable sources among the European utilities, a world leader in installed terrestrial wind power and the cleanest electricity producer in the US, with almost zero emissions. As a result of its environmental commitment and its stake in the decarbonisation of the economy, it has succeeded in reducing its emissions in Europe by 75% since 2000, reaching levels that are 70% below the average for European companies in its sector.

IBERDROLA, as the energy company of the future, has placed its bets on clean energy, smart grids, efficient energy storage and the development of customised solutions for customers. And at the centre of this strategy are the various stakeholder groups, with which it maintains permanent dialogue. In order to confront the future energy scene with assurance of success, the company places its trust in the digital transformation, which is based on two main pillars: technology and innovation.

On this basis, IBERDROLA is now embarking on a new stage of growth, supported by a strong investment drive essentially in regulated businesses or with long-term contracts, which will provide the security, stability and visibility that are the hallmarks of the company's business model. Likewise, IBERDROLA will continue maintaining its social commitments, acting as a driver for the growth and generation of employment in the countries where it operates, and creating sustainable value for all its stakeholders.

### 1.1. Governance system

To make its business model as competitive as possible, IBERDROLA has organised the management of its activities around three global businesses:

**Network Business:** the grids area, which is responsible for the construction, operation and maintenance of power lines, substations, transformer substations and other facilities for delivering power from the production centres to the end user. Among the main targets are:

- Zero accidents.
- Offering an excellent service to customers, based on quality of supply and grid information.
- Maximising efficiency in the operation of the system through operating excellent and digitisation of assets.

- Leading change towards a more efficient integration of renewable distributed energy.

**Generation and retail businesses:** The business and retail business focus on the production of electricity through the construction, operation and maintenance of generation plants and the sale and purchase of energy in wholesale markets. It also involves the supply to end customers and additional products and services. Among the main targets are:

- Competitive supply and excellence of service to customers.
- Operating excellence, safety and respect for the environment,
- Identifying and minimising risks.
- Safety and continuous improvement of efficiency in operations.
- Analysis of growth opportunities.

**Renewable Business:** the renewables area, which is responsible for generating and selling electricity from renewable sources: wind (onshore and offshore), mini-hydroelectric, solar thermal, photovoltaic, biomass, etc. Among the main targets of the renewables business are:

- Safety in operations.
- Efficiency in operations to maximise return of assets.
- Efficiency in construction costs, with a special emphasis on offshore wind projects.
- Profitable growth in onshore and offshore wind in strategic group companies.

## 1.2 Mission, Vision and Values of the Iberdrola Group

The Mission, Vision and Values of the Iberdrola Group constitute its corporate philosophy, inspire and take form in the Corporate Policies Company's By-Laws and in the other rules of the Corporate Governance System, govern the day-to-day activities of the companies of the Group thereof, channel its leadership role in all of its areas of activity, focus its strategy of maximising social dividends, and guide their strategy and all of their actions.

### Mission

“Our mission is to create value sustainably in carrying out its activities for society, citizens, customers, employees, shareholders, and other stakeholders, as the leading multinational group in the energy sector providing a quality service through the use of environmentally-friendly energy sources, which engages in innovation, leads the process of digital transformation in its area of activity, and is committed to the fight against climate change through all of its business activities, with a social dividend and the generation of employment and wealth, considering its employees to be a strategic asset. Along these lines, we foster their development, training, and measures of reconciliation, favouring a good working environment and equal opportunity. All of the foregoing is within the framework of our strategy of social responsibility and compliance with tax rules.”

### Vision

“We want to be the leading multinational group in the energy sector at the forefront of a better future, sustainably creating value with a quality service for people: customers, citizens, and shareholders (whom we care for and engage in our corporate life) and for the communities in which we carry out our activities, generating employment and wealth (with whom we engage in a constructive dialogue), known for our firm commitment to ethical principles, good corporate governance, and transparency, the safety of people and supply, operational quality and excellence, innovation, protection of the environment, and customer focus and the Sustainable Development Objectives approved by the UN. Making it possible thanks to the work of our employees and the people working at our suppliers and collaborators, whom we care for by offering all of our training resources and reconciliation measures for their development and to strengthen equality of opportunity”.

## **Values**

The mission and vision of the Group is configured based on a firm commitment to twelve values that all of the Corporate Policies, internal rules, and other internal codes and procedures must follow:

- Sustainable creation of value.
- Ethical principles.
- Good corporate governance and transparency.
- Development of our workforce.
- Social commitment.
- Sense of belonging.
- Safety and reliability.
- Quality.
- Innovation.
- Respect for the environment.
- Customer focus.
- Institutional loyalty.

### 1.3. Iberdrola's corporate governance model

#### Corporate governance system

The Corporate Governance System constantly updates its corporate governance system, consisting of By-Laws, the Mission, Vision, and Values of the Iberdrola group, the Corporate Policies, the governance rules of the corporate decision-making bodies and other internal committees, and the other codes, regulations, and procedures making up and elaborating upon Iberdrola's regulatory compliance system. In order to move forward in developing specific aspects of its corporate governance system, the Company promotes the creation of working groups composed of authorised representatives of the stakeholder group(s) affected in each case, Company employees and top-level experts in the field concerned.

The IBERDROLA group's commitment to good corporate governance and transparency is reflected in its Mission, Vision and Values, the bases of which as regards corporate governance are the involvement of the shareholders in the Company's affairs and maintaining a lead position in the application of best practices and in transparency.

The general corporate governance policy contains a summary of the basic principles regulating the corporate governance of the Company and of the Group and of its most important components, all of which is available at [www.iberdrola.com](http://www.iberdrola.com).

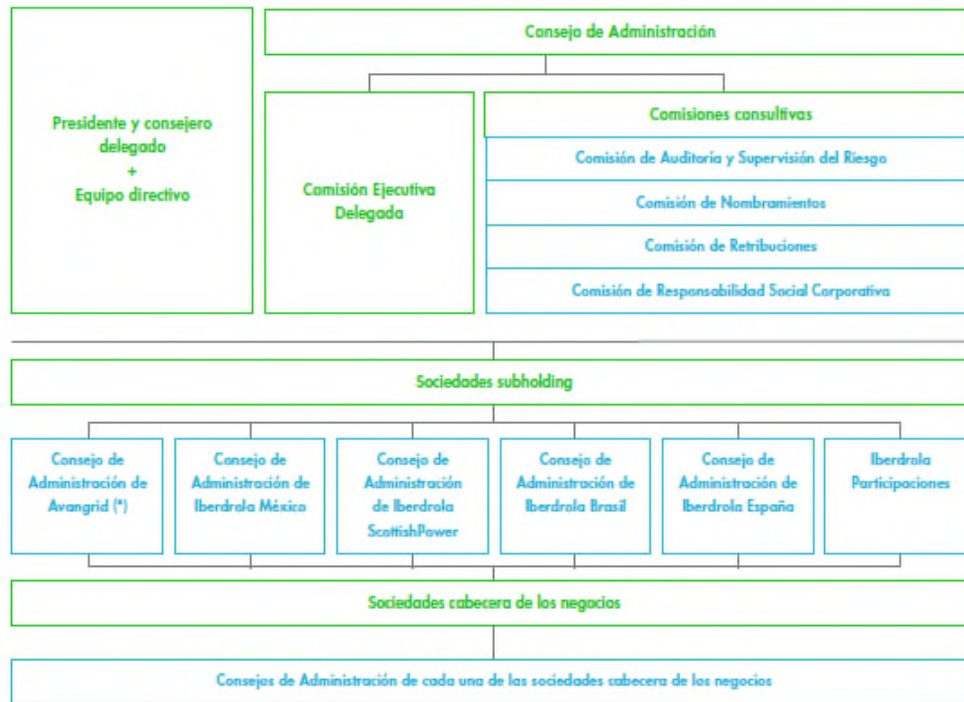
#### Governance model

This duly makes a distinction between the functions of strategy and supervision and those of management and control:

- The Iberdrola Board, composed of a large majority of independent directors, focuses on defining, supervising and monitoring the policies, strategies and guidelines to which the group must adhere.
- The chairman of the Board, the chief executive officer and the rest of the management team are responsible for the group's strategic coordination and organisation, through the distribution, implementation and monitoring of the general strategy and its basic guidelines.
- In all countries in which the group operates, business is organised and strategically coordinated through subholding companies, which group investments in energy business operating in the country concerned and centralise the provision of common services to these companies. The group also has a subholding to handle all non-energy business.
- The subholdings have boards with independent directors, and their own Audit and Compliance Committees, Internal Audit departments and Compliance units or departments.
- Parent companies are tasked with ordinary management and effective administration of all lines of business. They also have boards with independent directors and specific management teams.

This structure, which operates along with the group's business model, fosters global integration of the lines of business (Networks, Generation and Sales and Renewables), and focuses on maximising operational efficiency, by implementing best market practices.

Corporate and governance structure of Iberdrola, S.A.



(\*) Sociedad cotizada en la Bolsa de Nueva York.

#### 1.4. Corporate structure of the Group

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 8).

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.

The corporate structure encompasses the Company (IBERDROLA, S.A.), subholding companies and business parent companies.

##### IBERDROLA, S.A. (Parent company)

The Board of Directors of the Company defines and supervises 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.

The chairman of the Board of Directors & chief executive officer, 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.

##### Subholding companies

The sub-holding companies group together the equity interests in the head-of-energy-business companies that conduct their activities in 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,.

They contribute to organisation and strategic coordination in their respective countries, disseminating and implementing the Group's directives and management policies.

They centralise the provision of services that are common to the head-of-business companies, always in accordance with applicable legislation, and in particular with the rules on segregation of regulated activities.

The subholdings have boards with independent directors, and their own Audit and Compliance Committees, Internal Audit departments and Compliance units or departments.

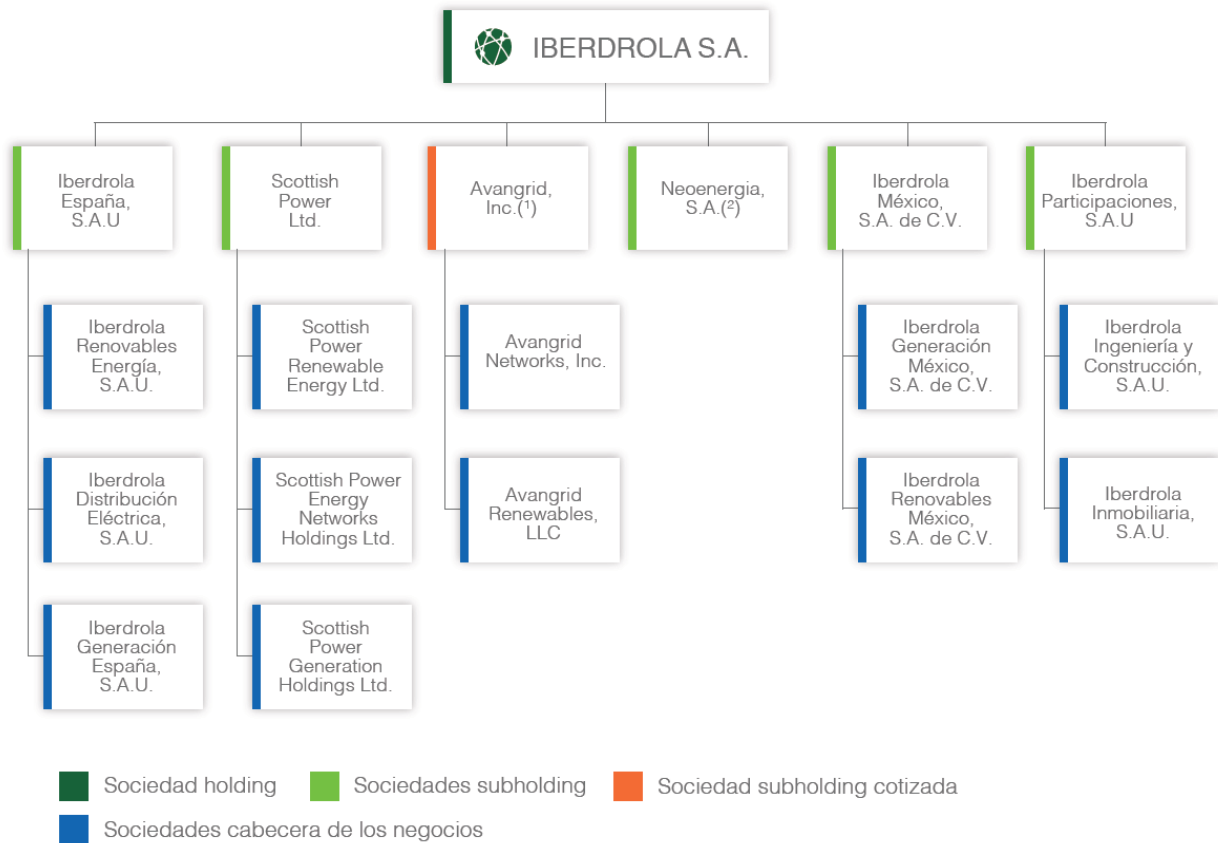
Subholding company listed have a reinforced special autonomy framework projected in regulations, combined business and management.

#### Head of business companies

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.

They are organised through their boards of directors, which may include, if the case, independent board members, and their own management; they may also have their own audit committees, internal audit areas, and compliance divisions.

### **Simplified scheme of the corporate structure of the Group**



(1) IBERDROLA has a stake in Avangrid, Inc. of 81.50%

(2) IBERDROLA has a stake in .Neoenergia S.A. of 52.45%

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:

- 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.
- 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.

### **1.5. 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.

### **1.6. 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 Appendix II "Sector regulation and functioning of the electricity and gas system" of these Financial Statements.

### **1.7. 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](http://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.

## 1.8. Strategic principles for the 2017-2021 period

### Market conditions

The energy scenario in which IBERDROLA will develop its activity in the next few years will be based on three pillars:

- Decarbonisation, which will have as a direct consequence greater electrification of the economy, mainly based on energy from renewable sources;
- Technological advances, which will continue to drive the trend of increasing efficiency in renewable sources of generation and power grids; and
- Increased consumer connectivity, leading to demand for new energy services made possible by digitisation.

For all that, we estimate that world demand for electricity will increase by more than 60% to 2040, and that as a proportion of final demand for energy it will grow by four percentage points from its 2016 level to reach 23%.

Underpinned by these pillars, the company will continue to strengthen its lead position in the various markets in which it has a presence:

- In the United States the company is taking up a position to home in on opportunities for investment in energy infrastructures and renewables through the platform operated by its subsidiary AVANGRID, which has eight regulated energy Transport distribution companies in New York, Connecticut, Maine and Massachusetts, and is the country's second largest wind energy producer.
- The company will continue to expand in the United Kingdom in terms of networks and consolidate its leadership in renewable energies, especially offshore wind power plants on the current platform.
- In the Iberian peninsula it will bolster its position of leadership in energy from renewable sources and the associated grids.
- In Mexico, it will continue to invest in contracted generation, building on its position as the leading private sector supplier of electricity and taking advantage of the opportunities arising from the Energy Reform and the associated liberalisation of the sector.

- In Brazil, NEOENERGIA is already the country's leading electric utility in terms of number of customers, with a presence in ten states, and has great opportunities for growth in both energy from renewable sources and transport and distribution grids.
- Elsewhere in Europe, the company has already brought its first German offshore wind farm into operation, and is developing a project in France. In the retail business it is also extending its activities to other European markets, mainly Portugal, France and Italy.

## Outlook 2018-2022

- IBERDROLA will continue to focus its investment strategy on grids, renewables and contracted generation, in its current areas of activity, in which it will invest EUR 32,000 million between now and 2022.
- The grids business will account for 50% of total capital expenditure, while renewables will account for 37% and contracted generation for 4%. Lastly, 9% of total investment will be earmarked for the generation and retail business.

Subsequently, 90 % of the investment scheduled will target regulated business –networks, renewable energies and long-term contracts.

By geographical areas, Iberdrola will invest 38 % in dollars, 19 % in sterling pounds, 25 % in the Eurozone and 18 % in Brazilian reals.

### **Main projects**

- United States: Through AVANGRID the Group will continue investing in transmission grids and distribution infrastructure. Moreover, the company plans on reaching 8,700 installed MW of renewable source in 2022.
- United Kingdom: IBERDROLA will continue to implement network infrastructures under the regulatory frameworks already approved for transmission and distribution (RIIO-T1 and RIIO-ED1). As regards the renewable energy projects in the UK, the company continues to develop the 714 MW East Anglia One offshore wind project in the North Sea, which will be fully operational in 2020.
- 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 two cogeneration plants on long-term contracts, with a combined power output of 3,570 MW, and has plans for further investment in renewable energies in the years ahead. These projects, together with others in advanced stages of development, will allow the company to attain 10,600 MW of installed capacity in the country by 2022.
- Iberian Peninsula: investments will be centred on the area of distribution grids. The company will also continue with the construction of the Río Támega hydroelectric storage complex in Portugal, which will have a total capacity of 1,158 MW.
- Brazil: Through NEOENERGIA, IBERDROLA will take advantage of the investment opportunities in the Grids and Renewables businesses.

## Operational 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, as well as the homogenization of processes through the implementation of the best practices of the group in all its businesses.

## Earnings performance

This strategy of profitable growth in mature businesses, efficient management of assets and the investment plan described will lead to sustainable growth in the company's profits, which are expected to amount to more than EUR 11,500 million between now and 2022. In terms of net profit, this is estimated to exceed EUR 3,500 million a year by the end of the plan.

## Shareholder remuneration

The trend forecast for the period will enable the company to increase long-term remuneration for shareholders, in keeping with results,

## Financial solvency

The Company will continue to hold a solid financial position compatible with the investment plans and the remuneration provided to shareholders.

- Funds from operations (FFO) will reach EUR 42,000 million on a cumulative basis, with cash generation exceeding capital expenditure in all business areas.
- At the end of the period the company will have EUR 9,000 million of capital expenditure in progress, corresponding to assets that will start producing results beyond 2022. This allows the bases for further growth beyond the plan horizon to be established.
- All in all we expect the Group's ratio of FFO to Net Debt to be at around 24% in 2022.

*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 for the period must be framed within the implementation of the corporate strategy announced on Investor Day 2017, defined by the growing weight of regulated activities (transmission and distribution of electricity and gas) and the renewables business, both in terms of utilising investment opportunities and contributing to the Group's profit, with a growing weight of the United States and Mexico businesses on said contribution.

The following highlights should be noted regarding the period analysed, in comparison to the previous financial year, for their relevance in the interpretation of the profit for the year:

- On 24 August, having obtained approval from the ANEEL (*Agência Nacional de Energia Elétrica* or National Electrical Energy Agency) the BNDES (*Banco Nacional de Desenvolvimento Econômico e Social* or National Bank for Economic and Social Development) and the CADE (*Conselho Administrativo de Defesa Econômica* or Administrative Council for Economic Defence) we completed the transaction whereby the businesses of Elektro were incorporated into Neoenergia, thus creating a leading utility in Brazil and Latin America focused on the Grids and Renewables businesses. Following the transaction, IBERDROLA holds 52.45% of the resulting company, which has 13.6 million supply points, 585,000 km of distribution grid and more than 3,500 MW of contracted capacity in operation and under construction mainly in renewables. The transaction was carried out without affecting the Group's financial solidity, with no cash component, no capital increase and strengthening our position in an already well-known company.
- The results for 2017 were achieved in extremely difficult operating circumstances, with Spain suffering one of the driest years on record and 11 TWh less hydro-electricity being produced than in 2016. This difficult situation was partly offset by the good performance of the Grids business in the United States and the Generation and Retail business in Mexico, with the coming on stream of new capacity in accordance with the 2016-2020 Growth Plan.
- The tax reform approved in the US in the final weeks of the financial year, which reduces federal income tax from 35% to 21%, led to an improvement of EUR 1,284 million in net income. The impact is as follows:
  - o As a result of the reduction of the federal tax rate from 35% to 21%, net income increased by EUR 2,026 million (see Notes 2.c and 30).
  - o Impact on the value in use of the renewables business in the US, which required an impairment adjustment to goodwill in an amount of EUR 450 million (see Note 13).

- Impact on non-controlling interests of the two foregoing effects: EUR 292 million.
- Non-current asset profit/(loss):
  - the merger of the wind energy businesses of Gamesa Corporación Tecnológica, S.A. (as the company absorbed) and Siemens AG GAMESA (as absorbing company), leading to a dilution of the percentage holding of the IBERDROLA Group, which went from 19.69% to 8.07% in the new Siemens Gamesa Renewable Energy, S.A. group. This transaction contributed EUR 251 million to profit for the year, of which EUR 198 million correspond to the extraordinary merger dividend paid to former shareholders of GAMESA.
  - the corporate reorganisation in Brazil, involving a capital gain of EUR 44 million on revaluing 39% of Neoenergia, S.A.
- We have discontinued the Engineering activity which is reported under discontinued operations in the consolidated financial statements, restating the figures for the previous year as required by the accounting rules.

As for average movements in IBERDROLA's main reference currencies against the euro during 2017, sterling depreciated by 7.1% and the US dollar by 1.9%, these movements being partly offset by the 6.7% appreciation of the Brazilian real.

For the system as a whole, the following points stand out:

- In Spain, the period was characterised by a sharp fall in hydroelectric production (48.9%), and a decline in nuclear production (0.9%). Production with other renewable technologies, coal-fired and gas-fired power stations covered the fall in hydroelectric and nuclear, with increases of 1.8%, 21% and 38% respectively. Electricity demand was slightly higher compared with 2016 (1%).
- In the United Kingdom, electricity demand dropped by 1.7% compared to 2016. Customer's gas demand (not including generation consumption) also drops 3.1% due to a more benign weather.
- In the AVANGRID area in the East Coast of the USA, electricity demand dropped by 2%, while gas demand stayed practically the same, increasing 0.5% compared to 2016.
- On the other hand, in the Iberdrola area in Brazil, electricity demand rose by 1.2% compared to 2016.

## 2.2 Magnitudes básicas gestionadas

At the end of 2017, IBERDROLA had 46,075 MW installed generation capacity, of which 65.6% produces emission-free energy while operating at a very low variable cost. In the table below distribution classified by countries and technologies is shown:

Power per country (MW)	2017	2016	MW change
Spain	25,607	25,605	2
United Kingdom	4,616	4,522	94
United States	7,009	6,502	507
Mexico	6,242	5,840	402
Brazil	1,640	187	1,453
ROW	961	621	340
<b>Total</b>	<b>46,075</b>	<b>43,277</b>	<b>2,798</b>

Power per technology (MW)	2017	2016	MW change
Hydraulic	10,984	10,392	592
Nuclear	3,166	3,166	–
Coal	874	874	–
Gas combines cycles	14,670	13,778	892
Cogeneration	299	299	–
Wind power, mini-hydraulic and other renewables	16,082	14,768	1,314
<b>Total</b>	<b>46,075</b>	<b>43,277</b>	<b>2,798</b>

IBERDROLA Group's total production in this period dropped by 4.6% to 126,198 GWh (132,274 GWh in 2016). The Net Production by geographical areas is the following:

Net Production (GWh)	2017	2016	% charge
Spain	50,358	61,725	(18.4)
United Kingdom	11,945	13,531	(11.7)
United States	17,612	17,436	1.0
Mexico	41,854	37,577	11.4
Brazil	3,047	639	376.8
ROW	1,382	1,366	1.2
<b>Total</b>	<b>126,198</b>	<b>132,274</b>	<b>(4.6)</b>

Net production per technology (GWh)	2017	2016	% charge
Hydroelectric	8,659	19,422	(55.4)
Coal	2,665	3,751	(29.0)
GCC	55,964	50,973	9.8
Nuclear	23,190	24,335	(4.7)
Renewables	33,557	31,917	5.1
Cogeneration	2,163	1,876	15.3
<b>Total</b>	<b>126,198</b>	<b>132,274</b>	<b>(4.6)</b>

## 2.3 Business evolution

### 2.3.1 Analysis of the profit and loss account

The key figures for the financial year 2017 are as follows:

Millions of euros	2017	2016	% charge
Revenue	31,263	28,759	8.7
Gross margin <sup>(1)</sup>	13,364	12,935	3.3
EBITDA <sup>(2)</sup>	7,319	7,934	(7.8)
EBIT <sup>(3)</sup>	2,713	4,686	(42.1)
Net Profit	3,423	2,944	16.3

(1) Gross Margin: Revenue – Procurements

(2) EBITDA: Operating profit+ Amortisation and provisions

(3) EBIT: Operating profit



### 2.3.1.1 Gross Margin

Gross Margin was at EUR 13,364 million with a 3.3% increase compared to that obtained in financial year 2016, supported by the contribution of US, Mexico and Brazil, due to the incorporation of NEOENERGIA. The performance of reference currencies had a negative effect of EUR 186 million compensated by a better performance of the businesses of EUR 614 million including the incorporation of NEOENERGIA.

The gross margin by business is as follows:

Millions of euros	2017	2016	% change
Network Business	6,787	6,161	10.2
Deregulated Business	4,238	4,634	(8.5)
Renewable Business	2,326	2,179	6.7
Other businesses	53	5	960.0
Corporation and adjustments	(40)	(44)	9.1
<b>Gross Margin</b>	<b>13,364</b>	<b>12,935</b>	<b>3.3</b>

#### Network Business

The Networks business improved its contribution by 10.2% to reach EUR 6,787 million (EUR 6,161 million in 2016) supported by the improvement in the United States and the corporate reorganisation in Brazil.

Millions of euros	2017	2016	% change
Spain	2,003	2,028	(1.2)
United Kingdom	1,174	1,267	(7.3)
United States	2,754	2,537	8.6
Brazil	856	329	160.2
<b>Total</b>	<b>6,787</b>	<b>6,161</b>	<b>10.2</b>

As notable events in the evolution of the gross margin during the period we can highlight the following:

- Gross margin in Spain reached EUR 2,003 million, EUR 25 million lower than the previous year, mainly explained by a decrease in recognised income of EUR 27 million. This is due to the fact that in 2016, positive re-estimates from previous years were recognised for EUR 16 million that affected the comparison.
- The United Kingdom contributed EUR 1,174 million (-7.3%), mainly due to the devaluation of the pound. This business is also affected by lower demand in 2017 due to the climate and reassessments of previous years due to lower-than-anticipated investments.
- The contribution of the United States in the period stands at EUR 2,754 million, EUR 217 million higher than the previous year (8.6%), despite the devaluation of the dollar which had an effect of EUR 53 million and an improvement of EUR 270 million for the business from the new rate cases and lower energy costs.
- The Gross Margin of Brazil amounts to EUR 856 million (160.2%) affected by the appreciation of the Real, EUR 58 million, the corporate reorganisation, which accounts for EUR 421 million, and the increase in the energy distributed and the annual rate reviews.



## Deregulated Business

The Deregulated Business (Generation and Retail) decreased by 8.5% to EUR 4,238 million (EUR 4,634 million in 2016).

Millions of euros	2017	2016	% change
Spain	2,690	3,071	(12.4)
United Kingdom	796	1,000	(20.4)
Mexico	646	509	26.9
Brazil	89	6	1,383.3
United States	17	48	(64.6)
<b>Total</b>	<b>4,238</b>	<b>4,634</b>	<b>(8.5)</b>

- In Spain, the Gross Margin reached EUR 2,690 million (-12.4%), mainly due to the low hydropower contribution during the year offset by the positive evolution of the results in the gas business after the contract price review.
- Gross Margin for the United Kingdom was EUR 796 million. 204 lower in comparison to 2016. This variation negatively affected by the depreciation of the Sterling Pound in (the local currency depreciated 14.7%). Production was 25.5% lower than in 2016 (-2,665 GWh), affected by the closure of the Longannet plant, which, together with higher supply costs, the increase in the cost of green certificates (ROCs), lower sales of gas and the narrowing of commercial margins explain this reduction in the contribution of the business.
- Mexico's contribution to Gross Margin amounts to EUR 646 million (26.9%), improving in EUR 137 million the 2016 contribution. Depreciation of the US dollar results in a decrease of EUR12 million. The increase of EUR 149 million by the business has its origin in the PPA contracts (EUR 60 million), which include the commissioning of the Baja California combined cycle; improvement in sales to private customers and increase in power (EUR 81 million); other smaller items, surpluses, etc. (EUR 8 million).
- The Gross Margin of Brazil came to EUR 89 million, the main effects of the increase of EUR 82 million were: the appreciation of the Real, which accounted for EUR 6 million and the corporate reorganisation, which accounted for EUR 76 million.

## Renewable Business

The Renewable business decreased its Gross Margin by 6.7% to EUR 2,326 million (EUR 2,179 million in 2016), EUR 147 million more in comparison to 2016.

Millions of euros	2017	2016	% change
Spain	777	764	1.7
United Kingdom	493	385	28.1
United States	783	802	(2.4)
Brazil	78	36	116.7
Mexico	71	69	2.9
ROW	124	123	0.8
<b>Total</b>	<b>2,326</b>	<b>2,179</b>	<b>6.7</b>

The main causes of this trend are:

- In Spain, it increased to EUR 13 million up to EUR 777 million (+1.7%) despite lower production.
- The gross margin in the United Kingdom increased by EUR 108 million to EUR 493 million (28.1%) despite the impact of the devaluation of the pound, which accounted for EUR 35 million. Despite this, the higher production (+42%) derived from better onshore and offshore wind power during the year and the increase in onshore power improved the gross margin by EUR 115 million. The improvement of the ROC price and other minor effects explain the remaining EUR 28 million.
- The contribution of the United States for the period totalled EUR 783 million (-2.4%), EUR 19 million less compared to the previous year. The effect of the devaluation of the dollar had a negative impact of EUR 15 million, while the improvement in production improved the gross margin by EUR 7 million and was offset by the reduction in the year of EUR 11 million in the impact of electricity and gas derivatives.
- Mexico contributed EUR 2 million to the Gross Margin due to increase in prices.
- Brazil contributed EUR 42 million in higher margin, affected by the appreciation of the Brazilian real and greater volume (+87.5%) due to the global integration of the plants of the Neoenergia subgroup.
- The rest of the world increased slightly with respect to 2016, EUR 1 million, due to an increase in production of 0.8%.

### Other businesses

The contribution of Other Businesses reached EUR 53 million, a decrease of 960.0% (EUR 5 million in 2016), although it is due to the discontinuation of the engineering business.

#### 2.3.1.2 Gross Operating result – EBITDA

Consolidated EBITDA decreased by EUR 615 million, -7.8%, to EUR 7,319 million (EUR 7,934 million in 2016), where the Networks (+3.6%) and Renewables (6.1%) businesses improved and the Liberalised Generation and Customers business reduced its contribution (-28.9%). This reduction in EBITDA without considering the exchange rate effect of EUR 105 million would be EUR 510 million (-6.4%).

However, without taking into account the early retirement plan for each year, EBITDA would decrease by EUR 452 million (-5.7%) and would be 4% lower if the variation in the main currencies was not considered.

Millions of euros	2017	2016	% charge
Network Business	4,228	4,082	3.6
Deregulated Business	1,601	2,253	(28.9)
Renewable Business	1,592	1,500	6.1
Other businesses	39	(7)	657.1
Corporation and adjustments	(141)	106	(233.0)
<b>EBITDA</b>	<b>7,319</b>	<b>7,934</b>	<b>(7.8)</b>

### Net operating expenses

The net operating expense increased by EUR 704 million (20.3%) to EUR 4,170 million (EUR 3,466 million in 2016) affected by the exchange rate, EUR 54 million, the reorganisation in Brazil that accounted for EUR 254 million, the effect of the storms in the United States came to EUR 109 million and the variation in the early retirement plan for an amount of EUR 163 million. The growth in the business itself and positive impacts in 2016 that affect the comparison explain the remaining EUR 124 million.

Millions of euros	2017	2016	% change
Network Business	1,981	1,441	37.5
Deregulated Business	1,534	1,504	2.0
Renewable Business	631	537	17.5
Other businesses	13	11	18.2
Corporation and adjustments	11	(27)	140.7
<b>Total</b>	<b>4,170</b>	<b>3,466</b>	<b>20.3</b>

## Taxes

Taxes increased by EUR 339 million, 22.1% higher than those registered in 2016, to reach EUR 1,875 million, due to:

- the positive exchange rate effect (EUR 28 million) and the decrease of EUR 43 million in the taxes from the Sustainability Act, hydropower fee;
- several positive impacts recorded in 2016 that amounted to EUR 269 million and had a negative impact on the year-on-year comparison (the territorial supplement, the Ecotax and the discount rate (bono social) amounted to EUR 119 million, EUR 8 million and EUR 142 million respectively);
- the negative impacts of spending on the discount rate (bono social) in 2017 for EUR 68 million and the increase in rates in the United Kingdom, mainly in the Generation and Customers business derived from the Warm Home Discount programme and the United States for EUR 30 million and EUR 6 million, respectively;
- provisions and other minor effects accounted for an increase of EUR 37 million.

### 2.3.1.3. Net Operating result – EBIT

EBIT totalled EUR 2,713 million, 42.1% higher in comparison with 2016 (EUR 4,686 million).

Millions of euros	2017	2016	% change
Network Business	2,660	2,649	0.4
Deregulated Business	(33)	1,313	(102.5)
Renewable Business	288	703	(59.0)
Other businesses	3	(15)	120.0
Corporation and adjustments	(205)	36	(669.4)
<b>EBIT</b>	<b>2,713</b>	<b>4,686</b>	<b>(42.1)</b>

## Amortisations and provisions

Amortisations and Provisions rose by 41.8%, totalling EUR 4,606 million:

- The Amortisations item rose EUR 99 million (3.2%), and reached EUR 3.186 million.
  - o The effects that reduce this item with respect to the previous year are: the exchange rate effect, EUR 49 million and the modification of the useful life of the combined cycles of 35 to 40 years and the electromechanical equipment of the hydraulic power plants from 35 to 50 years (limited by the date of concession of each plant) that had a positive impact of EUR 65 million; the net impact of other minor effects is EUR 3 million;
  - o The incorporation of the corporate reorganisation in Brazil and the new investments increased the amortisations by EUR 117 million and EUR 99 million, respectively;
- Provisions represent EUR 1,420 million. The main impacts registered are:
  - o Provision derived from the classification as maintained for the disposal of the gas business in the United States and Canada in the amount of EUR 744 million (Notes 34 and 41);
  - o Reorganisation of the goodwill of the renewables business in the United States as a result of the tax reform amounting to EUR 450 million;
  - o The remaining EUR 226 million are net of several less significant provisions and reversals.

#### **2.3.1.4. Financial Result**

The net financial result was EUR -937 million, rising EUR 34 million, improving by 3.8% compared to that registered in 2016 (EUR -903 million), mainly due to the consolidation of NEOENERGIA.

The reduction in the average cost to 3.49% (57 b.p. lower than last year) has contributed with a EUR 64.8 million (6%) on the improvement of the result associated to debt, despite the fact that average net debt increased by EUR 3,470 million.

The result of the valuation of the foreign currency and derivatives items was greatly reduced by the valuation of the hedges on net profit in foreign currency (extraordinarily high for the pound in 2016). On the other hand, several non-recurrent contingencies (mainly default interest recognised in court rulings) resulted in higher financial income. The net impact of both effects was EUR 13 million.

The contribution to the financial result of the integration of Neoenergía as from 24th August had an impact of EUR 86 million.

#### **2.3.1.5 Results of Companies Consolidated by the Equity Method**

The item of Company Results using the Participation Method accounted for EUR -29 million compared to 2016, coming to EUR 47 million as a result of Neoenergia becoming consolidated globally instead of using the equity method since 24th August and the lower contribution by Gamesa-Siemens.

#### **2.3.1.6 Income from Non-Current Assets**

Income from Non-Current Assets amounted to EUR 279 million with a decrease of EUR 469.4% million compared to 2016 (EUR 49 million). In 2017 the most significant transactions were as follows:

- The absorption of Gamesa and Siemens that contributed EUR 251 million (EUR 198 million) corresponded to the cash received as an extraordinary merger dividend;
- The corporate reorganisation carried out in Brazil led to the takeover of Neoenergía, going from a stake of 39% to 52%, after having contributed Elektro to Neoenergía. Upon taking control, the initial shareholding of 39% was recorded at market value, recording a capital gain of EUR 44 million.
- The sale of Amara and other assets resulted in net losses of EUR 14 million.

### 2.3.1.7 Net Profit

The Net Profit amounts to EUR 2,804 million, with an increase of 3.7% compared to that obtained in 2016 (EUR 2,705 million) thanks to the impact of the tax reform in the United States, a positive figure of EUR 2,026 million in the tax item, which meant that this item went from expenditure of EUR 935 million in 2016 to a positive result of EUR 1,397 million in 2017.

## 2.4 Operative evolution of the period

### 2.4.1 Network business

#### A. Spain

IBERDROLA has approximately 11 million managed supply points and total distributed energy 93,289 GWh, a decrease of 0.5% compared to the same period of the previous year (93,736 GWh in 2016).

TIEPI's quality of supply indicator for fiscal year 2017 was 52.7 minutes, with an improvement of 2.6% over the previous year (54.1 minutes in 2016).

The table shows the values of the TIEPI (interruption time) and NIEPI (number of interruptions) in relation to the previous year:

	Accumulated TIEPI	Accumulated NIEPI
2016	54.1	1.04
2017	52.7	1.14

The investment made during the year has allowed the following facilities to be put into operation:

Physical Units	2017	Total
Lines <sup>(1)</sup>	Overhead (km)	274
	Underground (km)	723
Substations	Transformer (units)	18
	Capacity increase (MVA)	1,816
	Substation (units)	6
Secondary sub-stations	Centres (no) <sup>(3)</sup>	503
	Capacity increase (MVA) <sup>(2)</sup>	217

(1) Decrease of numbers of km of HV lines by substitution by EHV lines (some owned by REE) and, in addition, EHV/HV transformation is being replaced by EHV/MV, leading to the elimination of some HV circuits. In June 2017, in the province of Valencia, the works of shifting from 132kV to 220kV were completed on the lines connecting the substations of Catadau, Valle del Cárcer, Valldigna and Gandía, which became part of the transmission Network.

(2) New substations put into service in 2017: Carril (380 kV) IN Murcia, Tobarra 132 kV In Albacete, Mudarra Iberdrola 220 kV In Valladolid, Nogalte (132kV) In Murcia, ST Armuña (132kV) In Salamanca AND ST Murcia (220kV) In Murcia.

Within the STAR smart grid project, IBERDROLA has exceeded the figure of 10 million digital meters installed and adapted the infrastructure that supports them to a smart grid, which represents a modernisation of 95% of the company's meter pool in Spain. Around 67,000 transformer stations distributed throughout Spain have also been adapted, now incorporating telemanagement, supervision and automation capabilities. So far this year, a total of 1,257,431 smart meters have been installed and 95% of the total have been integrated into the network. According to the CNMC report of 23 February 2017, that tracks the effective integration of smart meters in Spain, IBERDROLA is the number one distributor in terms of remote management reading.

## B. United Kingdom

IBERDROLA has more than 3.5 million supply points in the United Kingdom. The volume of energy distributed during 2017 was 32,772.0 GWh (33,482 GWh in 2016), a decrease of 2.1% compared to the year 2016.

All quality of service indicators improved compared to 2016. The average Customer Minutes Lost (CML) and the number of consumers affected by interruptions per every 100 customers (Customer Interruptions, CI) are:

	2017		2016	
	CML	CI	CML	CI
Scottish Power Distribution (SPD)	29.4	40.7	30.7	45.3
Scottish Power Manweb (SPM)	33.2	29.6	37.2	38.9

## C. United States

### Distribution

In the United States IBERDROLA has 2.2 million electricity supply points. The volume of energy distributed in the year was 36,591 GWh, which represents a decrease of 1.2% compared to 2016 (37,027 GWh).

The System Average Interruption Frequency Index (SAIFI) and the Customer Average Interruption Duration Index (CAIDI) are as follows:

	2017		2016	
	SAIFI	CAIDI	SAIFI	CAIDI
Central Maine Power (CMP)	1.61	1.83	1.78	1.89
NY State Electric & Gas (NYSEG)	1.20	–	1.19	2.02
Rochester Gas & Electric (RGE)	0.55	1.77	0.58	1.79
United Illuminating Company (UI)	0.41	1.36	0.53	0.42

The three companies comply with all their quality of service indicators within the limits required by the corresponding commission.

### Gas

The number of gas users in the United States at the end of 2017 is over 1 million, which has been supplied with 51,440 GWh, a 3.8% decrease over the same period of last year when 53,460 GWh were distributed..

## D. Brazil

The evolution of the demand of distributors in Brazil in 2017 increased 1.8% reaching 55,510 GWh (54,503 GWh in 2016).

Energy distributed (GWh) 100% of business	2017	2016	% Change
COELBA	19,679	19,549	0.7
COSERN	5,623	5,582	0.7
CELPE	13,512	13,410	0.8
ELEKTRO	16,696	15,962	4.6
<b>Total</b>	<b>55,510</b>	<b>54,503</b>	<b>1.8</b>

The number of customers served by the distributors at the end of the year reaches 14 million.

Number of customers (million) 100%	2017	2016
COELBA	6	5
COSERN	1	1
CELPE	4	4
ELEKTRO	3	3
<b>Total</b>	<b>14</b>	<b>13</b>

Plant	MW	Attributable MW	Year
Baixo Iguaçu	350	129	2018
Belo Monte	6,722	353	2016-2018
<b>Total</b>	<b>7,072</b>	<b>482</b>	

### 2.4.2 Deregulated business

#### A. Spain and Portugal

##### A.1. Generation

Installed capacity in Spain (without renewables) reaches 19,747 MW, with no significant changes compared to 2016 (19,745 MW).

Installed capacity (MW)	2017	2016	Change
Hydroelectric	9,715	9,713	2
Nuclear	3,166	3,166	–
Coal	874	874	–
Gas combines cycles	5,694	5,694	–
Cogeneration	298	298	–
<b>Total</b>	<b>19,747</b>	<b>19,745</b>	<b>2</b>

The Energy Balance of the peninsular system in 2017 is characterised by a significant increase in thermal production compared to the previous year (26%), mainly due to the reduction of hydroelectric production (47%) as it was a year with very low rainfall. The rest of the production from renewable sources increased by 2%, mainly due to the higher wind production recorded in the last quarter (+44% compared to the same period of the previous year). Coal and combined cycles production have increased in 21 and 32% respectively in comparison to 2016. In terms of demand, it increased by 1% with respect to the same period of 2016, while in terms adjusted for work and temperature, it grew by 1.6%.

According to IBERDROLA, during the twelve months of 2017, production decreased by 22.1% until reaching 39,368 GWh.

The evolution of the year by technologies is as follows:

Net Production (GWh)	2017	2016	% Change
Hydraulic	7,467	18,510	(59.7)
Nuclear	23,190	24,335	(4.7)
Coal	2,665	2,115	26.0
Gas combined cycles	3,883	3,724	4.3
Cogeneration	2,163	1,875	15.4
<b>Total</b>	<b>39,368</b>	<b>50,559</b>	<b>(22.1)</b>

- Hydraulic production reached 7,467 GWh, a decrease of 59.7% over the previous year. The level of hydropower reserves as of 31st December 2017 was at 29% compared to 42% as of 31st December 2016 (equivalent to 3,314 GWh compared to 4,791 GWh), all due to the exceptionally low rainfall in the year.
- Nuclear production stands at 23,190 GWh, registering a decrease of 4.7%, as a consequence of the lengthening of the stoppage at the Cofrentes plant.
- Coal-fired power stations reached 2,665 GWh, compared to 2,115 GWh the previous year, representing an increase of 26.0%.
- Production of combined cycle plants, for their part, increased by 4.3%, until reaching 3,883 GWh.
- Cogeneration plants increase their production by 15.4%, until reaching 2,163 GWh.

## A.2 Retailing

Supplied energy (electricity and gas) in Spain came to 55,157 GWh (51,614 GWh in 2016) and 7,926 GWh of gas (8,753 GWh in 2016).

Electricity sales on the deregulated market in 2017 increased by 9.3% amounting to 47,455 GWh compared to 43,405 GWh supplied in the same period of 2016. Regarding the electricity supplied at the PVPC, it amounts to 7,702 GWh.

The gas retailed in the deregulated market in 2017 increased by 9.6% to 7,863 GWh compared to 8,702 GWh supplied in 2016.

In Portugal, IBERDROLA supplied 7,587 GWh during 2017, compared to 7,343 GWh supplied in 2016 (+3.3%), being the second seller in the Medium Voltage industrial clients.



## B. United Kingdom

### B.1. Generation

As of 31 December 2017 and 2016 installed capacity in the UK reached 2,531 MW.

UK capacity (MW)	2017	2016	% Change
Hydraulic	563	563	–
Gas combined cycles	1,967	1,967	–
Cogeneration	1	1	–
<b>Total</b>	<b>2,531</b>	<b>2,531</b>	<b>–</b>

With regard to production from traditional electricity generation, in 2017 it decreased by 25.5% to 7,792 GWh compared to the 10,456 GWh of the previous year, due to the aforementioned impact of the closure of the Longannet power plant.

The market share of the generation business in 2017 was 4%, compared to 4.2% in the previous year. By technologies, the most outstanding aspects are the following:

UK Production (MW)	2017	2016	% Change
Hydraulic	692	585	18.3
Coal	–	1,636	(100.0)
Gas combined cycles	7,100	8,234	(13.8)
Cogeneration	–	1	(100.0)
<b>Total</b>	<b>7,792</b>	<b>10,456</b>	<b>(25.5)</b>

### B.2. Retailing

Regarding sales, during 2017 customers have been supplied with 21,591 GWh of electricity and 29,514 GWh of gas (20,951 GWh of electricity and 31,974 GWh of gas supplied during 2016). SCOTTISH POWER had 3 million electricity customers and 2 million gas customers as of 31 December 2017.

## C. Mexico

IBERDROLA is the leading private producer in the country with 5,832 MW (5,473 MW in 2016) in installed capacity. Highlights are the entry into commercial operation of the Baja California III power plant of 301 MW at the end of January 2017 and the extensions to the MXL de Monterrey III, contributing more than 22 MW extra to the plant for sale to private clients and a power expansion in the combined cycle of Altamira V of 35 MW.

Currently the following plants are in construction:

Projects	MW
Cogeneración Altamira (Dynasol)	57
Cogeneración Bajío	50
<b>Cogeneration</b>	<b>107</b>
Escobedo	857
Topolobambo II	887
El Carmen	842
Topolobambo III	766

<b>Combined cycles</b>	<b>3,352</b>
<b>Total</b>	<b>3,459</b>

The electric energy supplied from the combined cycles and cogeneration plants has been 41,601 GWh (36,598 GWh in 2016), which supposes a charge factor of the 80%, because the generation with natural gas the base of the electric generation in Mexico. The accumulated availability of the plants in Mexico has been 97%.

#### D. Brazil

The power of the projects in operation at the end of 2017 is 5,653 MW (1,059 MW in the IBERDROLA percentage).

As for the projects under construction, the pace of construction follows the planned schedule, so that the scheduled finish dates are maintained. Generator sets in Belo Monte continue entering into operation in a staggered manner. During 2017, 2,522 MW came into operation, 132 MW attributable to them. Construction of Baixo Iguaçu continues.

Plant	MW	Attributable MW	Year
Baixo Iguaçu	350	129	2018
Belo Monte	6,722	353	2016-2018
<b>Total</b>	<b>7,072</b>	<b>482</b>	

#### 2.4.3. Renewable business

At the end of 2017, the renewables business had an installed capacity of 14,141 MW (12,971 MW in 2016).

The renewable production increased by 5.1% to 33,557 GWh (31,917 GWh in 2016).

In the last 12 months, IBERDROLA increased its power in 1,316 MW.

MW installed	2017	2016	MW change
Wind Energy Spain	5,508	5,508	–
Wind Energy USA	6,145	5,692	453
Onshore Wind Energy United Kingdom	1,891	1,796	95
Offshore Wind Energy United Kingdom	194	194	–
Wind Energy Mexico	367	367	–
Wind Energy Brazil	516	187	329
Onshore Wind Energy Rest Of The World	605	615	(10)
Offshore Wind Energy Rest Of The World	350	–	350
<b>Total wind energy</b>	<b>15,576</b>	<b>14,359</b>	<b>1,217</b>
<b>Other renewables</b>	<b>507</b>	<b>408</b>	<b>99</b>
<b>Total installed capacity</b>	<b>16,083</b>	<b>14,767</b>	<b>1,316</b>

## A. Onshore Wind Energy

In the last 12 months IBERDROLA has increased its total installed capacity to 867 MW: 320 MW were incorporated due to the integration of Neoenergía, 638 MW were installed and 91 MW were deconsolidated (81 MW due to the deconsolidation of Colorado Green and 10 MW due to the sale of the Italian companies).

### Spain

The installed power at the end of 2017 has reached to an amount of 5,508 MW and manages 244 MW through non-consolidated participated companies.

A work of two wind farms with a total capacity of 32.2 MW in the Tenerife island has been approved: Chimiche II (18.4 MW) and Las Aulagas (13.8 MW).

### United States

The Company has presence in 21 states with a total of 6,145 MW wind farms installed and additional 161 MW are managed through participated companies.

In 2017 El Cabo (298.2 MW) in Nuevo Mexico, Tule (131 MW) in California, Twin Buttes II (75 MW), in Colorado, and Deerfield (30 MW) in Vermont were commissioned.

In September construction works for Montague (201.1 MW) in Oregon started.

In 2017 the construction of a 66 MW with photovoltaic technology in Oregon has been approved. Gala (56 MW), where works ended in October with its commissioning, and W'y East (10 MW), on which works will begin during the first quarter of 2018. The construction of a 645 MW with wind technology has been approved: Karankawa (286 MW) in Texas, Coyote Ridge (96.7 MW) and Tatanka de (96.7 MW) in South Dakota and La Joya (166 MW) in New Mexico.

### United Kindom and Republic of Ireland

The onshore wind power is 1,891 MW in United Kingdom and 15 MW are managed through participated companies.

In 2017, 95 MW were commissioned: 71.5 MW en Killgallioch, 11.5 MW en Ewe Hill Phase 2, 3.4 MW in the extension of Hare Hill, 8 MW en Glen App.

### Brazil

Following the incorporation of Neenergia, Brazil has 516 MW.

Six projects for a total of 174 MW wind farms were finally winners in the "Leilões" (competition) which had taken place during 2014. There are in the course phase the works of the following wind farms: Calango 6 (30 MW), Santana I (30 MW) and Santana II (25 MW).

### Mexico

In Mexico, the installed power is 367 MW.

The following wind farms are in construction: Santiago eólico (105 MW) in Guanajuato and Pier (220.5 MW) in Puebla. The first 20 MW in Santiago were commissioned.

## ROW

The installed power at the end of 2017 has reached to an amount of 605 MW following the sale of 10 MW in Italy.

### **B. Offshore Wind Energy**

IBERDROLA has two offshore wind farms operating with 544 MW, West of Duddon Sands in the United Kingdom, located in the Irish Sea, with an installed capacity of 194 MW and Wikinger in Germany with 350 MW.

Currently, the renewables business is developing offshore wind projects mainly in the United Kingdom, Germany and France.

In Germany, active work is being carried out to increase the portfolio of projects in the German Baltic Sea, in the vicinity of the Wikinger wind farm, through the participation in the auctions that will be organised by the German regulator in April 2018.

In France, 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 October 2015, the project submitted its application for a construction license, which was granted in April 2017. This gives way to the pre-FID phase, with the geotechnical studies campaign currently under way as the first milestone in the construction.

Iberdrola is developing in the United Kingdom the “East Anglia” project in the North Sea. The East Anglia 1 project (714 MW) is in the construction phase, with on-site work and ongoing manufacturing activities initiated in various locations inside and outside Europe. Progress is being made on the wiring and land substation works, which will connect the project with the national network.

The manufacturing works are taking place in various locations inside and outside Europe: Navantia is manufacturing the offshore substation and 42 jackets on which the turbines will be installed. The completion of the first jacket is expected in October 2018. Lamprell has started manufacturing the remaining 60 jackets, 24 of which will be assembled at Harland & Wolff, in Belfast. Nexans is finalising the detail design and will begin to produce the “sub-sea” wiring, and Prysmian has already produced more than 50% of the onshore wiring.

The project is moving forward in order to commence the marine works in 2018, starting with the foundation works by van Oord, and continuing with the installation of the marine substation by Seaway Heavy Lifting, and the installation of the marine wiring, for its connection with the terrestrial substation, by Nexans and DeepOcean. Siemens Gamesa will manufacture and install the 102 units of 7MW turbines, installation of which is expected to begin in mid-2019.

The other three development projects owned by Iberdrola in the East Anglia area, with an accumulated capacity of 2,800 MW, are still being processed in accordance with the plans agreed with The Crown Estate. For the East Anglia 3 project, environmental approval from the Secretary of State for the Department of Business, Energy and Industrial Strategy of the United Kingdom was received on schedule on 7 August for the construction of its 1,200 MW of power. The next step for this project will be to win the award of a contract to sell its production (CfD: Contract for Difference) and thus ensure its viability, foreseeably in April 2019.

### C. Other technologies

The Renewable business has facilities of other renewable technologies in various countries making a total of 507 MW, which breakdown is presented in the following table:

MW installed	2017	2016	Country
Mini-hydraulic special regime	130	130	Spain
Mini-hydraulic ordinary regime	171	172	Spain
Solar thermal hybrid	50	50	Spain
Photovoltaic	155	56	USA (150MW) Greece (6MW)
<b>Total</b>	<b>507</b>	<b>408</b>	

#### USA-Avangrid

Gala was placed into operation with 56 MWn of photovoltaic technology, while the commissioning works are ongoing at W'y East (10 MWn), both in the state of Oregon.

#### Mexico

Of the 270 MWh of photovoltaic technology in construction in 2016: Santiago (170 MW) in San Luis de Potosí and Hermosillo (100 MW) in Sonora. 23 MW of Santiago were commissioned.

### 3. LIQUIDITY AND EQUITY RESOURCES

#### 3.1. Leverage

Gross financial debt as of 31 December 2017 increased by EUR 5,089 million to EUR 37,115 million compared to EUR 32,026 million as of 31 December 2016, mainly as a result of the integration of Neoenergía, which accounts for an increase of EUR 4,051 million, and investments made in 2017.

As a result, financial leverage increases to 43.5% compared to 42% as fo 31 December 2016 (Note 21).

Millions of euros	2017	2016
<b>Equity</b>	<b>42,733</b>	<b>40,687</b>
Gross debt	37,115	32,026
Cash and cash equivalents (Note 20)	(3,197)	(1,433)
Derivative assets and other	(1,034)	(1,179)
<b>Net debt</b>	<b>32,884</b>	<b>29,414</b>
<b>Leverage</b>	<b>43.5%</b>	<b>42.0%</b>

#### 3.2. Credit rating of IBERDROLA senior debt

Agency ratings are:

Agency	Long-term <sup>(1)</sup>	Outlook	Date
Moody's	Baa1	Positive	26/04/2016
Fitch	BBB+	Stable	08/07/2016
Standard & Poors	BBB+	Stable	22/04/2016

(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 2017 it stood at 2.91% compared to 3.17% in the same period of the previous year (Note 26 of the Consolidated financial statements).

The structure of the debt by interest rate and currency can be seen in Notes 5 and 26 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) or in their functional currencies (US dollar, in the case of Mexico).

IBERDROLA has a strong liquidity position at the end of 2017, exceeding EUR 10,061 million (Note 5 of the Consolidated Financial Statements).

.Million euros

## Annual Financial Report

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Credit line maturities	Available
2018	795
2019	364
2020 onwards	5,705
<b>Total</b>	<b>6,864</b>
Cash and cash equivalents (Note 20)	3,197
<b>Total adjusted liquidity</b>	<b>10,061</b>

IBERDROLA presents a comfortable profile of debt maturities, with more than six years of average debt life. IBERDROLA's debt maturity profile at the end of 2017 can be seen in Note 26 of the Consolidated financial statements.

### 3.4. Working capital

Working capital shows an increase of EUR 730 million since December 2016 as a result mainly due to several different effects partially offsetting one another:

- An increase of trade receivables of EUR 859 million after the global incorporation of Neoenergía.
- A net increase in working capital associated with assets held for disposal, gas business in the United States and Canada, in EUR 221 million.
- The increase in inventories of EUR 236 million, mainly due to the increase in the cost of green certificates (EUR 277 million, see Note 18) which is offset by Liability provisions for emissions (EUR 386 million). The rest of the inventories decreased by EUR 40 million.
- An increase of short-term provisions of EUR 483 million mainly due to the effect of the emission rights mentioned above.
- Other assets of lesser amounts

(Millions of euros)	31.12.2017	31.12.2016	Change
Assets held for sale	356	-	356
Nuclear fuel	332	323	9
Inventories	1,870	1,634	236
Commercial debtors and other accounts receivable	6,721	5,862	859
Current Financial investments	601	781	(180)
Asset derivative financial instruments <sup>(1)</sup>	175	322	(147)
<b>CURRENT ASSETS</b>	<b>10,055</b>	<b>8,922</b>	<b>1,133</b>
Liabilities linked to assets held for sale	135	-	135
Provisions	627	144	483
Liability derivative financial instruments <sup>(2)</sup>	136	339	(203)
Trade and other payables	8,422	8,434	(12)
<b>Current Liabilities</b>	<b>9,320</b>	<b>8,917</b>	<b>403</b>
<b>NETWORKING CAPITAL</b>	<b>735</b>	<b>5</b>	<b>730</b>

(1) It does not include financial debt and debt Assets derivatives. (Note 27)

(2) It does not include financial debt and debt liabilities derivatives. (Note 27)

## 4. MAIN RISKS AND UNCERTAINTIES

## 4.1 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, has pushed for the mechanisms necessary to be put into place 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 customers, shareholders, other groups interested in the progress of the Company, and society in general, and
- ensure corporate stability and financial strength in a sustained fashion over time.

In the implementation 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 system for assessment and internal control of significant risks, acting in coordination with the audit committees existing at other companies of the Group.

All actions aimed at controlling and mitigating risks shall conform to 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 established in the *Code of Ethics* and under the principles of zero tolerance for the commitment of illicit acts and fraud situations included in the *Prevention of Fraud and Crimes Policy*.

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 Corporate Risk Committee of the Group and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon suitable supporting procedures, methodologies, and tools, including 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, limits and risk indicators, as well as of the corresponding mechanisms for the approval and implementation.
- d) The measurement and monitoring of risks, by following consistent procedures and homogeneous 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 a system for monitoring 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 eventual inclusion thereof in the model.
- i) The audit by the Internal Compliance Division of the comprehensive risk control and management system.

In addition, the *General Risk Control and Management Policy* is further developed and supplemented through the policies listed below which are also subject to approval by the Company's Board of Directors:

- a) Corporate risk policies:
  - Corporate credit risk policy.
  - Corporate market risk policy.
  - Operational Risk 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 Technology Policy.
  - Cybersecurity Risk Policy.
- b) Risk policies and limits of the various businesses of the Group:
- Risk policy for the generation and retail 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 Real Estate business of the IBERDROLA Group.

The *General Risk Control and Management Policy*, as well as a *Summary of the Corporate Risk Policies* and a *Summary of the Specific Risk Policies* for the various Group businesses, are available on the corporate website ([www.iberdrola.com](http://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.

Subholding companies are responsible for adopting the Group's risk policies and specifying their application, approving the guidelines regarding specific risk limits, addressing the characteristics and unique features businesses in each country.

The head of business companies of each country must approve - in their respective administration boards - the specific risk limits applicable to each one and implement the control systems required to ensure their compliance.

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 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 equity 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 to the business, such as the characteristics of demand, weather conditions, the strategies of different players, and others.
- e) Political and 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, or environmental or tax regulations, including risks related to political changes that could affect the legal security and to the legal framework applicable to the Group's businesses in each jurisdiction, the nationalization or expropriation of assets, the operating licenses cancellation and the previous end of the contracts of the administration.
- f) Operational 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, as well as legal and fraud risks.
- g) Reputational Risks: potential negative impact on the value of the Company resulting from the conduct of the Company that is 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 E of *Control systems and risk management* of the Corporate Governance Report 2017.

## 4.2. 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 replacing products that are not supplied, as well as, in the case of dedicated plants, to amounts on which depreciation is pending, of said plants.

Credit risk is managed and limited in accordance with the type of transaction and the credit worthiness of the counterparty. 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 derivatives, placement of cash surpluses, sale transactions involving energy and guarantees received from third parties), in 2017 and 2016 there have been no material non-payments or losses.

The Group's Networks businesses in Spain and the UK do not sell energy. Therefore their credit risk is limited. In the case of Brazil and the United States, the activity of supplying to regulated tariff allows to recover, in general terms, commercial default.

## 4.3. Financial risk

### 4.3.1. 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.

The reference interest rates for the floating rate borrowings are basically Euribor, Libor- sterling pound, Libor-dollar and the CDI in the case of the debt of the Brazilian subsidiaries .

Additionally, as of 31 December 2017, the IBERDROLA Group has arranged derivatives to cover the interest rate risk of the future financing for a nominal amount of EUR 3,620,000 thousand euros, which help to mitigate the interest rate risk.

The debt structure at 31 December 2017, once considered the hedge provided by the derivatives traded, is included in the Note 5 of the Consolidated financial statements.

### 4.3.2. 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 exchange rate risk:

- 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.
- Debt and financial expense denominated in currencies other than the local or functional currency.
- Profit or loss in consolidation of the foreign subsidiaries.
- Consolidated carrying amount of investments in foreign subsidiaries.
- Expense for taxes in Mexico because the functional currency (United States dollar) differs from the currency for calculation purposes of corporate taxes (Mexican peso).

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.
- As far as possible, this covers the expense of the exchange rate risk in the Mexican corporate taxes, limiting the overall impact on the earnings of Mexico and of the Group.
- 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 sensitivity of the consolidated profit and equity of the IBERDROLA Group to changes in the dollar/euro, sterling pound /euro and Brazilian real/euro exchange rate is as referred to in Note 5 of the Consolidate financial statement. The detailed information interest rate and currency can be seen in Note 26 of the Consolidated financial statement.

### 4.3.3. 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.

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, 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 balances for cash, liquid assets and available committed credit facilities are sufficient for meeting the Group's liquidity (not including NEONERGIA) needs for more than 18 months, not including the new financing facilities.

The figures relating to changes in the Company's debt are included in Notes 26 and 52 to the Consolidated financial statements.

#### 4.4. 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 trade environment and administrative policies.
- Economic crisis, political instability and social riots affecting operations.
- Nationalisation or expropriation of assets.
- Exchange rate fluctuations.
- Cancellation of operating licenses.
- Anticipated termination of Government contracts.
- Regulatory changes.

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 at 31 December 2017 are as follows:

Country	Moody's	S&P	Fitch
Spain	Baa2	BBB+	BBB+
United Kingdom	Aa2	AA	AA
United States	Aaa	AA+	AAA
Brazil	Ba2	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.

## 4.5. 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.

It must be noted that on 24 August 2017, after the integration of Elektro (formerly 100% owned by IBERDROLA) in Neenergia, the Group passed to control 52.45% of said group, globally consolidating said activity. Neenergia operates in the sectors of electricity generation, transmission, and distribution in Brazil.

The analysis by businesses made in this section consider the management model in force at the end of 2017, where the hydraulic capacity in Spain is managed and operated by Generation and Customers business, given that the transfer notice of said activity to the Renewable business is pending development, and is forecast to be carried out in 2018.

The gas business in the United States and Canada is considered a non-strategic asset by Avangrid, in its publication of its 2016 annual results on 21 February 2017.

### 4.5.1. Regulatory and political 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 2017 or are due to be implemented in 2018:

Spain:

- On 23 December, the Royal Decree-law 7/2016 and Royal Decree 897/2017 and Order ETU/943/2017 which regulate the mechanism for financing the cost of Social tariff and other measures to protect vulnerable electricity consumers ("social tariff") and other protections measures for home electricity consumers implemented by retail companies.

United States:

- Approval of rate cases by the regulator of the Estate of New York RG&E and NYSEG, valid from July 2016 for a period of three years, in satisfactory terms for the Company.

Brazil:

- Approval by the Brazilian regulator ANEEL of the new terms for the new regulatory period of Celpe, valid for a period of four years, in satisfactory terms for the Company. Annual rates for Coelba, Cosern and Elektro were revised. Lastly, ANEEL's publication of Technical Note No. 179/2017-SRM must be noted, which establishes greater requirements in terms of corporate governance for electricity distribution companies.

Mexico:

- Approval of the Energy Regulatory Commission's Agreement A/058/2017 which defines the methodology to determine the final tariff's calculations and adjustment, along with operations tariffs that will apply to the subsidiary production company "CFE Suministrador de Servicios Básicos" from 1 December 2017 to 31 December 2018. Once this new methodology to calculate the electricity tariff, which was announced in 2016, was published, regulatory uncertainty lessened.

#### **4.5.2. 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. Any change to the aforementioned regulation may represent a risk for said business.

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 in the United Kingdom are not exposed to any market risk associated with energy prices.

The network businesses in Brazil and some of the businesses in the USA sell energy to regulated customers at a price determined by certain previously approved tariffs. In the case of a prudent procurement management and as 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 eventually on profits recognised under IFRS.

##### **Spanish networks:**

The present regulatory model is based on Electricity Sector Law 24/2013 of 26 December, establishing regulatory six-year periods and profitability for distribution activity calculated as the yield on government bonds plus 200 basis points. Profitability was set at 6.5% for the first regulatory period, which was extended until the end of 2019. Fluctuation of the financial remuneration rate used between two consecutive years may not exceed 50 basic points in absolute value.

Royal Decree 1048/2013 of 27 December establishing the methodology to calculate remuneration for electricity distribution activities defines a methodology based on standard unit costs of investment and operation. The remuneration of facilities will be calculated on the basis of the real audited cost and the standard cost recognised for each investment, and therefore profitability will depend on the constructive efficiency achieved.

Moreover, in accordance with current regulations, the distribution company does not sell any energy to customers, and it is therefore not exposed to market risk at the present time. This means that fluctuations in demand have no direct impact on the income statement.

##### **United Kingdom Networks:**



The group operates in the United Kingdom through its subsidiary Scottish Power Ltd and the following licences:

- SP Distribution PLC (SPD)
- SP Manweb PLC (SPM)
- SP Transmission PLC (SPT)

The current regulatory model for SPD and SPM is based on the RIIO ED1 framework, and on the RIIO T1 framework in the case of SPT. The latest tariff review for electricity distributors (RIIO ED1), including SPD and SPM, is valid from April 2015 to April 2023. The SPT review (RIIO T1) is valid from April 2013 to April 2021.

The weighted average cost of capital or WACC is set for each tariff period. The current real WACC after tax recognised for distribution activities was 3.67% from January to March, and 3.59% from April to December, whereas for transmission activities it was 4.46% from January to March and 4.37% from April to December.

The regulator (OFGEM) also establishes incentives/penalties for safety, environmental impact, consumer satisfaction, social obligations, connections and quality, which may have an effect on the income statement.

### **United States Networks:**

The Iberdrola Group operates in the US through its listed subsidiary Avangrid, which in turn has the following subsidiary network companies:

- New York State Electric & Gas (NYSEG), New York, with a 3-year rate case valid until 2019 (base ROE 9% for distribution).
- Rochester Gas and Electric (RG&E), New York, with a 3-year rate case valid until 2019 (base ROE 9% for distribution).
- Central Maine Power (CMP), Maine, conducting electricity distribution business with an annual extendable rate case (base ROE 9.45% for distribution), and transmission business (base ROE 10.57%).
- United Illuminating (UI), Connecticut, with rates in force for conducting electricity distribution business (base ROE 9.1%) and for transmission business (base ROE 10.57%).
- It also has the following natural gas distribution companies: Maine Natural Gas Corporation (MNG), Connecticut Natural Gas (CNG), Southern Connecticut Gas (SCG) and Berkshire Gas (BG).

Companies carrying on regulated business in the US are exposed to risks associated with the regulations of a number of federal regulatory bodies (FERC, CFTC, DEC) and state commissions, responsible for establishing the regulatory frameworks of the companies regulated (tariffs and other conditions).

The distributors' tariff plans have been designed to reduce the risk to which business is exposed through mechanisms for deferral, reconciliation and provisions for costs. Regulated distributors pass on the costs of gas and electricity to end customers, thereby mitigating any impacts of fluctuations in demand.

### **Brazilian Networks:**

The IBERDROLA Group operates in Brazil through its listed subsidiary NEOENERGIA, which in turn has the following subsidiary network companies:

- Elektro Redes, S.A. (in the states of Sao Paulo and Mato Grosso do Sul), current rates until August 2019 and WACC of 8.09%;
- Companhia de Eletricidade do Estado do Bahia (“Coelba”), operating in the state of Bahia. rates in force until April 2018 and WACC of 7.5%;
- Celpe Energetica de Pernambuco S.A. (“Celpe”), operating in the state of Pernambuco. rates in force until April 2021 and WACC of 8.09%;
- Companhia Energética do Rio Grande do Norte (“Cosern”), operating in the state of Rio Grande do Norte. Rates in force until April 2018 and WACC of 7.5%;
- Several transmission assets with their own regulation.

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.

Brazilian legislation applicable to regulated electricity distribution business establishes two types of costs: i) “Plot A”, which includes the costs of energy, transport and other obligations and regulatory charges, which can be recovered through tariffs (“pass through”) as part of the conditions and limits imposed by ANEEL, except for other obligations and regulatory charges which can always be recovered through tariffs, and ii) “Plot B”, which includes remuneration for investment and the costs of operation and maintenance, which generate either an incentive or a risk for the investor.

ANEEL also acknowledges other smaller incentives to minimise default and impairment of quality and customer satisfaction that can affect the income statement.

Pursuant to current legislation, electricity distribution companies:

- a) transfer the cost of supplying electricity to the end customer through the regulated tariff, provided the energy contracted is between 100% and 105% of the demand required.
- b) risk penalties imposed by the regulator ANEEL, when this is less than 100% due to the exclusive responsibility of the distributor.
- c) risk price fluctuations when it is above 105%.

### **4.5.3. 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**

The Group currently has a renewable installed capacity in Spain of: 5,752 MW wind farms, 303 MW mini hydro, and 50 MW solar thermal.

Subsequent to the approval of the new regulatory framework (the Royal Decree-law 9/2013, of 12 July, Law 24/2013, of 26 December, the Royal Decree 413/2014, of 6 June, and the Ministerial Order IET/1045/2014, of 16 June and the Ministerial Orden ETU/130/2017, of 17 February), all renewable energy generated since 2014 is remunerated at market price plus a premium per MW. This guarantees a reasonable regulated return based on a recognised standard investment.

- The reasonable rate of return of the investments is defined on the basis of the average yield on 10 year government bonds plus 300 basic points (that is, 7.4% for the first six-year period ending on 31 December 2019).
- This return is readjusted every three years within predetermined bands to cover any possible deviation in market price.
- The facilities that began operating in 2003 or before have a null premium, and therefore are fully exposed to market risks.

For the purposes of mitigating risk, the Renewables business in Spain annually sells the production exposed to market risk to the Spanish division of the Generation and Customers business at a market price that is reviewed each year. In this manner, the year-on-year volatility of the loss and profit account due to the markets is practically eliminated.

**Renewables business – United Kingdom**

The Group's current renewables installed capacity in the UK is: 1,906 MW in onshore wind plants and 194 MW in offshore wind plants, operational under current "Renewables Obligation" legislation. This means that income is partially exposed to the risk of the market price for electricity in the UK, as the revenues obtained comprise income from the price of the energy produced and the sale of renewables obligation certificates (ROC certificates).

UK regulations impose minimum ROC obligations per MWh sold on sellers of electricity, 10% more than the system envisages producing, and determine the price at which the rest must buy, which in practice amounts to a floor price at the price of the ROCs.

New renewable technology plants, implemented from 1 April 2017 (onshore wind plants, implemented as of 12 May 2016), are subject to the new "Contract for Difference" remuneration scheme, or CfD, which eliminates market risk for 15 years. Such is the case of the East Anglia offshore plant of 714 MW, currently under construction.

The fixed prices for these projects are established on a project-by-project basis through public tenders. The counterparty guaranteeing this price, "The Low Carbon Contracts Company", finances its potential payments by charging a fee to distributors depending on their market share, and therefore the credit risk with the counterparty is practically zero.

As is the case in Spain, 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.

In addition, the Group has a 15 MW onshore wind farm in the Republic of Ireland at market price.

#### **Renewables business - United State**

The Iberdrola Group conducts its renewables business in the US through its listed company Avangrid, which has an installed capacity of 6,145 MW in onshore wind plants, and 119 MW in operational photovoltaic plants.

At the present time, approximately 65% of the energy produced is sold on fixed-price long-term contracts with third parties. Some 17% have coverage contracts of some type, and the remaining 18% of the energy produced is sold to the market in more or less short terms.

With electricity prices around USD 30/MWh, a 5% change in prices could give rise to an impact of EUR ±4 million on operating results.

#### **Renewables business - Mexico**

In Mexico the business now has an installed capacity of 367 MW in operational onshore wind plants, with two sale schemes: a) fixed-price sale to the CFE on a long-term contract and b) sale to third parties with a discount on the official price published by the CFE. In addition, 326 MW wind and 270 MW solar plants are being constructed.

The new tariff methodology approved in December 2017 reduces the business' exposure to market prices of different commodities in international markets.

#### **Renewables business - Brazil**

In Brazil the business now has an installed capacity of 516 MW in onshore wind plants, all operating on long-term contracts (PPAs) with a fixed price for the country's distributors. Excesses and shortages in the production contracted with the distributor are settled over periods of four years, and excesses must be offered and shortages purchased at market prices.

#### **Renewables business in other European countries**

The offshore wind farm Wikinger (Germany) is highlighted, with startup forecast for the first quarter of 2018. Pursuant to German regulations, the new Wikinger plant will have a fixed price for the energy it produces over the first 15 years of operation on a CfD contract, similar to the aforementioned setup in the UK.

Installed capacity is currently 605 MW in wind plants and 6 MW in photovoltaic facilities operational in other European countries. Regulations in these countries make a distinction between two energy sale schemes: sales at the tariff (Portugal, Greece, Cyprus and Hungary), or sales at market price (Romania).

#### 4.5.4. Generation and Retail Businesses

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 and CO<sub>2</sub>. These price risks are not only made patent in the electricity generation and retailing business but also in the following activities, with a much lower weight in the business' total results.

- 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 and retail businesses 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 90 per tonne, a 5% change in the prices could give rise to an impact of EUR ±20 million on operating results.

The price of CO<sub>2</sub> influences the cost of production in coal-fired power plants. With coal prices around EUR 7 per tonne, a 5% change in the prices could give rise to an impact of EUR ±4 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 Group has another type of agreements 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 ±1million.

##### *Hydraulic risk*

Despite having a large water storage capacity, IBERDROLA Group'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 ±190 million. The loss of profit is not covered as it is an IBERDROLA Group'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 ±8.5 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 and retail businesses in UK**

### *Commodities' Price risk*

The IBERDROLA Group does not count on having coal plants in the UK after the closure of current plant Longannet at the end of March 2016. The generation capacity in said country is comprised of 2,000 MW combined cycles and 566 MW hydraulics plants.

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, CO<sub>2</sub> 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 4 per MWh, a 5% change in the spreads could give rise to an impact of EUR 7 million on operating results.

IBERDROLA Group does no longer have long-term agreements at a fixed price.

Recently, the British government has decided to set a maximum price for the gas and electricity tariffs which a mode of customers pay a "standard variable tariff". Throughout 2018, the British government will carry out a question and answer procedure on the calculation method of said maximum price, which is not expected to enter into effect until 2019. In any case, the setting of this maximum price is expected to negatively affect the retail business results of the Group in the UK.

### *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 (12 TWh in 2017, of a total amount of electricity sold of approximately 22 TWh/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 the combined cycle power plants outages (due to stoppages for fuel reloading, in accordance with a pre-established schedule) . 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.

### **Deregulated and retail businesses in Mexico**

#### *Commodities' Price risk*

Electricity generation at Iberdrola Generación Mexico is gas-intensive. Gas prices therefore comprise an essential component of this risk.

Approximately 82% 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. Said tariffs depend on the cost of the inherited contracts (originating before the Electricity Sector's recent reform) and on the market price of electricity.

#### *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 the combined cycle power plants outages (due to stoppages for fuel reloading, in accordance with a pre-established schedule) . 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.

### **Deregulated and retail businesses in Brazil**



The Group had 2,113 MW hydraulic generation installed and 533 MW combined cycle in Brazil at year-end, of which approximately 80% of the hydraulics and 100% of the combined cycle generation are contracted long-term with electricity distributors in countries through PPA contracts.

The rest of the production is sold to qualified customers with an expectation of between one and two years, according to Brazilian market prices. With market prices in the area of 220 R\$/MWh, a price fluctuation of 5% would affect the results by some EUR 4 million.

### **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, United States and Lybia, among others).

In the Spanish case, gas supply is guaranteed through long-term agreements. The 23% of this mix of agreements is at a fixed price and the remainder is linked to the prices of various fuels on international markets.

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 or contracting in the United States and, therefore, with price that depends on the same gas prices in that country.

### **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 the end of December 2017, 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 83 million versus EUR 91 million at 31 December 2017. In any case, these values are much lower than EUR 3,000 million and 1,000 million threshold that is set for non-financial companies in the European regulation (EMIR).

#### **4.5.5 Other operational risks**

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.

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 concerning extreme meteorological conditions and other instances of force majeure.
- Risk of sabotage and/or terrorism.



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. In addition, cover is always subject to certain limitations.

### **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.

### **Environmental and climate change 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 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 order to manage environmental issues: environmental policy, anti-climate change policy and biodiversity policy (available at [www.iberdrola.com](http://www.iberdrola.com)), which set forth the principles through which the Company will continue to improve its environmental management.

Moreover, once again IBERDROLA featured on the global Dow Jones Sustainability 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.

With regard to climate change, the Group recognises the gravity of the threat that global warming implies, to which governments, multi-lateral agencies, the private sector, and society as a whole must necessarily confront jointly and in a coordinated manner. In this regard, the Company promises to assume a leadership role in the fight against climate change and develop, among others, the following guiding principles: i) prevent pollution [by] gradually reducing the intensity of emissions, ii) promote electrification, energy efficiency and smart grids, iii) support international negotiation procedures and significant participation of the private sector to fulfil goals 7 and 13 of the SDG approved by the UN, and the climate goal included in the Paris Climate Summit, iv) support an emissions market that creates a strong and sustainable price signal, and v) support a tax system that incorporates the "polluter pays" principle that not only includes the electricity production sector.

Climate change may translate into the following risks in the medium-term:

- More extreme climate situations that impact the generation and distribution assets, such as greater operation and maintenance costs, and insurance premiums.
- Fluctuations in wind and hydraulic resources
- Fluctuation in the gas and electricity demand levels (due to the effects of temperatures)
- Decrease of the profits forecasted for existing thermal plants (due to regulatory restrictions, CO2 prices, operational events...)
- Impact in wholesale electricity market due to massive development of renewables
- Legislative and regulatory changes

#### **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.

#### **Risks in connection with cybersecurity**

IBERDROLA Group companies may be affected by threats and vulnerabilities in connection with information, control systems or information and communications systems used by the Group, or by any consequences of unauthorised access to or the use, disclosure, degradation, interruption, modification or destruction of information or information systems, including the consequences of acts of terrorism.

These risks are managed in accordance with the basic principles of the cybersecurity policy, which takes the necessary measures to guarantee secure usage of information and communications systems and other cyber-assets, bolstering detection, prevention, defence and response capacities to counter cyberattacks.

The IBERDROLA Group currently has specific insurance protection against cyber risks under the terms allowed by the market, and will be regularly reviewed in view of the rapid evolution and extensive variety of cyber risks.

#### **4.5.6 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.

Notes 6.b. and 45 of the Consolidated financial statements contain a more detailed description of the most significant matters.

#### **4.6. Risks materialised during the year**

For further details, see the section E of *Control systems and risk management* of the Corporate Governance Report 2017.

### **5. SIGNIFICANT SUBSEQUENT EVENTS TO YEAR END**

Subsequent events to year end are described in Note 52 of the financial statements.

### **6. RESEARCH AND DEVELOPMENT ACTIVITIES**

IBERDROLA is now a leading multinational group which has become the utility of the future thanks to its innovative strategy which encompasses all its business units and areas of activity. Thanks to a constant commitment to innovation, Iberdrola is now Spain's most innovative utility and the third most innovative in Europe in the European Commission's classification.

In 2017, Iberdrola spent more than EUR 246 million on R&D&i activities, 17% more than in the previous year. These resources were basically directed at projects relating to clean energy, smart grids, the development of customised solutions for customers and the digital transformation.

Looking ahead, commitment to innovation will continue to be a priority to assure sustainability, efficiency and competitiveness and keep IBERDROLA at the forefront of development of the new products, services and business models that are transforming the sector:

- **Disruptive technologies**, which are increasingly efficient, sustainable and respectful of the environment, enabling the functioning of facilities and processes to be optimised, and competitive innovative products and services that meet customers' needs with a greater degree of personalisation of contents and offerings;
- **Digitisation and automation** in all businesses and processes, to create value in the management of the life cycle of assets, optimisation and aggregation of the grid and the design of integrated services for the new digital customer profile. The digital transformation will be based on new technologies such as blockchain, big data, the Internet of Things, virtual reality, artificial intelligence, etc. at all levels of the company.
- **Innovation with start-ups, entrepreneurs and suppliers** with the aim of developing new disruptive business models, promoting the exchange of know-how and exerting a pull effect on their employees:
  - o **Iberdrola Ventures – PERSEO**, IBERDROLA's start-up programme, was created ten years ago with the aim of promoting the development of a dynamic ecosystem of start-ups and entrepreneurs in the electricity sector.
  - o **Innovation programme with suppliers** based on three paths of action: facilitating access to financing mechanisms, pushing firms' joint creation, and favouring innovative purchasing from SMEs.
- **Culture of innovation and talent**: Iberdrola promotes a culture of innovation by means of knowledge transfer, attracting talent and promoting the entrepreneurial spirit:
  - o **Iberdrola Universities Programme**. In 2017 the Universities Programme was launched, with the aim of attracting talent, transferring knowledge and contributing to society. In the context of the programme, Iberdrola has signed agreements with the major universities of the countries in which it is present: Universidad de Salamanca, Universidad Pontificia de Comillas, Massachusetts Institute of Technology - MIT, Instituto Tecnológico de Monterrey and University of Strathclyde. The programme comprises the following lines of action: Chairs, R&D projects, training of students, in-house training and young entrepreneurs. During 2017 the first initiatives were carried out with young entrepreneurs of the reference universities: MIT SANDBOX, Comillas Emprende, Emprende Salamanca, Iberdrola- SP Entrepreneurial and Energy Business Model Challenge. In all, five hackathons or boot camps were held, with 800 entrepreneurs and with the collaboration of more than 100 mentors. We also held more than 25 workshops and delivered more than 2,500 hours of mentoring.
  - o **Accelerator Project**. Through this initiative, IBERDROLA expresses its faith in the in-house talent of its employees and their ability to identify the key factors that will make the company the world's biggest utility within ten years. It was led by a multi-discipline group of young employees from Spain, the UK, the US, Mexico and Brazil which over a two-year period carried out a detailed analysis of the development and trajectory of a number of successful start-ups that were the brainchildren of millennials like themselves in various thematic areas such as cultural change, smart living, customer experience and networks. Many of the resulting ideas are already being successfully implemented in the various departments of Iberdrola.

The following are some of the most notable innovative initiatives classified by broad area.

## 6.1. Renewable energies

In 2017, Innovation activities in Renewables focused primarily on:

- Improving operating and maintenance cost efficiency of wind farms, the outstanding example being the European ROMEO project, coordinated by IBERDROLA, which seeks to develop new models and tools for the early detection of defects based on big data techniques.
- Improving the integration of energy from renewable sources, several initiatives having been carried out in the area of energy storage.
- Innovation in offshore wind projects is essential to reduce costs and to limit risks in ongoing and future projects. During 2017 we completed the installation of the piles, the jacket foundations and the turbines of the Wikingør offshore wind farm, as well as the commissioning of the sub-station, with its innovative design featuring a six-legged pre-piled jacket.

We also continue to collaborate on the 'Best Paths' and 'PROMOTION' European projects in which HVDC (high-voltage direct current) grids are studied with a view to facilitating the connection of large volumes of offshore wind-produced electricity to the grid. Another notable project is 'BRIO', which studies the wind farm at the end of its useful life and the valorisation of its high added value components.

In Brazil we would highlight the play on solar energy in the form of the construction of a pilot CSTP (concentrating solar thermal power) system with storage in the city of Bahía. IBERDROLA is also constructing new wind and photovoltaic facilities in various Mexican states.

## 6.2. Clean generation technologies

During 2017, efforts in the area of generation focused on operating efficiency and flexibility, environmental protection, and the improvement of plant safety.

Operating efficiency and flexibility and plant safety: The PREXES project to develop a model to predict expansion in hydraulic concrete structures was completed. Work continued on the VIDAGEN project to design and develop a tool to manage the global lifespan of pressurised equipment.

In the area of nuclear generation, the prominent projects are FILTRONUC and OPD. The goal of this first project ended in 2017 is to research and develop a new containment filtered venting system for maximising filtering performance on the venting line without compromising the safety and integrity of the facilities. And the second one seeks to develop an open phase detection system for start-up transformers in nuclear generating stations to establish a solution ensuring optimal functionality as a significant element of safety and reliability.

Environmental: Iberdrola remains firmly committed to reducing the environmental impact of its generating plants, backing an ambitious project life 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.

### 6.3. Commercial Area - New projects and services

Innovation is essential in commercial activity, in order to offer customers the products and services best suited to their needs. Thus in 2017 IBERDROLA launched the following:

- New initiatives to boost the customer experience:
  - o Planes a Tu Medida (Customised Plans): new functionalities have been included in the Plan Elige 8 Horas (Choose-8-Hours-Plan). Customers can now choose the 8 hours that best match their consumption, and they can be different 8-hour periods every day of the week.
  - o App de Clientes: (Customer App): Improvements in performance and redesign of the application, with launch dates of year-end 2017 on Android and early 2018 on iPhone. This version will include improvements in user experience and new functionalities.
- New Smart Home products: Consumption Monitors and Smart Lamps:

In 2017 we launched a product called Riego Inteligente (Smart Irrigation) which allows customers to schedule and control when they water their gardens from their smartphones or tablets. This product rounds out the range of smart home products: smart thermostats, electricity meters that break down the consumption of the main domestic appliances, and smart LED light bulbs that can be controlled from a smartphone.

As for Smart Solar, a distributed generation solution for self-consumption, in 2017 the following functionalities were improved: "online offer" thanks to consumption curves and location, and querying of production, possible storage and grid demand.

IBERDROLA also continues to take part in Green Mobility projects such as REMOURBAN and CIRVE. REMOURBAN is developing a public recharging network in the city of Valladolid and has designed methodology for evaluating the sustainability of urban environments, which will be installed in several cities participating in the project. The CIRVE project also began in 2016, in which Iberdrola assists with the development of rapid-recharge infrastructure corridors for electric cars, to boost electric mobility and connect Spain to France and Portugal.

### 6.4. Smart grids

As regards smart grids and digitisation of the grid, the following may be highlighted in Spain and in the rest of Europe:

- In Europe, the three-year UPGRID led by IBERDROLA DISTRIBUCIÓN came to an end. It succeeded in strengthening the operation and maintenance of low-voltage grids in anticipation of technical problems associated with the large-scale integration of distributed generation. In 2017 the European Commission financed the ASSURED project, the objective of which is to develop solutions for quick recharging of heavy electric goods vehicles. Additionally, through EDSO4SG, IBERDROLA continues to participate in the INTENSIS4EU project, which seeks a new R&D approach to the smart grid and energy storage in order to face the new integrated energy challenges in which the consumer is at the centre of the energy system.
- in Spain, we would highlight the GRIDSTORAGE project, in which an advanced microgrid model is being developed, with storage for distribution grids.

- In the UK, the Fusion and LV Engine were financed. Both of them aim to optimise low-voltage grids, which present some of the most significant opportunities and challenges in progress towards a more flexible system. This financing comes on top of that recently obtained for the innovative SPEN project, designed to manage restrictions on the high-voltage grid in the Dumfries and Galloway power stations. Work also continues on developing sustainable solutions for the deployment of the new smart grid, with the FITNESS project. Other notable projects include VISOR, which is implementing the first wide area monitoring system (WAMS) in the nationwide IT infrastructure, and Assess Late, which analyses the future impacts of distributed generation, electric vehicles and increased demand on the grid.
- In Brazil, two of the projects to develop domestic technology for smart networks were BID MONITOR, a backup system for decision-making concerning sales of electricity, and CIUDADE INTELIGENTE, to implement an urban reference model based on Smart Grids, should be highlighted. Moreover, for the project Micro Redes GD, the impact of distributed generation on the grid and coupling points has been assessed.
- In the United States, notable initiatives include those forming part of the Energy Smart Community (ESC) programme to improve management of the grid and distributed energy resources, ability to respond to demand and user experience. Also, as part of the Reforming the Energy Vision (REV) initiative, notable projects are Energy Marketplace, a platform facilitating transactions between suppliers of distributed generation and customers, and Flexible Interconnect Capacity Solution, which seeks to define less costly and faster means of connecting to distributed energy resources.
- As regards the Qatar Technological Centre, we would highlight the development of technological consultancy activities on smart grids and the implementation of metering systems, the launch of various R&D projects and test benches for the integration of distributed renewable energy and the management of demand.

## 6.5. IBERDROLA Ventures – PERSEO

IBERDROLA Ventures – PERSEO is IBERDROLA's Corporate Venture Capital programme.

The programme focuses on the technologies and business models that allow improvements in the sustainability of the energy model by means of a greater degree of electrification and decarbonisation of the economy. The most notable activities in 2017 included:

- IBERDROLA was named by the European Commission as one of the companies that works best with start-ups in the context of the Start-up Europe Partnership initiative. Iberdrola was the only Spanish energy company selected, and it also received the special Start-up Procurement Award for its Innovation with Suppliers programme.
- Internationally, we note the taking of an equity stake in the US company Innowatts, which focuses on the development of digital solutions and innovation for the energy sector by means of its analytical platform using artificial intelligence, which has data from more than 14 million smart meters.
- Within the area of social investment, we would highlight the investment in Ilumexico, dedicated to lighting and electrification in rural areas of Mexico. It is estimated that more than 250,000 people may benefit from this initiative in the next few years. It is Perseo's second investment in high-impact social projects, and forms part of IBERDROLA's 'Electricity for All' programme.



## **7. 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 the 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 21 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 2017 and 2016 is presented in the following chart:



## Annual Financial Report

Iberdrola, S.A. and subsidiaries / Financial Year 2017

Treasury Stock	No. of shares	Nominal value (thousands of euros)	Cost (thousands of euros) Treasury stock	Average price (euros)	Total shares	% Capital
<b>01.01.2016</b>	<b>67,636,166</b>	<b>50,728</b>	<b>405,458</b>	5.99	<b>6,336,870,000</b>	<b>1.07</b>
Additions	245,721,539	184,292	1,450,724	5.90		
Share capital reduction	(157,197,000)	(117,898)	(946,566)	6.02		
<i>Iberdrola dividendo flexible</i> <sup>(1)</sup>	1,504,604	1,128	–	–		
<i>Iberdrola dividendo flexible</i> <sup>(2)</sup>	–	–	(1,992)	–		
Disposals	(6,440,532)	(4,830)	(38,687)	6.01		
<b>31.12.2016</b>	<b>151,224,777</b>	<b>113,420</b>	<b>868,937</b>	5.75	<b>6,362,079,000</b>	<b>2.38</b>
Additions	154,508,438	115,881	1,002,731	6.49		
Share capital reduction	(219,990,000)	(164,993)	(1,280,176)	5.82		
<i>Iberdrola dividendo flexible</i> <sup>(1)</sup>	1,896,638	1,422	–	–		
<i>Iberdrola dividendo flexible</i> <sup>(2)</sup>	–	–	(9,379)	–		
Disposals	(11,929,704)	(8,947)	(74,937)	6.28		
<b>31.12.2017</b>	<b>75,710,149</b>	<b>56,783</b>	<b>507,176</b>	<b>6.70</b>	<b>6,317,515,000</b>	<b>1.20</b>

(1) Shares received

(2) Free of charges allocation rights disposed.

Treasury shares of Scottish Power	No. of shares	Nominal value (thousands of euros)	Cost (thousands of euros) Treasury stock	Average price (euros)	Total shares	% Capital
<b>01.01.2016</b>	<b>1,638,563</b>	<b>1,229</b>	<b>10,163</b>	6.20	<b>6,336,870,000</b>	<b>0.03</b>
Additions	404,154	303	2,464	6.10		
<i>Iberdrola dividendo flexible</i>	56,040	42	–	–		
Disposals	(724,352)	(543)	(3,047)	4.21		
<b>31.12.2016</b>	<b>1,374,405</b>	<b>1,031</b>	<b>9,580</b>	6.97	<b>6,362,079,000</b>	<b>0.02</b>
Additions	318,172	238	2,159	6.79		
<i>Iberdrola dividendo flexible</i>	95,524	72	–	–		
Disposals	(631,238)	(473)	(3,322)	5.26		
<b>31.12.2017</b>	<b>1,156,863</b>	<b>868</b>	<b>8,417</b>	<b>7.28</b>	<b>6,317,515,000</b>	<b>0.02</b>

During 2017 and 2016, treasury shares held by the IBERDROLA Group were below the legal limit.

Finally, 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 28 March 2014, 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 their subsidiary companies. The subsidiary companies which develop regulated activities as prescribed in the electric sector and hydrocarbon laws are excluded.
- 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

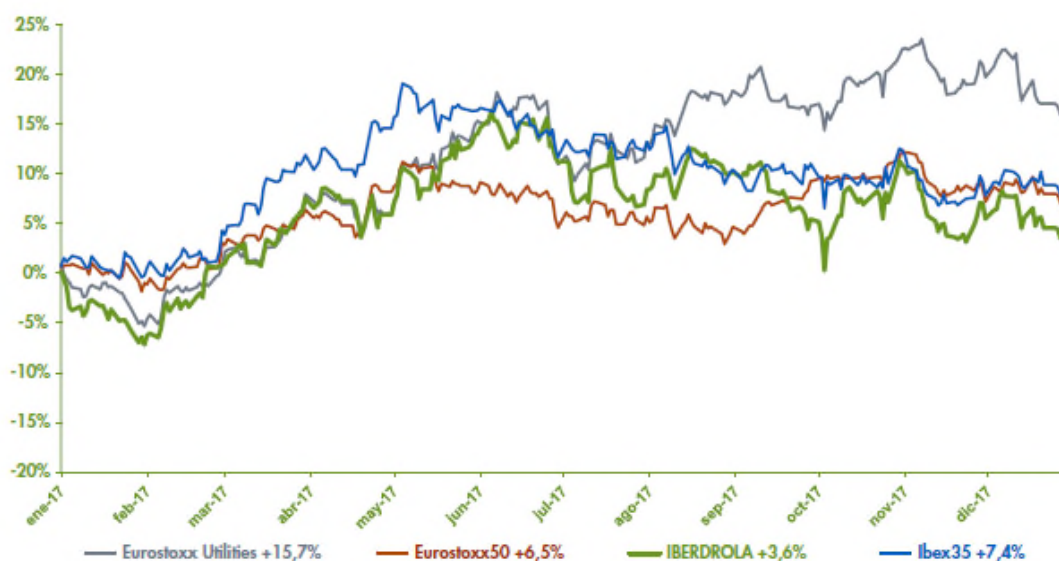
		2017	2016
Stock market capitalisation (*)	Millions of euros	40,811	39,661
Earnings per share continuing operations	Euros	0.478	0.423
P.E.R. (share price at year end/profit per share)	Times	13.51	14.74
Price / Carrying amount (capitalisation on carrying amount at year end) (**)	Times	1.14	1.08

(\*) 6,317,515,000 and 6,362,079,000 shares as of 31 December 2017 and 2016, respectively.

(\*\*) Capitalisation at 31 December 2017 (40,811) / Equity of the parent company (35,509); Capitalisation at 31 December 2016 (39,636) / Equity of the parent company (36,690).

### The IBERDROLA share

Stock market performance of IBERDROLA compared to the indexes in 2017 is as follows:



	2017	2016
Number of shares outstanding	6,317,515,000	6,362,079,000
Share price at year end	6.46	6.23
Average share price for the year	6.62	6.01
Average daily volume	20,870,406	25,843,622
Maximum volume (06/04/2017 - 16/12/2016)	122,920,322	117,034,016
Minimum volume (28/08/2017 - 16/05/2016)	4,636,525	4,444,650
Dividends paid (euros)	0.317	0.286
- Gross interim dividend (23/01/2017 - 29/01/2016) <sup>(1)</sup>	0.135	0.127
- Gross complementary dividend (07/07 and 21/07/2017 - 08/07 and 22/07/2016) <sup>(2)</sup>	0.177	0.154
Attendance premium	0.005	0.005
Dividend yield <sup>(3)</sup>	4.91%	4.59%

(1) Purchase price of rights guaranteed by IBERDROLA.

(2) Complementary dividend in cash (07/07/2017 and 08/07/2016 = EUR 0.03 and purchase price of rights guaranteed by IBERDROLA: 21/07/2017 =0.147 and 22/07/2016 =0.124).

(3) Interim dividend, complementary dividend and attendance bonus for attending the General Shareholders' Meeting/share price at period end.

## 8. FURTHER RELEVANT INFORMATION

### 8.1. Environmental issues and sustainability

#### 8.1.1. 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 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.

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.

#### 8.1.2. 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	2017	2016
Contribution to GDP (Gross Margin) (*)	0.42%	0.54%
Contribution to GDP (Revenue) (*)	1.15%	1.23%
CO <sub>2</sub> Emissions in the period (gr. CO <sub>2</sub> /kWh): Total	187	176
CO <sub>2</sub> Emissions in the period (gr. CO <sub>2</sub> /kWh): Spain	108	84
CO <sub>2</sub> Emissions in the period (gr. CO <sub>2</sub> /kWh): SPW	237	328
CO <sub>2</sub> Emissions in the period (gr. CO <sub>2</sub> /kWh): Avangrid	53	58
CO <sub>2</sub> Emissions in the period (gr. CO <sub>2</sub> /kWh): Brazil	119	136
CO <sub>2</sub> Emissions in the period (gr. CO <sub>2</sub> /kWh): Mexico	362	356
Total production free of emissions (GWh)	65,406	75,674
Production in Spain free of emissions (GWh)	41,515	53,713
Production free of emissions out of total production (%)	51.8	57.2
Production in Spain free of emissions out of total production (%)	82.7	87.4
Total installed capacity free of emissions (MW)	30,232	28,326
Total installed capacity in Spain free of emissions (MW)	18,740	18,738
Total installed capacity free of emissions (MW)	65.6	65.5
Total installed capacity in Spain free of emissions (MW)	73.2	73.2
Specific SO <sub>2</sub> emission Global mix (g/kWh)	0.074	0.050
Specific particles emission Global mix (g/kWh)	0.007	0.005
Specific NOx emission Global mix (g/kWh)	0.261	0.185

## 8.2. IBERDROLA Foundation

In 2017, the Group allocated EUR 14,566 thousand to financing the various foundations (EUR 13,515 thousand to Group foundations and EUR 1,051 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 7,555 thousand. Information on its goals and activities is available at: [www.fundacioniberdrola.org](http://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 there to by the Board of Directors.

Iberdrola Foundation coordinates its welfare work in the United Kingdom through the Scottish Power Foundation, which was granted EUR 2,175 thousand. In the United States, this work is carried out through the Avangrid Foundation with a budget of EUR 3,306 thousand, and in Brazil through the Instituto Iberdrola Brasil, receiving EUR 479 thousand.

In 2018, the Group intends to follow a policy aimed at financing activities of interest to the general public in line with that followed in 2018 as regards amount and allocation.

**ANNUAL CORPORATE GOVERNANCE REPORT**

**ANNUAL CORPORATE GOVERNANCE REPORT  
OF LISTED COMPANIES**

**Data identifying issuer**

<b>Ending date of reference financial year</b>	31/12/2017
<b>Tax Identification Code</b>	A-48010615
<b>Registered name</b>	IBERDROLA, S.A.
<b>Registered address</b>	Plaza Euskadi número 5, Bilbao 48009 Bizkaia España

**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
21/07/2017	4,738,136,250	6,317,515,000	6,317,515,000

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.	541,378,280	8.57
NORGES BANK	202,762,459	-	-	3.21
Capital Research and Management Company (CRMC)		CRMC GROUP	195,735,221	3.10
BLACKROCK, INC.	-	BLACKROCK GROUP	191,563,600	3.03

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
KUTXABANK, S.A.	12/04/2017	Decrease to below 3% of share capital
NORGES BANK	10/07/2017	Decrease to below 3% of share capital
NORGES BANK	27/07/2017	Increase to above 3% of share capital
CAPITAL RESEARCH AND	23/03/2017	Increase to above 3% of share capital

MANAGEMENT COMPANY		
CAPITAL RESEARCH AND MANAGEMENT COMPANY	16/05/2017	Decrease to below 3% of share capital
CAPITAL RESEARCH AND MANAGEMENT COMPANY	07/06/2017	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 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	5,433,431	-	-	0.14
	-	ROYAL PARK 2000, S.L.	3,558,967	
MR IÑIGO VÍCTOR DE ORIOL IBARRA	1,225,083	-	-	0.02
MS INÉS MACHO STADLER	64,485	-	-	0.00
MR BRAULIO MEDEL CÁMARA	29,037	-	-	0.00
MS SAMANTHA BARBER	1,848	-	-	0.00
MS MARÍA HELENA ANTOLÍN RAYBAUD	3,247	-	-	0.00
MR ÁNGEL JESÚS ACEBES PANIAGUA	6,377	-	-	0.00
MS GEORGINA KESSEL MARTÍNEZ	4,277	-	-	0.00
MS DENISE MARY HOLT	541	-	-	0.00
MR JOSÉ WALFREDO FERNÁNDEZ	0	-	-	0.00
MR MANUEL MOREU MUNAIZ	23,695	-	-	0.00
	-	MS MARÍA GAMAZO TRUEBA	23,695	
MR XABIER SAGREDO ORMAZA	0	-	-	0.00



MR JUAN MANUEL GONZÁLEZ SERNA	42,451	GRUPO SIRO CORPORATIVO, S.L.	374,507	0.01
MR FRANCISCO MARTÍNEZ CÓRCOLES	303,423	-	-	0.00

<b>Total percentage of voting rights held by the board of directors</b>	0.15
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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 director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	2,921,192	MR JOSÉ IGNACIO SÁNCHEZ GALÁN	2,921,192	2,921,192	0.05
MR FRANCISCO MARTÍNEZ CÓRCOLES	541,862	MR FRANCISCO MARTÍNEZ CÓRCOLES	541,862	541,862	0.00

**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

**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
75,710,149	0	1.198

(\*) Through:

Individual or company name of direct holder of the interest	Number of direct shares
<b>Total:</b>	

**Explain any significant changes, pursuant to the provisions of Royal Decree 1362/2007, that have occurred during the financial year:**

<b>Explain any significant changes</b>
<p>The Company sent to the CNMV three updates to its treasury share position in 2017 as a result of a change in the number of voting rights arising from corporate transactions:</p> <ul style="list-style-type: none"> <li>- notices of direct acquisitions of a total of 21,605,738 shares (0.334%) were provided on 30 January, coinciding with the increase in capital resulting from the "Iberdrola Flexible Dividend" programme.</li> <li>- notices of direct acquisitions of a total of 52,670,619 shares (0.844%) were provided on 1 June, coinciding with the reduction in capital; and</li> <li>- notices of direct acquisitions of a total of 18,424,109 shares (0.292%) were provided on 31 August, coinciding with the increase in capital resulting from the "Iberdrola Flexible Dividend" programme.</li> </ul> <p>During financial year 2017, the Company also provided a notice arising from consecutive direct acquisitions of own shares due to said acquisitions exceeding 1% of voting rights since the preceding notice:</p> <ul style="list-style-type: none"> <li>- notices of direct acquisitions of a total of 69,572,560 shares (1.094%) were provided on 4 January 2017.</li> </ul>

**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"> <li>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>).</li> <li>b) Purchases shall be made by means of a purchase and sale agreement, a swap arrangement, or any other transaction permitted by law.</li> <li>c) Purchases may be made up to the maximum sum permitted by law (i.e. 10% of the share capital).</li> <li>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.</li> <li>e) The authorisation was granted for a period not to exceed five years as from the approval of the resolution.</li> <li>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.</li> </ol> <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; 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.</p> <p>Furthermore, at the General Shareholders' Meeting held on 8 April 2016, the shareholders resolved to authorise the Board of Directors to increase share capital upon the terms and within the limits set forth in section 297.1.b) of the Companies Act, with the power to exclude preemptive rights, limited to a maximum nominal amount of 20% of the share capital.</p>
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**A.9.bis Estimated free-float:**

	%
Estimated free-float:	80.72

**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; or (c) release the shareholder, if a director, from obligations arising from the duty of loyalty as provided by 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 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.

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**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.**

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**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 1 <sup>st</sup> call	-	66.67
Required quorum upon 2 <sup>nd</sup> call	-	60.00

Description of differences
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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".
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**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
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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.
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- 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	
08/04/2016	8.00	69.68	0.19	0.04	77.91
31/03/2017	4.33	71.92	0.82	0.13	77.20

- 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	
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- 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](http://www.iberdrola.com) > Corporate Governance.

Information regarding past general shareholders' meetings of the Company can be accessed at the same address: [www.iberdrola.com](http://www.iberdrola.com) > 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:**

<b>Maximum number of directors</b>	14
<b>Minimum number of directors</b>	9

**C.1.2. Complete the following table identifying the members of the board:**

<b>Individual or company name of the director</b>	<b>Representative</b>	<b>Type of director</b>	<b>Position on the board</b>	<b>Date of first appointment</b>	<b>Date of last appointment</b>	<b>Election procedure</b>
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	-	EXECUTIVE	CHAIRMAN/CEO	21/05/2001	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR IÑIGO VÍCTOR DE ORIOL IBARRA	-	OTHER EXTERNAL	DIRECTOR	26/04/2006	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS INÉS MACHO STADLER	-	INDEPENDENT	DIRECTOR	07/06/2006	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR BRAULIO MEDEL CÁMARA	-	INDEPENDENT	DIRECTOR	07/06/2006	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS SAMANTHA BARBER	-	INDEPENDENT	DIRECTOR	31/07/2008	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS MARÍA HELENA ANTOLÍN RAYBAUD	-	INDEPENDENT	DIRECTOR	26/03/2010	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR ÁNGEL JESÚS ACEBES PANIAGUA	-	INDEPENDENT	DIRECTOR	24/04/2012	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS GEORGINA KESSEL MARTÍNEZ	-	INDEPENDENT	DIRECTOR	23/04/2013	28/03/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS DENISE MARY HOLT	-	INDEPENDENT	DIRECTOR	24/06/2014	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR JOSÉ WALFREDO FERNÁNDEZ	-	INDEPENDENT	DIRECTOR	17/02/2015	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR MANUEL	-	INDEPENDENT	DIRECTOR	17/02/2015	27/03/2015	GENERAL



MOREU MUNAIZ						SHAREHOLDERS' MEETING RESOLUTION
MR XABIER SAGREDO ORMAZA	-	OTHER EXTERNAL	DIRECTOR	08/04/2016	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR JUAN MANUEL GONZÁLEZ SERNA	-	INDEPENDENT	DIRECTOR	31/03/2017	31/03/2017	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR FRANCISCO MARTÍNEZ CÓRCOLES	-	EXECUTIVE	DIRECTOR	31/03/2017	31/03/2017	GENERAL SHAREHOLDERS' MEETING RESOLUTION

<b>Total number of directors</b>	14
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**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 SANTIAGO MARTÍNEZ LAGE	Independent director	31/03/2017
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	Other external	31/03/2017

**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
MR FRANCISCO MARTÍNEZ CÓRCOLES	Business CEO

<b>Total number of executive directors</b>	2
<b>Total % of the board</b>	14.29

**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
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<b>Total number of proprietary directors</b>	0
<b>Total % of the board</b>	

### EXTERNAL INDEPENDENT DIRECTORS

<b>Individual or company name of director</b>	<b>Profile</b>
MS INÉS MACHO STADLER	<p>Bilbao, Spain, 1959</p> <p>She is a professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona and a professor of the Barcelona Graduate School of Economics. She is also a member of the Council of the 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>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 economy 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>
MR BRAULIO MEDEL CÁMARA	<p>Marchena, Spain, 1947</p> <p>Braulio is chair of Fundación Bancaria Unicaja and of Hidralia, S.A., and vice-chair of Confederación Española de Cajas de Ahorros (CECA). He is an independent director of the listed company Acerinox, S.A. and a director of Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A., as well as a Professor of Public Finance at Universidad de Málaga.</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, S.A. and Abertis Infraestructuras, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been executive chair of Unicaja Banco, S.A. and chair of Ahorro Corporación, S.A., of Federación de Cajas de Ahorros de Andalucía and of CECA, 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 Legado Andalusi, Doñana 21 and CIEDES (<i>Centro de Investigaciones Estratégicas y Desarrollo Económico y Social</i>).</p>
MS SAMANTHA BARBER	<p>Dunfermline, Scotland, 1969</p> <p>She is chair of Scottish Ensemble, vice-chair of Scotland's 2020 Climate Group, and member of the Board of Scottish Water and its Remuneration Committee, of the GlobalScot Network and of the Advisory Board for the Imperial College London MBA. She also performs advisory and business coaching work.</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 Advisory Board of Breakthrough Breast Cancer and 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>
MS MARÍA HELENA ANTOLÍN RAYBAUD	<p>Toulon, France, 1966</p> <p>She is vice-chair of the Board of Directors and member of the Management Committee of Grupo Antolín Irausa, S.A. She is also president of the Spanish Association of Automotive Equipment and Component Manufacturers (<i>Asociación Española de Fabricantes de Equipos y Componentes para Automoción</i>) (Sernauto), vice president of Excellence in Management Club (<i>Club de Excelencia en la Gestión</i>), and a board member of France Foreign Trade (<i>Comercio Exterior de Francia</i>), Spain section.</p> <p>Academic training</p> <p>Degree in International Business and Business Administration from Eckerd College, St. Petersburg, Florida (United States of America), and a Master of 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 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 Antolín Irausa, S.A., where she has also been a director of Human Resources and the head of Total Quality for the Group.</p>
MR ÁNGEL JESÚS ACEBES PANIAGUA	<p>Ávila, Spain, 1958</p> <p>He is chairman and founding partner of Grupo MA Abogados Estudio Jurídico, S.L., as well as sole director and professional partner of Doble A Estudios y Análisis, S.L.P. He is also a 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.</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>
MS GEORGINA KESSEL MARTÍNEZ	<p>Mexico City, Mexico, 1950</p> <p>She is an independent director and chair of the Audit Committee of Grupo Financiero Scotiabank Inverlat, and a partner of Spectron E&amp;I, as well as a member of the Business Board of Universidad de las Américas Puebla (UDLAP).</p> <p>Academic training</p> <p>Holder of a degree in Economics from Instituto Tecnológico 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</p>

	<p>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>
MS DENISE MARY HOLT	<p>Vienna, Austria, 1949</p> <p>She is an independent director and member of the Risk Committee of HSBC Bank plc., chair and independent director of M&amp;S Financial Services Ltd., independent director and member of the Quality and Safety and Compensation Committees of the Board of Directors of Nuffield Health, as well as a member of the Board of the University of Sussex.</p> <p>Academic training</p> <p>Degrees in Spanish Philology, French Philology, and Political Sciences from 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 an independent 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 been chair of the Anglo-Spanish Society and of the Institute of Latin American Studies at the University of London, and has chaired the Nominations Committee of the Alzheimer's Society.</p>
MR JOSÉ WALFREDO FERNÁNDEZ	<p>Cienfuegos, Cuba, 1955</p> <p>He is a partner of Gibson, Dunn &amp; Crutcher and a member of the board of directors of the Council of the Americas and the Center for American Progress.</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. 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 Hispánico 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</p>

	<p>Chambers Global for his M&amp;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>
MR MANUEL MOREU MUNAIZ	<p>Pontevedra, Spain, 1953</p> <p>He is president of the Seaplace, S.L., sole director of H.I. de Iberia Ingeniería y Proyectos, S.L. and of Howard Ingeniería y Desarrollo, S.L., an independent director of Tubacex, S.A. and a member of the Spanish Committee of Lloyd’s Register EMEA. He is also a professor of the Master’s Programme in Oil (ETSIN) at Universidad Politécnica de Madrid - ETSIN, of the Maritime Master’s Programme of Instituto Marítimo Español and of Universidad Pontificia Comillas.</p> <p>Academic training</p> <p>Doctorate in naval engineering from Escuela Técnica Superior de Ingenieros Navales (ETSIN) of the Universidad Politécnica de Madrid, and Master’s degree in Oceanic Engineering from the Massachusetts Institute of Technology (MIT).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been an independent director of Iberdrola Renovables, S.A., and an independent director and member of the Audit and Compliance Committee of Gamesa Corporación Tecnológica, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been a member of the board of Metalships and Docks, S.A., Neumáticas de Vigo, S.A. and Rodman Polyships, S.A., dean of the Colegio Oficial de Ingenieros Navales y Oceánicos de Madrid y de España and president of the Instituto de Ingeniería de España.</p>
JUAN MANUEL GONZÁLEZ SERNA	<p>Madrid, Spain, 1955</p> <p>He is the chairman of SIRO Group, a business group in the food sector, and a member of the Governing Board of the Spanish Commercial Coding Association (<i>Asociación Española de Codificación Comercial</i>) (AECOC).</p> <p>He is also a founding trustee and chairman of Fundación Grupo SIRO as well as a member of the Executive Committee and trustee of Fundación SERES, an honorary member of the General Assembly of the Spanish Paralympics Committee, a trustee of the Fundación Casa Ducal de Medinaceli, and honorary president of Empresa Familiar de Castilla y León.</p> <p>Academic training</p> <p>Degree in Law, Economics and Business Studies from the Instituto Católico de Administración y Dirección de Empresas (ICADE) of Universidad Pontificia Comillas (Madrid) and a Masters in Business Administration (MBA) from the Escuela de Dirección del Instituto de Estudios Superiores de la Empresa de la Universidad de Navarra (IESE Business School) in Barcelona.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been an independent director of Iberdrola España, S.A.U. and of Iberdrola Renovables, S.A., as well as chair of the Appointments and Remuneration Committee of the latter company.</p> <p>Noteworthy experience in other industries</p> <p>Apart from the food sector, he also has extensive experience in the finance, venture capital and health sectors: he is a member of the advisory board of Rabobank in Spain and Europe and has been a member of the board of Banco Urquijo Sabadell Banca Privada, S.A. and of Sociedad para el Desarrollo Industrial de Castilla y León, Sociedad de Capital Riesgo, S.A. (SODICAL, now Ade Capital Social, Sociedad de Capital Riesgo de Régimen Común, S.A.). He is also a member of the board of directors of the HM</p>

	Hospitales Group.
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<b>Total number of independent directors</b>	10
<b>Total % of the board</b>	71.43

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:

<b>Individual or company name of director</b>	<b>Reasons</b>	<b>Company, officer, or shareholder with which the director has ties</b>
MR IÑIGO VÍCTOR DE ORIOL IBARRA	A company tied to the director billed the Iberdrola group for services during financial year 2016. The related-party transaction was fully reported in the Annual Corporate Governance Report for financial year 2015.	IBERDROLA
MR XABIER SAGREDO ORMAZA	He is chair of the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria, the principal shareholder of Kutxabank, S.A. and until April 2017 an indirect holder of a significant interest in the capital of the Company.	KUTXABANK

<b>Total number of other external directors</b>	2
<b>Total % of the board</b>	14.29

State the changes, if any, in the class of each director during the period:

<b>Individual or company name of director</b>	<b>Date of change</b>	<b>Former class</b>	<b>Current class</b>



**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
<b>Executive</b>	-	-	-	-	-	-	-	-
<b>Proprietary</b>	-	-	-	-	-	-	-	-
<b>Independent</b>	5	5	5	5	50.00	50.00	50.00	50.00
<b>Other external</b>	-	-	-	-	-	-	-	-
<b>Total</b>	5	5	5	5	35.71	35.71	35.71	35.71

**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>Board of Directors Diversity and 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 the year 2020.</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. On 22 September 2009, Ms Inés Macho Stadler was appointed as lead independent director (<i>consejera coordinadora</i>), which position she has continuously held through the date hereof.</p> <p>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.</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 appointment 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.</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> <p>It should also be noted that the Board of Directors, at its meeting held on 19 December 2017, approved a</p>



*Board of Directors Diversity and Director Candidate Selection Policy*, the new name of the former *Director Candidate Selection Policy*, which is intended to cause the composition of the Board of Directors to reflect a maximum diversity of skills and viewpoints with special emphasis on issues such as age, gender, disability, training and professional experience. This Policy is available on the corporate website ([www.iberdrola.com](http://www.iberdrola.com)) where the Activities Report of the Board and of the Committees thereof can also be found. Among other issues, this Report details the professional skills and experience of the directors and is a good example of the application of the Policy.

**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>The <i>Board of Directors Diversity and Director Candidate Selection Policy</i> ensures 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 persons, widely recognised for their expertise, competence, experience, qualifications, training, availability and commitment to their duties. They must be irreproachable professionals, whose professional conduct and background is aligned with the principles set forth in the Directors' Code of Ethics and the corporate values contained in the Mission, Vision and Values of the Iberdrola group.</p> <p>In the selection of candidates, it also endeavours to ensure a diverse and balanced composition of the Board of Directors overall, such that decision-making is enriched and multiple viewpoints are contributed to the discussion of the matters within its power. To this end, the selection process shall promote a search for candidates with knowledge and experience in the main countries and sectors in which the group does or will do business. The directors must also have sufficient knowledge of the Spanish and English languages to be able to perform their duties.</p> <p>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 might hinder the selection of female directors.</p>

**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 *Board of Directors Diversity and Director Candidate Selection 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 Company's commitment to eliminate any implied bias that hinders the selection of female directors, who currently represent more than 35% of the members of the Board of Directors, having already exceeded the commitment set out in the policy stating that the number of female directors would represent at least thirty per cent of all members of the Board of Directors by 2020. Finally, the Policy promotes the inclusion within the Board of Directors of candidates with experience on boards of directors of subsidiaries of the Iberdrola group, who thus contribute 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.**

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**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 SANTIAGO MARTÍNEZ LAGE	Sole Transitional Provision of the Regulations of the Board of Directors.
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	Sole Transitional Provision of the Regulations of the Board of Directors.

**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	Does 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 IGNACIO SÁNCHEZ GALÁN	NEOENERGIA, S.A.	Chairman	NO
MR FRANCISCO MARTÍNEZ CÓRCOLES	IBERDROLA ESPAÑA, S.A.	Chairman	NO
MR FRANCISCO MARTÍNEZ CÓRCOLES	IBERDROLA MÉXICO, S.A. DE C.V.	Director	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 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)	16,686
Amount of pension rights accumulated by the current 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 JOSÉ SAINZ ARMADA	Chief Financial and Resources Officer (CFO)
MS SONSOLES RUBIO REINOSO	Director of Internal Audit
MR PEDRO AZAGRA BLÁZQUEZ	Director of Corporate Development
MR JUAN CARLOS REBOLLO LICEAGA	Director of Administration and Control
MR SANTIAGO MARTÍNEZ GARRIDO	Chief Legal Officer

Total senior management remuneration (in thousands of euros)	16,062
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**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

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>Set out below are the main amendments to the Regulations of the Board of Directors during financial year 2017:</p> <ul style="list-style-type: none"> <li>– The powers of the Board of Directors are updated to refer to its duties regarding the definition of the group's organisational model and the supervision of compliance and development thereof, and those regarding the appointment, removal and establishment of the basic terms of the contracts with officers are clarified.</li> <li>– References to the <i>Activities Report of the Board of Directors and of the Committees thereof</i> are added, particularly including the powers of the consultative committees.</li> <li>– A provision is included to the effect that communications and forms that the directors must send to the Company are generally sent through the directors' website, giving these communications the same effects as if signed copies were sent.</li> <li>– The definition of the position of senior officer (<i>alto directivo</i>) is homogenised with the one set out in other provisions of the Corporate Governance System.</li> <li>– The functions of the Office of the Secretary of the Board of Directors are strengthened regarding the coordination of the consultative committees as to the meeting schedules, agendas and appearances.</li> <li>– When there is an approval of minutes as a group at the next meeting, a portion of the minutes can be approved at the end of the meeting, provided that the text being approved has been published on the directors' website prior to the meeting or has been read aloud prior to adjournment of the meeting.</li> <li>– There is an inclusion of the best practices contained in the <i>Technical Guide 3/2017 on Audit Committee at Public Interest Entities</i> published by the National Securities Market Commission on 27 June 2017.</li> </ul>

**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 *Board of Directors Diversity and 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 annually evaluates: (i) its operation and the quality of its work; (ii) the performance of their duties by the chairman of the Board of Directors, by the CEO and by the Business CEO, 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 2017.

## 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 Iberdrola group has an on-going commitment to the development of its corporate governance. In order to continue to permanently improve, Iberdrola evaluates the operation of its governance bodies on an annual basis, and based on the conclusions obtained, identifies the principal areas of work for the coming year.</p> <p>More than 95% of the work areas defined in the evaluation process from the prior year were met during 2017. Specifically, significant advancements were made in the following areas:</p> <ol style="list-style-type: none"> <li>Renewal of the composition of governance bodies: <ul style="list-style-type: none"> <li>Strengthening of the checks-and-balances system with the appointment of Mr Francisco Martínez Córcoles as Business CEO (<i>consejero-director general de Negocios</i>).</li> <li>Maintenance of a high percentage of independent directors (71%) after the appointment of Mr Juan Manuel González Serna as independent director.</li> <li>Update and new name of the <i>Board of Directors Diversity and Director Candidate Selection</i></li> </ul> </li> </ol>

*Policy.*

2. Operation:

- Conformance of the Audit and Risk Supervision Committee and the Company's Corporate Governance System to the recommendations contained in Technical Guide 3/2017 on audit committees at public-interest entities published by the National Securities Market Commission.
- Adaptation of the training programmes for the directors to their own needs and to critical areas of the market and improvement of the orientation programme for new directors.
- Development and approval of an annual work plan for each of the consultative committees.
- Expansion of the evaluation to include the opinion of the directors regarding the operation of the consultative committees.
- Holding of several meetings of the Board of Directors in Scotland and of the Executive Committee in Mexico.

3. Remuneration:

- Publication of the weighting of each group of targets in the annual variable remuneration of the executive directors.
- Inclusion of clawback clauses in the 2017-2019 Strategic Bonus.

4. Transparency and stakeholder engagement:

- Measurement of the group's social contribution through the *Iberdrola group's economic, social and environmental impact on the world* report, prepared by an external expert.
- Update of the *Stakeholder Relations Policy* and of the *Policy on Respect for Human Rights*.

**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 evaluates its performance on an annual basis, and on 24 October 2017 it approved the commencement of the process of evaluation of the Board of Directors itself, the Executive Committee, its consultative committees, the chairman & CEO, the Business CEO and the other directors. The evaluation of the chairman & CEO was led by the lead independent director. The process concluded at the meeting of the Board of Directors held on 20 February 2018, which approved the results of the evaluation of financial year 2017 and the Continuous Improvement Plan for financial year 2018.

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 in the evaluation process.

The evaluation process verifies compliance with legal provisions and the Company's Corporate Governance System. It also includes a comparative analysis with more than 20 domestic and international companies and monitors the most advanced corporate governance trends. In addition, it evaluates the achievement of the areas of work identified in the evaluation from the prior year.

The evaluation also serves as an instrument to perfect corporate governance practices, as it allows for identification of opportunities for improvement that are specified in the Continuous Improvement Plan.

The conclusions of the evaluation process reflect absolute compliance with the indicators relating to mandatory legal rules and regulations and an alignment of more than 90% with the latest international trends and with the application of the areas for improvement identified during prior years.

The Continuous Improvement Plan 2018 deriving from the evaluation process focuses on continuing to advance in four areas, principally:

1. Supervision of critical issues like risks arising from climate change and the group's actions having an impact on the Social Dividend.
2. Continued evolution in the composition of the Board of Directors, improving the rationale for the



proposed appointments of new directors.

3. Progress in shareholder engagement and in the information published on issues discussed with the shareholders.
4. Continue the comparison of market trends on remuneration and transparency in remuneration.

**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 2017 came to the aggregate amount of 10.7 million euros, and were mainly focused on the following:

- Support in the tax area.
- Advice on systems.
- Support to the Board and to the Secretary of the Board of Directors.
- Expert reports.
- Pensions.

**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, the Regulations of the Board of Directors provide 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
<p>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.</p> <p>The serious reprimand of a director for having breached any of the duties entrusted thereto as director under the Regulations of the Board of Directors requires a majority of two-thirds of the directors.</p>

**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
<p>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.</p>

**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	
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**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.**

Pursuant to 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. 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.

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.

There is no maximum number of proxies provided per director.

**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	9
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
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**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	11
Number of meetings of the Appointments Committee	7
Number of meetings of the Remuneration Committee	8
Number of meetings of the Corporate Social Responsibility Committee	8

**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	9
% 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 shall have 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, and submit recommendations or proposals to the Board of Directors to safeguard the integrity thereof.
- Establish appropriate relationships with the auditor to receive information regarding matters that might entail a threat to 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 statutory auditors on an annual basis of their independence in relation to the Company or entities directly or indirectly related thereto, as well as a detailed breakdown of information on additional services of any kind provided to and the corresponding fees received from such entities by such statutory auditors or by persons or entities related thereto, pursuant to the legal provisions governing the auditing of accounts.
- On an annual basis, prior to the audit report, issue a report that will express an opinion on whether the independence of the statutory auditors is compromised, which shall be made available to the shareholders upon the terms set forth in the Regulations for the General Shareholders' Meeting. This report shall contain a reasoned assessment of the provision of each and every one of the additional services other than the legal audit referred to in the preceding point, considered individually and as a whole, and in relation to the rules on independence or the legal provisions regarding the auditing of accounts.
- 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.
- Evaluate the results of each audit of accounts and supervise the responses of the senior officers to the recommendations thereof.
- 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 2017:

- Report dated 24 April 2017 on the interim management statement for the first quarter of 2017.
- Report dated 17 July 2017 on the economic/financial report for the first half of 2017.
- Report dated 3 November 2017 on the interim management statement for the third quarter of 2017.
- Report dated 19 February 2018 regarding the annual accounts of Iberdrola and its consolidated group for financial year 2017.

As disclosed in the information about Iberdrola posted on the website of the National Securities Market Commission ([www.cnmv.es](http://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 *Regulations of the Audit and Risk Supervision Committee* and the *Auditor Contracting and Relations Policy*, contained within the Company's Corporate Governance System, provide that:

- The relations of the Committee with the statutory auditor of the Company shall respect the independence thereof, in accordance with the provisions of the Corporate Governance System.
- The Audit and Risk Supervision Committee shall receive information from the auditor regarding matters that might entail risks to the independence thereof.
- The Committee shall request of the auditor, on an annual basis, a certificate of independence of the firm as a whole and of the team members participating in the process of auditing the annual accounts of the Group, as well as information regarding additional services of any kind provided by the auditors or by persons related thereto pursuant to the provisions of the laws on auditing of accounts. In addition, the auditor shall include in the annual certification that it sends to the Committee a statement in which it reports on compliance with the application of the internal procedures of quality assurance and protection of independence that have been implemented.
- The auditor shall provide to the Committee annual information regarding the profiles and the track record of the persons making up the audit teams of the Company and of the Iberdrola Group, stating the changes in the composition of such teams compared to the preceding financial year.
- 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 impact on the independence of the auditor of the provision of services additional to auditing 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, which in turn 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 a lack of independence, a prohibition, or pursuant to the law on auditing. In particular, if the fees accrued from the provision of audit services and services other than audit that the Company and any other entity of the Iberdrola Group expect to pay the auditor or audit firm or a member of its network during each of the last three consecutive financial years represent more than fifteen per cent of the total annual income of the auditor or audit firm and of said network.

The Audit and Risk Supervision Committee has also established a restrictive policy on the services provided by the statutory auditor to the Iberdrola group that are susceptible to being authorised.

As regards 2017:

- Iberdrola's statutory auditor appeared on nine occasions before the Audit and Risk Supervision Committee (three by "Ernst & Young" ("EY") and six by "KPMG Auditores, S.L." ("KPMG")) and EY 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 15 February 2017 EY sent written confirmation of its independence with regard to the audit of financial information for financial year 2016.
- On 17 July 2017 KPMG sent written confirmation of its independence with regard to the limited review of financial information through 30 June 2017.
- On 19 February 2018 KPMG sent written confirmation of its independence with regard to the audit of financial information for financial year 2016.
- In the aforementioned letters, the corresponding auditor represents that it has 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 19 February 2018, KPMG reported that it had no evidence that any

member of the teams participating in the audit of the financial statements at 31 December 2017 of the significant components of the Iberdrola group had joined as an employee of the Company or of its related companies. The Audit and Risk Supervision Committee believes that these hirings do not affect the independence of the auditor, as they involve professionals with short-term professional experience and who held positions of medium/low responsibility at the audit firm.

- On 19 February 2018 the Committee issued its report to the Board of Directors regarding the independence of the Company's statutory auditor. The Committee concluded that the auditor performed its audit work with independence from the Company or entities related thereto.

**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 contained in the Policy regarding Communication and Contacts with Shareholders, Institutional Investors, and Proxy Advisors and 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](mailto: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
Ernst & Young, SA.	KPMG Auditores, S.L.

**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

**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.**

Yes  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	1	1

	Company	Group
Number of years audited by the current audit firm / Number of years in which the company has been audited (%)	4.00	4.00

**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
<p>Pursuant to 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.</p> <p>The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.</p> <p>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:</p> <p>a) That it is not necessary for the proper performance of the duties entrusted to the directors.</p> <p>b) That the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company.</p> <p>c) That the technical assistance sought may be adequately provided by the Company's own experts</p>

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, the Regulations of the Audit and Risk Supervision Committee, the Regulations of the Appointments Committee, the Regulations of the Remuneration Committee and 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. It shall also be ensured that conflicts of interest do not undermine the independence of any external advice received.

**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
<p>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.</p> <p>In order to improve their knowledge of the group, presentations are made to the directors regarding the businesses thereof. 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.</p> <p>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 training materials intended for the directors and presentations made to the Board of Directors.</p> <p>In addition, the directors shall be given access through the directors’ website to the minutes of the meetings of the Board of Directors and the committees thereof, as well as to any other information that the Board of Directors decides to include”.</p> <p>Pursuant to the Regulations of the Board of Directors, there shall be an inclusion on the directors’ website 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 access to materials relating to director training programmes.</p> <p>In addition, the Regulations of the Board of Directors provide 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”.</p>

**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
<p>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,</p>



and other instances provided for in the Company's Corporate Governance System.

As provided by the Regulations of the Board of Directors, the 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 is subject to investigation or an order for further criminal prosecution upon indictment, 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, through the chairman of the Board of Directors. In such instance, the Board of Directors shall review this circumstance as soon as practicable and, following a report of the Appointments Committee, 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 the Regulations of this body, 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 aforementioned instances, 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) above shall not apply if the Board of Directors believes that there are reasons that justify the director's continuance in office, after a report of the Appointments Committee, 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
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ÁNGEL JESÚS ACEBES PANIAGUA	Alleged crime of false accounting as an independent director of Bankia, S.A.	Commencement of oral criminal trial ordered against various directors of Bankia, S.A., including Mr Acebes Paniagua, on 17 November 2017 by Central Investigative Court (Juzgado Central de Instrucción) number 4 of the National High Court (Audiencia Nacional).

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
It is considered that Mr Ángel Acebes meets the criteria set out in the Regulations of the Board of Directors to continue holding the position of director.	Both the Office of the Public Prosecutor ( <i>Ministerio Fiscal</i> ) and the Fund for the Orderly Restructuring of the Banking Sector ( <i>Fondo de Reestructuración Ordenada Bancaria</i> ) (FROB) requested dismissal of the case against him.

**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	34
Type of beneficiary	Executive directors, officers, and employees

Description of agreement
<p>1. EXECUTIVE DIRECTORS</p> <p>Pursuant to the provisions of his contract, the chairman &amp; 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. In the case of the Business CEO, the severance is two times annual salary.</p> <p>Furthermore, in consideration for the executive directors' non-compete commitment for a period of between</p>

one and two years, they shall be entitled to severance equal to the remuneration for such period.

## 2. OFFICERS

Some employment contracts with officers of Iberdrola include specific severance clauses. The purpose of such clauses is to obtain an effective and sufficient level of loyalty for the management of the Company and thus avoid a loss of experience and knowledge that might jeopardise the achievement of strategic objectives, more so for positions deemed to decisively contribute to the creation of value due to the responsibilities thereof. The amount of the severance is determined based on length of service and the reasons for the officer's withdrawal from office, up to a maximum of five times annual salary.

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.

## 3. EMPLOYEES

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.

**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
MS INÉS MACHO STADLER	MEMBER	Independent director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director
MR MANUEL MOREU MUNAIZ	MEMBER	Independent director
MS SAMANTHA BARBER	MEMBER	Independent director

% executive directors	20.00
% proprietary directors	0
% independent directors	80.00
% 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 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 all cases. 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 of Directors 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. It also provides assistance to the Board of Directors in the ongoing supervision of compliance with the principles governing the organisation and coordination of the group and the strategic goals thereof.

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**

#### 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
MR XABIER SAGREDO ORMAZA	MEMBER	Other external director

<b>% executive directors</b>	0
<b>% proprietary directors</b>	0
<b>% independent directors</b>	75.00
<b>% other external</b>	25.00

**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.**

<p>The Audit and Risk Supervision Committee is an internal informational and consultative body.</p> <p>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.</p> <p>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.</p> <p>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.</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 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.</p>
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**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.**

<b>Name of director with experience</b>	MS GEORGINA KESSEL MARTÍNEZ
<b>Number of years during which chair has held the position</b>	3

#### **APPOINTMENTS COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class</b>
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 JUAN MANUEL GONZÁLEZ SERNA	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 Remuneration Committee is an internal informational and consultative body.

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.

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.

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 28 of the Regulations of the Board of Directors, as well as in the Regulations of the Remuneration Committee.

### 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	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 Corporate Social Responsibility Committee is an internal informational and consultative body.

A majority of the members of the Corporate Social Responsibility Committee must be classified as 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
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	Financial Year 2017		Financial Year 2016		Financial Year 2015		Financial Year 2014	
	Number	%	Number	%	Number	%	Number	%
<b>Executive Committee</b>	2	40.00	1	20.00	1	20.00	1	20.00
<b>Audit and Risk Supervision Committee</b>	2	66.66	2	66.66	2	66.66	2	50.00
<b>Appointments Committee</b>	1	33.33	1	33.33	1	33.33	1	33.33
<b>Remuneration Committee</b>	1	33.33	1	33.33	1	33.33	1	33.33
<b>Corporate Social Responsibility Committee</b>	1	33.33	1	33.33	1	33.33	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](http://www.iberdrola.com)).

Article 23 of the *Regulations of the Audit and Risk Supervision Committee* provides that, pursuant to the provisions of the *Regulations of the Board of Directors*, the *Activities Report of the Board of Directors and of the Committees thereof*, which shall include information regarding the operation and the activities of the Committee during the preceding financial year, shall be made available to the shareholders and the other stakeholders for purposes of the call to the General Shareholders' Meeting. In particular, the section of the *Activities Report of the Board of Directors and of the Committees thereof* regarding the Committee must allow the shareholders and other interested parties to understand the activities performed by the Committee during the financial year in question.

As to financial year 2017, the Audit and Risk Supervision Committee approved the section corresponding to its report for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

#### 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](http://www.iberdrola.com)).

Article 26 of the *Regulations of the Appointments Committee* provides that, pursuant to the provisions of the *Regulations of the Board of Directors*, the *Activities Report of the Board of Directors and of the Committees thereof*, which shall include information regarding the operation and the activities of the Committee during the preceding financial year, shall be made available to the shareholders and the other stakeholders for purposes of the call to the General Shareholders' Meeting. In particular, the section of the *Activities Report of the Board of Directors and of the Committees thereof* regarding the Committee must allow the shareholders and other interested parties to understand the activities performed by the Committee during the financial year in question.

As to financial year 2017, the Appointments Committee approved the section corresponding to its report



for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

### 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](http://www.iberdrola.com)).

Article 22 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.

As to financial year 2017, the Remuneration Committee approved the section corresponding to its report for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

### 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](http://www.iberdrola.com)).

Article 22 of the *Regulations of the Corporate Social Responsibility Committee* provides that, pursuant to the provisions of the *Regulations of the Board of Directors*, the *Activities Report of the Board of Directors and of the Committees thereof*, which shall include information regarding the operation and the activities of the Committee during the preceding financial year, shall be made available to the shareholders and the other stakeholders for purposes of the call to the General Shareholders' Meeting. In particular, the section of the *Activities Report of the Board of Directors and of the Committees thereof* regarding the Committee must allow the shareholders and other interested parties to understand the activities performed by the Committee during the financial year in question.

As to financial year 2017, the Corporate Social Responsibility Committee approved the section corresponding to its report for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

An *Activities Report of the Board of Directors and of the Committees thereof* for financial year 2017 is published for purposes of the call to the General Shareholders' Meeting.

This innovation is based on the Company's commitment to good corporate governance practices and transparency and to the growing demand by shareholders and proxy advisors for companies to report on the activities of their governance bodies.

#### 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

The Regulations of the Board of Directors provide that:

1. Any transaction by the Company or the companies forming part of its Group with directors, with shareholders that directly or indirectly own a shareholding interest that is equal to or greater than that legally regarded as significant at any time or that have proposed or caused the appointment of any of the directors of the Company, or with the respective related persons ("Related-Party Transactions"), 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.
2. 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 to the Board of Directors at its next

meeting in order for it to be ratified.

3. The authorisation of Related-Party Transactions must be approved by the shareholders at the General Shareholders' Meeting in the instances provided by law, and particularly if it relates to a transaction having a value of more than ten per cent of the corporate assets.
4. As an exception, Related-Party Transactions with any of the listed companies of the Group (as is the case of Avangrid, Inc.) or with the subsidiaries thereof shall not be subject to the provisions of article 43, provided that they have corporate governance rules similar to those of the Company.
5. The execution of a Related-Party Transaction puts the director engaging in said transaction or who is related to the person engaging in the transaction in a conflict of interest, for which reason the provisions of article 39 of the Regulations of the Board of Directors shall apply, to the extent applicable.
6. The Board of Directors, through the Appointments Committee, shall ensure that Related-Party Transactions 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 transactions to be carried out by companies of the Group, the scope of authorisation of the Board of Directors, or that of the Executive Committee, if applicable, referred to in the preceding sections, shall be circumscribed to the verification of compliance with such particulars.
7. In the case of customary and recurring Related-Party 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.
8. If a Related-Party Transaction entails the successive performance of different transactions, of which the second and subsequent transactions are mere acts of execution of the first transaction, the provisions of article 43 shall only apply to the first transaction carried out.
9. 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.
10. The Company shall report Related-Party Transactions 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 with 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.  
  
To this end, the directors must give written notice to the secretary of the Board of Directors, on a semi-annual basis, within the first week of January and July of each year, regarding the Related-Party Transactions that they have engaged in. If they are not carried out, the directors shall so report. The secretary of the Board of Directors shall send a notice to the directors on a semi-annual basis requesting the appropriate information that must be sent to the Company.
11. The notice must include the following information: the nature of the transaction; the date on which the transaction originated; the conditions and periods for payment; the name of the person who carried out the transaction and the relationship, if any, with the director; the amount of the transaction; and other aspects, such as pricing policies, guarantees given and received, and any other feature of the transactions that allows for a proper assessment thereof, particularly such information as allows for verification that it has been carried out on arm's length conditions and in compliance with the principle of equal treatment.
12. The secretary of the Board of Directors shall prepare a register of Related-Party Transactions. The information set forth in such register shall be made available to the Compliance Unit when it so requests, and shall also periodically be made available to the Audit and Risk Supervision Committee through the Internal Audit Area Division.

**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)
QATAR INVESTMENT AUTHORITY	IBERDROLA, S.A.	Corporate	Dividends and other distributed benefits	18,948

**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)

**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.**

**In any case, report any intragroup transaction with entities established in countries or territories considered to be tax havens:**

Name of the entity within the group	Brief description of the transaction	Amount (thousands of euros)
SIEMENS GAMESA RENEWABLE ENERGY GROUP	Purchase of material assets	365,038
SIEMENS GAMESA RENEWABLE ENERGY GROUP	Receipt of services	55,445
SIEMENS GAMESA RENEWABLE ENERGY GROUP	Purchase of goods (finished or in progress)	1,836

**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.**

1. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE DIRECTORS

Pursuant to the Regulations of the Board of Directors, a conflict of interest shall be deemed to exist in those situations provided by law, particularly when the interests of the director, either for their own or another's account, directly or indirectly conflict with the interest of the Company or of companies within the Group and their duties to the Company. An interest of a director shall exist when a matter affects the director or a person related thereto or, in the case of a proprietary director, when it also affects the shareholder or shareholders that proposed or caused the appointment thereof or persons directly or indirectly related thereto.

Such article contains a list of persons deemed to be related for such purposes, distinguishing between an individual and a corporate director.

Conflicts of interest shall be governed by the following rules:

- a) **Communication:** once a director becomes aware of being in a situation of conflict of interest, the director must give written notice of the conflict to the Board of Directors, in the person of the secretary thereof. The secretary shall periodically submit a copy of the notices received to the Appointments Committee, in the person of the secretary thereof.

The notice shall contain a description of the situation giving rise to the conflict of interest, with a statement as to whether it is a direct conflict or an indirect conflict through a related person, in which case the latter person must be identified.

The description of the situation must describe, as applicable, the subject matter and the principal terms of the transaction or the planned decision, including the amount thereof or an approximate financial assessment thereof. If the situation giving rise to the conflict of interest is a Related-Party Transaction (as this term is defined in article 43), the notice shall also identify the department or person of the Company or of any of the companies of the Group with which the respective contacts were made.

Any question as to whether a director might be involved in a conflict of interest must be forwarded to the secretary of the Board of Directors, and the director must refrain from taking any action until it is resolved.

- b) **Abstention:** if the conflict arises from an operation, transaction, or circumstance that requires any kind of operation, report, decision, or acceptance, the director must refrain from taking any action until the Board of Directors studies the case and adopts and informs the director of the appropriate decision.

To this end, 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.

At each meeting of the Board of Directors and of the committees thereof, the secretary reminds the directors, before dealing with the agenda, of the abstention rule established in this article.

- 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.

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, the Regulations of the Board of Directors provide that a loss of competence is an event of resignation, removal and cessation of the director.

## 2. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE SENIOR OFFICERS AND OTHER PERSONS SUBJECT TO CONFLICT OF INTEREST RULES

The Procedure for Conflicts of Interest and Related-Party Transactions with Senior Officers subjects these kinds of conflicts to the same rules of communication, abstention, and transparency.

## 3. 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 also dealt with in 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. Thus, approval by the shareholders at a General Shareholders' Meeting shall be required if the value of the transaction exceeds 10% of the corporate assets, and all transactions shall be reported in the Annual Corporate Governance Report and in the Annual Financial Report.

4. 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 such risks 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 Corporate Risk Committee and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon supporting procedures, methodologies, and tools, suitable for the various stages and activities within the system, including:

- 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, and risk indicators, 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 Policy* and in the *Anti-Corruption 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.**

### **1. BOARD OF DIRECTORS**

Within the scope of its powers, and with the support of the Audit and Risk Supervision Committee, the Board of Directors 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 to establish through the *General Risk Control and Management Policy* the mechanisms and basic principles for appropriate management of the risk/opportunity ratio. By virtue thereof, it defines the risk strategy and profile 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 Risk Policies*.

### **3. AUDIT AND RISK SUPERVISION COMMITTEE**

As a consultative body of the Board of Directors, it is vested with the following powers, among others, regarding the internal control and risk management systems:

- Directly supervise the Risk Division and maintain an appropriate relationship therewith and with the audit and compliance committees of the other companies of the Group.
- Continuously review the internal control and risk management systems, such that the principal risks are properly identified, managed, and reported.
- Supervise the effectiveness of the internal control and risk management systems, making proposals for improvement.
- Obtain information regarding any significant deficiency in internal control that the auditor detects while carrying out its audit work.
- Ensure that the Group's risk control and management system identifies at least:
  - The various risk factors to which the Company is exposed.
  - The establishment and review of the risk map and the risk levels deemed acceptable.
  - The measures in place to mitigate the potential impact of identified risks.
  - The internal control and reporting systems to be used to control and manage such risks.
- Promote (within the limits of its powers) a culture in which risk is a factor that is taken into account in the decisions of the Company.
- Identify and evaluate emerging risks, like those arising from technological, climactic, social and regulatory risks, as well as existing alert mechanisms, periodically evaluating the effectiveness thereof.
- Obtain creditable information as to whether the most significant risks are managed and



maintained within the tolerance figures that have been established, and evaluate the various risk tolerance levels established in the *Risk Policies*, proposing the adjustment thereof based on information received from the various divisions and areas.

- Annually receive the heads of the businesses of the Group for them to report on the trends of their respective businesses and the risks associated therewith.
- Report in advance on the risks of the Group to be included in the Company's *Annual Corporate Governance Report*.
- (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.

#### 4. BOARDS OF DIRECTORS OF COUNTRY SUBHOLDING COMPANIES OF THE PRINCIPAL COUNTRIES IN WHICH THE GROUP OPERATES

The country subholding companies adopt the Group's risk policies and specify the application thereof, approving the guidelines on specific risk limits based on the nature and particularities of the businesses in each country.

The management decision-making bodies of the head of business companies of each country must approve the specific risk limits applicable to each of them and implement the control systems required to ensure compliance therewith.

Pursuant to their framework of strengthened autonomy, Avangrid and Neoenergia have their own risk policies.

#### 5. CORPORATE RISK COMMITTEE

The Risk Committee of the Iberdrola Group is a technical body chaired by the chief financial officer, and which performs executive duties in connection with customary risk management and gives advice to the Group's governance bodies.

The Committee meets at least once 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 Corporate Credit Risk and Market Risk Committees, 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.

This Committee reviews the various risks and issues a *Group Quarterly Risk Report*, which includes the main risk positions, a report on compliance with limits and indicators, and an update of the key risk maps.

### 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 risks and uncertainties" of the *Management Report* within the *Annual Report for financial year 2017* 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 accepts the need to achieve the fulfilment of the corporate interest and the 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 the 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 *Mission, Vision and Values of the Iberdrola group*, 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: understood as the exposure of the Group's results and assets to changes in market prices and other 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 different activities of the Group through its businesses, such as the characteristics of demand, weather conditions and the strategies of different players.
- e) Regulatory and Political Risks: are 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: are those related to direct or indirect economic losses resulting from external events, inadequate internal procedures, technical failures, human error and/or fraud, including those relating to climate change, information technology, cybersecurity and the risk of technological obsolescence.
- 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 levels for the group. The *General Risk Control and Management Policy*, together with the policies that develop and complement it, qualitatively and quantitatively establish, in sufficiently detailed form, the risk appetite that is annually accepted both at the Group level and at the level of each of its main businesses and corporate functions.

By way of supplement, once such limits and guidelines are considered in order to verify the risk assumed globally in the annual profit and loss account, the Administration and Control Division engages in 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.

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

Corporate risk policies and limits:

- *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 for the various businesses of the Group:

- *Risk Policy for the Networks Businesses of the Iberdrola Group*
- *Risk Policy for the Renewable Energy Businesses of the Iberdrola Group*
- *Risk Policy for the Liberalised Businesses of the Iberdrola Group*
- *Risk Policy for the Real Estate Business*

The limits and indicators of the risk policies must be consistent with the annual Budget and the objectives established in the multi-annual investment plans. The numeric values of the limits and indicators set out in the various policies are based on probabilities or of a deterministic nature (like VaR or at-risk EBITDA) and are expressed in monetary units, indices or references upon which volumetric risk and/or figures are based, including:

- Limits on maximum global credit risk exposure by type of counterparty
- Limits to 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

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 supplementary risk policies, are available on the corporate website (<https://www.iberdrola.com/corporate-governance/corporate-governance-system/corporate-policies>).

#### **E.5. State what risks, including tax risks, have materialised during the financial year.**

The group has been negatively affected during the year by events described further below, although these events have been offset at the net profit level by the following positive events:

- The merger of Gamesa Corporación Tecnológica with Siemens Wind Power, which contributed 255 million euros to net profit, including 198 million euros for the extraordinary merger dividend. As a result of this merger, the Company holds an 8.071% interest in the merged entity.
- The positive impact on the consolidated accounts of the group of 1,284 million euros after taxes as a result of the tax reform approved in the United States of America at the end of 2017.

Risks that have materialised include:

- The major drought that affected Spain during 2017, with the decrease in the Group's hydroelectric production to 7.9 TWh, compared to 18.3 TWh produced in 2016 (an exceptionally good year) and the steep drop in the Group's hydrological reserves, which were at historical minimums as at 31

December 2017.

- The adverse regulatory and market environment faced by the retail electricity and gas business in the United Kingdom.
- The recording in financial year 2017 results of extraordinary expenses in the amount of 129 million euros with respect to EBITDA as a result of the major storms affecting the networks businesses in the United States of America during the year (which expenses should be recovered in subsequent years, according to the applicable regulatory frameworks).
- The writeoff of 512 million euros after taxes for the gas storage and transport businesses in the United States of America and in Canada.
- The adverse performance of some of the projects of Iberdrola Engineering & Construction, the activities of which are now classified as discontinued operations, with a negative contribution to the consolidated net profit of the group in 2017 of 253 million euros after taxes.
- The required tax payment communicated in November 2017 by the Spanish Tax Agency in the amount of 665 million euros in enforcement of the obligation established in Commission Decision (EU) 2015/314 on the recovery of aid declared to be incompatible with the internal market (tax amortisation of goodwill generated by the acquisitions of Scottish Power, Energy East and Rokas). The payment of this amount is provisionally suspended by decision of the General Court of the European Union after the appeal of said Decision by Iberdrola. Most of this amount is covered by passive deferred taxes recorded in accordance with accounting rules, as the tax incentive is considered to be a temporary difference. It need not be provisioned to the extent that the Company, its tax advisors and its external auditors find the arguments used to be sound, which gives confidence in the future favourable resolution of the appeal that was filed.
- The international ransomware cyberattack that occurred on 12 May 2017, which only partially affected some of the Iberdrola group's activities in Spain. The cybersecurity measures implemented at all businesses and corporate functions and the current action protocols ensured that no critical service, operation or customers were at any time significantly affected.

Finally, it should be noted that activities in financial year 2018 will be subject to the following risk factors:

- Possible acceleration of the withdrawal of the monetary stimulus scheme of the European Central Bank, with the resulting risk of increases in interest rates, and thus in financial expenses.
- The process of negotiation of the exit of the United Kingdom from the European Union and the impact thereof on macroeconomic conditions in that country and on the pound/euro exchange rate.
- In Mexico, developments in the NAFTA negotiations among Mexico, the United States of America and Canada, and the potential impact thereof on the Mexican economy.
- In Brazil, the general elections to be held in October 2018 and the potential impact thereof on the strengthening of the economic recovery that began in 2017.
- A possible prolongation of the period for recovering the group's dam levels in Spain after the major drought in 2017, with the resulting impact on hydroelectric production capacity forecast for financial year 2018.
- The difficult regulatory and market environment that the retail electricity and gas business will continue to face in the United Kingdom after the announcement of the imposition of a future maximum value on "standard variable tariff" contracts.
- Growing competition in renewables auctions in various jurisdictions, due to the entry of new players that submit aggressive offers, which can make it difficult to obtain the award of new projects that are attractive in terms of profitability.
  - Changes in the prices of electricity and commodities in the various countries in which it operates.

**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 the Company's Operating Committee, have allowed for the identification of new risks and threats sufficiently in advance, and to establish appropriate mitigation plans.

The Company'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 26.6.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 Area 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 and General Services Division, as well as by 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 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 31 of the *Code of Ethics* expressly provides as follows:

“The Group shall provide true, proper, useful and consistent information regarding its programmes and actions. The transparency of the information required to be disclosed 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 the *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 Company’s Compliance System 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 approves the *General Compliance System Framework of the Iberdrola group*, which contains the basic principles of structure and operation of the Group’s Compliance System as well as the duties and responsibilities of the various bodies involved. The Unit also evaluates and prepares an annual report on the effectiveness of the Compliance System of the Company and of the other companies of the Group. The report is submitted to the Corporate Social Responsibility Committee, which renders its opinion and forwards it to the Board of Directors.

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 thereof, the professionals of the Group expressly accept the rules of conduct established in the *Code of Ethics*.

In addition, pursuant to article 41.2, professionals who join or become part of the Group in the future shall expressly accept the principles and rules of conduct 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 2017.

- **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 financial year 2017, the personnel involved in these duties received 8,013 hours of training in these areas, which are further described below:

	<b>Training Sessions</b>	<b>Participants</b>	<b>Total Hours</b>
<b>Brazil</b>	18	88	739
<b>United States</b>	24	801	1,094
<b>Spain</b>	82	472	3,617
<b>Mexico</b>	20	248	547
<b>United Kingdom</b>	34	815	2,017
<b>Total</b>	<b>178</b>	<b>2,424</b>	<b>8,013</b>

Most of these courses are provided by external entities: business schools, universities or consulting firms specialising in economic/financial issues.

The technical training activities in which these professionals engaged include:

- Payroll Issues for Multi-State Employers
- Income & Sales tax School
- NAMS-PPM training
- UK VAT & International Trade
- VAT & Custom duty control import cost



- Corporate accounts payable model
- Electronic billing
- Audit techniques
- Procurement procedure
- FIDIC Rules (Mexico)

Also noteworthy is attendance at various conferences, symposia and seminars in the areas of accounting, tax and internal audit, at both the local and international levels.

Generally, these professionals have taken various courses to improve their qualifications in the use of the office automation tools required to perform their duties, mainly Excel and the management of databases.

It should be noted that several international meetings were organised during 2017 among the professionals in these areas, like the "XI Global Internal Audit Days", "V-Global Tax Meeting" and "Finance & Treasury Global Meeting".

## 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 the Internal Audit Area.

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 ("SPEs") or entities registered in countries or territories that are considered to be tax havens ("THEs"), 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 on the creation or acquisition of said entities.

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 requires a favourable report of the Audit and Risk Supervision Committee and subsequent approval of the Board of Directors.

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 listed country subholding companies of the Group or subsidiaries thereof, the audit and compliance committee or equivalent body of said listed country subholding company will issue the relevant report.

- **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 Area 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 Area 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, the transaction, and change management.

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 Iberdrola Group also has an *Information Technologies Policy* that contemplates the management of risks associated with the use, ownership, operation, participation, influence and adoption of specific information technology and the processes for the management and control thereof.

This provides a general controls model integrated with the risk management model that allows for a global evaluation of the risks relating to information technology.

This model includes a periodic evaluation of the effectiveness of the controls on information technologies implemented in the area of the financial systems, adopting the appropriate measures if any incident is detected.

The heads of the Iberdrola Group's information technology systems certify the effectiveness of the internal controls established on financial 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 Practices 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 Practices 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 Practices 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 Area 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 Area 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 Area 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 Area Division plans for an in-depth review of the entire internal control system is five years.

Specifically, during financial year 2017, more than 34 cycles corresponding to the companies Avangrid, Inc., Scottish Power, Ltd., Iberdrola España, S.A., Iberdrola México, S.A. de C.V., Elektro Redes, S.A. and Iberdrola Inmobiliaria, S.A.U., as well as Administration and Control, were reviewed. As a result of the integration process of Neoenergia, S.A., it is expected that its internal control system will be included within the methodology of the Group as from financial year 2018.

In addition, the Internal Audit Area 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 periodic reviews and the half-yearly reviews of the most critical controls enables the Internal Audit Area 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 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 Area Division. 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 head of business companies, as well as those responsible for the corporate areas, carry out an annual review of the design and operation of the SCIIF, 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 Area 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. This review is performed applying a mixed model for selecting cycles based on risk and on a minimum rotation of five years.

The Internal Audit Area 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 1,200 persons within the Group use the software application, both to document evidence of the performance of more than 2,800 controls (which mitigate or manage more than 1,000 risks of error in financial information that have been prioritised) and to monitor, analyse, adjust and assess the ICFRS.

Furthermore, approximately 70 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 auditor 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 shareholders at companies with dispersed share ownership, whose investment is thus guarded from any transaction that is contrary to the corporate interest. In this regard, most shareholders, especially including but not limited to small individual investors, who represent approximately one-fourth of Iberdrola's capital, have little room to manoeuvre and respond to a potential shareholder owning a non-controlling interest and not reaching the threshold requiring a takeover bid but seeking influence over the Company and whose own 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.

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) Professional profile and biographical data.

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

**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

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

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 executive directors and senior officers signed as from 2011 provide severance for contractual termination equal to a maximum of 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. This is the case of the Business CEO.

The Company included guarantee clauses of up to five years in contracts with its key officers in the year 2000. Subsequently, in 2001, when the current chairman & CEO joined Iberdrola, he received the treatment in effect for such officers, in order to achieve an effective and sufficient level of loyalty. As chairman & CEO, he is currently entitled to three times his 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 will gradually decrease due to the passage of time, resulting in payments far smaller than any possible reduction in the agreed severance payment, taking into account the average age of the affected group (58 years) 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 with a right to severance pay greater than two years in case of termination. By year-end 2017, the number has decreased again to 34, without the enforcement of any guarantee clause.

**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.

## SECTION A.2

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, and 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.

On 12 January 2018, Capital Research and Management Company reported that it held a 5.117% interest in the share capital of Iberdrola.

On 15 February 2018, BlackRock Inc. reported to the CNMV that its interest in the capital of Iberdrola was 5.00%.

According to available information, the approximate breakdown of the interests in the share capital by type of shareholder is as follows:

- Foreign investors	66.28%
- Domestic entities	10.17%
- Domestic retail investors	23.55%

## SECTION A.3

Data at the date of approval of this Report.

For the chairman & CEO, there is a deferral of the second (510,596 shares in 2018) and third (510,596 shares in 2019) delivery of shares corresponding to the 2014-2016 Strategic Bonus approved by shareholders at the General Shareholders' Meeting. Each of the deliveries of said shares is subject to confirmation by the Board of Directors, after a report from the Remuneration Committee, on the currency of the circumstances on which the performance evaluation was based.

Furthermore, pursuant to the provisions of the 2017-2019 Strategic Bonus approved at the General Shareholders' Meeting, the chairman & CEO may receive up to a maximum of 1,900,000 shares based on the performance evaluation for the 2017-2019 period, which if awarded will be paid in three equal parts in 2020, 2021 and 2022.

For the Business CEO, there is a deferral of the second (120,931 shares in 2018) and third (120,931 shares in 2019) delivery of shares corresponding to the 2014-2016 Strategic Bonus approved by shareholders at the General Shareholders' Meeting. Each of the deliveries of said shares is subject to confirmation by the Board of Directors, after a report from the Remuneration Committee, on the currency of the circumstances on which the performance evaluation was based.

Furthermore, pursuant to the provisions of the 2017-2019 Strategic Bonus, the Business CEO may receive up to a maximum of 300,000 shares based on the performance evaluation for the 2017-2019 period, which if awarded will be paid in three equal parts in 2020, 2021 and 2022.

#### SECTION A.8

Iberdrola maintains in treasury 75,710,149 own shares and 6,427,771 shares accumulated through derivatives contracts pending settlement and that are recorded as treasury shares in the consolidated financial statements at 31 December 2017, representing 1.30% of the capital. It also maintains 6,000,000 shares in total return swaps with physical settlement.

Pursuant to the authorisations granted to the Board of Directors by the shareholders at the General Shareholders' Meeting, during financial year 2017 Iberdrola acquired 156,414,422 shares for 1,002,999 thousand euros, of which 72,905,834 shares were acquired through discretionary market transactions, while the remaining 83,508,588 shares were acquired through derivatives contracts.

In addition, 11,939,050 own shares were sold for 84,382 thousand euros.

Under such authorisations, Iberdrola has also retired 219,990,000 own shares.

#### SECTION B.4

The percentage of absentee voting (others) reflects the votes received by mail. Absentee voting is not included within voting in person.

#### SECTION C.1.3

The complete professional profiles of all the directors are available on the Company's corporate website ([www.iberdrola.com](http://www.iberdrola.com)).

#### SECTION C.1.29

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.

#### 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 2017: See Annex.

#### 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 supervision and control bodies of the Group.



## SECTION D.2

Transactions by shareholders exercising a significant influence on participation in the entity's financial and operating decisions, with significant influence being understood as having a member of the Board of Directors.

Shareholders who are able to exercise the proportional representation system due to their interest in the capital of the Company are also considered to have such influence.

As of the date of this report, only Qatar Investment Authority meets this condition, for which reason the amounts reflected in the period refer to the transactions with this shareholder.

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.

## 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.

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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 4.a) 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 2017, the Company's head of tax matters appeared on 22 February 2017 and 17 July 2017 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 20 February 2018.**

**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

## ANNEX – SECTION H

## 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 2017: Proxies granted with specific voting instructions are considered to be attendances.

Directors	Board	Committees				
		EC	ARSC	AC	RC	CSRC
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	9/9	14/14	--	--	--	--
MR IÑIGO VÍCTOR DE ORIOL IBARRA	9/9	--	--	7/7	8/8	--
MS INÉS MACHO STADLER	9/9	14/14	--	--	8/8	--
MR BRAULIO MEDEL CÁMARA	9/9	--	--	--	--	8/8
MS SAMANTHA BARBER	9/9	11/11	--	--	--	8/8
MS MARÍA HELENA ANTOLÍN RAYBAUD	9/9	--	--	7/7	--	--
MR SANTIAGO MARTÍNEZ LAGE	3/3	--	--	--	3/3	--
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	3/3	3/3	--	--	--	--
MR ÁNGEL JESÚS ACEBES PANIAGUA	9/9	14/14	--	7/7	--	--
MS GEORGINA KESSEL MARTÍNEZ	9/9	--	11/11	--	--	--
MS DENISE MARY HOLT	9/9	--	11/11	--	--	--
MR JOSÉ WOLFREDO FERNÁNDEZ	9/9	--	11/11	--	--	--
MR MANUEL MOREU MUNAIZ	9/9	14/14	--	--	--	8/8
MR XABIER SAGREDO ORMAZA	9/9	--	11/11	--	--	--
MR JUAN MANUEL GONZÁLEZ SERNA	6/6	--	--	--	5/5	--
MR FRANCISCO MARTÍNEZ CÓRCOLES	6/6	--	--	--	--	--

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.
- AC: Appointments Committee.
- RC: Remuneration Committee
- CSRC: Corporate Social Responsibility Committee.

**NON-FINANCIAL INFORMATION AND DIVERSITY**

**Annual Financial Report**

Iberdrola, S.A. and subsidiaries / Financial Year 2017

This report has been prepared in accordance with the reporting requirements and recommendations of the Consolidated Set of GRI Sustainability Reporting Standards 2016 and the Electric Utilities Sector Supplement, both of the Global Reporting Initiative (GRI).

# GRI Content Index

**External assurance:** the contents of this index have been externally assured by an independent entity (PwC). The corresponding assurance report can be found in the corporate website ([www.iberdrola.es](http://www.iberdrola.es)) in the Sustainability Report section.

**Electric Utilities Sector Supplement:** this index incorporates the topics and disclosures required by such supplement, published by GRI in 2014. The symbol \* indicates those general standard disclosures and topics of the GRI Standards where specific sector information is requested.

GRI Standard	Description	Page	External assurance	Relationship with SDGs
<b>GRI 100 UNIVERSAL STANDARDS</b>				
<b>GRI 101 Foundation 2016</b> (Note: does not require disclosure of information)				
<b>GRI 102 General disclosures 2016</b>				
<b>1.- Organisational profile *</b>				
102-1	Name of the organisation	37	✓	
102-2	Primary activities, brands, products and services	37	✓	
102-3	Location of headquarters	38	✓	
102-4	Location of operations	38	✓	
102-5	Ownership and legal form	39	✓	
102-6	Markets served	40	✓	
102-7	Scale of the organisation	40	✓	
102-8	Information on employees and other workers	42	✓	8
102-9	Supply chain	42	✓	
102-10	Significant changes to the organisation and its supply chain	46	✓	
102-11	Precautionary Principle or approach	47	✓	
102-12	External initiatives to which the organisation subscribes or which it endorses	47	✓	
102-13	Main memberships of associations	49	✓	
EU1*	Installed capacity	51	✓	7
EU2*	Energy output	52	✓	7, 14
EU3*	Electricity users and producers	52	✓	
EU4*	Transmission and distribution lines	52	✓	
EU5*	Allocation of CO <sub>2</sub> emissions allowances or equivalent	53	✓	14, 15
<b>2.- Strategy</b>				
102-14	Statement from senior decision-maker	55	✓	
102-15	Key impacts, risks and opportunities	55	✓	
<b>3.- Ethics and integrity</b>				
102-16	Values, principles, standards and norms of behaviour	62	✓	16
102-17	Mechanisms for advice and concerns about ethics	63	✓	16
<b>4.- Governance</b>				
102-18	Governance structure	67	✓	
102-19	Delegating authority	69	✓	
102-20	Executive-level positions with responsibility for economic, social and environmental topics	69	✓	
102-21	Processes for consultation between Stakeholders and the Board of Directors	69	✓	16



102-22	Composition of the highest governance body and its committees	72	✓	5, 16
102-23	Chair of the highest governance body	72	✓	16
102-24	Selection and nomination of the members of the highest governance body	73	✓	5, 16
102-25	Processes for the highest governance body to avoid conflicts of interest	74	✓	16
102-26	Role of highest governance body in setting purpose, values and strategy	75	✓	
102-27	Collective knowledge of highest governance body	77	✓	4
102-28	Evaluating the highest governance body's performance	79	✓	
102-29	Identifying and managing economic, environmental and social impacts	79	✓	16
102-30	Effectiveness of risk management processes	80	✓	
102-31	Review of economic, environmental and social topics	80	✓	
102-32	Highest governance body's role in sustainability reporting	81	✓	
102-33	Communicating critical concerns	81	✓	
102-34	Nature and total number of critical concerns	81	✓	
102-35	Remuneration policies	82	✓	
102-36	Process for determining remuneration	82	✓	
102-37	Stakeholders' involvement in remuneration	83	✓	16
102-38	Annual total compensation ratio	83	✓	
102-39	Percentage increase in annual total compensation ratio	83	✓	
<b>5.-Stakeholder engagement</b>				
102-40	Stakeholder groups engaged by the organisation	85	✓	
102-41	Collective bargaining agreements	85		8
102-42	Identifying and selecting stakeholders	85	✓	
102-43	Approach to stakeholder engagement	85	✓	
102-44	Key topics and concerns raised	88	✓	
<b>6.-Reporting practice</b>				
102-45	Entities included in the consolidated financial statements and in the boundary of this report	92	✓	
102-46	Defining report content and scope and topic boundaries	95	✓	
102-47	List of material topics	95	✓	
102-48	Restatements of information provided in previous reports	99	✓	
102-49	Significant changes in scope and topic boundaries	99	✓	
102-50	Reporting period	99	✓	
102-51	Date of most recent report	100	✓	
102-52	Reporting cycle	100	✓	
102-53	Contact point for questions regarding the report	100	✓	
102-54	Claims of reporting in accordance with the GRI Standards	100	✓	
102-55	GRI content index	100	✓	
102-56	External assurance	100	✓	
<b>GRI 103 Management approach 2016</b>				

General management approach, applicable to all aspects of this report.	32	✓	1.5, 8, 12, 13, 14, 15, 16
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**GRI 200 ECONOMIC DIMENSION**

Material topics	Reporting on management approach and corresponding disclosures	Page	Omissions	External assurance	Relationsh ip with SDGs
<b>Topics of the GRI Standards</b>					
- GRI 201 Economic performance 2016	From 201-1 to 201-4	105		✓	2, 5, 7, 8, 9, 13
- GRI 202 Market presence 2016	202-1 and 202-2	110		✓	1, 5, 8
- GRI 203 Indirect economic impacts 2016	203-1 and 203-2	111		✓	1, 2, 3, 5, 7, 8, 9, 10, 11, 17
- GRI 204 Procurement practices 2016	204-1	114		✓	12
- GRI 205 Anti-corruption 2016	From 205-1 to 205-3	115		✓	16
- GRI 206 Anti-competitive behavior 2016	206-1	122		✓	16
<b>Specific topics of the electric utilities sector supplement</b>					
- Availability and reliability	EU10	128		✓	7
- System efficiency	EU11 and EU12	128		✓	7, 8, 12, 13, 14
- Demand-side management	No specific disclosures	129		✓	
- Research and development	No specific disclosures	131		✓	
- Nuclear plant decommissioning	No specific disclosures	133		✓	
<b>Specific topics of the Iberdrola group</b>					
- Supply costs		135		✓	
- Green financing		137		✓	
- Fiscal responsibility		138		✓	
- Cybersecurity		140		✓	
- Privacy of the personal information of Stakeholders		141		✓	

**GRI 300 ENVIRONMENTAL DIMENSION**

Material topics	Reporting on management approach and corresponding disclosures	Page	Omissions	External assurance	Relations hip with SDGs
Specific management approach to the environmental dimension		144		✓	
Topics of the GRI Standards					
- GRI 301 Materials * 2016	From 301-1 to 301-3	149		✓	8, 12
- GRI 302 Energy 2016	From 302-1 to 302-5	151		✓	7, 8, 12, 13
- GRI 303 Water * 2016	From 303-1 to 303-3	156		✓	6, 8, 12
- GRI 304 Biodiversity * 2016	From 304-1 to 301-4, EU13	159		✓	6, 14, 15
- GRI 305 Emissions * 2016	From 305-1 to 305-7	169		✓	3, 12, 13, 14, 15
- GRI 306 Effluents and waste * 2016	From 306-1 to 306-5	176		✓	3, 6, 12, 13, 14, 15
- GRI 307 Environmental compliance 2016	307-1	180		✓	12, 13, 14, 15, 16
- GRI 308 Supplier environmental assessment 2016	308-1 and 301-2	181		✓	

**GRI 400 SOCIAL DIMENSION**

Material topics	Reporting on management approach and corresponding disclosures	Page	Omissions	External assurance	Relationsh ip with SDGs
Specific management approach to the Social Dimension		186		✓	
Topics of the GRI Standards					
- GRI 401 Employment * 2016	From 401-1 to 401-3	189		✓	5, 8
- GRI 402 Labour/management relations* 2016	402-1, EU15, EU17 and EU18	194		✓	8
- GRI 403 Occupational health and safety * 2016	From 403-1 to 401-4	198		✓	3, 8
- GRI 404 Training and education 2016	From 404-1 to 404-3	205		✓	4, 5, 8
- GRI 405 Diversity and equal opportunity 2016	405-1 and 405-2	212		✓	5, 8, 10
- GRI 406 Non-discrimination 2016	406-1	213		✓	5, 8, 16
- GRI 407 Freedom of association and collective bargaining* 2016	407-1	214		✓	8
- GRI 408 Child labour 2016	408-1	214		✓	8, 16
- GRI 409 Forced or compulsory labour 2016	409-1	214		✓	8
- GRI 410 Security practices 2016	410-1	215		✓	16

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-	GRI 411 Rights of indigenous peoples 2016	411-1	216	✓	2
-	GRI 412 Human rights assessment 2016	From 412-1 to 412-3	218	✓	
-	GRI 413 Local communities * 2016	413-1 and 413-2, EU22	222	✓	1.2
-	GRI 414 Supplier social assessment 2016	414-1 and 414-2	227	✓	5, 8, 16
-	GRI 415 Public policy 2016	From 415-1	232	✓	16
-	GRI 416 Customer health and safety *2016	416-1 and 416-2	235	✓	16
-	GRI 417 Marketing and labelling 2016	From 417-1 to 417-3	238	✓	12, 16
-	GRI 418 Customer privacy 2016	418-1	240	✓	16
-	GRI 419 Socioeconomic compliance 2016	419-1	241	✓	16
Specific topics of the electric utilities sector supplement					
-	Disaster/emergency planning and response	No specific disclosures	242	✓	
-	Access to electricity	EU26 to EU30	245	✓	1, 7
-	Access to adequate information	No specific disclosures	247	✓	
Specific topics of the Iberdrola group					
-	Iberdrola and the Global Compact		250	✓	
-	Iberdrola's contribution to the community		251	✓	
-	Iberdrola, promoting women's sport		263	✓	

# PART I. General Disclosures

## General management approach, applicable to all topics of this report

### Policies and commitments

The company's [Corporate Governance System](#) is made up of the [By-Laws](#), the [Mission, Vision and Values of the Iberdrola group](#), the [corporate policies](#), the [governance rules of the corporate decision-making bodies and internal committees](#) and [Compliance](#).

The commitments of Iberdrola defined in this System materialise daily in all business activities of the group, as well as in its strategy to maximise the social dividend, social responsibility and respect for Human Rights, encouraging initiatives that contribute to achieving a more healthy, equal and just society, and particularly to the achievement of the Sustainable Development Goals, especially the goals relating to universal access to electricity and the fight against climate change.

In sum, it is a search for Shared Value, i.e. the sum of all economic and social values that a company generates through its activities, within the surroundings in which it carries them out, and in the case of Iberdrola, which is expressed through the social dividend.

The Iberdrola group has a set of corporate policies for this purpose that develop the principles reflected in the Corporate Governance System and that contain the guidelines governing the actions of the company and the companies of its group, as well as those of the directors, officers and employees thereof, within the framework of the vision and values of the company.

The companies of the group assume a set of principles and values that express their commitment to corporate governance, business ethics and corporate social responsibility. The awareness, dissemination and implementation thereof serve to guide the activities of the Board of Directors and its committees and of the decision-making bodies of the company in their relations with the company's various Stakeholders.

These policies, which can be viewed in full or in summary in the [Corporate Governance](#) tab of the website, are grouped into three categories:

- Corporate Governance and Regulatory Compliance Policies.
- Risk Policies.
- Social Responsibility Policies.

Iberdrola has also assumed certain public commitments that guide the activities of the group:

- By subscribing to various initiatives relating to the environmental and social dimension of its activities, included in disclosure 102-12 of this report.
- Through its membership in certain business and social organisations, such as those described in disclosure 102-13 of this report, and which are identified by their objectives and purposes.

These policies and commitments serve to guide the company and its workforce to manage their activities, and specifically the material topics dealt with in this document.

## Responsibilities

Disclosure 102-26 of this report describes the organisational model of the Iberdrola group and its responsible persons. The responsibilities of the corporate functions or business units regarding the various aspects dealt with in this report are the following:

- Aspects relating to corporate governance and that affect the legal area are the responsibility of the Office of the Secretary of the Board of Directors.
- Aspects relating to labour practices are the responsibility of the Human Resources and General Services Division, within the Finance and Resources Division.
- Aspects relating to the environment are the responsibility of the Innovation, Sustainability and Quality Division, which reports directly to the chairman & CEO.
- Aspects relating to procurement are the responsibility of the Procurement and Insurance Division, within the Finance and Resources Division if referring to general supplies, and the responsibility of the Wholesale and Retail Business, within the group's General Business Division, if referring to the procurement of fuel.
- Aspects relating to regulation and public policies are the responsibility of the Global Regulation Division of the General Business Division of the group.
- Aspects relating to the products sold, demand, customers and other related topics are the responsibility of the Wholesale and Retail Business if referring to liberalised markets like Spain or the United Kingdom, and of the Networks Business if referring to regulated markets like the United States or Brazil.
- Aspects relating to production facilities are the responsibility of the Wholesale and Retail Business or the Renewables Business, each within their scope of activity, and those relating to transmission and distribution facilities are the responsibility of the Networks Business. These three businesses are within the General Businesses Division of the group.

By way of complement:

- The Operating Committee, made up of the chairman & CEO, the Business CEO and the directors of corporate functions and business units, is an internal committee providing technical support, information and management, with respect to both the duties of supervision and monitoring as well as the strategic organisation and coordination of the group through the dissemination, implementation and monitoring of the general strategy and the basic management guidelines established by the Board of Directors, while always respecting the scope of day-to-day management and effective decision-making corresponding to the governance and management bodies of the head of business companies of each of the businesses.
- The Compliance Unit, as an internal and permanent decision-making body linked to the company's Corporate Social Responsibility Committee, responsible for proactively ensuring the effective operation of the company's Compliance System, which is made up of all of the rules, formal procedures and significant actions intended to ensure that the company conducts itself in accordance with ethical principles and applicable law and to prevent improper conduct or conduct that is contrary to ethics, the law or the Corporate Governance System that might be committed by the professionals thereof within the organisation.
- Internal Audit, which promotes the proper operation of the information technology and internal control, risk management and governance systems of the company and of the group. Its activities are governed by the provisions of the Corporate Governance System, the [Basic Internal Audit Regulations of Iberdrola, S.A. and its group \(BIAR\)](#) approved by the Board of Directors and the other internal rules of the company, as well as the *International Standards for the Professional*

*Practice of Internal Auditing* approved by the Global Institute of Internal Auditors (IIA). The BIAR is required knowledge of the professionals of the group that it affects, and describes the nature, organisation, competencies, resources, activities, powers and duties of the function and establishes the relations between the Internal Audit Area of Iberdrola, S.A. and the Internal Audit divisions of the other companies of the group.

To exercise these responsibilities, the Iberdrola model provides that they are assumed in a decentralised manner by the country subholding companies and head of business companies in each country, which are organised through their respective boards of directors. The head of business companies occupy themselves with the effective management thereof, as well as the day-to-day management and control thereof.

### **Goals, resources and results**

Iberdrola periodically publicises its medium- and long-term goals using various formats: [Investor Day](#) is one of the most important events to externally communicate the future outlook of the company. As additional information, Iberdrola annually publishes its [Integrated Report](#), which is also available on the corporate website.

Internally, the various businesses and corporate organisations determine their annual goals in harmony with the strategic goals of the company, both financial and non-financial, directed specifically towards the activities for which they are responsible. The results obtained with respect to the established goals are used to establish the annual variable remuneration of the company's management team by means of a procedure audited by the company's Internal Audit Division.

To reach these goals, Iberdrola has an annual process for assigning resources, by establishing the corresponding income and expense budgets, which are approved by the company's Board of Directors. The achievements obtained by Iberdrola are reflected in the performance of the various quantitative indicators covered by the various aspects dealt with in this report.

By way of complement, the businesses and corporate areas have defined specific goals in the area of corporate social responsibility, which are contained in the *CSR Plan 2015-2017*.

This plan is based on goals linked to the business model and to the management of tangible and intangible assets of the company, focusing on each of them: financial, industrial, intellectual, human, natural, social and relational capital. Based on these goals, more than 150 activities were established through which each organisation of the company has contributed to the achievement of the plan, in order to consistently promote the progress of CSR in all countries, businesses and corporate areas. Approximately 98% of this plan has been achieved, with significant progress in cross-sectional topics like Stakeholder relations, the protection of human rights, and the inclusion of CSR tools in the management systems of the businesses and corporate areas in all countries in which the group does business.

These goals are monitored on a half-yearly basis by the group's Corporate Social Responsibility and Reputation Committee, and by the Corporate Social Responsibility Committee of the Board of Directors when the latter so requests.

Iberdrola is currently preparing a new plan for the entire group for the coming years, for the purpose of increasing transparency and the number of social responsibility activities in the businesses and corporate areas.

### **Report boundary**



The information boundary of this report is described in detail in section 102-45.

Due to its significance, it should be noted that due to the merger in Brazil of all of the businesses of the company Elektro Holding into Neoenergia in August 2017, it was deemed necessary to reformulate the information for financial year 2016 applying the same standards as financial year 2017, in order for the information for both financial years to be homogenous and comparable. The reformulation involves the consideration of 100% of the socio-economic and environmental parameters of Neoenergia (thus reflecting the control position of the group) instead of the 39% that was used through the prior year. The economic/financial figures follow accounting standards.

Furthermore, the information in all the tables of this report has been limited to financial years 2017 and 2016. Maintaining the scorecards and tables with information for three financial years, as was Iberdrola's customary practice, would have involved a lack of homogeneity between the information from financial year 2015 and that from the following years. This limitation will already be corrected in the next report.

# 1. Organisational profile

**Contribution to SDGs of the performance described by the indicators of this section**  
 (according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



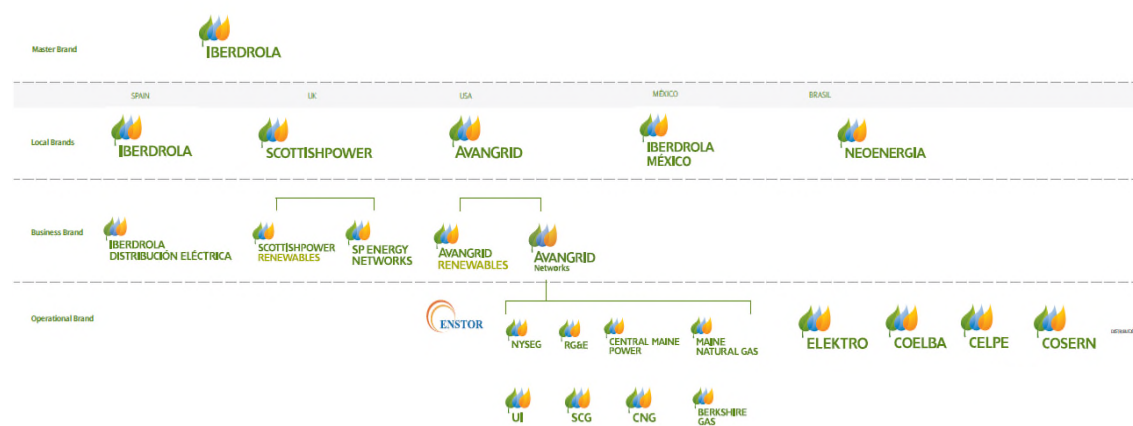
102-1 Name of the organisation

Iberdrola, S.A.

102-2 Primary activities, brands, products and services

The **“Iberdrola” brand** reflects the corporate mission, vision and values, is based on the company’s strategy, which gives it credibility and strength, and conveys its commitment: the sustainable creation of value for all of its Stakeholders, contributing to the development of the communities in which we do business and to the well-being of people, providing a high-quality service and offering environmentally-friendly, efficient and innovative energy solutions.

Iberdrola knows how to identify and adjust to the needs of each country in which it does business. The company has used its experience in each market to strengthen its brand value, and beyond the location of the business, it has created a brand culture based on a global/local balance. Iberdrola has the brand names listed in the table below at year-end 2017:



The table above shows the most important brands having the largest operational and market presence in each country. The company has other brands at the local and business level.

The main products that Iberdrola makes available to its customers are electricity and natural gas. It also offers a broad array of products, services and solutions in the areas of:

- Improvement in the consumer’s quality of life, peace of mind and safety.

- Efficiency, digitalisation and energy services.
- Protection of the environment: renewable energy and sustainable mobility.
- Quality of electricity supply and safety of facilities.
- Assembly of electricity infrastructure.
- Comprehensive management of energy facilities and supplies.

It also provides the following services through its subsidiaries: engineering and construction of electricity generation, distribution and control facilities; operation and maintenance of electricity generation facilities; land management and development; and the sale and lease of housing, offices and retail premises. More detailed information in this regard can be in the [“Group structure”](#) section of the website.

### 102-3 Location of headquarters

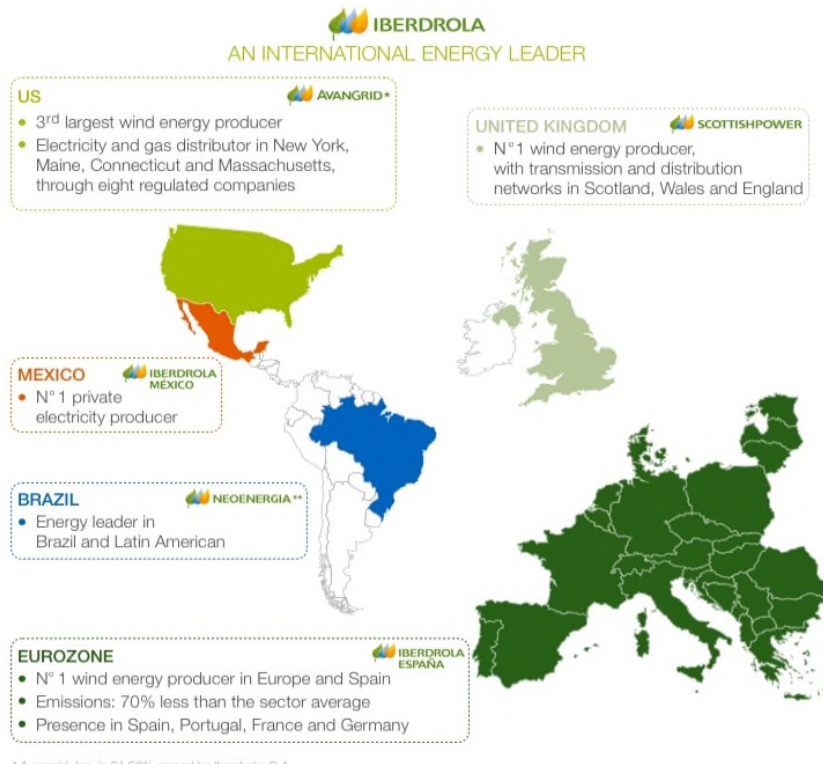
The registered office of Iberdrola is:

Plaza Euskadi número 5  
48009 Bilbao, Biscay  
Spain

### 102-4 Location of operations

Iberdrola and its subsidiaries and affiliates carry out their activities in almost twenty countries, fourteen of which are considered significant with respect to sustainability issues. However, for operational and economic/financial purposes, Iberdrola concentrates 97.5% of its business activities (measured by turnover) in five principal countries: Spain, United Kingdom, United States, Brazil and Mexico.

The following infographic shows the group's principal areas of activity. The countries in which it operates, the activities performed in each of them and the criteria used to define the significance thereof are set forth in disclosure 102-45 of this report.

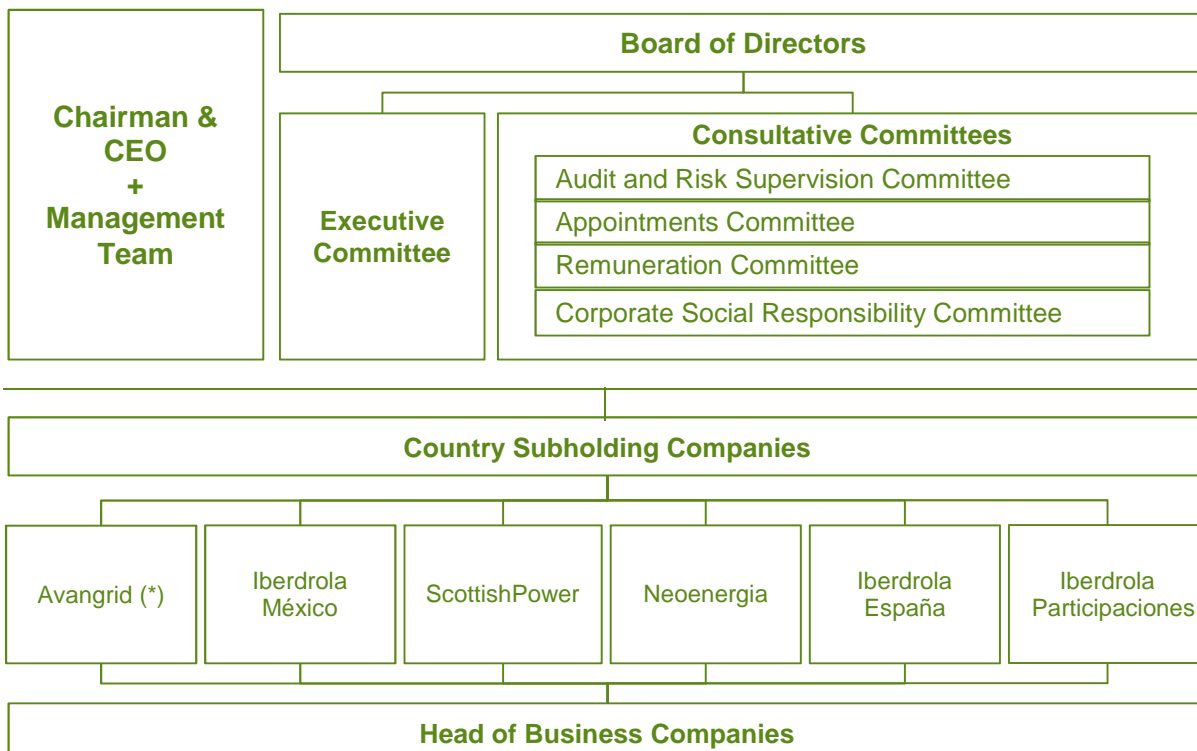


## 102-5 Ownership and legal form

Iberdrola is a *sociedad anónima* (public limited company) organised under Spanish law.

The corporate and governance structure of the company and of the group, which forms an essential part of the company's Corporate Governance System, is reflected in the following chart:

### Corporate and governance structure of Iberdrola, S.A.



(\*) Company listed on the New York Stock Exchange.

At 31 December 2017, its share capital totalled 4,738,136,250 euros, represented by 6,317,515,000 shares of the same class and series, each having a nominal value of 0.75 euro. All shares give the holders thereof the same rights. The approximate distribution of equity interests is as follows:

- Foreign entities	66.28%
- Domestic entities	10.17%
- Retail investors	23.55%

As at the date of approval of this report, the share capital of Iberdrola, S.A. totals 4,828,780,500.00 euros and is made up of 6,438,374,000 shares of the same class and series, each having a nominal value of 0.75 euro, which are totally subscribed and paid up.

#### 102-6 Markets served

In the countries of operation, described in section 102-45, the Iberdrola group provides the products and services described in section 102-2 to many different types of customers in the residential, commercial and corporate spheres, as reflected in indicator EU3. The same types of products and services may be provided in other countries should legal, economic and social circumstances be appropriate, in line with the company's strategic approach.

#### 102-7 Scale of the organisation

The following sections include the key figures for Iberdrola, the corporate structure of which is set forth in indicator 102-26 of this report.

#### Employees

Employees <sup>1</sup>	2017	2016
Spain	10,296	10,395
United Kingdom	6,067	6,373
United States	6,561	6,849
Brazil	10,096	9,429
Mexico	944	874
Other countries	291	162
<b>Report boundary</b>	<b>34,255</b>	<b>34,082</b>

#### Operations (centres of activity)

The Iberdrola group has identified more than 1,200 sites at which the company operates. In order to adequately manage such a large number of them from the viewpoint of the "Topics" dealt with in the GRI Standards, rationalisation criteria have been used to address them; accordingly, the number of Iberdrola's locations of operation at year-end 2017 is deemed to be 114 for purposes of this report.

<sup>1</sup> The figures in the table reflect the number of employees at year-end 2017, without distinguishing between full-time/part-time employees. To perform statistical analysis regarding labour costs, it is recommended to use the number of employees in terms of Full Time Equivalents (FTEs): 28,355 in financial year 2016, without including the consolidation of Neoenergia, and 33,772 in financial year 2017.

Detailed information on these locations and on the criteria used to define them can be found in Annex 3 Supplementary information.

### Net sales (net revenue)

Net sales (€ millions)	2017	2016
<b>Iberdrola consolidated total</b>	<b>31,263</b>	<b>29,216</b>

### Total capitalisation, broken down in terms of debt and equity

Total market capitalisation (€ millions)	2017	2016
Equity of controlling company	35,509	36,691
Bank borrowings, gross	37,115	32,025
Gross property, plant and equipment in use	101,765	103,312
Accumulated amortisation and depreciation	(37,683)	(39,477)

### Products or services provided

Products or services provided	2017	2016
<b>Iberdrola total</b>		
Net electricity production (GWh)	137,632	142,466
Electric power distributed (GWh)	230,122	229,920
Gas supplies to users (GWh)	122,010	127,425

### Total assets

Total assets (€ millions)	2017	2016
<b>Iberdrola consolidated total</b>	<b>110,689</b>	<b>106,706</b>

### Beneficial ownership

No shareholder holds a controlling interest in the equity structure of the company. Below is a table showing those shareholders who hold a significant interest<sup>2</sup> in the share capital of, or voting rights in, Iberdrola as of 31 December 2016 and 2017.

Significant shareholders and percentage of direct and indirect voting rights (%)	31/12/2017	31/12/2016
Qatar Investment Authority	8.57	8.51
Norges Bank	3.21	3.20
Capital Research and Management Company	3.10	N/A
BlackRock, Inc.	3.03	3.01
Kutxabank, S.A.	N/A	3.00

<sup>2</sup> Defined according to Royal Decree 1362/2007 and Circular 2/2007, of 19 December, of the National Securities Market Commission.

At the date of approval of this report, Capital Research and Management Company has reported that its interest has increased to 5.117% of share capital and BlackRock, Inc. to 5.000%.

### Sales and costs by geographic area

Sales (net amount in € millions)	2017	2016
Spain	13,261	13,454
United Kingdom	5,973	6,628
United States	5,190	5,213
Brazil	3,436	1,578
Mexico	2,617	1,630
Other countries	786	713
<b>Iberdrola consolidated total</b>	<b>31,263</b>	<b>29,216</b>

Operating costs (€ millions)	2017	2016
Spain	8,412	8,472
United Kingdom	4,080	4,621
United States	2,545	2,474
Brazil	2,682	1,268
Mexico	1,999	1,120
Other countries	728	669
<b>Iberdrola consolidated total</b>	<b>20,446</b>	<b>18,624</b>

### 102-8 Information on employees and other workers

Employees <sup>3</sup>	2017			2016		
	Men	Women	Total	Men	Women	Total
<b>By employment type</b>						
Full-time	26,050	7,182	33,232	25,720	7,252	32,972
Part-time	179	844	1,023	205	905	1,110
<b>By type of contract</b>						
Permanent	26,073	7,965	34,038	25,531	8,018	33,549
Temporary	156	61	217	394	139	533
<b>Report boundary</b>	<b>26,229</b>	<b>8,026</b>	<b>34,255</b>	<b>25,925</b>	<b>8,157</b>	<b>34,082</b>

The policies followed with subcontracted personnel are described in disclosure EU17.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

### 102-9 Supply chain

#### Introduction

The Iberdrola group's supply chain consists of two different processes:

- The acquisition of material and equipment and the procurement of works and services, handled by the group's Procurement Division, which is within the Finance and Resources Division.

<sup>3</sup> The total number of employees and the definitions of the boundary can be found in disclosures 102-7 and 102-45 of this report.



- The acquisition of fuel, handled by the Wholesale and Retail Business.

Both processes are guided by the same principles emanating from the [corporate policies](#) and the [Code of Ethics](#), which are approved by the company's Board of Directors. However, each of them have specific characteristics in their various phases: registration and classification of suppliers, bidding process, execution of contracts, monitoring of contractual terms, and quality control.

### Acquisition of material and equipment and procurement of works and services

Iberdrola placed orders with approximately 22,000 suppliers during 2017. The following table shows the economic volume of purchases by Iberdrola for these types of supplies, as well as a geographic breakdown thereof:

General supply of equipment, materials, works and services (€ millions)	2017 <sup>4</sup>	2016
Spain	1,406	1,354
United Kingdom	1,663	2,134
United States	2,467	2,146
Brazil	1,500	1,242
Mexico	902	453
Other countries	676	179
<b>Total</b>	<b>8,614</b>	<b>7,508</b>

These high purchase volumes are a driver of growth for those countries in which the company engages in procurement, favouring their business, industrial and social development through the creation of employment at service providers and their auxiliary industries.

### Acquisition of fuel

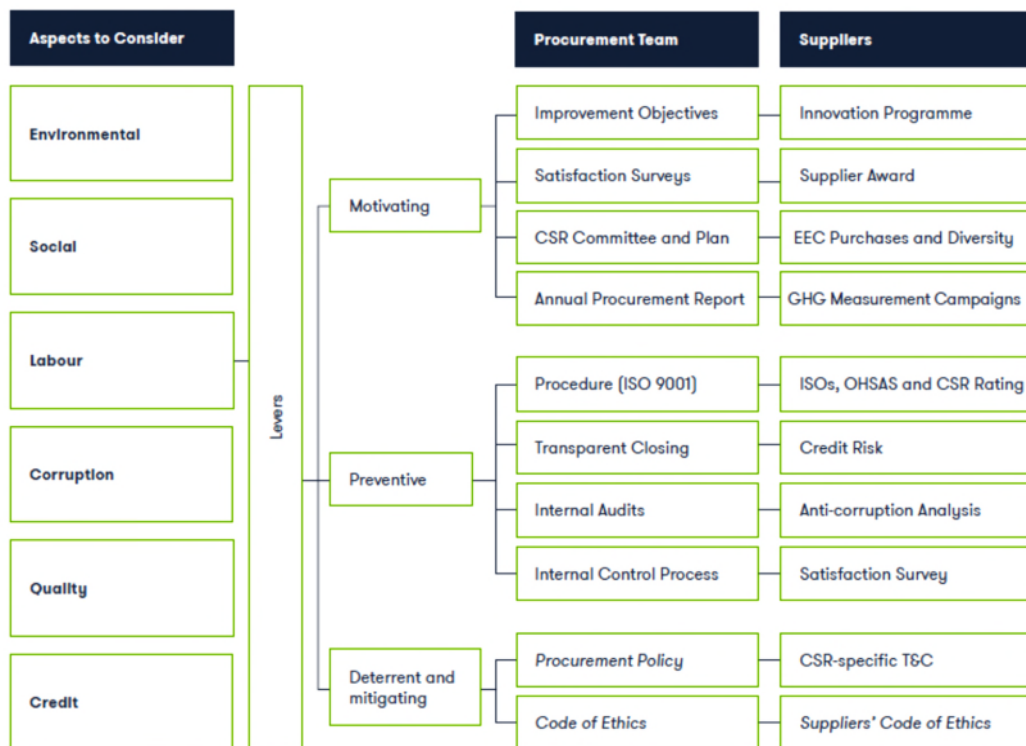
Iberdrola dedicated more than 3,400 million euros to the acquisition of coal, natural gas and uranium in 2017. Except for uranium, which is acquired in Spain exclusively through Empresa Nacional del Uranio (Enusa), acquisitions of coal and natural gas are made on the international market, mainly through long-term commercial relationships with some 16 large domestic and international suppliers and market operators (producers and traders).

### Management of supply chain

In its day-to-day management, the Procurement and Insurance Division assumes and promotes the values and commitments of the group in the area of ethics and corporate social responsibility set out in the group's *Code of Ethics* and in the social responsibility policies. Therefore, mechanisms have been implemented in the procurement process designed to ensure transparent, integral and responsible management in the supply chain, which has allowed the company to confront the globalisation and internationalisation process with confidence that its values and ethical and responsibility commitments are conveyed to the suppliers, regardless of their geographic location or area of business activity.

The chart below shows the main mechanisms of the supplier management model:

<sup>4</sup> Volume billed during the financial year.



### Promotion of sustainability and social responsibility

The Procurement Division develops various initiatives designed to ensure sustainability in the supply chain, especially ones that impact ethical commitments, respect for human rights and the fight against corruption, taking as a starting point the principles established in the *Policy on Respect for Human Rights*, in the *Procurement Policy* and in the *Suppliers' Code of Ethics*. The most significant ones are set out below:

#### a) Policies and procedures.

- *Procurement Policy* and procurement procedures: these establish the global framework for the control and management of procurement processes, with particular emphasis on fulfilment of the ethical commitments of the professionals of the group and of its suppliers.
- *Suppliers' Code of Ethics*: considering that suppliers are a strategic Stakeholder, the company has established specific principles of conduct for them in their area of activity, always aligned with the principles and values of the group. This Code is communicated to all suppliers during the bidding phase and is part of the documentation both of the request for bids and of the final contract documentation with the successful bidder.

#### b) Specific clauses in the contracting terms of the Iberdrola group.

These contractual provisions require the parties to act within the most stringent levels of safety, occupational risk prevention, environmental protection and respect for and protection of human rights, as well as to eliminate all forms of forced and compulsory labour, prevent any form of child labour, eliminate all discriminatory practices, fight corruption, etc.

#### c) Register and classification.

Suppliers (both new and existing) are reviewed and classified internally within the context of the proposed purchase transaction, according to their specialisation, the criticality of supply and the total amount of the purchase, as well as the low possibility of substitution, inasmuch as the foregoing may negatively and significantly affect the achievement of the company's strategic objectives in the event of non-performance or defective performance.

In this connection, priority will be given to suppliers that have advanced management systems certified by a third party and, in particular:

- o Environmental management system.
- o Quality management system.
- o Occupational risk prevention system.
- o Action plan for corporate social responsibility and respect for human rights.

In the initial classification of the supplier, sustainability has a weight of 40% in the total score, with the other 60% being its financial situation and technical solvency.

**d) Evaluation of risks of supplier corruption.**

The procurement process carried out by the Procurement Division includes an evaluation of the risk of supplier corruption and the performance of due diligence reviews on suppliers considered to present the greatest risk. More than 80% of total purchases were analysed in 2017.

**e) Credit risk review at suppliers.**

In order to prevent the potential negative consequences for Iberdrola of suppliers failing to honour their commitments, the Procurement Division has a Credit Risk Management System for the main suppliers of the group. More than 76% of total purchases were analysed in 2017.

**f) Improvement goals linked to the remuneration of the Procurement team.**

The Procurement Division actively participates in the Corporate Social Responsibility Committee, as it is especially sensitive to the demands and interests of suppliers as strategic Stakeholders. For this reason and in order to achieve continued improvement with this group, annual objectives have been defined that are linked to the remuneration of the Procurement Division, focused on improvement of the supplier profile in the area of corporate social responsibility. Consequently, the supplier is motivated to improve its profile by actions promoting excellence in business management, as well as the Procurement Division being incentivized through quantifiable objectives to choose those companies showing good performance over the long term in the areas to be developed.

Fuel purchases are also subject to the general principles stemming from Iberdrola's social responsibility policies in order to foster socially responsible actions, respect for the environment and the prevention of occupational risks at supplier companies.

Iberdrola carries out an internal evaluation of its main fuel suppliers in accordance with economic, logistics, environmental and social standards. Aspects assessed are: the existence of an environmental policy, information regarding CO<sub>2</sub> emissions, emission reduction initiatives, energy efficiency, biodiversity conservation, occupational health and safety, equal opportunity, human rights and ethical behaviour (anti-bribery and anti-corruption practices).

When establishing supply contracts, apart from agreeing on contractual elements that respect the law applicable in the countries involved in the transaction, Iberdrola negotiates the inclusion of clauses regarding social responsibility. Currently, all contracts for imported coal and for uranium have these types of clauses. The inclusion of these clauses will be negotiated for the new natural gas contracts.

Iberdrola belongs to the international BetterCoal platform, which includes some of the leading European coal-purchasing energy companies. Its aim is to set a standard for ethical, environmental and social conduct; evaluate the conduct of producers through audits; create a database with the results of such evaluations; and improve producers' actions.

During 2017, Iberdrola received no external complaints from authorised channels with respect to the supply chain, and has not cancelled any supply contract or order upon grounds relating to human rights, corruption, labour practices or environmental practices.

## 102-10 Significant changes to the organisation and its supply chain

### Changes in activities and/or in operations

In the course of their business, the various subsidiaries and affiliates of Iberdrola have carried out transactions that change the composition of their assets, including the following:

- 3 August 2017 saw the publication in the Official Gazette (*Boletín Oficial del Estado*) (BOE N° 184) of Order ETU/754/2017 of 1 August denying renewal of the authorisation for operation of the Santa María de Garoña nuclear power plant and declaring a definitive halt to the operation thereof, without prejudice to supplementary technical instructions that the Nuclear Safety Council might issue with respect to the application thereof.
- On 25 August 2017, the CNMV was notified of the consummation of the inclusion of the businesses of Elektro Holding, S.A. within Neoenergia, S.A. After this transaction became effective, BB Banco de Investimento, S.A. and Caixa de Previdência dos Funcionários do Banco do Brasil became the owners of approximately 9.35% and 38.21%, respectively, of the capital of Neoenergia, S.A., with Iberdrola Energía, S.A. (Sociedad Unipersonal) owning the remaining 52.45% of the share capital.
- After the merger by absorption of Siemens Wind Holdco, S.L. (the wind head of business company of Siemens Aktiengesellschaft), as absorbed company, by Gamesa Corporación Tecnológica, S.A., as absorbing company, the interest of Iberdrola Participaciones, S.A. (Sociedad Unipersonal) in the resulting company, Siemens Gamesa Renewable Energy, S.A. (Gamesa), was reduced to 8.071% of its share capital.
- Start-up of 21 new facilities by the Renewables Business, of which 6 are in the United States with an installed capacity of 593.5 MW, 4 in the United Kingdom with a total of 290.5 MW, and 11 in Brazil with a total of 328.5 MW.
- In Mexico the commercial start-up of the Baja California III combined cycle plant (314 MW), the Altamira cogeneration plant (57 MW) and the Bajío cogeneration plant (50 MW).

### Changes in capital structure

The shareholders acting at the General Shareholders' Meeting of Iberdrola held on 31 March 2017 approved two increases in capital by means of a scrip issue in order to once again implement the *Iberdrola Flexible Dividend* system, implementing the first increase in capital in July 2017 and the second in January 2018.

### Changes in supply chain

There were no significant changes in the company's supply chain during the financial year.

## 102-11 Precautionary Principle or approach

The precautionary principle in environmental matters is included in Iberdrola's [Environmental Policy](#) approved by its Board of Directors. The practical application thereof is reflected in the wager on more

efficient technologies and processes that contribute to confronting climate change and other environmental challenges, with a precautionary approach that allows for greater respect towards biodiversity and a more sustainable use of natural resources.

The Iberdrola group operates its Management System under an environmental management model that includes a life cycle analysis perspective to evaluate the environmental impacts of the activities and facilities of the company through the calculation of the *Corporate Environmental Footprint*. This leads to a consideration of the impacts of all activities of the process, both its own as well as those of the upstream (suppliers) and downstream (customers) supply chain in all countries in which Iberdrola has a presence. This system identifies the environmental risks of the group and manages them with specific prevention and mitigation instruments, as well as the widespread use of environmental impact assessments as a precautionary tool used in the development of infrastructure projects. The precautionary approach also takes shape through continuous awareness and assessment of the environmental risks of production facilities, preventing such risks from occurring and, where applicable, minimising the consequences if they occur.

Based on the precautionary principle, Iberdrola commits to knowing the surroundings of its facilities in order to establish and improve the foundations for making decisions on investments in the restoration and improvement of natural capital, and in the selection of the most appropriate infrastructure. This includes the various studies performed to understand the behaviour of species in the habitats in which it operates, as well as studies focused on the assessment of eco-systemic services, like the pilot *Cumbernauld Living Landscape Pilot Project: Natural Capital Assessment* and the *Socioeconomic evaluation of eco-systemic services*.

#### 102-12 External initiatives to which the organisation subscribes or which it endorses

The company has subscribed to or endorsed external initiatives aligned with sustainable development and encouraged its affiliated companies to adhere to them. Iberdrola supports or subscribes to:

- Iberdrola is fully aligned with the [Sustainable Development Goals \(SDGs\)](#), including them in its business strategy and its *Sustainability Policy*. In addition to meeting its goals to reduce the intensity of CO<sub>2</sub> emissions 50% by 2030 and being carbon-neutral by 2050, Iberdrola is actively working to contribute to the success of the SDGs and for other citizens and companies to be aware of them and contribute to the achievement thereof. Along these lines, it is working with universities (Universidad de Salamanca and Universidad Politécnica de Madrid), organising informational seminars at the Iberdrola Campus, publishing materials and participating in forums (“Youth Speak Forum”, of which Iberdrola is a Gold Partner, of the AIESEC initiative). A partial summary of the organisations and initiatives with which it has collaborated more actively during the whole process is provided below:
  - o World Economic Forum (WEF) –CEO Climate Leaders–.
  - o World Business Council of Sustainable Development (WBCSD) –Low Carbon Technology Partnership Initiative–.
  - o Global Compact LEAD.
  - o The Prince of Wales’s Corporate Leaders Group. Green Growth Platform.
  - o Carbon Pricing Leadership Coalition.
  - o SE4ALL.
  - o We Mean Business.
  - o The Climate Group.
  - o Bruegel.

- Items of note in the Spanish context are a very active collaboration with the Spanish Office of Climate Change and Iberdrola's participation in the Spanish Green Growth Group, of which it is vice-president.
- The *Good Tax Practices Code* of the Large Business Forum of the Spanish Tax Agency, part of the Ministry of Economy and Public Finance since 2010, which involves following a course of conduct that goes beyond respect for and strict compliance with statutes and regulations, to contribute actively and voluntarily to economic, social and environmental improvement.
- The Global Compact since 2002. Iberdrola also participates in other initiatives of the Global Compact, such as the *Global LEAD Programme*, projects regarding human rights, the fight against climate change and other activities of the Red Española del Pacto Mundial (Spanish Global Compact Network). Iberdrola's *Progress Report* reaches the maximum level, defined as *Advanced*. This report is prepared by the company annually to report the progress made in complying with and disseminating the *Principles of the Global Compact*.
- In Spain, Iberdrola also adhered to an SF6 emissions reduction initiative, within the framework of an agreement between the Spanish Electrical Industry Association (*Asociación Española de la Industria Eléctrica*) (Unesa) and the Ministry of Agriculture and Fisheries, Food and Environment.

In the United Kingdom, ScottishPower forms part of influential organisations in the energy sector like the Scottish Power Fuel Poverty Forum, and notably also collaborates with the University of Strathclyde on topics of innovation.

At ScottishPower, a team has also been created dedicated to coordinating activities with the Cancer Research association, and all joint actions carried out since it joined an initiative in 2012 in order to procure funds to investigate this illness. Since then, they have amply achieved their goals, and there have been countless initiatives by ScottishPower employees helping to raise awareness of the treatment of this illness: "Race to Life", "Stand up to Cancer" and "Help Beat Cancer".

Along these lines, within the framework of collaboration with the Spanish Cancer Association (*Asociación Española Contra el Cáncer*) (AECC), the *Together against cancer (Juntos contra el cáncer)* initiative was launched in Spain in October 2016, offering the opportunity to make small monthly donations via one's electricity bill with a commitment from Iberdrola to double the amount donated by its customers. This initiative continued in 2017, and more than 45,000 customers have already joined to collect funds.

The Agreement continues with the UN in Brazil, and Neoenergia has continued since 2007 with its participation in the Global Compact, which aims to mobilise the business community to adopt the social responsibility principles expressed through ten universal principles in different areas, like the environment and human rights.

Iberdrola has provided another year of support to the Mexican Red Cross for its 2017 national collection and has launched a campaign to promote social welfare actions under the auspices of Fundación Iberdrola México in order to collect funds to help those affected by the earthquakes in Mexico.

Finally, in the United States, Avangrid participates in *Reforming Energy Vision (REV)* to promote a more efficient use of energy and greater penetration of renewables in the country, as in the case of the *CT Grid Side Enhancement initiative*, which promotes the development of energy policies that support the integration of energy sources distributed through the grid. It is also a member of *The Partnership on Climate Resilience* of the U.S. Department of Energy to combat the effects of climate change and modernise energy infrastructures for the future.



## 102-13 Main membership of associations

Iberdrola is a member of numerous organisations related to its activities, the most significant of which are listed in the following table:

<b>International</b>	
World Association Nuclear Operator (WANO)	WindEurope
CSR Europe	Union of the Electricity Industry EURELECTRIC
World Economic Forum	European Distribution System Operators (EDSO)
United Nations Global Compact	Global Wind Energy Council (GWEC)
Scotland Europa	Nuclear Industry Association (NIA)
International Electrotechnical Commission/European Committee for Electrotechnical Standardisation (IEC/Cenelec)	International Council on Large Electric Systems (CIGRE)
Energy Institute for G9 (Offshore Wind Health and Safety Association)	World Energy Council
BetterCoal	European Utilities Telecom Council-EUTC
World Business Council for Sustainable Development (WBCSD)	International Conference on Electricity Distribution (CIRED)
The Prince of Wales's Corporate Leaders Group	Smart Life
European Round Table (ERT)	European Electric Grid Initiative (EEGI)
Association for Advancement of Cost Engineering	Caring for Climate
Prime Alliance	Institute of Electrical and Electronics Engineers
Electric Power Research Institute – EPRI	International Council on Large Electric Systems (CIGRE)
Center for Energy Efficiency and Renewable Technologies	IHS Global
Solar Power Europe	European Technology Platform Smart Grids
European Network Energy of Transmission System Operator for Electricity (ENTSOE)	International Emissions Trading Association (IETA)
<b>Spain</b>	
Sociedad Nuclear Española	Asociación empresarial Eólica (AEE)
Foro de la Industria Nuclear Española	Unión Española Fotovoltaica (UNEF)
Asociación Española del Gas (Sedigas)	Red Española del Pacto Mundial
Plataforma Española de Redes Eléctricas (FUTURED)	Confederación Española de Organizaciones empresariales (CEOE/Cepyme)
Asociación Española de la Industria Eléctrica (UNESA)	Círculo de empresarios
Instituto Tecnológico de la Energía (ITE)	Cámara de Comercio de España
Asociación Española de Normalización (AENOR)	Club de Excelencia en Sostenibilidad
Fundación COTEC para la Innovación	Club Español de la Energía
Asociación Española para la Promoción de la Cogeneración	Foro de Marcas Renombradas Españolas
Corporate Excellence	
<b>United Kingdom</b>	
The Confederation of British Industry	Aviation Investment Fund Company Limited
The Scottish Council for Development and Industry	Ynni Cymunedol Cymru Community Energy Wales
Energy UK-ECO Group	ECO Quarterly Supplier Forum Ofgem
Energy Networks Association	Industrial & Power Association Ofgem's ECO Industry Fraud Prevention and Compliance Committee
Scottish Renewables	Offshore Wind Accelerator
Energy & Utility Skills	CIGRÉ United Kingdom National Committee
Radar Working Group (Aviation Investment Fund Company Limited)	European Network of Transmission System Operators for Electricity (ENTSOE)

National Skills Academy for Power	Joint Environment Programme
Institute of Engineering & Technology	Gas Storage Operators Group
National Energy Action	Renewable UK
Scottish Windfarm Bird Steering Group	Scottish Hydrogen and Fuel Cell Association
Energy Action Scotland	Technology Innovation Centre
<b>United States</b>	
Business Council of New York State	American Wind Energy Association (AWEA)
Mid-Atlantic Renewable Energy Coalition (PJM States)	Rochester Business Alliance
Maine Better Transportation Assn	The Nature Conservancy-Maine (TNC)
NY State Economic Development Council	Maine Audubon Society
Greater Binghamton Chamber of Commerce	E2Tech
Maine & Company	Maine State Chamber of Commerce (MSCC)
Northeast Gas Association (NGA)	Renewable Northwest (RENEW)
Renewable Energy Northeast (RENEW)	The Wind Coalition (TWC)
Gas Technology Institute	Independent Energy Producers Association of California
Edison Electric Institute (EEI)	Wind on the Wires (WOW)
Interwest Energy Alliance	Alliance for Clean Energy - New York (ACE-NY)
Center for Energy Efficiency and Renewable Technologies (CEERT)	American Gas Association (AGA)
Northeast Underground Committee (NEUC)	New England Power Pool
National Electrical Safe Code	New England-Canada Business Council
Mid-Atlantic Renewable Energy Coalition (MAREC)	North American Transmission Owner and Operator Forum (NATF)
North American Electric Reliability Corporation (NERC)	Northeast Transmission Group (NETG)
ISO New England (ISO-NE)	Energy Council of the Northeast (ECNE)
Connecticut Energy Workforce Development Consortium (CTEWDC)	Electric Power Research Institute (EPRI)
Call Before You Dig, Connecticut	Center for Energy Workforce Development (CEWD)
American National Standards Institute (ANSI)	Association of Edison Illuminating Companies
<b>Mexico</b>	
Asociación Mexicana de Energía Eólica (AMDEE)	Cámara Española de Comercio, A.C. (CEE)
Asociación Mexicana de Energía, A.C	Consejo Coordinador empresarial A.C
Confederación Patronal de la República Mexicana (Coparmex)	Cámara Nacional de la Industria de Transformación Ensenada
Cámara de la Industria de Transformación de Nuevo León	Consejo Ejecutivo de empresas Globales, AC
Empre-Bask México, A.C	Consejo Consultivo del Agua A.C.
<b>Brazil</b>	
Associação Brasileira de Distribuidores de Energia Elétrica	Instituto Brasileiro de Executivos de Finanças
Associação Brasileira das Relações empresa Cliente	Comitê Brasileiro da Comissão de Integração Energética Regional
Instituto ABRADDEE da Energia	Associação Cultural Ecológica do Vale do Ribeira
Associação Brasileira de Energia Solar (ABSOLAR)	Câmara Americana de Comércio
Serviço Brasileiro de Apoio as Micro e Pequenas empresas	Associação Brasileira de Energia Eólica ABEEOLICA
Instituto Ethos de Responsabilidade Social	Associação Brasileira de Recursos Humanos
Conselho Municipal de Defesa do Meio Ambiente	Federação das Indústrias do Estado de São Paulo
Associação da Indústria de Cogeração de Energia	Associação Paulista das Cerâmicas de Revestimento



Consórcio Intermunicipal das Bacias dos Rios Piracicaba, Capivari e Jundiáí	Associação de Educação do Homem de Amanhã de Araras
Agência de Desenvolvimento Tietê Paraná	Fundação Comitê de Gestão empresarial (COGE)
Associação Brasileira dos Contadores do Setor de Energia Elétrica (ABRACONE)	Fundação Nacional de Qualidade (FNQ)
Movimiento Pernambuco Empresarial (ABERJE)	

For more details on the company's commitment to the above, its participation within various committees, the contributions it makes or its strategic involvement, please consult public information or visit the websites of these organisations.

## GRI Sector Supplement Disclosures

### EU1 Installed capacity

Installed capacity by energy source (MW)	2017	2016
Renewables	29,112	27,813
Onshore wind	15,533	14,820
Offshore wind	544	194
Hydroelectric	12,513	12,378
Mini-hydro	303	302
Solar and others	219	120
Nuclear	3,177	3,410
Combined cycle	13,985	13,637
Cogeneration	1,299	1,315
Coal	874	874
<b>Iberdrola total</b>	<b>48,447</b>	<b>47,049</b>

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

### EU2 Energy output

Net energy output by source of energy (GWh)	2017	2016
Renewables	50,745	56,443
Onshore wind	33,878	32,162
Offshore wind	821	728
Hydroelectric	15,320	22,597
Mini-hydro	394	686
Solar and others	333	270
Nuclear	23,249	24,381
Combined cycle	54,144	50,892
Cogeneration	6,853	6,947

Coal	2,642	3,803
<b>Iberdrola total</b>	<b>137,632</b>	<b>142,466</b>

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

### EU3 Electricity users and producers

Electricity users (%)	2017	2016
<b>Iberdrola total</b>		
Residential	90.1	90.2
Industrial	1.0	1.0
Institutional	1.0	0.9
Commercial	5.8	5.8
Other	2.1	2.1
<b>Users who are producers (no.)</b>	<b>2017</b>	<b>2016</b>
<b>Iberdrola total</b>		
Users that are also producers of electricity	72,073	83,626

At year-end 2017, the companies of the group covered by this report, as a whole, handle a total of 30.33 million electricity supply points.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

### EU4 Transmission and distribution lines

Power lines <sup>5</sup> (Km)	2017	2016
<b>Transmission</b>		
Overhead	48,088	48,032
Underground	1,999	987
<b>Iberdrola total</b>	<b>50,087</b>	<b>49,019</b>
<b>Distribution</b>		
Overhead	911,474	875,140
Underground	195,050	193,285
<b>Iberdrola total</b>	<b>1,106,524</b>	<b>1,068,425</b>

Due to the nature of the respective electric systems, the voltage levels used for the transmission and distribution of power are not the same in all countries. In Latin America, transmission lines are deemed to be those with a nominal voltage equal to or greater than 69 kV; in the United States and in the United Kingdom, transmission lines are deemed to be those with a nominal voltage equal to or greater than 132 kV; in Spain, transmission lines are deemed to be those with a nominal voltage greater than 220 kV.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

### EU5 Allocation of CO<sub>2</sub> emissions allowances or equivalent

<sup>5</sup> Lengths of lines are calculated by circuit, regardless of the number of circuits for each power line. A double-circuit 5-km line is considered to be 10 km.

Only the generation facilities located in Europe are subject to an emission rights trading system, for which reason this indicator does not affect the thermal generation facilities in Mexico, Brazil or the United States.

The European facilities (Spain and United Kingdom) have not received free trading rights since 2013, for which reason they have to acquire the necessary rights at auction to offset the emissions produced.

Total emissions of the European facilities in 2017 increased to 8.84 million tonnes and were covered by purchases on the market and surpluses from prior years.

24,858 emission rights of Tarragona Power were reported and reflected in the Official Gazette of Spain (*Boletín Oficial del Estado de España*) (BOE) in 2017.

After closing its last coal plant in the United Kingdom, Iberdrola also intends to close the last two coal facilities that are currently in operation.

# 2. Strategy

## 102-14 Statement from senior decision-maker

The statement of Iberdrola's chairman & CEO, Ignacio S. Galán, can be found in the corporate website ([www.iberdrola.es](http://www.iberdrola.es)) in the Sustainability Report section.

## 102-15 Key impacts, risks and opportunities

### 1. Strategy

Iberdrola is one of world's largest utilities, which focuses its activities on:

- Production of electricity from renewable and conventional sources.
- Purchase/sale of electricity and gas on wholesale markets.
- Transmission and distribution of electricity.
- Supply of electricity, gas and related energy services.
- Other activities, mainly linked to the energy sector.

Iberdrola carries out its activities mainly in the five countries of the Atlantic area: Spain, the United Kingdom, the United States, Brazil and Mexico.

The purpose of the business model defined by the Iberdrola group is the "supply of reliable, high-quality and environmentally-friendly energy", through a sustainable, long-term industrial enterprise. Under this consideration, and taking into account the long-term consensus energy scenarios, Iberdrola is developing a strategy with the following main characteristics:

- The organic growth of the company is focused on major investments in the five countries referred to above. The international diversification in terms of contribution to results will continue to grow in the coming years.
- The investment will preferably focus on the networks and renewables businesses, which, apart from being regulated businesses with long-term contracts, contribute decisively to the fight against climate change.
- The strategic pillars defined by the company are profitable growth, operational excellence, customer-focused operations, the optimisation of capital, and innovation.
- The company has publicly announced its commitment to decarbonisation, setting high goals for 2030 and 2050.
- Operational efficiency is a characteristic of Iberdrola, and is based on internal innovation and the rapid adoption of available technology.
- Financial stability is considered key for balanced growth. It seeks to maintain high levels of solvency and liquidity, which ensure the normal development of operations, good access to the capital markets, and a sustainable dividend policy.

- The commitment to social responsibility and sustainability is reflected by the inclusion of the concept of the Social Dividend as part of the company's strategy. It is defined as the sustainable creation of value for its Stakeholders through the performance of all of its activities.

## 2. Iberdrola's key impacts on sustainability

The group's commitment to sustainability takes shape in five basic principles of conduct pursuant to its *Sustainability Policy*:

- Competitiveness of the energy products supplied.
- Safety in the supply of energy products.
- Reduction in environmental impact of all of the activities performed by the companies of the group.
- Creation of value for shareholders, customers and suppliers, looking after business profits as one of the foundations for the future sustainability of the company and of the group.
- Driving the social dimension of the activities of the group.

### Competitiveness

Iberdrola seeks the competitiveness of the energy products it supplies through constant improvement in all business processes (generation, transport, distribution and sale), which has led it to high levels of operational efficiency. This focus allows it to offer products at the best price possible thanks to the use of technologies with low operation and maintenance costs, and a combination of diversified generation technologies with the most competitive energy sources based on climatological and market conditions.

### Safety of supply

The design of operating procedures prioritises safety in the supply of energy products, using locally produced energy sources to the extent possible, employing renewable energy resources, and ensuring the reliability and availability of generation, transport and distribution facilities.

The group also works to maintain a high quality of service that ensures the availability of energy for customers. In this regard, the requirements for investment in the transmission and distribution networks is constantly analysed in order to ensure resistance against extraordinary events; with the availability of the technical and human means needed to restore service as quickly as possible. The group also encourages the responsible use of energy, supporting energy savings and efficiency measures.

### Reduction of environmental impact

The production and distribution of electricity are industrial activities that are indispensable for today's society, but they have a potential impact on the environment. A detailed description of these types of impacts can be found in "[Environment](#)". Actions to control and reduce these impacts are described in both the part of this report dedicated to the environmental dimension and in the corporate website.

The development of clean energy and respect for the environment are the foundations of the group's energy production model. Various actions are taken in order to achieve a reduction in the environmental impact of its operations, like investment in lower-emission power generation, the launch of biodiversity programmes, improvement in the efficiency of operations (entailing the sustainable use of natural resources), the prevention of pollution, and proper management of the waste generated by activities. The group also attempts to use water rationally and sustainably and to manage the risks associated with the scarcity thereof.

### Creation of value

Iberdrola has a clear economic impact on the areas in which it operates, as a company driving industrial activity through its investments and the corresponding creation of jobs. It also generates a wide array of services activities in these areas and contributes economic resources to public administrations.

The group works to develop excellent management of customer relations, offering them energy products tailored to their needs, promoting efficiency, and ensuring the availability of competitive, sustainable and high-quality energy.

The group also deploys the best corporate governance systems available to it, including those of compliance and risk management, as well as codes of conduct, to ensure the transparency of information and to preserve the creation of value for shareholders.

### Boosting the social dimension

The company progressively strengthens its commitment to the social dimension, with the additional goal of strengthening ethical and responsible behaviour throughout the value chain and in all of the countries in which it operates.

Iberdrola thus promotes responsible and excellent management of human resources, with teams engaged through the recognition of work performed, training appropriate to the skills of its employees, and the encouragement of equal opportunities in all of its activities.

The company also considers as essential the relations with its Stakeholders (as shown by the various chapters of this report), and more specifically with the communities in which it does business. For this reason, it promotes mechanisms of dialogue and communication, which allow for a better understanding of local Stakeholders' expectations, and thus to contribute to the economic and social development of the various territories.

### 3. Long-term risks and opportunities. Comprehensive risk system

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

Aware of the significance of this issue, the Board of Directors of the company undertakes to develop all of its capabilities in order to adequately identify, measure, manage and control the significant risks to all the activities and businesses of the group, and to establish through the *General Risk Control and Management Policy* the mechanisms and basic principles for appropriate management of the risk/opportunity ratio.

All actions aimed at controlling and mitigating risks shall conform to the following main principles of conduct, among others:

- a) Segregate functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control and monitoring thereof.
- b) Act at all times in compliance with the law and the company's Corporate Governance System and, specifically, with due observance of the conduct values and standards reflected in the *Code of Ethics* and the principles and good practices reflected in the *Corporate Tax Policy*, under the principle of "zero tolerance" for the commission of unlawful acts and situations of fraud set forth in the *Crime Prevention and Anti-Fraud Policy*.

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 suitable for the various stages and activities within the system, including:

- a) The establishment of a structure of risk policies, guidelines, limits and indicators, as well as of the corresponding mechanisms for the approval and implementation thereof.
- b) The on-going identification and analysis of significant risks and threats (including passive liabilities and other off-balance sheet risks), both for each corporate business or function and taking into account their combined effect on the group as a whole. To the extent possible, risks will be measured following homogenous procedures and standards common to the entire group.
- c) The analysis of risks associated with new facilities, as an essential element in risk/return-based decision-making.
- d) The audit of the system by the Internal Audit Division.

The risk factors to which the group is subject are generally grouped into the following categories:

- Corporate governance
- Market
- Credit
- Business
- Regulatory and political
- Operational, technological, environmental, climatic, social and legal
- Reputational

A more detailed description can be found in the following public documents, available on the website:

- The [General Risk Control and Management Policy](#)
- Section "E" of the [Annual Corporate Governance Report](#) for financial year 2017.
- The "Principal risks and uncertainties" section of the [Consolidated Management Report](#) for financial year 2017.
- The [Integrated Report](#). February 2018.

As a whole, the group's *Comprehensive Risk Control and Management System* makes it possible to handle the risks associated with the economic, environmental and social dimensions, as well as the impact that the materialisation of any of them might have on the public perception of the company.

In relation to climate change, the group recognizes the seriousness of the threat that global warming entails, which must be faced in a collective and coordinated manner by governments, multilateral agencies, the private sector and society as a whole. Along these lines, the company undertakes to assume a position of leadership in the fight against climate change and to develop the following principles of conduct, among others: i) prevent pollution by gradually reducing the intensity of greenhouse gas emissions, ii) promote electrification, energy efficiency and smart grids, iii) support international negotiation processes and the significant participation of the private sector to achieve goals 7 and 13 of the SDGs approved by the UN and the climate goal included in the Paris Climate Conference, iv) advocate an emissions market that generates a strong and sustainable price signal, and v) support a tax system that includes the "polluting party pays" principle and that does not only include the electricity production industry.

Climate change could entail the following risks in the medium term:



- More extreme weather conditions with an impact on generation and distribution assets, such as increased operation and maintenance costs and insurance premiums.
- Changes in wind and hydraulic resources.
- Changes in levels of demand for gas and electricity (due to the effect of temperatures).
- Lower profitability than forecast for existing thermal plants (due to regulatory restrictions, CO<sub>2</sub> prices, operational events, etc.).
- Impact on the wholesale electricity markets due to widespread development of renewables.
- Legislative and regulatory changes.

On the other hand, although they represent an enormous challenge, climate change and the necessary transition towards decarbonisation of the energy model are also an opportunity compatible with growth and profitability for the company. Iberdrola has undergone a profound transition in this regard in the last 15 years, clearly anticipating the energy transition to face the challenges of climate change and the need for clean electricity. Today, the group is perfectly positioned to take advantage of the following opportunities, among others, thanks to its leadership in renewable energy and its commitment to the transition towards a low-carbon economy:

- **Investment opportunities and improved competitive advantage.** Legislative and regulatory changes encouraging decarbonisation through the development of renewable energy, increased electrification, smart grids, integration of renewable energy into the electricity system and backup capacity, technological innovation, etc.
- **New services and markets.** Demand for new energy services and products related to the energy transition (e.g. electric mobility, demand-side management, smart grids, energy storage, etc.), as well as the impacts of climate change (e.g., increases in energy demand associated with changes in temperature patterns).
- **Advantages in the acquisition of financing.** Growing pressure on the financial sector and capital markets, which favours those companies with an ambitious decarbonisation strategy, low exposure to assets linked to climate change and good positioning on the sustainability and transparency indexes.
- **Strengthening of corporate reputation,** resulting from a leadership position in the energy transition.
- **Sustainable creation of value and maximisation of the Social Dividend** for all Stakeholders.

# 3.

# Ethics and integrity

**Contribution to SDGs of the performance described by the indicators of this section**(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))**102-16 Values, principles, standards and norms of behaviour**

Ethics is a key value that inspires and guides the Iberdrola group's strategy, business model, actions and decisions. Iberdrola therefore works in order to ensure that its commitment to ethics and respect for the environment are the foundation for a sense of belonging and for the trust of all the people and the various stakeholders with whom the company interacts.

As a reflection of this business culture that is respectful of the natural and social environment, the company has formulated its [Mission, Vision and Values of the Iberdrola group](#), applicable to all the companies included therein.

The basic objectives on which the group's vision is based include its firm commitment to ethics, good corporate governance and transparency. Iberdrola thus aspires for its conduct and that of the persons related to the group, including all participants in the value chain, to conform and adhere not only to applicable law and the Corporate Governance System, but also to ethical principles and generally accepted principles of social responsibility.

Far from constituting a mere declaration of principles, the *Mission, Vision and Values of the Iberdrola group* are integrated into its day-to-day management and into all its areas of activity, and are inspired by and take shape in the *Corporate Policies*, the [Code of Ethics](#) (in existence since 2002), and the other regulations of the Corporate Governance System.

The company's *Code of Ethics* establishes a set of principles and guidelines for conduct (applicable to all professionals of the group, regardless of their rank, their geographical or functional location or the group company to which they provide their services) intended to ensure the ethical and responsible behaviour of the group's professionals in the performance of their activities.

The body charged with ensuring that the *Code of Ethics* is applied is the Compliance Unit (hereinafter, the "Unit"), which was set up by the Board of Directors in 2012, following the highest corporate ethics standards, as an internal and permanent body connected to the Corporate Social Responsibility Committee of the Board and with duties in the regulatory compliance area. The Unit's main duties include ensuring that the *Code of Ethics* is applied and the dissemination of a preventative culture based on "zero-tolerance" towards the commission of unlawful acts and fraud. The operation and main powers thereof are set forth in the [Regulations of the Compliance Unit](#).

In addition, Compliance Divisions have been established at each country subholding company and/or head of business company of the group, which are structured as internal independent areas linked to the respective Audit and Compliance Committee, with duties in the area of regulatory compliance and in the prevention and correction of unlawful or fraudulent conduct. These Compliance Divisions relate to the Unit in accordance with a coordination, collaboration and reporting protocol established to such end and in accordance with the group's Corporate Governance System.

The group also has policies, codes and procedures to govern conduct in various areas relating to these matters, including the following, among others: *Crime Prevention Policy*, *Anti-Corruption and Anti-Fraud Policy*, *Directors' Code of Ethics*, *Procedure for Conflicts of Interest and Related-Party Transactions with Senior Officers*, *Internal Regulations for Conduct in the Securities Market* and *Internal Rules for the Processing of Inside Information*.

This ethical and good governance commitment is transmitted in turn to the third parties with which the group is connected through various initiatives, which include the *Suppliers' Code of Ethics*, which sets forth the firm commitment to not allow any corrupt, fraudulent or illegal practice, or practices contrary to the policies and principles of the company in the area of corporate social responsibility in its supply chain.

### 102-17 Mechanisms for advice and concerns about ethics

#### The Iberdrola group's Compliance System

Since its inception, the Compliance Unit has established a global operating framework through the definition and monitoring of a robust and traceable Compliance System of the group, designed on the basis of the parameters set forth in best international practices on control, compliance, fraud prevention and the fight against corruption.

The Compliance System can thus be defined as a set of substantive rules, formal procedures and material actions intended to prevent, avoid and mitigate the risk of conduct that is improper or contrary to ethics or the law that may be committed by professionals of Iberdrola within the organisation, and to ensure that the conduct is in accordance with ethical principles and applicable law.



#### The group's reporting channels

One of the basic elements of the Compliance System is to establish detection and/or monitoring mechanisms to verify the effectiveness of the controls and prevention activities carried out at the group. Such mechanisms include the ethics mailboxes, which constitute transparent tools to report conduct that could entail an irregularity or an act contrary to the law or to the rules of conduct set forth in the *Code of Ethics* or other internal rules or procedures. In addition to potential grievances, queries are also made through these channels on matters relating to the interpretation of and compliance with the *Code of Ethics* and the other internal compliance rules of the group. All communications sent through these mailboxes are deemed confidential information, and may be anonymous in those jurisdictions in which the law so allows.

In any event, there is an express commitment of the group, reflected in the *Code of Ethics*, in the *Anti-Corruption and Anti-Fraud Policy* and in the other internal procedures and rules in this area, not to take

reprisals against those using the aforementioned mailboxes, with the logical exception of cases of bad faith.

All professionals who have reasonable indications that any irregularity or any act contrary to the law or to the rules of conduct of the *Code of Ethics* has been committed must report it through the aforementioned mailboxes.

The group also has suppliers' ethics mailboxes. Such mailboxes are communication channels to enable the suppliers of the group, as well as any companies that they hire to provide services or supplies, their respective employees and the companies that have participated in a tender for services or supplies to become suppliers, to report conduct that could entail (i) infringement by any group professional of the Corporate Governance System, the *Code of Ethics* or applicable law, or (ii) the commission by a supplier, its subcontractors or their respective employees of any act contrary to the law or to the provisions of the [Suppliers' Code of Ethics](#) within the framework of their business relations with the group. These [mailboxes](#) are available in the purchasing portal of the website.

The group also has a shareholders' ethics mailbox. This mailbox represents a channel of communication through which shareholders can report conduct that might involve a breach of the company's Corporate Governance System or the commission by any professional of the group of an act contrary to the law or to the rules of conduct of the *Code of Ethics*. This mailbox is available on the group's corporate website, specifically within the interactive system provided for the shareholders known as "OLS – On-Line Shareholders".

The management of the ethics mailbox for group professionals, established in the *Code of Ethics*, of the suppliers' ethics mailbox, established in the *Suppliers' Code of Ethics* and included in the *Procurement Policy*, and of the shareholders' ethics mailbox, established in the *Policy regarding Communication and Contacts with Shareholders, Institutional Investors and Proxy Advisors*, is the responsibility of the Compliance Unit and of the Compliance Divisions of the group.

### **Processing and investigation**

As laid down in the *Regulations of the Compliance Unit*, it falls upon the Compliance Unit to handle communications made through the ethics mailboxes, except in cases where the report affects an employee of a country subholding company or head of business company that has its own Compliance Division.

The right to privacy, to a defence and to the presumption of innocence of the persons under investigation are guaranteed in all investigations.

In addition to the investigation work and the possible disciplinary action that may derive from it, the situations reported through the ethics mailboxes are analysed by the Compliance Unit and Compliance Divisions in order to identify possible corrective actions and suggest improvements in the control, prevention and mitigation systems so as to attempt to prevent a future repetition of the irregular situations detected.

### **Communications received during financial year 2017**

As regards the communications received through the channels established in the group, a total of 1,391 communications were received in financial year 2017, of which 567 were queries and 824 were complaints. 13% of the complaints allowed to proceed arose from some type of disciplinary action taken during the financial year, upon a showing that there had been improper conduct or conduct contrary to the *Code of Ethics*.

Disciplinary action with respect to communications from prior years has also been taking during financial year 2017 regarding 4 complaints allowed to proceed in 2016 and another relating to 1 complaint allowed to proceed during 2015.

## 4. Governance

**Contribution to SDGs of the performance described by the indicators of this section**(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))**102-18 Governance structure**

Board of Directors					
Position	Director	Status	Nationality	Date of first appointment	Ending date
Chairman & CEO	José Ignacio Sánchez Galán	Executive	Spain	21-05-2001	27-03-2019
Director	Íñigo Víctor de Oriol Ibarra	Other external	Spain	26-04-2006	08-04-2020
Director	Inés Macho Stadler	Independent <sup>(1)</sup>	Spain	07-06-2006	08-04-2020
Director	Braulio Medel Cámara	Independent	Spain	07-06-2006	08-04-2020
Director	Samantha Barber	Independent	United Kingdom	31-07-2008	08-04-2020
Director	María Helena Antolín Raybaud	Independent	Spain - France	26-03-2010	27-03-2019
Director	Ángel Jesús Acebes Paniagua	Independent	Spain	24-04-2012	27-03-2019
Director	Georgina Kessel Martínez	Independent	Mexico	23-04-2013	28-03-2018
Director	Denise Mary Holt	Independent	United Kingdom	24-06-2014	27-03-2019
Director	José W. Fernández	Independent	United States	17-02-2015	27-03-2019
Director	Manuel Moreu Munaiz	Independent	Spain	17-02-2015	27-03-2019
Director	Xabier Sagredo Ormaza	Other external	Spain	08-04-2016	08-04-2020
Director	Juan Manuel González Serna	Independent	Spain	31-03-2017	31-03-2021
Director	Francisco Martínez Córcoles	Executive	Spain	31-03-2017	31-03-2021

Secretary (non-member): Julián Martínez-Simancas Sánchez.

Deputy Secretary (non-member): Santiago Martínez Garrido.

Counsel (non-member): Rafael Mateu de Ros Cerezo.

<sup>(1)</sup> Inés Macho Stadler is the lead independent director**Executive Committee**

The Executive Committee has all the powers inherent to the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions.

The core activities of this Committee consist of assisting the Board of Directors in the on-going supervision of the implementation of the strategy and on compliance with objectives and the governance model and submitting proposals to the Board of Directors or making decisions in urgent cases regarding all strategic decisions, investments and divestitures that are significant for the company or its group, assessing their alignment with the budget and the strategy of the company, and analysing and monitoring business risks, taking into consideration the environmental and social aspects thereof.

Executive Committee		
Position	Director	Status
Chair	José Ignacio Sánchez Galán	Executive
Member	Inés Macho Stadler	Independent
Member	Ángel Jesús Acebes Paniagua	Independent
Member	Manuel Moreu Munaiz	Independent
Member	Samantha Barber	Independent

Secretary (non-member): Julián Martínez-Simancas Sánchez.

### Consultative Committees

Permanent internal informational and consultative bodies within the Board of Directors, without executive powers, with informational, advisory and proposal-making powers within their scope of activity.

- **Audit and Risk Supervision Committee.** Carries out duties relating to the supervision of the internal audit function, the review of the internal control and risk monitoring systems, the process of preparing the economic and financial information, the auditing of accounts and compliance, all upon the terms established in its [Regulations](#).

Audit and Risk Supervision Committee		
Position	Director	Status
Chair	Georgina Kessel Martínez	Independent
Member	Denise Mary Holt	Independent
Member	José W. Fernández	Independent
Member	Xabier Sagredo Ormaza	Other external

Secretary (non-member): Rafael Sebastián Quetglas.

- **Appointments Committee.** Performs duties relating to the selection, appointment, re-election and cessation in office of the company's directors and senior officers upon the terms established in its [Regulations](#).

Appointments Committee		
Position	Director	Status
Chair	María Helena Antolín Raybaud	Independent
Member	Iñigo Víctor de Oriol Ibarra	Other external
Member	Ángel Jesús Acebes Paniagua	Independent

Secretary (non-member): Iñigo Gómez-Jordana Moya.

- **Remuneration Committee.** Performs duties relating to the remuneration of the company's directors and senior officers upon the terms established in its [Regulations](#).

Remuneration Committee		
Position	Director	Status
Chair	Inés Macho Stadler	Independent
Member	Iñigo Víctor de Oriol Ibarra	Other external
Member	Juan Manuel González Serna	Independent

Secretary (non-member): Rafael Mateu de Ros Cerezo.



- **Corporate Social Responsibility Committee.** Performs duties relating to the revision and update of the Corporate Governance System and supervision of the social responsibility, sustainability and reputation policies, upon the terms established in its [Regulations](#).

Corporate Social Responsibility Committee		
Position	Director	Status
Chair	Samantha Barber	Independent
Member	Braulio Medel Cámara	Independent
Member	Manuel Moreu Munaiz	Independent

Secretary (non-member): Fernando Bautista Sagüés.

### 102-19 Delegating authority

The Executive Committee and the chairman & CEO have 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 company also has a Business CEO (*consejero director-general de negocios*). In addition, the company has a structure of executives and employees authorised to implement its strategy and basic management guidelines, with powers provided under two operating principles: (i) the principle of joint action, which governs the exercise of the powers that are of a decision-making or organisational nature; and (ii) the principle of severability, which governs the exercise of powers of mere representation.

Furthermore, the group has *Internal Rules on Powers of Attorney* which generally define the system for representational powers of the group, which is governed by the principle of separation of representatives pursuant to which each company will appoint its representatives from among its own employees rather than from the employees of another company of the group, and by the establishment of limitations on time, quantity and the substitution of powers, among others.

### 102-20 Executive-level positions with responsibility for economic, social and environmental topics

The company's organisation has various divisions, the responsibilities of which are as follows: the Finance and Resources, Administration and Control and Compliance divisions and the Office of the Secretary of the Board are responsible for financial and social matters, and the Office of the Chairman is mainly responsible for environmental matters.

The chairman & CEO of the Board of Directors, together with the Business CEO and the rest of the management team, assumes the duty of strategic organisation and coordination of the group through the dissemination, implementation and monitoring of the general strategy and the basic management guidelines established by the Board of Directors.

### 102-21 Consulting stakeholders on economic, environmental and social topics

Iberdrola has a *General Corporate Social Responsibility Policy*, which is further developed and supplemented by various social responsibility policies addressing specific needs and expectations of the Stakeholders.

In this section, it is noteworthy that in 2015 Iberdrola approved its [Shareholder Engagement Policy](#) in order to establish a permanent dialogue with its shareholders, and its [Stakeholder Relations Policy](#) in order to promote a framework of relationships that favours the inclusion of Stakeholders in the businesses and activities of the group.

## Stakeholder Relations Model and CSR Committee

The company establishes channels for dialogue with its Stakeholders in order to know their needs and expectations. These channels are constantly reviewed to adjust them to the appropriate level of relations with each Stakeholder group. Apart from the corporate website, which is one of the main channels for the company's relations with its Stakeholders, it has numerous other means of dialogue, which are set out in section 5 (Stakeholder participation) of this report.

That section contains a description of Iberdrola's *Stakeholder Relations Model*, which is implemented globally and which ensures both the existence of appropriate channels of communication with each Stakeholder group as well as the detection of significant issues and the adoption of action plans to respond to such issues.

The Board of Directors has a [Corporate Social Responsibility Committee](#), the composition and duties of which are described in section 102-18. Among other things, it has the power to "*analyse the expectations of Stakeholders and endeavour to ensure that they are taken into account when formulating Social Responsibility Policies, and supervise and evaluate the application of the Stakeholder Relations Policy*".

The [Activities Report of the Board of Directors and of the Committees thereof](#) for financial year 2017, available on the corporate website, identifies the reports prepared by this Committee and the appearances that took place during the year.

The Corporate Committee on Corporate Social Responsibility and Reputation is ultimately responsible for supervising and coordinating the development of the strategy for relations between the group companies and Stakeholders.

## Shareholder relations

With specific regard to the shareholders, the General Meeting is their main channel for participation in corporate life. It is held within the framework of Shareholder Day, during which there are activities seeking to bring the company closer to the shareholders and encourage a constructive dialogue with them.

The idea is to thus allow the Board of Directors to become acquainted with the opinions and concerns of the shareholders and to keep them in mind when establishing the agenda, drawing up proposed resolutions and deciding on other aspects relating to the holding of the General Shareholders' Meeting.

The Board of Directors also actively promotes the informed participation of the shareholders at the General Meeting, facilitating access to all documentation of the [General Shareholders' Meeting](#) through the website, including a [Shareholder's Guide](#) that describes all of the facilities that the company offers to attend, grant a proxy or cast an absentee vote; and for each Meeting it approves certain *Rules of Implementation for the Management of the General Shareholders' Meeting*, which have incorporated the latest technological advances in electronic participation, always in accordance with the guarantees required by law and by the Corporate Governance System. Along these lines, with a view to the upcoming General Shareholders' Meeting, Iberdrola has developed a new application that will allow shareholders to grant their proxy and cast an absentee vote from any device with access to the internet (including mobile phones and tablets), verifying their status as shareholders in real time. Also, for the first time, individual shareholders will be able to grant their proxy or cast an absentee vote by telephone through the free phone number of the Office of the Shareholder, through which they may also request any information about the event. These electronic and telephonic channels are in addition to the traditional forms of participation, in person, by post or through the shareholder service desks, which Iberdrola will continue to offer to its shareholders in order for them to have all of the alternatives for participating in the General Meeting.

Other proactive actions are also carried out to foster the maximum possible participation of the shareholders, such as telephone information campaigns.

To promote accessibility, the understanding of information, and ultimately the engagement of the shareholders, the company has implemented several specific channels of communication for providing information to shareholders and investors, including the following:

- a) The Shareholders' Office (*Oficina del Accionista*). From the call to the General Shareholders' Meeting through the end thereof, the shareholders can rely on the support of the Shareholders' Office, which has a specific site for such purpose at the premises of the meeting in order to resolve any issues that the attendees may raise prior to the commencement of the meeting, as well as to serve and provide information to the shareholders who wish to use the floor.

Furthermore, the Shareholders' Office is in permanent contact with those shareholders who have voluntarily entered their names in its database, and provides a specific service to minority shareholders for the organisation of presentations and events prior to the General Shareholders' Meeting.

- b) The Shareholders' Club (*Club del Accionista*). This is an open and permanent participation channel between the company and the financial community and shareholders who voluntarily join such Club and are interested in monitoring the evolution of the company on an ongoing basis.
- c) The Investor Relations Office (*Oficina de Relaciones con Inversores*). This responds on a regular and personalised basis to the questions of analysts and institutional and qualified investors in equities, fixed-income securities and socially responsible investments.
- d) Interactive [OLS - On Line Shareholders system](#). The website has an interactive system that allows shareholders (who may access the system with their user name and password) to ask questions of interest either publicly or confidentially, access frequently asked questions regarding various topics, and, with respect to the General Shareholders' Meeting, request information or clarifications or ask questions regarding the items on the agenda, as well as to view the live proceedings.
- e) Relations with shareholder associations and institutional shareholders. Both shareholder associations and institutional shareholders may request meetings with representatives of the company through the Investor Relations Division. Long-term engagement plans may also be developed with those shareholders who express their intention to have a stable and continuous presence in the company's shareholder base, and appropriate mechanisms for dialogue may be established regarding the performance of the company.
- f) Last, the Corporate Governance System makes provision for the ability of the Board of Directors or its chairman & CEO to empower the lead independent director or other directors to engage in dialogue with specific shareholders on certain issues relating to the corporate governance of the company.

### **Iberdrola's General Shareholders' Meeting, a sustainable event**

Notably, in 2016 Iberdrola was the first Ibex-35 company to certify its General Shareholders' Meeting as a [sustainable event](#), in accordance with international ISO 20121 standard. This means that all the processes of the General Shareholders' Meeting (from its planning to its subsequent holding) follow criteria of sustainability, inclusivity and accessibility, with the ultimate goal of optimising Iberdrola's contribution to the local economy, to improving the environment and to its social commitments.

The company implemented more than 70 initiatives for this purpose, including the following:

- Hiring of local suppliers.

- Hiring of persons in vulnerable situations.
- Measures aimed at improving energy efficiency.
- Advancement of sustainable transport.
- Actions to guarantee accessibility for groups with different abilities.
- Use of recyclable and reusable materials.
- Collaboration with certain local NGOs.
- Childcare service as a measure to promote work-life balance.

#### 102-22 Composition of the highest governance body and its committees

As stated in section 102-18, the Board of Directors has fourteen members, two of whom are executive, two are assigned to the category of other external and the other ten are independent. Within this last category, five are women, one of whom, Inés Macho Stadler, is the lead independent director and chair of the Remuneration Committee, as well as a member of the Executive Committee. In addition, María Helena Antolín Raybaud, Samantha Barber and Georgina Kessel Martínez are the chairs of the Appointments Committee, the Corporate Social Responsibility Committee and the Audit and Risk Supervision Committee, respectively.

This section also breaks down the composition of the aforementioned consultative committees of the Board of Directors:

For more information regarding the composition of the Board and its committees, see the [Activities Report of the Board of Directors and of the Committees thereof](#) for financial year 2017.

#### 102-23 State whether the chair of the highest governance body is also an executive officer and the reasons for this arrangement.

The chairman of the Board of Directors is also the chief executive of Iberdrola. He has been granted by delegation all the powers of the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions.

At the General Shareholders' Meeting held on 27 March 2015, the shareholders approved the re-election of the chairman & CEO as executive director by a large majority. Such proposal was supported by two reports: one prepared by an independent expert of recognised standing (PricewaterhouseCoopers Asesores de Negocios, S.L.) and the other by the Board of Directors itself. It was also favourably reported upon by the former Appointments and Remuneration Committee.

The initiative for such proposal was led by the lead independent director, who called the independent directors to a meeting on 15 December 2014. At such meeting, it was unanimously resolved to submit the proposal to the Board of Directors and to ask PricewaterhouseCoopers Asesores de Negocios, S.L. to prepare a report thereon. In light of the unanimous opinion of the independent directors, of the report of the Appointments and Remuneration Committee and of the content of the independent expert's report, the Board submitted the corresponding proposed resolution to the shareholders at the General Shareholders' Meeting on the basis of:

- The demonstrated capability and competence of the candidate to hold such position and the specific provisions of the Corporate Governance System of the company, whose decentralised governance model requires a leadership that necessarily entails a high level of professional commitment and a level of depth, presence and involvement in such person's work that means that whoever takes on such duties will be considered an "executive" of the company.

- The practical application of such governance model, which confirms the validity thereof, reflects a better economic and financial performance than that of comparable companies and has historically been supported by the shareholders at General Shareholders' Meetings and by the capital markets.
- The sound checks and balances system implemented by the company, which: (i) separates oversight and management duties; (ii) ensures that there is a majority of independent directors; (iii) ensures a high level of professional diversity and diversity of gender and origin on the Board of Directors; (iv) grants very significant powers to the lead independent director; (v) establishes a succession plan for the chairman; (vi) decentralises the executive duties of the group among the various country subholding and head of business companies; and (vii) makes Iberdrola, S.A. a holding company with duties that relate solely to the strategic supervision and coordination of the businesses conducted by the group.

#### 102-24 Selection and nomination of the members of the highest governance body

The appointment, re-election and separation 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, whereat the shareholders shall confirm the appointments or elect the persons who should replace directors who are not ratified, or it shall withdraw the vacant positions.

To such end, the Board of Directors has approved a [Board of Directors Diversity and Director Candidate Selection Policy](#), which ensures that proposals for the appointment of directors are based on a prior and objective analysis of the needs of the Board of Directors.

The Appointments Committee advises the Board of Directors regarding the most appropriate configuration of such body and of its committees as regards size and balance among the various classes of directors existing at any time and the personal requirements that the candidates must fulfil. For such purpose, the Committee will review the structure of each body on a regular basis, particularly when vacancies occur within such bodies. Furthermore, independent directors are appointed on the basis of a proposal of the Appointments Committee, while the other appointments require a report of such Committee.

In any event, the Board of Directors, and the Appointments Committee within the scope of its powers, will endeavour to ensure that the candidates submitted to the shareholders at a General Shareholders' Meeting for appointment or re-election as directors, as well as the directors appointed directly to fill vacancies in the exercise of the power of the Board of Directors to make interim appointments, are respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability and commitment to their duties, while at the same time endeavouring to ensure gender diversity in the composition of the Board of Directors.

They must be irreproachable professionals, whose professional conduct and background is aligned with the principles set forth in the *Directors' Code of Ethics* and the corporate values contained in the *Mission, Vision and Values of the Iberdrola group*.

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.

In addition, the selection of candidates shall endeavour to ensure that a diverse and balanced composition of the Board of Directors as a whole is achieved, such that decision-making is enriched and multiple

viewpoints are contributed to the discussion of the matters within its power. To this end, the selection process shall promote a search for candidates with knowledge and experience in the main countries and sectors in which the group does or will do business. The directors must also have sufficient knowledge of the Spanish and English languages to be able to perform their duties.

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 the *Regulations of the Board of Directors* and the *Regulations of the Appointments Committee*.

#### 102-25 Processes for the highest governance body to avoid conflicts of interest

The *Regulations of the Board of Directors* provide that having interests in any way opposed to those of the company constitutes a ground of disqualification for appointment as director and, if applicable, triggers the director's obligation to resign.

They also provide that competence to hold office is a requirement to be appointed as director of the company.

Therefore, it is expressly provided that directors must resign due to their loss of suitability (particularly when their continuance in office may jeopardise, directly, indirectly or through persons related thereto, the faithful and diligent performance of their duties in furtherance of the corporate interest, which is understood as the common interest of all shareholders of an independent company, oriented towards the creation of sustainable value through the activities included in its corporate object, taking into consideration the other Stakeholders related to its business activities and institutional reality, pursuant to the *Mission, Vision and Values of the Iberdrola group*), or when owing to supervening circumstances, they fall within any of the instances of disqualification from or prohibition against holding such office established in the law or in the Corporate Governance System.

The Board of Directors may request a director subject to any circumstance of disqualification to resign from office and, if applicable, may propose the director's removal from office to the shareholders at a General Shareholders' Meeting.

For such purposes, the aforementioned Regulations provide that it shall be deemed that a director lacks or, if applicable, has ceased to possess, the competence required to hold office when there is a structural and permanent situation of conflict between the director (or persons related thereto or, in the case of a proprietary director, the shareholder or shareholders that proposed or appointed the director or the persons directly or indirectly related thereto) and the company or the companies forming part of the group.

Independently of the foregoing, the *Regulations of the Board of Directors* also regulate the specific conflict of interest situations that might affect the directors and that involve a direct or indirect conflict of their personal interest or that of persons related thereto with that of the company or the companies within its group. As provided therein, the directors must give notice of conflicts of interest in which they are involved and must abstain during the deliberations and voting on the matter in question. Section D.6 of the *Annual Corporate Governance Report* for financial year 2017 describes the mechanisms used to detect, determine and resolve potential conflicts of interest between Iberdrola and its directors, officers and significant shareholders.



For its part, article 43 of the *Regulations of the Board of Directors* provides that “any transaction by the Company or the companies forming part of its group with directors, with shareholders that directly or indirectly 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 (“Related-Party Transactions”), 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 to the Board of Directors at its next meeting in order for it to be ratified’.*

Furthermore, section six of said article provides that “the Board of Directors, through the Appointments Committee, shall ensure that transactions 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 transactions to be carried out by companies of the group, the scope of authorisation of the Board of Directors, or that of the Executive Committee, if applicable, referred to in the preceding sections, shall be circumscribed to the verification of compliance with such particulars.”

#### 102-26 Role of highest governance body in setting purpose, values and strategy

Iberdrola and its group of companies are committed to a mission, vision and values.

This mission of the group is to create value sustainably, considering the Social Dividend as a basic element for the definition of its strategy, in carrying out its activities for society, citizens, customers, employees, shareholders and other Stakeholders, as the leading multinational group in the energy sector providing a quality service through the use of environmentally-friendly energy sources, which engages in innovation, leads the process of digital transformation in its area of activity, and is committed to the fight against climate change through all of its business activities, with the generation of employment and wealth, considering its employees to be a strategic asset. Along these lines, it fosters their development, training and measures of reconciliation, favouring a good working environment and equal opportunity. All of the foregoing is within the framework of its strategy of social responsibility and compliance with tax rules.

This mission is supplemented by a vision, based on the ambition of being at the forefront of a better future, creating value sustainably with a quality service for the people and communities in which the group carries out its activities, as well as by twelve values: creation of sustainable value, observance of ethical principles, good corporate governance and transparency, development of the group’s workforce, social commitment, encouragement of a sense of belonging among the Stakeholders, safety and reliability of supply, quality, innovation, respect for the environment, customer focus and institutional loyalty.

The corporate and governance structure of the company and of the group, the layout of which is reflected in disclosure 102-5 of this chapter, is defined on the grounds described below, which duly differentiate between the duties of day-to-day administration and effective management, on the one hand, and those of supervision and control, on the other:

- a) Vesting in the company’s Board of Directors of powers regarding approval of the strategic goals of the group and the definition of its organisational model, as well as supervision of compliance therewith and development thereof.
- b) Assumption by the chairman & CEO of the Board of Directors, with the technical support of the Operating Committee, by the Business CEO, with overall responsibility for all the businesses of the

group, and by the rest of the management team of the duty of organisation and strategic coordination within the group.

- c) The function of organisation and strategic coordination is strengthened through country subholding companies in those countries where the Board of Directors of the company has so decided. Such entities group together equity stakes in the energy head of business companies carrying out their activities within the various countries in which the group operates. This structure is completed with a country subholding company that groups together certain stakes in other entities, including non-energy head of business companies, with a presence in several countries. One of the main duties of country subholding companies is to centralise the provision of services common to head of business companies, always in accordance with the provisions of applicable law and especially the legal provisions regarding the separation of regulated activities.

Country subholding companies have boards of directors that include independent directors and their own audit committees, internal audit areas and compliance units or divisions.

Country subholding companies are responsible for disseminating, implementing and supervising the general strategy and the basic management guidelines at the country level with respect to the head of business companies grouped within each of them, taking into account the characteristics and unique aspects thereof.

- d) The group's listed country subholding companies (currently Avangrid, Inc.) have a special framework with greater autonomy that extends to the regulatory, related-party transactions and management areas.

In particular, all transactions between a listed country subholding company and its subsidiaries and the other companies of the group require the approval of a committee of the Board of Directors of such country subholding company made up exclusively of directors not related to the company.

The special strengthened autonomy framework is further developed in the respective agreements executed by the company with each listed country subholding company.

- e) The head of business companies of the group assume decentralised executive responsibilities, enjoy the autonomy required for the day-to-day and effective management of each business, and are responsible for the day-to-day control thereof.

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

The corporate configuration and governance principles described above make up the corporate and governance structure of the group. This structure 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 various business units. It also assures the dissemination, implementation and monitoring of the general strategy and of the basic management guidelines for each of the businesses, mainly through the exchange of best practices among the various companies of the group, without reducing the decision-making autonomy of each of them.

Within the group's corporate and governance structure, the Operating Committee is an internal committee of the company, the essential function of which is to provide technical, information and management support to the chairman & CEO of the Board of Directors, in order to facilitate the development of the group's Business Model.



The organisational model is structured into the decentralised business units and the centralised corporate governance and control functions, which can be viewed in the "[Corporate structure](#)" section of the corporate website.

### 102-27 Collective knowledge of highest governance body

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.

Furthermore, to improve the knowledge of the group and of the businesses that it carries out and the environment in which it operates, presentations are made to the directors regarding the businesses of the group, which is supplemented by articles and publications of interest made available to the directors through the directors' website, a software application that has a specific section dedicated to training.

In turn, the directors' website facilitates the performance of the directors' duties and the exercise of their right to receive information. Information deemed appropriate for the preparation of meetings of the Board of Directors and the committees thereof in accordance with the agenda, as well as the materials, presentations and expositions made to the Board of Directors, is posted on such website.

In addition, a portion of each meeting of the Board of Directors is dedicated to a presentation on financial, legal or socio-political issues of significance to the group.

During financial year 2017, the directors' website was also used to provide the directors with various training sessions deemed to be of interest for the performance of their duties:

- *Shareholder control of the remuneration of the executive directors*
- *On-site informational meeting about investments and initiatives of the Iberdrola group regarding cybersecurity*
- *Fiscal transparency*
- *Digital transformation*
- *Regulatory positioning of Iberdrola. The EU winter package*
- *The Iberdrola group's governance model with respect to cybersecurity and data protection*
- *The Iberdrola group's Compliance System*
- *Iberdrola and the evolution of corporate governance practices*
- *Corporate governance in the United States. Analysis of the U.S. model using the Spanish model as a reference*
- *Relations with Stakeholders at Iberdrola*
- *Occupational Safety and Health at Iberdrola*
- *Analysis of the climate commitments of the jurisdictions in which Iberdrola has a presence*
- *The Iberdrola group's commitment to the Sustainable Development Goals*
- *Market Abuse and its implications for the Board of Directors of Iberdrola, S.A.*

The consultative committees have developed their own training programmes, either in-person or through the publication of the corresponding article on the directors' website, which have dealt with various topics:

- *Report of the CNMV regarding supervision of the financial information of Ibex 35 companies in 2016*
- *Evolution of the remuneration of the managing board*
- *The relevance of Responsible Steel*
- *Status of the renewables business*
- *New techniques in the electricity sector*
- *Monitoring of the application of the Information Technologies Policy*
- *Best corporate governance practices*
- *Report of the CNMV regarding ACGR of Ibex 35 companies. Powers of the Appointments Committee*
- *Aspects of the Annual Corporate Governance Report of Ibex 35 companies relating to audit committees*
- *Liberalised Business*
- *Networks Business*
- *Director remuneration trends*
- *Risks in the financial sector and provisions of investment funds*
- *New accounting developments and recent changes in the regulation of the annual accounts*

#### 102-28 Evaluating the highest governance body's performance

The *Regulations of the Board of Directors* provides that the Board shall annually evaluate: its operation and the quality of its work; the performance of duties by the chairman & CEO of the Board of Directors, based on the report submitted thereto by the Appointments Committee; and 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 organises and coordinates the aforementioned evaluation process with the chair of each committee.

The *General Corporate Governance Policy* provides that the annual evaluation shall be conducted with the cooperation of an independent firm of recognised standing.

Within the framework of the evaluation process of financial year 2017, Iberdrola has decided to draw on the cooperation of PricewaterhouseCoopers Asesores de Negocios, S.L., the independence of which was verified by the Appointments Committee at its meeting of 11 October 2017.

This process is based on the review of a large number of objectively quantifiable and measurable indicators that are updated every year in accordance with the latest trends, and is supplemented by a comparison with the companies identified as having the best market practices. As a result of this process, the company develops and adopts on-going improvement plans designed to implement the specific measures that may help to further perfect corporate governance practices. The Board of Directors completed this evaluation process for financial year 2017 through the adoption of the corresponding resolution at its meeting of 20 February 2018.

#### 102-29 Identifying and managing economic, environmental and social impacts

The Board of Directors of Iberdrola is structured as described in section 102-18 of this report, with monitoring duties being carried out by the consultative committees thereof that supervise the economic, social and environmental performance of the company. Such duties include both the supervision of the risks and opportunities generated by the group's activities and compliance with international principles, codes and standards applicable to high-responsibility tasks. The Board of Directors and its consultative committees perform periodic evaluations of the aforementioned aspects of performance, drawing for such purpose on external information of interest thereto, with the assistance of external independent advisers, and on information provided to them by the rest of the organisation itself, primarily through periodic appearances of the group's officers at committee meetings.

These appearances are described in the [Activities Report of the Board of Directors and of the Committees thereof](#) for financial year 2017, available on the corporate website.

The Corporate Social Responsibility Committee has supervised the company's conduct in the area of sustainability, corporate reputation, corporate governance and compliance. Various external advisors have also appeared before this Committee:

- a) Recurring appearances:
  - Compliance Unit.
  - Investor Relations and Communication.
  
- b) Particular appearances:
  - Secretary of the Board of Directors.
  - Energy Policies and Climate Change.
  - Innovation, Sustainability and Quality.
  - Human Resources.
  - Iberdrola Foundation.

The issues dealt with during these appearances are described in disclosure 102-27 of this chapter.

### 102-30 Effectiveness of risk management processes

Generally, the group's *Comprehensive Risk Control and Management System* allows for proper *ex ante* identification of risks or sounds alarms that allow for the making of decisions tending to minimise the impact of the risks.

The pillars of the system include the on-going evaluation of the suitability and efficiency thereof, as well as best practices and recommendations in the area of risks for eventual inclusion thereof in the model.

The company's Operating Committee meets on an approximately weekly basis, while the group's Risk Committee does so monthly. This committee is supplemented with the Credit Risk and Market Risk Committee, which report to said Risk Committee, and which meet on a fortnightly and monthly basis, respectively.

On at least a quarterly basis, the Audit and Risk Supervision Committee of the Board of Directors monitors trends in the group's risks:

- It reviews the group's quarterly risk report.
- It coordinates and reviews the Risk Reports sent periodically (at least half-yearly) by the Audit and Compliance Committees of the companies of the group that have such a body.

- It prepares (at least half-yearly) a risk report for the Board of Directors.

#### 102-31 Review of economic, environmental and social topics

This information is available in disclosure 102-29 of this chapter.

#### 102-32 Highest governance body's role in sustainability reporting

Iberdrola's Board of Directors is the body responsible for reviewing the *Sustainability Report 2017*, which was approved on 20 February 2018 (following a report from the Corporate Social Responsibility Committee), the date of preparation of the company's annual accounts for financial year 2017.

#### 102-33 Communicating critical concerns

#### 102-34 Nature and total number of critical concerns

The highest-level persons in charge of the various business divisions and corporate divisions have a presence on the Operating Committee referred to in section 102-26 of this report. It is chaired by the chairman & CEO, who reports in turn to the Board of Directors.

For their part, the critical concerns considered by the Board of Directors are principally:

- Preparation of the annual accounts and proposed allocation of profits/losses.
- Approval of periodic financial information.
- Approval of budgets and definition of goals of the Iberdrola group.
- Authorisation or acknowledgement, as appropriate, of significant awards, investments and divestments of the Iberdrola group.
- Grant of powers of attorney.
- Setting of the remuneration of the Board of Directors and of the senior management of Iberdrola, S.A.
- Approval of various annual reports.
- Call to the General Shareholders' Meeting, formulation of proposed resolutions and the corresponding reports of the directors.
- On-going update of the Corporate Governance System.
- Evaluation of the Board of Directors.
- Approval of risk limits and indicators.
- Implementation of resolutions adopted by the shareholders at the General Shareholders' Meeting, and particularly increases and reductions in capital.
- Authorisation or acknowledgement, as appropriate, of financial transactions of the Iberdrola group (debt and equity).
- Authorisation or acknowledgement, as appropriate, of proposals for the appointment of directors in companies in which the Iberdrola group has an interest.
- Authorisation or acknowledgement, as appropriate, of corporate or business restructurings.

The [Activities Report of the Board of Directors and of the Committees thereof](#) for financial year 2017 provides a detailed description of the composition, operation and activities of the governance bodies of the company.

#### 102-35 Remuneration policies

The [Annual Director Remuneration Report](#) for financial year 2017 will be submitted to a consultative vote of the shareholders at the General Shareholders' Meeting called to be held on 13 April 2018.

The [Director Remuneration Policy](#) applicable during the next three financial years will be submitted for the approval of the shareholders at the General Shareholders' Meeting called to be held on 13 April 2018. This policy implements, among other things, the structure of the remuneration of the directors for their activities as such and the structure of the executive directors' remuneration for the performance of their executive duties, based on a series of parameters that are in line with the standard remuneration of comparable companies. It also sets forth the corporate social responsibility parameters to which the variable remuneration of the chairman & CEO is linked.

The *Director Remuneration Policy* and the *Senior Officer Remuneration Policy* seek to comply with the good governance recommendations generally recognised in the international markets on remuneration issues. In particular, the remuneration structure for the executive directors and the senior officers includes a significant variable component linked mainly to the performance of the company with respect to certain specific and pre-established economic/financial, industrial and operational parameters that are quantifiable and aligned with the strategic goals of the company and the group for the purpose of retaining and motivating the executive directors and senior officers and for the creation of long-term value. Weight is also to be given to goals in the areas of corporate governance and corporate social responsibility, as well as to the individual performance of the executive directors. This is set out in the current Strategic Bonus 2017-2019 approved by shareholders at the General Shareholders' Meeting of 31 March 2017, which makes the reduction of CO<sub>2</sub> emissions a strategic goal.

As regards aspects relating to the company's economic, environmental and social performance, variable remuneration for the management team of the Iberdrola group takes into account variable parameters linked to financial as well as environmental and social aspects.

#### 102-36 Process for determining remuneration

As provided in the *By-Laws* and the *Regulations of the Board of Directors* of Iberdrola, the Board of Directors, at the proposal of the Remuneration Committee, is the body with power to set the remuneration of directors within the overall limit set by the By-Laws and in accordance with law, except for such remuneration as consists of the delivery of shares of Iberdrola or of options thereon or which is indexed to the price of the shares of Iberdrola, which must be submitted to the shareholders for approval at the General Shareholders' Meeting. The Remuneration Committee is a consultative committee chaired by and made up mostly of independent directors.

The Remuneration Committee is responsible for evaluating the level of attainment of the targets to which variable annual and multi-annual remuneration is linked and for submitting it to the Board of Directors for approval. To such end, in financial year 2017 it drew on the advisory services of PricewaterhouseCoopers Asesores de Negocio, S.L. The independence thereof has been evaluated by the Appointments Committee. Section C.1.20 of the [Annual Corporate Governance Report](#) for financial year 2017 describes the business relations of the company with this advisor during the financial year.

Pursuant to the *By-Laws* and the *Director Remuneration Policy*, the limit to the amounts that Iberdrola may annually allocate to the directors each year as an expense, including, in the case of executive directors, remuneration payable for performing executive duties, as well as the funding of a reserve to meet the liabilities assumed by the company in connection with pensions, payment of life insurance premiums and payment of severance to former and current directors, is 2% of the consolidated group's profit for the financial year, after allocations to cover the legal and other mandatory reserves and after declaring a dividend to the shareholders of not less than 4% of the share capital. As stated, for the purpose of establishing such limit, the quoted price of shares or options thereon or remuneration indexed to the listing

price of the shares shall not be calculated, which remuneration shall in all cases require the separate approval of the shareholders at a General Shareholders' Meeting. Both the [Director Remuneration Policy](#) and the [Senior Officer Remuneration Policy](#) are available on the website.

### 102-37 Stakeholders' involvement in remuneration

The *Director Remuneration Report* for financial year 2016 was submitted to a consultative vote of the shareholders at the General Shareholders' Meeting held on 31 March 2017, which had a quorum of 77.20%, and was approved with only 3.26% of the shares represented in person and by proxy voting against.

### 102-38 Annual total compensation ratio

### 102-39 Percentage increase in annual total compensation ratio

Iberdrola's Corporate Governance Model provides for the existence of a holding company, Iberdrola S.A., and for country subholding companies in the main countries in which it does business, as shown in disclosures 102-5 and 102-26 of this report and described on the company's website.

The main countries in which the Iberdrola group does business are Spain, the United Kingdom, the United States, Brazil and Mexico, and the remuneration ratios are set forth in the table below.

Country <sup>6</sup>	Highest level of remuneration	Disclosure 102-38		Disclosure 102-39	
		2017	2016	2017	2016
<b>Spain</b>	Director	21.08 <sup>7</sup>	30.30	-1.15 <sup>8</sup>	6.78
<b>United States</b>	Director (CEO) <sup>9</sup>	22.22	16.66	4.54	N/A
<b>United Kingdom</b>	Director (CCO) <sup>10</sup>	12.09	11.83	1.60	3.31
<b>Brazil</b>	Director/Chair	22.43 <sup>11</sup>	41.00	N/A <sup>12</sup>	0.16
<b>Mexico</b>	Director	7.63 <sup>13</sup>	7.21	1.48	-0.73 <sup>14</sup>

6 Country composition:

Spain: Generation, Distribution, Retail, Renewables and Engineering .

United States: Avangrid, Inc.

United Kingdom: ScottishPower (includes Renewables and Engineering).

Brazil: Neoenergia (change in boundary compared to 2016).

Mexico: Generation, Renewables and Engineering.

7 Spain: the highest remunerated position changes compared to the one considered in 2016.

8 Spain: the result of the ratio is negative because total annual 2017 remuneration of the person with the highest remuneration is less than that of 2016.

9 CEO: Chief Executive Officer.

10 CCO: Chief Corporate Officer.

11 Brazil: the highest remunerated position changes compared to the one considered in 2016.

12 Brazil: result not reported due to change in boundary compared to 2016.

13 Mexico: the highest remunerated position changes compared to the one considered in 2016.

14 The result of the ratio is negative because total annual 2016 remuneration of the person with the highest remuneration is less than that of 2015.

# 5. Stakeholder engagement

102-40 Stakeholder groups engaged by the organisation

Iberdrola’s [Stakeholder Relations Policy](#) (approved by the Board of Directors in February 2015 and updated in December 2017) explicitly states that the company believes “*that its relations with those groups that may influence or that are affected by the decisions or the value of the Company and the group are significant*”. The value chain comprised of Iberdrola’s businesses means that there is a large number of these groups, for which reason the company has decided to group them into eight different categories that constitute its Stakeholders:

- Workforce
- Shareholders and financial community
- Regulatory entities
- Customers
- Suppliers
- Media
- Society in general
- Environment

102-41 Employees covered by collective bargaining agreements

This information is available in the “Collective Bargaining Agreements” section of the Management approach of topics GRI 401 Employment and GRI 402 Labour/management relations, included in the “Social Dimension” chapter of this report.

102-42 Identifying and selecting stakeholders

The initial identification and selection of the Stakeholders of Iberdrola was carried out through processes of internal reflection conducted by the management team. Subsequently, in 2015, the [Stakeholder Relations Policy](#) ratified the Stakeholder categories described in disclosure 102-40.

However, for the proper management of each of the Stakeholders, the various areas and businesses identify different subgroups that they deem relevant for more specific treatment.

102-43 Approach to stakeholder engagement

Iberdrola develops a responsible and sustainable business model, which puts [Stakeholders](#) at the centre of its strategy. The company’s intent is thus to build relations of confidence with the various Stakeholders, as well as to deepen their participation, engagement and sense of belonging to Iberdrola.

The [By-Laws](#) themselves include a specific article dedicated to Stakeholder relations, establishing the principles and objectives that govern these relations:

<p><b>Principles:</b></p> <ul style="list-style-type: none"> <li>- Two-way communication</li> <li>- Transparency</li> <li>- Active listening</li> <li>- Equal treatment</li> </ul>
--

<p><b>Objectives:</b></p> <ul style="list-style-type: none"> <li>- Take into consideration the legitimate interests of the Stakeholders</li> <li>- Effectively disclose information regarding the activities and businesses of the group</li> </ul>
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Iberdrola has decisively driven compliance with its *Stakeholder Relations Policy* (mentioned above), which has resulted in the approval and implementation of a new *Global Stakeholder Relations Model*, based on the *AA1000 Stakeholder Engagement Standard (AA1000SES) 2015* standard and in its three requirements of inclusiveness, materiality and responsiveness<sup>15</sup>.

This Model seeks to achieve the following goals:

- To systematise Stakeholder relations throughout the Iberdrola group, in all countries and businesses.
- To create a corporate culture with respect to the significance of dialogue with the Stakeholders for more sustainable performance by Iberdrola.

The Model in itself is a process of continuous improvement structured into ten phases, which allows for: segmenting Stakeholders and prioritising the resulting Subgroups; distinguishing the various levels of relations; constantly updating relationship channels to favour engagement; identifying significant issues, with related risks and opportunities; establishing action plans to respond to significant issues; and finally, to enrich the reporting systems, as is the case of this report. The detailed process is set out in the following image:



This Model was implemented for the first time in 2017 to manage eight of Iberdrola’s Stakeholder groups in the five main countries and at numerous Generation and Renewables facilities, as well as in the various geographic areas of the Networks business. To assist with this implementation, the Iberdrola Stakeholders’ Hub, an internal coordination body in which the areas responsible for management of the Stakeholders at the global corporate and business level participate, was also created in 2017.

**Relationship channels**

As regards the relationship channels with the Stakeholders, the *By-Laws* state that the “the company’s corporate website, its presence on social media, and its digital communication strategy generally are channels of communication serving the *Stakeholder Relations Policy*”. Conventional channels of communication other than this media are also used (phone, electronic mailboxes, communications, meetings, etc.) and other more specific channels like those below<sup>16</sup>:

<sup>15</sup> Iberdrola has been continuously applying Assurance Standard AA1000 for the last eleven years. In 2016 Iberdrola’s Operating Committee approved a new *Global Stakeholder Relations Model* (referred to in this report), which was implemented for the first time in 2017.

<sup>16</sup> Pursuant to its *Global Stakeholder Relations Model*, Iberdrola has a list of communication channels by Stakeholder and country, which are included in the *Management Report on Iberdrola’s Relations with Stakeholders* for financial year 2017.

**Annual Financial Report**

Iberdrola, S.A. and subsidiaries / Financial Year 2017

<b>WORKFORCE</b>	<ul style="list-style-type: none"> <li>• Mixed subcommittees and committees</li> <li>• Employee portal (Intranet)</li> <li>• Global employee office</li> <li>• Satisfaction surveys</li> <li>• Subject-specific meetings, events and conferences</li> <li>• Newsletters, reports, bulletins, etc.</li> <li>• Informational screens at offices</li> <li>• Ethics mailbox</li> </ul>	<b>SHAREHOLDERS AND FINANCIAL COMMUNITY</b>	<ul style="list-style-type: none"> <li>• General Shareholders' Meeting</li> <li>• Shareholder Day</li> <li>• Shareholders' Club and Shareholders' Office</li> <li>• OLS - On Line Shareholders</li> <li>• Opinion surveys</li> <li>• Investors Day</li> <li>• Personal contact with investors, analysts, ratings agencies and shareholders</li> <li>• Mobile app</li> <li>• Reports and bulletins</li> <li>• Shareholders' Ethics Mailbox</li> </ul>
<b>REGULATORY ENTITIES</b>	<ul style="list-style-type: none"> <li>• Consultation and official formalities with various regulatory entities</li> <li>• Relationship through industry organisations</li> <li>• Meetings and direct contacts</li> <li>• Participation in workshops, events, debates, etc.</li> <li>• Preparation of informational memos</li> </ul>	<b>SUPPLIERS</b>	<ul style="list-style-type: none"> <li>• Supplier portal</li> <li>• Satisfaction surveys</li> <li>• Supplier of the Year Award</li> <li>• Supplier registration and classification processes</li> <li>• Supplier involvement campaigns</li> <li>• Participation in responsible procurement events</li> <li>• Suppliers' ethics mailboxes</li> </ul>
<b>CUSTOMERS</b>	<ul style="list-style-type: none"> <li>• On-site (customer service points) and off-site channels for direct customer service</li> <li>• Digital channels (websites, social media, sms, mobile apps)</li> <li>• Customer satisfaction surveys</li> <li>• Relationships with consumer associations</li> <li>• Awareness-raising campaigns</li> <li>• Systems for claims and complaints</li> <li>•</li> </ul>	<b>MEDIA</b>	<ul style="list-style-type: none"> <li>• Press releases and informational notes</li> <li>• Direct conversations and informational meetings</li> <li>• Visits to company facilities</li> <li>• Press room on the corporate website</li> <li>• Blogs</li> <li>• Events</li> </ul>
<b>SOCIETY</b>	<ul style="list-style-type: none"> <li>• Direct relations with State institutions and heads of the various government administrations</li> <li>• Active presence within business and industry organisations; academic and educational institutions; organisations related to innovation, etc.</li> <li>• Participation in events, conferences and working groups</li> <li>• Reports and summaries</li> <li>• Visits to facilities</li> <li>• Cooperation agreements</li> </ul>	<b>ENVIRONMENT</b>	<ul style="list-style-type: none"> <li>• Sustainability index surveys</li> <li>• Participation in events, conferences and roadshows</li> <li>• Reports and summaries</li> <li>• Inspections and audits</li> <li>• Alliances and collaboration agreements</li> <li>• Visits to facilities</li> </ul>
			<p>Stakeholder panels are also formed, to which Stakeholder representatives are invited</p>

## 102-44 Key topics and concerns raised

The *Global Stakeholder Relations Model* described above contributes to identifying the issues that are most important to the different Stakeholders. An analysis thereof shows that there are many significant issues that are common to Iberdrola's five main countries, while there are others exclusive to each geographical area.<sup>17</sup>

Set out below is a summary of those global issues<sup>18</sup> detected in 2017:

Stakeholder group	Main issues raised by each group
<b>Workforce</b>	<ul style="list-style-type: none"> <li>- Quality and maintenance of employment</li> <li>- Career plan and development: training and internal mobility</li> <li>- Safety, health and occupational risk prevention</li> <li>- Benefits and compensation</li> <li>- Internal communication</li> <li>- CSR issues</li> </ul>
<b>Shareholders and financial community</b>	<ul style="list-style-type: none"> <li>- Long-term strategy</li> <li>- Financial and economic situation of the company</li> <li>- Plans and performance of the company</li> <li>- Financial strength and leveraging</li> <li>- Corporate governance</li> <li>- Industry regulation</li> <li>- Energy markets</li> <li>- Dividend policy</li> <li>- Share price</li> <li>- Sustainability and CSR</li> </ul>
<b>Regulatory entities</b>	<ul style="list-style-type: none"> <li>- Remuneration schemes (generation, storage and/or distribution) in Europe, the U.S. and Brazil.</li> <li>- Goals for energy efficiency, use of alternative energies and reduction of emissions in Europe and the U.S.</li> <li>- Internal consumption in Europe, the U.S., Mexico and Brazil</li> <li>- Auction of generation and transmission lines in Mexico and Brazil</li> <li>- Capacity mechanisms in Europe</li> </ul>
<b>Customers</b>	<ul style="list-style-type: none"> <li>- Aspects relating to billing (information, comprehension and amount)</li> <li>- Issues relating to the customer's overall experience (attention received, channels, claims management, etc.)</li> <li>- Supply quality</li> <li>- Services allowing for reduced consumption</li> <li>- Vulnerable customers</li> </ul>
<b>Suppliers</b>	<ul style="list-style-type: none"> <li>- Standards for award and contract and payment terms</li> <li>- Ethical behaviour and CSR</li> <li>- Information on Iberdrola's strategy</li> <li>- Industry regulatory measures</li> <li>- Supplier stimulus campaigns</li> <li>- Fostering of innovation</li> <li>- Stability in commercial relationships</li> </ul>

<sup>17</sup> Pursuant to its *Global Stakeholder Relations Model*, Iberdrola has a list of major topics by Stakeholder group and country, which are included in the *Management Report on Iberdrola's Relations with Stakeholders* for financial year 2017.

<sup>18</sup> In the case of regulatory entities, the issues appear by country due to the high geographic component thereof.

<b>Media</b>	<ul style="list-style-type: none"> <li>- Iberdrola's strategy</li> <li>- Economic, operational and corporate governance performance</li> <li>- Investment and economic impact in each of the countries and communities</li> <li>- Energy policy and industry regulation</li> <li>- Service quality</li> <li>- CSR plans</li> </ul>
<b>Society</b>	<ul style="list-style-type: none"> <li>- Alignment with SDGs</li> <li>- Transparency and improvement of the social and environmental performance of the company and its facilities</li> <li>- Iberdrola's investments in each of the countries</li> <li>- Iberdrola's contribution to the community</li> <li>- Encouragement of innovation, information or training on energy issues</li> <li>- Support of the company for most vulnerable groups through specific programmes and projects</li> <li>- Encouragement of activities of public and private entities in the economic/business, social and environmental areas</li> </ul>
<b>Environment</b>	<ul style="list-style-type: none"> <li>- Climate change and energy transition (participation in large initiatives, alliances, social awareness-raising, Iberdrola's position)</li> <li>- Environmental management</li> <li>- Environmental investments and innovation</li> <li>- Quantification of natural capital</li> <li>- Protection of biodiversity</li> <li>- Carbon footprint</li> <li>- Circular economy</li> <li>- Water management</li> <li>- Sustainability indexes</li> </ul>

Iberdrola's Wholesale, Networks and Renewables facilities mainly manage three Stakeholder groups: Regulatory entities, Society and Environmental<sup>19</sup>. The most significant issues of interest refer to regulatory compliance; the economic and social impact of the facilities on local communities; and environmental impacts and the mitigation thereof.

Iberdrola's response to all of these significant issues is set out not only in the various indicators of this *Sustainability Report*, but also in the *Integrated Report*, on the corporate website, on the websites through the following [link](#), and on the websites of the businesses and the foundations, and in the various specific reports, including: *Annual Financial Report*, *Annual Corporate Governance Report*, *Shareholder Engagement Report*, *Report on Procurement Activities and Supplier Management and the Contribution thereof to the Group's Sustainability*, *Innovation Report*, *Corporate Footprint Report*, *Biodiversity Report*, and Sustainability Balance Sheet.

The methodology described in the preceding sections (102-40 to 102-44) enables the company to identify material issues through direct sources. Such review is completed with that made through indirect sources, such as the *Dow Jones Sustainability Index*, the *Carbon Disclosure Project*, the *Materiality Analysis*, etc., described in disclosures 102-46 and 102-47.

Considering all of the foregoing, Iberdrola has a complete Stakeholder Management System, which allows it to respond to the various major issues both directly through the channels of dialogue and indirectly through public information (*Sustainability Report*, *Integrated Report* and the [website](#)).<sup>20</sup>

<sup>19</sup> In the case of the cogeneration plants, the main Stakeholder group is 'Customers', for whom the most significant issue is compliance with contracts.

<sup>20</sup> Iberdrola prepares an annual *Management Report on Iberdrola's Stakeholder Relations*, which summarises issues of interest detected within the various communication channels, as well as the company's response through action plans.

# 6. Reporting practice

## 102-45 Entities included in the consolidated financial statements and in the boundary of this report

### A. Introduction

Iberdrola, with a presence in almost twenty countries, has followed the GRI recommendations in defining the boundary of this report, taking into account the entities in which it has control, those in which it has significant influence, and the activities that are significant for the group from the economic, environmental and social standpoint.

For purposes of this report, the following terms have the meanings set forth below:

- "Iberdrola" or the "company": the Spanish company Iberdrola, S.A., parent company of the Iberdrola group.
- "Iberdrola group" or the "group": Iberdrola (as parent company) and the group of subsidiaries over which Iberdrola has the power of control or joint control.
- "Affiliated companies" or "affiliates": the group of companies in which Iberdrola has a percentage interest but not the power to exercise control. At these affiliated companies Iberdrola promotes the policies approved within the group through the decision-making bodies of such companies and includes information on those considered significant in terms of sustainability.

The companies in which Iberdrola owns a direct or indirect equity interest are listed in the document *Consolidated Annual Financial Statements and Audit Report* for financial year 2017.

### B. Information boundaries of this report

The presentation of the company's public information is subject to the following external factors:

- The scope and basis of presentation of financial information must comply with established statutory requirements.
- The environmental and social information is presented in accordance with the new legal requirements as to content, leaving open the reporting framework to be used. This is the reason why Iberdrola has voluntarily elected to use the GRI Standards in the preparation of this report.

To reconcile these factors, Iberdrola has established two quantitative information boundaries: global boundary and report boundary.

#### B.1. Global boundary (Iberdrola Total)

This includes all of the activities carried out by the group, its subsidiaries and its affiliates.

The financial information included in this *Sustainability Report 2017* is taken from the document *Financial Statements, Management Report and Audit Report* for financial year 2017.

Other non-financial information, such as operating information of the group, results from adding to the "report boundary" the information of affiliates consolidated by the equity method that are not considered significant for purposes of this report, as well as the information on the activities included in table B.2.2, which is included under the heading "Other".

#### B.2. Report boundary

This boundary is formed by Iberdrola, S.A., its significant subsidiaries for sustainability purposes and its fully or proportionately consolidated affiliates that are significant for sustainability purposes.

The subsidiaries or affiliates within this boundary are all those that operate in the countries listed in table B.2.1 and that carry out the activities described therein.

### B.2.1 Significant countries and activities for the Iberdrola group in terms of sustainability and included in the 2017<sup>1</sup> reporting boundary.

	Group office	Electricity production		Transmission and/or Distribution of electricity or gas	Electricity and/or gas supply (2) (3)		Gas storage	Real estate
		Conventional	Renewable (4)		Wholesale market	Retail market		
Spain (5)	X	X	X	X	LIB	LIB		X
United Kingdom	X	X	X <sup>(6)</sup>	X	LIB	LIB	X	
United States	X	X	X	X	LIB	REG	X <sup>(12)</sup>	
Brazil (7)	X	X <sup>(8)</sup>	X	X	LIB	REG		
Mexico	X	X	X		LIB	LIB		
Portugal (9)	X		X		LIB	LIB <sup>(10)</sup>		
Germany	X		X <sup>(11)</sup>		LIB	LIB		
Canada	X						X <sup>(12)</sup>	
Greece	X		X <sup>(6)</sup>					
Hungary	X		X					
Poland	X							
Romania	X		X					
France	X				LIB	LIB		
Italy	X				LIB	LIB		

- 1) Most of the Engineering and Construction activities at year-end were included in the Wholesale and Retail Businesses (Germany, United States and Canada), Networks Business (Spain, United Kingdom, Brazil and Mexico) and Renewables Business (Spain, United Kingdom, United States, Brazil and Mexico).
- 2) Types of sales activities:
  - LIB: activities in liberalised markets, independent of distribution activities.
  - REG: activities in regulated markets, together with distribution activities. The supply to these markets has not been considered as an activity in the wholesale market.
- 3) Environmental information on supply activities in Germany, France and Italy is not included as it is not deemed relevant in terms of sustainability.
- 4) No social or environmental information is included on facilities in which the company has an interest of less than 50% in Spain, the United Kingdom or the United States.
- 5) Any reference to the 7<sup>th</sup> Collective Bargaining Agreement includes the following companies at 31 December 2017: Iberdrola, S.A., Iberdrola España, S.A.U., Iberdrola Generación, S.A.U., Iberdrola Generación España, S.A.U., Iberdrola Generación Nuclear, S.A.U., Iberdrola Clientes, S.A.U., Iberdrola Operación y Mantenimiento, S.A.U., Iberdrola Distribución Eléctrica, S.A.U. Iberdrola Infraestructuras y Servicios de Redes, S.A.U., Iberdrola Renovables Energía, S.A.U. and Iberdrola Ingeniería y Construcción, S.A.U.
- 6) Renewables activities from the Republic of Ireland are included in the United Kingdom and renewables activities from Cyprus are included in Greece.
- 7) Information corresponding to the Neoenergia group is 100% included in this report, except for financial data.
- 8) Also included in the environmental information are the Baguari and Dardanelos plants, which are not significant in labour matters, while NC Energia is not included therein as it is not significant for environmental purposes. The social information includes the Belo Monte and Baixo Iguazu plants under construction in those indicators that are deemed significant based on their activities.
- 9) No environmental or social information is included on construction projects in Portugal.
- 10) The activities of electricity and/or gas supply in Portugal are included in Spain.
- 11) Activities relating to the 350 MW Wikinger offshore wind farm: construction of the 70 turbines and other components of the farm ended in October 2017; there was a successful connection to the national electric grid in December, and renewable energy will be supplied to approximately 350,000 German homes.



- 12) These activities are not significant from the environmental standpoint. In the case of Canada, labour information is included in the information for the United States.

At affiliate nuclear plants, the percentage interest held by Iberdrola in each of them is used to consolidate environmental performance data: Vandellós (28%), Almaraz (52.69%); Trillo (49%) and Ascó (15%). For social information, on the other hand, because of the structure of the available information systems, nuclear plants are consolidated according to the percentage interest held by Iberdrola in the economic interest grouping created for that purpose; such interest is 51.44% in the case of Trillo-Almaraz and 14.59% in the case of Ascó-Vandellós. A 50% share of the environmental and social data corresponding to the activities of Nuclenor, S.A. is applied according to consolidation by the equity method.

The subsidiaries or affiliates operating in the countries shown in table B.2.2. below are excluded from the report boundary because their activities are considered to be non-significant for the group.

**B.2.2. Non-significant countries and activities in countries of the Iberdrola group in terms of sustainability, excluded from the boundary of the 2017 report.**

	Group office	Electricity production	Electricity or gas supply and/or gas storage	Engineering and construction	Real estate
Belgium	X				
Italy		X			
Netherlands			X		
Germany, Bulgaria, Costa Rica and Montenegro				X	
Bulgaria and Mexico					X

Despite the fact that they are not included in the charts and tables of the boundary of the report, these activities are managed by Iberdrola in the same manner as significant activities, and the following standards are applied:

- The qualitative aspects set forth in this report, such as the principles and corporate policies that the Iberdrola group adopts and publishes, as well as business strategies, apply to all activities of the subsidiaries of the group, in all countries in which they operate, without prejudice to the effective decision-making capacity of regulated companies in accordance with laws and regulations governing the separation of activities. This includes the information on management focus, objectives and performance set forth in this report.
- In the countries and activities that are not included in the boundary of the report, the application is ensured of the same procedures and processes as those applied within the group, thus ensuring the guarantees as to work, basic rights and environmental protection that derive therefrom.

As a supplement and to the extent deemed relevant, the information on the boundary of the report may include significant events concerning specific activities included in the foregoing table B.2.2.

**B.3. Summary of the information boundaries by country.**

Following the GRI recommendation, the information in this report is structured by country. The table below shows the structure of information by country applied to the boundaries described above:

Structure of information by country in this report	
<p><b>Report boundary</b> = Iberdrola, S.A., subsidiaries and affiliates considered to be significant for sustainability purposes.</p>	<p>Spain United Kingdom United States Brazil Mexico Other countries</p> <p><b>Report boundary</b></p>
<p><b>Global boundary</b> = report boundary plus the information of affiliates consolidated by the equity method that are not considered significant for purposes of this report, as well as the information on the activities included in table B.2.2.</p>	<p>Other</p> <p><b>Iberdrola total</b></p>

**C. Limitations on scope of information**

Based on the standards set forth above, Iberdrola believes that this report reflects the economic, environmental and social performance of the company in a reasonable and balanced manner. Existing limitations and differences between both boundaries, described in the preceding sections, have a limited influence on aggregate overall data, which, in the opinion of Iberdrola, would not affect a reader’s assessment of the company’s performance.

In the future, quantitative information may be included with respect to other activities of subsidiaries or affiliates to the extent that such information contributes to an understanding of the activities carried out by Iberdrola.

102-46 Defining report content and topic boundaries

102-47 List of material topics

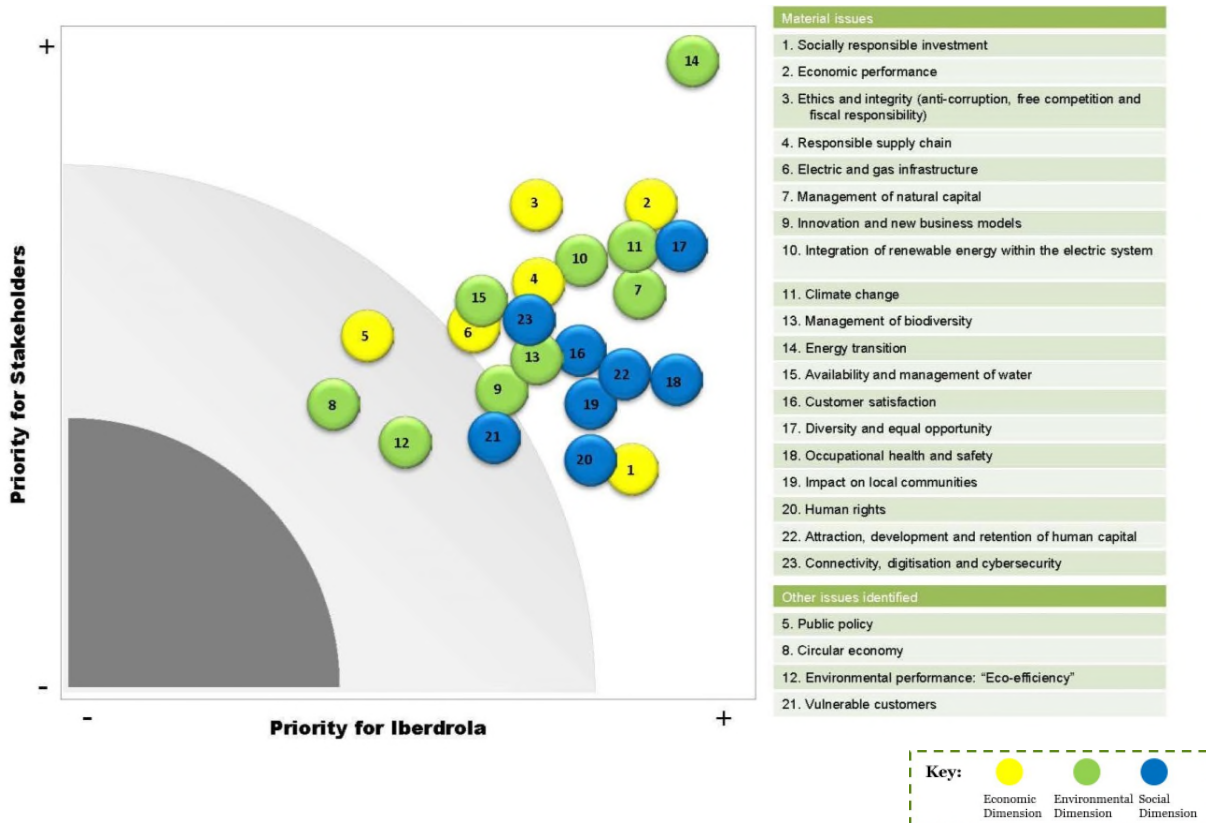
Iberdrola has indirectly identified its material aspects since 2003, using the *GRI Sustainability Reporting Standards* (and prior versions) as well as the *Electric Utility Sector Supplement*, both of the Global Reporting Initiative (GRI), as a model for preparing its annual sustainability report.

These guidelines are the result of a process in which various Stakeholders throughout the world have participated, with representatives from business, unions, civil society, the financial markets, auditors and specialists from various disciplines in the business area, regulators and governmental bodies from various countries.

The company, with a presence in countries on various continents, conforms to the various regional socioeconomic development models and has developed systems and processes to obtain the information needed to meet requests on matters of sustainability made both by GRI, with its recommendations, and by other areas of heightened awareness such as the Dow Jones Sustainability Index or the Carbon Disclosure Project. Iberdrola uses its *Sustainability Report* to provide an annual report on these issues, adhering to the materiality requirements, following macro-trends in corporate social responsibility and generally meeting Stakeholder expectations.

For greater precision, Iberdrola also directly identifies its own material aspects by preparing its own *Materiality Study* with the advice of an independent outside firm, with the aim of identifying the specific aspects of interest related to the company’s activity by consulting in-house and outside sources. Iberdrola uses this process to identify social, environmental and ethics issues that are significant to its focus on social responsibility.

The analysis for 2017 prioritises those matters of interest identified through the analysis in accordance with their significance both to Stakeholders as well as to the company’s strategy. In this way, 23 topics, shown in the following chart, have been identified as “material”:



The coverage of the material topics; that is, whether the topics are significant within the organisation (internal impact on the company or its employees) or outside it (impact outside the company, outside its scope of control or on outside Stakeholders) is reflected in detail in the management approaches throughout this report. In general terms, Iberdrola considers that its material topics have both internal and external coverage, since they directly affect the company as well as the different Stakeholders with which it has relationships

The various sections of this report offer a concrete response to the aspects identified, as shown in the following table:

Most significant issues	Special interest topics	Iberdrola's response
<b>Socially responsible investment</b>	Inclusion of ESG aspects/criteria in evaluations for making investment decisions.	
<b>Economic performance</b>	Economic value generated and distributed. Tax policy and strategy, cooperation with tax authority, tax contributions, etc.	102-7 and 102-15 GRI 201 Economic performance.
<b>Ethics and integrity</b>	Anti-corruption, free competition and fiscal responsibility.	Section 3 Ethics and integrity. GRI 205 Anti-corruption GRI 206 Anti-competitive behaviour Management approach "Fiscal responsibility". GRI 307 Environmental compliance GRI 419 Socioeconomic compliance
<b>Responsible supply chain</b>	Assessment of environmental, social and economic impacts of the suppliers. Strategies and KPIs for critical suppliers.	102-9 and EU18. GRI 308 Supplier environmental assessment GRI 414 Supplier social assessment
<b>Electric and gas infrastructure</b>	Need for efficiency improvements in transport (networks and smart meters) and for new infrastructure that improves the quality of supply. Access to electricity in developing countries.	Management approaches: "Availability and reliability" and "System efficiency", "Research and development" and "Access". EU4, EU12, EU26, EU28 and EU29.
<b>Management of natural capital</b>	Management of natural resources to ensure the future quality and availability of natural capital, as well as the sustainability of operations in the future. Identification of impacts on environment, communities, ecosystemic services, etc.	201-2 GRI 203 Indirect economic impacts GRI 301 Materials
<b>Innovation and new business models</b>	Products and services favouring efficiency and energy savings, certified energy from renewable sources, distributed generation, offshore wind energy projects, development of electric vehicles, etc.	Management approaches: "Availability and reliability", "Research and development", "System efficiency" and "Demand management". EU10 GRI 302 Energy
<b>Integration of renewable energy within the electric system</b>	Development of and investment in renewable energy. Work with strategic partners, startups, research centres and experts in the development of batteries and energy storage systems.	Management approaches: "Research and development", "Availability and reliability" and "System efficiency". 102-11, EU1 and EU10. GRI 305 Emissions.
<b>Climate change</b>	Science-based goals for reduction of emissions, emissions trading, CO <sub>2</sub> storage systems, available adaptation and mitigation mechanisms, economic impacts from climate change, evaluation of risks and opportunities, etc.	Management approaches: "Research and Development". Specific management approach to the environmental dimension. 102-15, EU5 and 201-2. GRI 305 Emissions.
<b>Management of biodiversity</b>	Identification of principal impacts on biodiversity, mainly from the construction of new infrastructure.	GRI 304 Biodiversity.

<b>Energy transition</b>	Energy efficiency to reduce the industry's energy requirements. Encouragement of energy with lower CO <sub>2</sub> emissions. Regulatory changes to encourage greater inclusion of renewable energies in the "mix". Improvements in the systems for inclusion of renewable production within the grid.	Management approaches: "Availability and reliability" and "System efficiency", "Demand-side management" and "Access to electricity". 102-15, EU1, EU2, EU10, EU11 and EU30. GRI 302 Energy.
<b>Availability and management of water</b>	Water stress. Evaluation and minimisation of impacts, especially in thermal generation.	GRI 303 Water GRI 306 Effluents and waste
<b>Customer satisfaction</b>	Evaluation of customer satisfaction and establishment of targets for improvement, management of information security and privacy, grievances and claims and other matters related to meter reading, billing, rates and contracts.	Management approaches: "Access to adequate information" and "Access to electricity". GRI 416 Customer health and safety. GRI 417 Marketing and labelling. GRI 418 Customer privacy.
<b>Diversity and equal opportunity</b>	Non-discrimination against women in the labour world and especially in management positions.	GRI 405 Diversity and equal opportunity. GRI 406 Non-discrimination.
<b>Occupational health and safety</b>	Employee and contractor health and safety management. Definition of health and safety policies. Prevention plans. Establishment of injury rate targets. Injury, casualty and absenteeism rates.	GRI 401 Employment. GRI 402 Labor/management relations. GRI 403 Occupational health and safety. EU18
<b>Impact on local communities</b>	Evaluation of the socioeconomic impact on local communities in the development of new infrastructures or on operating activities. Communication and reporting mechanisms.	GRI 203 Indirect economic impacts. GRI 413 Local communities. GRI 414 Supplier social assessment. EU22 and EU25. Management approaches: "Iberdrola's contribution to the community" and "Access to electricity".
<b>Human rights</b>	Definition of a formal policy. Analysis of risk of violating human rights in the principal areas of operation. Employee training. Management of related grievances. Rights of indigenous or minority communities.	GRI 406 Non-discrimination. GRI 407 Freedom of association and collective bargaining. GRI 408 Child labor. GRI 409 Forced or compulsory labor. GRI 410 Security practices. GRI 411 Rights of indigenous peoples. GRI 412 Human rights assessment. GRI 414 Supplier social assessment.
<b>Attraction, development and retention of human capital</b>	Employee satisfaction. Boosting reconciliation. Systems for evaluation of performance and variable remuneration tied thereto. Adjustment to needs of the new generations.	GRI 202 Market presence. GRI 401 Employment. GRI 402 Labor/management relations. GRI 404 Training and education. GRI 405 Diversity and equal opportunity.
<b>Connectivity, digitisation and cybersecurity</b>	Risks regarding connectivity and cybersecurity. Preparation of digital risk maps, definition of strategy and mitigation thereof.	Management approach: "Cybersecurity" and "Privacy of the personal information of Stakeholders".

In its commitment to transparency with its Stakeholders, apart from the topics of the GRI Standards identified as material in the table above, Iberdrola also reports on other topics included in such Standards, providing continuity with information for previous financial years. All topics reported are specifically identified in the GRI Content Index presented at the beginning of this report.

Together with these global processes of identification of and response to material issues, which Iberdrola strengthens in its public information, the company has launched a new *Global Stakeholder Relations Model*, based on the *AA1000 Stakeholder Engagement Standard (AA1000SES) 2015* standard and on its

three requirements of inclusiveness, materiality and responsiveness<sup>21</sup>, as described in section 5. “Stakeholder engagement”.

#### 102-48 Restatements of information provided in previous reports

During 2017, due to the merger in Brazil of all of the businesses of the company Elektro Holding into Neoenergia, it was deemed necessary to reformulate the information for financial year 2016 applying the same standards as in financial year 2017, in order for the information for both financial years to be homogenous and comparable. The reformulation involves the consideration of 100% of the socio-economic and environmental parameters of Neoenergia (thus reflecting the control position of the group) instead of the 39% that was used through the prior year. The economic/financial figures follow accounting standards.

Furthermore, the information in all the tables of this report has been limited to financial years 2017 and 2016. Maintaining the scorecards and tables with information for three financial years, as was Iberdrola’s customary practice, would have involved a lack of homogeneity between the information from financial year 2015 and that from the following years. This limitation will already be corrected in the next report.

#### 102-49 Significant changes in scope and topic boundaries

On 24 August 2017, all of the businesses of the company Elektro Holding were incorporated into Neoenergia. As a result of this transaction, Iberdrola increased its interest in the Neoenergia group from 39% to 52%.

The information corresponding to Neoenergia in this report is included upon the terms specified in GRI disclosure 102-45.

#### 102-50 Reporting period

2017

#### 102-51 Date of most recent report

2016

#### 102-52 Reporting cycle

Annual

#### 102-53 Contact point for questions regarding the report

General questions regarding this report may be addressed to Iberdrola’s Investor Relations and External Communication Division at C/ Tomás Redondo, 1 - 28033 Madrid – Spain, or via [responsabilidad\\_social@iberdrola.com](mailto:responsabilidad_social@iberdrola.com).

<sup>21</sup> Iberdrola has been continuously applying Assurance Standard AA1000 for the last eleven years. In 2016 Iberdrola’s Operating Committee approved a new *Global Stakeholder Relations Model* (referred to in this report), which was implemented for the first time in 2017.

Specific questions relating to the environment may be addressed to Iberdrola's Innovation, Sustainability and Quality Division at C/ Tomás Redondo, 1 - 28033 Madrid – Spain, or via [medioambiente@iberdrola.es](mailto:medioambiente@iberdrola.es).

The addresses and telephone numbers of the various Iberdrola centres worldwide, available channels of contact, customer service and the query mailboxes can be found in the [Contact](#) section of the website.

#### 102-54 Claims of reporting in accordance with the GRI Standards

This report has been prepared in accordance with the GRI Standards: Comprehensive option.

#### 102-55 GRI content index

The GRI content index is located at the beginning of this Report.

#### 102-56 External assurance

Iberdrola obtains independent external assurance of its annual information, the annual accounts and management reports (individual and consolidated with those of its subsidiaries) by KPMG Auditores, S.L. and the *Sustainability Report* by PricewaterhouseCoopers Asesores de Negocio, S.L..

# Part II. Topic-Specific Disclosures



This section provides a description of the material aspects affecting the Iberdrola group, defined based on the standard described in GRI disclosures 102-46 and 102-47 of this report.

In each "Topic", there is a description of the company's focus to properly manage and report on the results achieved, by means of the corresponding performance indicators pursuant to the disclosures of the GRI Standards. If several of these topics are managed with a similar focus, the focus is described for one of them and a corresponding cross-reference is made in the others.

In managing the material aspects identified, there are also tools, processes and procedures that are generalised throughout the company and apply to all of them, and which are described in "General management approach" and should be taken into account in order to understand the manner in which Iberdrola carries out its activities and manages the economic, environmental and social impacts thereof.



# A. ECONOMIC DIMENSION

## Contents of the chapter

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The topics dealt with in this chapter are the following:

### A. Topics of the GRI Standards

- GRI 201 Economic performance
  - o Management approach and disclosures 201-1, 201-2, 201-3 and 201-4
- GRI 202 Market presence
  - o Management approach and disclosures 202-1 and 202-2
- GRI 203 Indirect economic impacts
  - o Management approach and disclosures 203-1 and 203-2
- GRI 204 Procurement practices
  - o Management approach and disclosures 204-1
- GRI 205 Anti-corruption
  - o Management approach and disclosures 205-1, 205-2 and 205-3
- GRI 206 Anti-competitive practices
  - o Management approach and disclosures 206-1

### B. Specific topics of the electric utilities sector supplement

- Availability and reliability
  - o Management approach and indicator EU10
- System efficiency
  - o Management approach and indicators EU11 and EU12
- Demand-side management
  - o Management approach (no related indicators)
- Research and development
  - o Management approach (no related indicators)
- Nuclear plant decommissioning
  - o Management approach (no related disclosures)

### C. Specific topics of the Iberdrola group

- Costs of Supply
  - o Management approach (no related disclosures)
- "Green Financing"
  - o Management approach (no related indicators)
- Fiscal responsibility
  - o Management approach (no related indicators)
- Cybersecurity
  - o Management approach (no related indicators)
- Privacy of the personal information of Stakeholders
  - o Management approach (no related indicators)

### Scope of information

The information boundaries used in this chapter are defined in indicator disclosure GRI 102-45 of this report.

## A. Topics of the GRI Standards

### GRI 201 Economic performance

#### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



#### Management approach

The electricity sector is a significant driver of the economy, to which it continuously contributes through significant investments and the creation of high-quality jobs, both direct and indirect. Its function is to provide safe, competitive and sustainable supply. Generation technologies using renewable sources are decisive in the fight against climate change, as they allow for increased electrification of the economy, thus reducing dependency on fossil fuels.

Iberdrola continues to engage in a process of growth and internationalisation that has made it one of the leading electric companies in the world. This strong position was achieved through a sound, long-term industrial plan that is both profitable and creates value, supported by a business strategy of sustainable growth and geographic diversification.

Analysts describe a global scenario for the energy sector characterised by an increase in energy demand, tied to a need to reduce CO<sub>2</sub> emissions. Estimates call for high growth in demand in the medium and long term in emerging countries and moderate growth in the developed world. In any event, this energy transition will require extremely large investments in renewable generation facilities, in smart grids and in efficient storage; all accompanied by greater digitisation to support efficiency and the development of new products.

Iberdrola's strategy, implemented more than a decade ago, has been based precisely on these growth vectors: investment in renewables, smart grids, efficient storage and digitisation. The strategic pillars defined by the company are profitable growth, operational excellence, customer-focused operations, the optimisation of capital, and innovation. Its current leadership position reflects the benefits of its forward vision and diversification of businesses and areas. During the 2018-2022 period, the company expects to invest approximately 32,000 million euros, of which 90% will be dedicated to regulated activities (mainly networks) or long-term contracted assets.

A summary of the Iberdrola strategy can be found in the document *Outlook 2018-2022* (or in the document superseding it in a subsequent period), which can be accessed through its corporate website in the [About US](#) section.

Iberdrola's financial results for the year are summarised in the [Results](#) section of the website. Alongside these results, the company also requires its companies to explain how they are achieved and to evaluate them in terms of sustainability, understanding that adequate disclosure of non-financial information is an essential element for the sustainability of financing activities.

*Directive 2014/95/EU of the European Parliament and of the Council as regards disclosure of non-financial and diversity information by certain large undertakings and groups* (the "Directive") entered into force in 2014, and was transposed into the Spanish legal system in 2017 with the approval of *Royal Decree-law 18/2017 of 24 November*.

To respond to the new legal demands, companies to which they apply must include in their management reports or in a specific separate report information regarding their management of environmental and social aspects, as well as aspects relating to the management of people, diversity, respect for human rights and the fight against corruption and bribery, describing the risks, policies and results connected to these issues.

This *Sustainability Report 2017* covers the requirements arising from the entry into force of the new legal provision, forming an integral part of the company's management report. The [Annual Reports](#), the *Integrated Report. February 2018*, the quarterly results reports and other operational and financial information of interest can also be found on the website.

#### 201-1 Direct economic value generated and distributed

Direct economic value generated, distributed and retained (€millions)	2017	2016
<b>Iberdrola consolidated</b>		
Revenue (sales and other income)	<sup>(1)</sup> 32,714 <sup>22</sup>	30,706
Operating costs	20,446	18,588
Employee remuneration (excluding company social security costs)	2,517	2,260
Payments to providers of capital	2,916	2,692
Payments to government administrations	2,723	2,740
Community investments (verified according to the LBG Model)	63	36
Economic value retained	4,049	4,390

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

#### 201-2 Financial implications and other risks and opportunities for the organisation's activities due to climate change.

<sup>22</sup> Includes Turnover in the amount of €31,263 million and Other revenue €1,451 million.

The risks to which the group's activities are exposed differ based on the nature and dependency of the activity and of the country in which it operates. Apart from the risks detected during the operation of the facilities, Iberdrola is performing an analysis and studies of the generation, distribution and transmission businesses in order to anticipate other future risks as a result of climate change. These studies will allow for anticipatory action to adapt the business, investing in the most appropriate technologies for the planet and for Iberdrola.

The main risks arising from climate change in the medium term, as well as the principles of conduct to which the company commits and manages through its Comprehensive Risk Management System, are described in disclosure 102-15 "Key impacts, risks and opportunities" of this report. This section also describes the opportunities for the company arising from the necessary transition towards decarbonisation of the energy model, thanks to its position of leadership in renewable energy and its commitment to the transition towards a low-carbon economy.

The strong commitment and involvement of Iberdrola's senior management in the management of the group's risk is noteworthy. Their participation in the Climate Conference held in Bonn in 2017 has been equally proactive as in prior years. Iberdrola believes that the solution is in promoting clean energy, increased storage capacity and more smart grids, supporting projects of innovation and digitisation of the systems.

This commitment has allowed for the detection of a broad array of opportunities, recognising the need to deal with an ambitious scenario of decarbonisation, which means moving towards an efficient energy model, assuming that electrification is the key to facing the challenge of climate change. Along these lines, the company continues with its commitment to achieving a 50% reduction in its greenhouse gas emissions intensity by 2030 compared to 2007 levels, and to be carbon neutral by 2050.

Iberdrola commits to the transparency and communication of its climate change policies and is taking the steps needed to reduce emissions (category A within CDP Climate Change). The company has a [Policy against Climate Change](#), approved by the Board of Directors, in which the company commits to supporting international conventions to address this environmental problem, encouraging the development of efficient technologies from the standpoint of greenhouse gas emissions, boosting efficient energy use and increasing its customers' awareness of the importance of engaging in responsible energy consumption.

It has also endorsed and supports the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), created by the Financial Stability Board (FSB), the objective of which is transparency regarding risks associated with climate change. Iberdrola believes that disclosure of the financial risks relating to climate change in a consistent and improved manner will allow for the establishment of a constructive and well-informed dialogue amongst investors and companies regarding the opportunities and risks relating to their activities.

Similarly, Iberdrola has joined a number of initiatives, the most high profile of which are: Terrawatt, United Nations Climate, We mean business, CEO Climate Leaders (World Economic Forum), Un millón de Compromisos por el Clima (MAGRAMA), Comunidad por el Clima (Red Española Pacto Mundial), Carbon Pricing Leadership Coalition, World Business Council for Sustainable Development, Corporate Leaders Group, grupo Español de Crecimiento Verde, Powering Past Coal Alliance, Plataforma Nacional de Acción Climática, Asociación Española para la Economía Energética, UN Global Compact (Action Platform).

Iberdrola has a specific section on its website called [Against Climate Change](#) in order to show the company's efforts to mitigate and adapt to the consequences of climate change.

## 201-3 Coverage of the organisation's defined benefit plan obligations.

### Spain

The companies signing the *7th Collective Bargaining Agreement* jointly sponsor a voluntary employee pension plan in which 98% of the workforce participates. The periodic contributions made under said Collective Bargaining Agreement are determined as a percentage of each employee's annual pensionable salary. Iberdrola does not have any unmet financial commitments pending with respect to this plan.

### United Kingdom

98% of the workforce participate in the pension plans of the workforce in one form or another:

- The defined-benefit plan has two pension plan structures, based on company and seniority. They have been closed to new members since 1 April 2006.
- The defined-contribution plan has a pension scheme that is based on a percentage of each employee's annual pensionable salary. This scheme is optional for employees and is co-funded by the company and employees.

### United States

- The Networks Business has twelve defined-benefit plans, covering union and non-union employees, for which the company makes the contribution, with benefits being based on salary and years of service. As of 1 January 2014, all defined-benefit plans were closed to new members, except for the plans of The Berkshire Gas Company Pension Plan, Connecticut Natural Gas Corporation Pension Plan and Southern Connecticut Gas Company Pension Plan for Salaried and Certain Other Employees. The Networks Business also has defined-contribution plans with distinct and separate operations covering employees who are both subject and not subject to the collective bargaining agreement. Employees can make contributions as a percentage of their pre-tax salary (generally up to 50%). Almost 100% of the workforce is eligible to join these defined-contribution plans, with some 91% having signed up.
- The Renewables Business has a corporate defined-benefit plan, with contributions assumed by the company and benefits determined based on salary and years of service. Vesting in this plan was frozen as at 30 April 2011. It also has a defined-contribution plan with three different types of company contributions. Employees can make contributions as a percentage of their pre-tax salary. 100% of the workforce are members of these defined-contribution plans.

### Brazil

After the integration of all of the businesses of the company Elektro Holding into Neoenergia on 24 August 2017, the pension plan scheme is as follows:

- At Elektro, the Networks Business has a defined-benefit plan for employees who joined before 31 December 1997, and a mixed plan (70% of salary as defined benefit and 30% as defined contribution) for those who joined after 1 January 1998, which is closed to new entrants as from 31 December 2016. 84% of the workforce are members of both plans. For the companies of Elektro Holding (Elektro Redes S.A., Elektro Comercializadora de Energia LTDA, Elektro Holding S.A., Elektro Renováveis Do Brasil S.A., Enerbrasil-Energias Renováveis Do Brasil S.A., Elektro Operação and Manutenção LTDA.), as at 31 October 2016, a defined-contribution plan was implemented by means of which employees may make contributions as a percentage of their salary, with the business contributing the same amount.

- Coelba has a defined-benefit plan for employees who joined before 1 October 1998 (closed to new participants), and a defined-contribution plan for those joining after such date. 98% of the workforce are members of both plans.
- Celpe has a defined-benefit plan for employees who joined before 1 May 2006 (closed to new participants), and a defined-contribution plan for those joining after such date. 97% of the workforce are members of both plans.
- Cosem has a defined-benefit plan for employees who joined before 1 March 1999 (closed to new participants), and a defined-contribution plan for those joining after such date. 98% of the workforce are members of both plans.

### Mexico

The commitments to the organised employees of Iberdrola Mexico, arising from the auctions by the Federal Electricity Commission, in which Iberdrola is required to apply a Collective Labour Agreement for organised staff, are provisioned as internal funds. A defined-contribution pension plan was implemented in 2015, with 62% of the non-organised workforce with pension plan rights signing up.

### 201-4 Financial assistance received from governments

#### Financial assistance received

Financial assistance received by the Iberdrola group is shown in the following table on a consolidated basis:

Financial assistance (€ millions)	2017	2016
Capital subsidies	10	13
Investment tax credits	30	0
Emissions rights	0	0
Assistance for other items included in the GRI Protocol	0	0
<b>Iberdrola consolidated total</b>	<b>40</b>	<b>13</b>

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

#### Government participation in shareholding structure

The Iberdrola group is not aware of government participation in the shareholding structure.

### GRI 202 Market presence

#### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))





### Management approach

Consistent with its presence in the international market, the Iberdrola group has a global tool that allows for monitoring of the selection process, and a unique reporting system (SAP OneHR). Both elements allow for the internal and external publication of vacancies at the international level, and favour the mobility of employees through the various organisations and companies of the group. 2,223 internal vacancies were published in 2017, with the participation of more than 5,000 employees.

The global publication of external vacancies ensures the inclusion of all candidates within the company's processes on equal terms. More than 230,000 external candidates were recorded during financial year 2017.

The management approaches described in section 406 "Non-discrimination" of the "Social dimension" chapter of this report are applied to both remuneration as well as the selection of professionals.

### 202-1 Ratios of entry level wage to local minimum wage

The current collective bargaining agreements at the companies of the Iberdrola group ensure equality in starting wages for men and women.

Entry-level wage compared to legal minimum wage (%)	2017	2016
Spain	140.72	150.63
United Kingdom	125.52	127.32
United States	125.00	137.50
Brazil	135.18	N/A <sup>23</sup>
Mexico <sup>24</sup>	464.09	480.24

### 202-2 Senior management hired from the local community

Iberdrola's approach is to promote and favour the hiring of employees in the geographic boundaries within which it does business, also encouraging these individuals to reach executive positions in the corresponding companies. In 2017, 98.65% of executive officers at the companies of the group were local managers, defined as anyone with management responsibilities in a particular geographic area coming from the local community, therefore excluding professionals of other nationalities who are assigned there temporarily under an international mobility programme.

## GRI 203 Indirect economic impacts

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



<sup>23</sup> Data from Brazil for prior year not provided due to change in boundary.

<sup>24</sup> In Mexico, the minimum wage is generally not used as a reference for market wages; it is applied in sanctions by the labour authority, fines and limits on tax deductibility.



Management approach

In addition to the direct economic impacts that occur as a result of the cash flows that are generated, the Iberdrola group also induces additional effects or indirect impacts such as those described in this aspect.

203-1 Development and impact of infrastructure investments and services supported

During the construction and operation of its facilities, Iberdrola carries out certain infrastructure activities that are unrelated to its facilities and without a specific commercial purpose, but rather that are intended to meet the needs of the social environment, resolving existing shortcomings in the local communities. A summary of these projects with strong social impact during 2017 is provided below:

**Infrastructure**

In Spain, it has cooperated on the refurbishment of various municipal infrastructures.

In Mexico, it has participated in the construction and/or improvement of various recreational, educational and health centres, as well as infrastructure improvement and expansions of potable water and sewerage networks.

In the United Kingdom, action has been taken to improve the various infrastructures as well as landscape improvements for the enjoyment of the people near the different production centres.

In Brazil, there has been a continuation of the energy efficiency programme, both at the level of awareness-raising and disclosure as well as review and adjustment of lighting, with an expected savings of 800 MWh / year.

**Services**

Significant service activities include support for professional formation and training in areas near Iberdrola's facilities. In 2017, more than 12,000 people visited the Energy Classrooms near the windfarms in Spain. There are also two visitor centres in the United Kingdom, located at the Cruachan hydroelectric plant and at the Whitelee windfarm, where visits are received from the general public and from school groups.

Of note is the collaboration with Hydrographic Confederations and other bodies in Spain to enable various activities near the hydroelectric reservoirs (sports events, support for reproduction of certain species, etc.), by adjusting flows at certain times, as well as specific assistance in the repopulation of species.

203-2 Significant indirect economic impacts

### Indirect impacts of the businesses and facilities

From an economic standpoint, the expansion of electricity systems drives the regional economy in the region where it occurs and creates employment opportunities, contributing to economic and social enhancement.

Positive effects include:

- Facilities for the production, transmission and distribution of electrical energy are built in dispersed geographic locations. This contributes to the generation of economic activity and jobs in urban and rural environments. This can also support the revitalisation and repopulation of underpopulated rural areas.
- These same facilities create significant indirect employment in the region in the form of local contracting companies, creating demand for various lodging, security, health, mechanical, supplier services, etc.
- In local communities, professional training is promoted and skilled labour, such as services for building and maintaining wind farms, is boosted.
- Local communities are supported through sponsorship of the initiatives of social and environmental institutions and organisations.
- Due to their geographic reach, electricity activities generate fees, taxes and duties at the local, regional and national levels.

Negative effects can be considered to include the following:

- The landscape impact of the facilities, especially large ones, and the possible negative effects (during construction or operation) on traditional activities, particularly in the rural environment, such as ranching, hunting or fishing.
- Environmental risks, which may give rise to undesirable consequences for the environment, such as spills and improper emissions, or waste management; these situations might occur despite the ever more demanding operational practices developed by the group.

### Indirect impacts of the supply chain

The high volumes of Iberdrola's purchases (described in disclosure 102-9) of equipment, works and services, as well as fuel, becomes an engine for growth in the countries in which the company is present.

### Entrepreneurial support

Iberdrola supports the creation and strengthening of new entrepreneurial projects through a number of significant initiatives, including the following during 2017:

- In 2017 Iberdrola procured a volume equivalent to 38 million euros from companies in Spain that have been operating for less than 5 years, which is clear support for entrepreneurship.
- Inclusion of the specific category *Generation of employment and employment of youth* at the Supplier of the Year Awards in Spain: incentivising the suppliers to commit to youth and female employment and encouraging them to offer high-quality professional opportunities to youth, which will undoubtedly lead to an improvement in competitiveness and innovation at the companies and will allow them to retain talent.
- Iberdrola's venture capital program, *Iberdrola Ventures - Perseo*, funded with 70 million euros, is an opportunity for companies dedicated to innovative technologies and business models, ensuring the sustainability of the energy model.

## GRI 204 Procurement practices

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

A description of the Iberdrola group's supply chain can be found in disclosure 102-9 of this report.

### 204-1 Spending on local suppliers

Iberdrola maintains a strategy of creating value in the regions in which it operates. The volume of purchases made by the company each year translates into indirect employment in auxiliary industries and at service providers.

The following table shows the percentage volume of procurement from local suppliers:

Acquisition or contracting of materials, equipment, works and services from local suppliers <sup>25</sup> (%)	2017	2016
Spain	88	93
United Kingdom	85	69
United States	98	98
Brazil	100	100
Mexico	60	66
Other countries	76	N/A
<b>Total</b>	<b>88</b>	<b>84</b>

But aside from purely economic value, Iberdrola drives the market on sustainability and responsibility, encouraging suppliers to improve their environmental, ethical and social record through actions that foster excellence in their management, beyond mere technical quality, thereby helping suppliers become more competitive:

Amount awarded to suppliers with management systems (%) <sup>26</sup>	2017	2016
Amount awarded to qualified suppliers	87.2	89.0
Certified quality management system	85.0	86.6

<sup>25</sup> Based on the Tax ID or CIF assigned to the supplier, those registered in the main countries in which Iberdrola does business are considered to be local.

<sup>26</sup> Scope: Suppliers of materials, equipment, works and services with orders for amounts equal to or greater than €400,000 during the year, which represents more than 92% of the total amount contracted (information from November 2017). Does not include Neoenergia.

(ISO 9001 or equivalent)		
Certified environmental management system (ISO 14001 or equivalent)	79.5	82.3
Certified risk prevention management system (OHSAS 18001 or equivalent)	71.4	79.4

## GRI 205 Anti-corruption

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

The group's firm commitment to fight corruption and to establish mechanisms to ensure the existence of a culture for preventing irregularities is reflected in such documents as the group's [Code of Ethics](#), the [Crime Prevention Policy](#) and the [Anti-Corruption and Anti-Fraud Policy](#), all of which have been approved by the Board of Directors.

As an example of this commitment, at the beginning of 2017 Aenor granted Iberdrola, S.A. ISO 37001 certification, by which it is verified that the company has an effective Anti-Bribery Management System, resulting in Iberdrola being the first Spanish company and one of the first in the world to obtain this recognition. This is the international standard that sets the requirements and provides a guide to establish, implement, maintain, review and improve mechanisms to combat bribery practices at companies.

Within the framework of the Compliance System, various activities are carried out to encourage the organisation to act in accordance with the most stringent ethical standards and in accordance with applicable laws and regulations. In order to develop the *Crime Prevention Policy*, the company, through the Compliance Unit and other appropriate bodies, has implemented a specific and effective programme (the *Crime Prevention Programme*) as a set of measures focused on the prevention and detection of and reaction to possible crimes, which also extends to the prevention and control of other frauds, administrative infractions and serious irregularities, all within the framework of the process of review and adjustment to the most recent changes to the Spanish Criminal Code following the introduction of criminal liability for legal

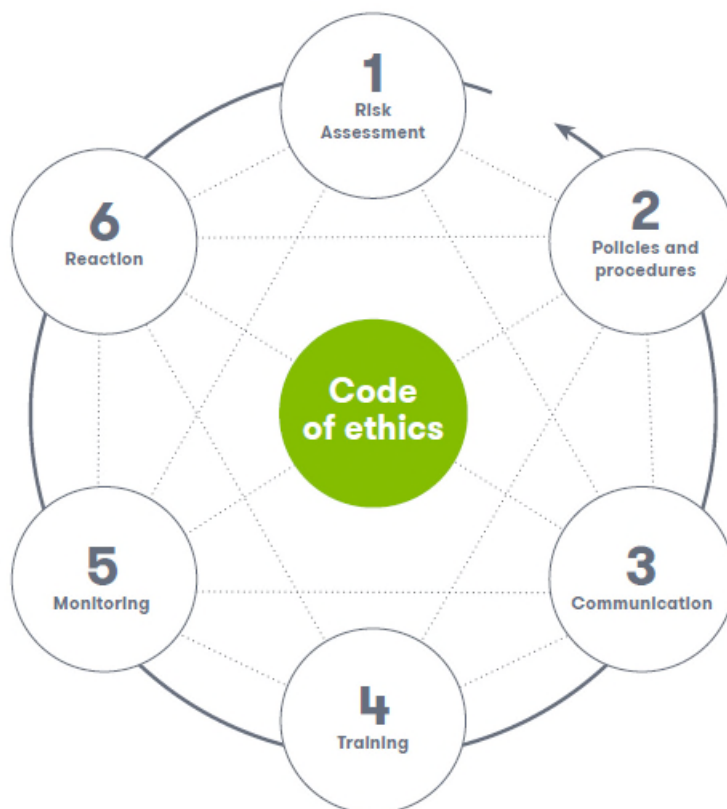
entities, without prejudice to the legal provisions applicable in any other jurisdiction in which the company does business.

Within this context, this year Aenor granted Iberdrola, S.A. UNE 19601 certification, by which it is verified that the company has an effective criminal compliance management system, resulting in Iberdrola being one of the first IBEX 35 companies to obtain it. This norm is the national standard for best practices for preventing crime, reducing risk and encouraging an ethical business culture and a culture of compliance with the law.

In 2017 the Compliance Unit also approved the *Protocol for Conduct in Professional Relations with Governments, Political Parties, Authorities and Public Officials* in order to strengthen the specific mechanisms already existing at the companies of the group to prevent any acts that might be considered corrupt or bribery in relations with said third parties.

In addition, as part of the Compliance System, the Compliance Unit promotes the development and maintenance of other initiatives for compliance with the *Code of Ethics* and legal provisions on fraud and corruption, the main goal of which is to foster a culture of corporate ethics and transparency, disseminating the principle of “zero tolerance” with respect to fraud and promoting mechanisms and actions to prevent corruption and fraud.

The *Code of Ethics* is the “cornerstone” on which the Compliance System is based and permanently functions as an element “inspiring” the other elements thereof, which are shown in the following chart:



These elements include: i) the regular assessment of risks, ii) the development and maintenance of policies, procedures and protocols on conduct of the professionals of the group describing the expected, appropriate and proper behaviour thereof, iii) the preparation of communication plans, iv) training for

employees and third parties with which we have relationships, v) permanent monitoring and review of the Compliance System through internal and external audits and control and detection methods like management of the ethics mailboxes, and vi) the establishment of response and reaction plans in case of conduct or situations that are improper or contrary to applicable legal provisions.

All activities performed by the group within this Compliance System are monitored quarterly by the Unit through the *Global Compliance Scorecard*, in which the Compliance Divisions of each country subholding and/or head of business company report quarterly, within the framework of the *General Coordination, Collaboration and Information Protocol*, the changes in a number of monitoring indicators regarding the principal elements making up the compliance programs of the respective companies.

Finally, it should be noted that in 2015 Iberdrola joined the Partnering Against Corruption Initiative (PACI), a platform through which leaders belonging to the World Economic Forum undertake to promote business conduct and practices designed to fight corruption within their organisations and to make such commitments binding on the third parties with whom they engage. Iberdrola is currently the only Spanish company to be a member of this platform.

#### 205-1 Business units assessed for risks related to corruption.

One of the principal elements of the Compliance System of the Iberdrola group is the performance of a periodic and on-going evaluation to identify situations, factors or actions that could be exposed to improper acts or to situations of corruption or fraud.

The Compliance Unit develops a dynamic review and updating process for the risks mentioned in the preceding paragraph and establishes review mechanisms and tools to determine the perception of fraud risks by officers and professionals with key responsibilities within the group, while monitoring the potential factors of exposure to the risk of corruption on an ongoing basis.

Both the corporate divisions of the company as well as all of the businesses and countries in which the group does business participate in this process and are analysed in collaboration with the Compliance Divisions of the country subholding companies and head of business companies. All of this is done following guidelines established by the Unit, which each Compliance Division adjusts and develops at their respective companies in accordance with the specific object and activities thereof.

An evaluation process was performed in 2017 based on surveys involving professionals in charge of areas and relevant processes at each of the country subholding and/or head of business companies of the group. Specifically, the scope of the analysis was the following:

- 100% of the country subholding companies making up the group: Avangrid INC, Iberdrola España, S.A.U., Iberdrola México, S.A. de C.V., Iberdrola Participaciones, S.A.U., Neoenergia, S.A.<sup>27</sup> and Scottish Power LTD as well as the principal business thereof: i) Networks Business, ii) Wholesale and Retail Business, and iii) Renewables Business.
- Furthermore, as regards the corporate divisions of the group, those areas or divisions considered to be of higher potential risk in this area have been analysed. Specifically, the following have participated: Procurement, Human Resources and General Services, Financing and Treasury, Corporate Development, Administration and Control, Investor Relations and Communication, Innovation, Sustainability and Quality, Internal Audit and International Relations.

<sup>27</sup> As a result of the integration of Neoenergia in the middle of the year, the risk analysis at this organisation was performed using its own methodology.



To perform this evaluation, guidelines and a methodology are provided that allow the compliance directors as well as the heads of the businesses and corporate functions to identify and evaluate the risks of fraud and corruption within the group, with the latter in charge of managing such risks. Based on an analysis of the information received, each Compliance Division prepares its own risk map, identifying the main controls at the group to mitigate them, and proposes improvement actions to strengthen the effectiveness of such controls, if appropriate.

This analysis is used as a starting point to determine the most effective prevention and control measures and thus allow for the appropriate allocation of resources and efforts to those areas or factors in which a potential for improvement has been identified. Accordingly, the assessment constitutes a tool upon which various actions are based and which are included within the other elements of the Compliance System.

The group has also continued to develop and strengthen its Compliance System, particularly in the anti-corruption area, focusing on the analysis and evaluation of third parties with which Iberdrola is connected. In this context, the group has multiple internal controls that try to mitigate exposure to these types of third-party risks, including:

- a) Suppliers. The group's procurement process includes *Guidelines for analysis of the risk of corruption at suppliers*, the purpose of which is to provide guidelines for the analysis of the risk of corruption associated with suppliers of equipment, materials, works and services. The documentation attached to the supplier contracting terms also includes the *Suppliers' Code of Ethics*.
- b) Public administrations and officials. In 2017, the Compliance Unit approved a new *Protocol for Conduct in Professional Relations with Governments, Political Parties, Authorities and Public Officials*, applicable throughout the group, governing employee relationships with these Stakeholders. Apart from establishing certain principles of conduct to be observed by all of the professionals, this protocol establishes certain requirements to report to the Compliance Area prior to the formalisation of any contract, agreement or pact with officials or public administrations.
- c) Corporate transactions. The Unit also approved the *Corporate Transactions Protocol* in order to establish the steps to take regarding risks associated with compliance in the case of mergers and acquisitions and other kinds of corporate transactions contemplated in the area of application thereof. This protocol contemplates the performance of due diligence prior to any transaction to be carried out within the group.
- d) Sales agents. As to these third parties, the group has specific protocols at companies that hire sales agents. This protocol also contemplates the performance of due diligence prior to any hiring of these types of third parties.
- e) Donations, sponsorships and social welfare activities. In 2016 the Unit approved the *Protocol for Transactions with Social-Welfare Content, Donations and Sponsorships*, the object of which is to evaluate the legitimacy of the beneficiary of the contribution or sponsorship and regulate the information to be collected by the proposing unit, without prejudice to the additional specific work of research and analysis that each specific contribution may require.

#### **Review of the provision of general supplies in countries presenting a risk of corruption**

To analyse supplies in countries with a risk of corruption, the company uses the *Transparency International Corruption Perceptions Index 2016 (TI CPI 2016)* as a source to classify countries by their risk level.

Procurement volumes classified by corruption risk levels are set out in the following table:



Corruption risk <sup>28</sup>	% of 2017 general supply purchases in countries on the CPI Index 2016
Low	58
Medium	17
High	25

According to the TI CPI 2016, countries with a high risk of corruption in which purchases were made from suppliers registered are mainly Brazil and Mexico. This volume of procurement is directly related to Iberdrola's investment effort in these countries, where 25% of the group's total investments were made in 2017.

Iberdrola has not made any significant purchase of general supplies from suppliers located in tax havens.

In supplier management and during the procurement process, the measures adopted by the company to protect against this risk are based either on the *Procurement Policy* or the *Suppliers' Code of Ethics* or on the specific clauses included in the contract terms attached to the orders made.

### Review of fuel supplies in countries presenting a risk of corruption

An analysis of the purchases of fuel shows the following ratios in 2017:

Corruption risk <sup>32</sup>	% of 2017 fuel purchases in countries on the CPI Index 2016
Low	48
Medium	0
High	52

According to the TI CPI 2016, the countries with a high risk of corruption in which purchases were made from suppliers registered there are mainly Mexico and Brazil. However, the company believes that the calculation should exclude purchase of fuel in these two countries because they are made in strongly regulated environments that require contracting with state-owned companies. Excluding both countries from the calculation, the high risk percentage would decrease to 14%.

### 205-2 Training and communication on anti-corruption policies and procedures

The development of effective communication and training plans is one of the key elements relied upon by Iberdrola's Compliance System to achieve its main goal of promoting a culture of corporate ethics and transparency and to prevent improper or fraudulent conduct.

Along these lines, the principal powers of the Compliance Unit include those of instituting the preparation and implementation of suitable training programmes, both in-person and online or by any other appropriate method, for the professionals of the group to receive training regarding the duties imposed, mainly by the *Code of Ethics*, the *Anti-Corruption and Anti-Fraud Policy* and the *Crime Prevention Policy*.

The initiatives included in these plans include the following activities during the course of the year:

<sup>28</sup> Low risk: country index  $\geq 60$  / Medium 59-50 / High risk:  $< 50$  on a scale of 0 (perception of high corruption levels) to 100 (perception of low corruption levels).

### Training for governance bodies

- As part of the training programme for the directors of Iberdrola, S.A., there was a training initiative in 2017 for all members of this body regarding the Iberdrola group's Compliance System.

The Compliance Unit also regularly reports to the Corporate Social Responsibility Committee on the most significant compliance issues for the period, having appeared before this body a total of four times in 2017. The issues reported on include the following: *Code of Ethics*, report on annual reports, incidents relating to the *Internal Regulations for Conduct in the Securities Markets*, *Crime Prevention Programme*, update of internal rules and regulations, scorecard, results of external evaluations and significant integration processes within the group, etc.

### Training for employees of the group

- Training and awareness-raising regarding the *Code of Ethics* and the prevention of violations thereof. In coordination with the various country subholding companies and/or head of business companies, the Unit develops and regularly updates training programmes on the *Code of Ethics* and the other rules and regulations in this area applicable to all group professionals. Such programmes foster knowledge of the action standards required at the group and promote ethical values and the principle of "zero tolerance" towards the commission of unlawful acts and situations of corruption and fraud. Various initiatives have been developed, including:
  - o Online *Code of Ethics* course. This course was launched globally throughout the group<sup>29</sup>, with a frequency of at least every two years, and a new refresher course was launched in 2017 which has been taken by a total of 21,899 employees, which is 80% of the objective.

<i>Code of Ethics</i> training	No. of employees trained	% of employees trained
Spain	8,276	80%
United Kingdom	2,954	50%
United States	6,620	99%
Brazil <sup>33</sup>	3,431	91%
Mexico	618	96%
<b>Report boundary</b>	<b>21,899</b>	<b>80%</b>

During the year, Neoenergia has had an online course regarding its *Code of Ethics* and anti-corruption issues available to all of its employees, which has been completed by 90% of its professionals, or 6,063 employees.

- o On-site training and awareness-raising sessions on the *Code of Ethics* and anti-corruption provisions given by the compliance directors of each company. During 2017 more than 2,000 employees of the Spanish companies of the group have received on-site training within this programme.
- Training on *Crime Prevention Programmes* applicable to companies domiciled in Spain. In 2016 the Compliance Unit made available to the professionals of the Spanish companies of the group an online training initiative on this topic. This online course has been available to new hires during 2017 and was taken by 269 new professionals of the Spanish companies of the group.
- Specific anti-corruption training in accordance with the legal provisions in effect in the countries in which the group operates:

<sup>29</sup> As a result of the integration of Neoenergia in the middle of the year, this company was not included in the scope of this initiative, although the company has its own specific training in this area.

- There has been a training session in Spain with the help of the law firm CMS Albiñana & Suárez de Lezo in the area of anti-corruption regulation, and more specifically regarding the *UK Bribery Act* for those employees forming part of the gas supply transactions team of Iberdrola Generación. A total of 17 employees attended this on-site training.
- In the United Kingdom, the company provides periodic online training on the UK Bribery Act and obligations under the Anti-bribery and Corruption Policy (ABC Policy) as well as on related legal provisions. The training this year has been included as an additional module in the online *Code of Ethics* course, in which more than 3,600 employees have participated. The Compliance Division of this company has also provided on-site *Code of Ethics* and anti-corruption training to intermediate management, with the participation of more than 250 professionals.
- The *Code of Ethics* training in the United States includes a short training session on anti-corruption, in which more than 6,600 employees participated. On-site training courses have also been provided to the respective Boards of Directors; specifically, a total of 14 directors of Avangrid, Inc. and 8 directors of Avangrid Networks, Inc. have received training on the U.S. Foreign Corrupt Practices Act.
- In Mexico, apart from online training on the *Code of Ethics*, which includes aspects promoting the fight against corruption, throughout 2017 the Compliance Division of this company developed on-site training meetings on key aspects of ethics and compliance. 389 professionals have participated in this training.
- Likewise in Brazil, in addition to online *Code of Ethics* training, the scope of which covered all employees of Elektro, in 2017 the Compliance Division of the company participated in a leadership event on the company's strategy to underscore the role of the executive officers in the Compliance System. A total of 200 professionals attended this event.

### 205-3 Incidents of corruption

The company has not been informed, either through the ethics mailboxes or through the corresponding legal channels via its Legal Services, of any court decisions relating to cases of corruption during the reporting period. There were also no incidents reported through the channels established for such purpose resulting in the cancellation of orders or of contracts with group suppliers.

During 2017, the European Investment Bank (the "EIB"), Iberdrola Ingeniería y Construcción, S.A.U. and Iberdrola S.A. (in its capacity as owner of all of the share capital of Iberdrola Ingeniería y Construcción, S.A.U. through the country subholding company Iberdrola Participaciones, S.A.U.) have signed a settlement agreement (the "Agreement") within the framework of the EIB's investigation relating to the Riga TEC-2 project to rebuild a thermal plant in Riga (Latvia), which was awarded to Iberdrola Ingeniería y Construcción, S.A.U. on 8 December 2005 and financed by this institution.

The Agreement contemplates that Iberdrola Ingeniería y Construcción, S.A.U. will not participate in projects financed by the EIB for a period of one year (which may be extended for six additional months if the company does not comply with certain conditions), and assumes the commitment to develop, finance and implement a specific sponsorship programme, consisting of an array of activities and measures in favour of the fight against corruption and fraud that will be performed for a period of four years from the signing of the Agreement.

Along these same lines, the Agreement includes an obligation to cooperate with the EIB and to extensively assist it in the investigation of conduct prohibited in the projects financed by the institution, and to exchange with the EIB its best practices in the area of compliance.

## GRI 206 Anti-competitive behaviour

## Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))

## Management approach

Pursuant to the *Code of Ethics*, the group undertakes to compete fairly in the market and not to engage in advertising that is misleading or denigrates its competitors or third parties. Furthermore the group undertakes to obtain information lawfully, to promote free competition for the benefit of consumers and users, and to promote transparency and free market rules, as provided in the group's [General Corporate Social Responsibility Policy](#).

In relation to the foregoing, and specifically pursuant to the provisions of the *Anti-Corruption and Anti-Fraud Policy*, the companies of the group promote a transparent environment, maintaining appropriate internal channels to favour the communication of possible irregularities, including the use of the channel of communication with the Audit and Risk Supervision Committee to report financial or accounting irregularities, and the Ethics Mailboxes, which allow professionals of the group, suppliers and shareholders of the company to communicate conduct that may entail a breach of the company's Corporate Governance System or the commission by a professional of the group of an act contrary to the law or to the rules of the *Code of Ethics*.

At the country level, each of the country subholding companies endeavours to ensure strict compliance with legal provisions on separation of activities. In many countries like Spain, where a *code for the separation of activities of the companies of the Iberdrola group in Spain* applies, applicable internal rules go beyond what is required by law, significantly strengthening the measures to prevent any anti-competitive practices deriving from a lack of separation between the liberalised and regulated businesses.

The liberalised head of business companies also have specific controls to avoid any type of anti-competitive practices, particularly in areas like advertising campaigns directed towards individuals and price manipulation.

In Spain, the generation head of business company has access to Autocontrol, a private entity that works for truthful, legal, honest and trustworthy advertising, which among other activities provides a consulting service to advise on the ethical and legal adequacy of campaigns before they are launched. It has also implemented internal processes to ensure compliance with *Regulation (EU) 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency* and the legal provisions in further development thereof, which establish rules prohibiting abusive practices that affect the wholesale energy markets. In other jurisdictions, the liberalised head of business companies have equivalent internal policies and rules.

In the practical application of applicable law, the complexity thereof might give rise to interpretations that are not shared by other market players or by the regulatory authority itself, giving rise to situations such as those described in section 206-1 requiring the intervention of the competent courts.

**206-1 Legal actions for anti-competitive behaviour, anti-trust and monopoly practices.**

Cases related to monopoly practices or anti-competitive behaviour that have been recorded at the Iberdrola group are described below.

In Spain, in 2010 Céntrica Energía, S.L. ("Céntrica") filed a claim with Commercial Court No 1, in Bilbao, claiming 11,900,000 euros in purported damages on the basis of the penalty imposed by the CNC for alleged abuse of dominant position for having failed to allow widespread access to the points-of-supply database. Iberdrola Distribución Eléctrica, S.A.U. filed a defence opposing this claim on the grounds that the case was time-barred and, in any event, because it had strictly complied with applicable laws and regulations governing the industry and with the standards established by the National Energy Commission (*Comisión Nacional de Energía*) (CNE) on this matter since 2002. Judgement was rendered for Iberdrola Distribución Eléctrica, S.A.U. in July 2010, holding that the action was time-barred. This judgement was appealed by the opposing party to the Provincial Court of Biscay (*Audiencia Provincial de Vizcaya*), and a new judgement confirming the previous judgement was handed down in July 2011. However, Céntrica Energía filed a constitutional petition for relief with the Civil Chamber of the Supreme Court, which issued a judgement in September 2013 upholding such petition, rejecting the finding that the action was time-barred, and providing for a return of the proceedings to the Provincial Court of Biscay for a resolution on the merits. As a result of the foregoing, the Provincial Criminal and Administrative Court rendered judgement in March 2014 dismissing the complaint filed by Céntrica Energía, S.L. in its entirety and deciding on the merits of the case, holding, among other things, that the causal link between the conduct followed by the distribution company and the damages claimed has not been established. In May 2014 Céntrica filed a constitutional petition for relief (*recurso de casación*) against the aforementioned judgement with the Third Division of the Supreme Court. On 6 July 2017 the Supreme Court rendered a Decision rejecting the cassation appeal, with the imposition of costs on the appealing party. The matter is thus definitively closed.

The proceeding provided for in article 88 (2) of the *EC Treaty* by the European Commission against Spain (State Aid C3/2007) continues in connection with the possibility of the regulated electricity tariff system being considered as state aid, which is forbidden under the Treaty, the beneficiaries of which would be end consumer companies, on the one hand, and electricity distribution companies, on the other. In these proceedings, which were commenced following a complaint filed by Céntrica, P.L.C. and Céntrica Energía, S.L., written comments of both Unesa and Iberdrola Distribución Eléctrica, S.A.U. were filed, with the defence focusing on the absolutely regulated nature of electricity distribution in Spain and the absence of any advantage for distributors compared with liberalised retail electricity supply companies, and considering, in short, that there was no forbidden state aid in favour of the former. In this case, which is limited to financial year 2005, a favourable final outcome is expected with a declaration that there is no unlawful assistance as regards electricity distribution companies.

In addition to the complaints filed with the EC, Céntrica has also filed various appeals applying for the annulment of national tariff provisions recognising deficits in regulated activities, to the extent that no similar deficits are recognised for retail supply activities. Both the Supreme Court and the National High Court have resolved to postpone the dates for voting and rendering a decision on such appeals until the issuance of a European Commission resolution putting an end to the proceedings concerning State Aid C 3/2007, commenced as a result of Céntrica's complaint.

Furthermore, in 2012 notice was given of the disciplinary resolution under case file S/0213/10 of the National Competition Commission, which imposes on Iberdrola, S.A., Iberdrola Generación, S.A.U. and Iberdrola Comercialización de Último Recurso, S.A.U., jointly and severally, a penalty of 10,685,000 euros for the serious infringement of distortion of competition through anti-competitive acts consisting of the transfer of contracts from the last-resort retail supplier to the liberalised retail supplier, without securing the

express consent of the consumer required under industry regulations. In 2013 notice was provided of the decision dismissing the contentious-administrative complaint filed by the three companies against the penalty. In 2013 an appeal for relief was filed against the dismissal and on 3 February 2017 a judgement on the on the appeal was rendered pursuant to which the Supreme Court annulled the sanction decision and reduced the amount of the sanction to 5,342,500 euros due to violation of the principle of proportionality, without imposing costs for the first instance proceeding before the National High Court or the petition for relief before the Supreme Court.

In the United States, a class action suit has been filed in relation to the LDC Gas Transport Service in the Algonquin Gas Transmission (AGT). On 16 November 2017, a Class Action Complaint (Breiding et al. v. Eversource y Avangrid) was filed with the District Court of Massachusetts on behalf of New England customers against the company and Eversource, alleging that certain of their subsidiaries, which used the gas transmission service provided by Algonquin Gas Transmission (AGT), which for Avangrid would be SCG and CNG, participate in natural gas pipeline capacity scheduling practices that resulted in an artificial increase in electricity prices in New England. The plaintiffs claimed redress under the federal and state antitrust, unfair competition and consumer protection laws, and under the common law of unjust enrichment. They seek to recover damages, restitution, disgorgement, costs of suit and attorneys' fees. The company is reviewing the Complaint and will vigorously defend against such claims.

As announced by the company in the Due Diligence call and in its third quarter Form 10-Q, the Connecticut regulators commenced a proceeding to review the gas supply portfolio, asset strategies and practices of the three local distribution companies. In addition, FERC and the Massachusetts State Commission are reviewing the matter. SCG and CNG are required to provide a safe and reliable natural gas service to their customers. SCG and CNG reserve and nominate / schedule the gas pipeline schedule to protect their customers against interruptions, even during extreme and unpredictable weather conditions. These companies operate in Connecticut, where they are required to serve as the "last-resort supplier" for retail, commercial and industrial natural gas customers interconnected to the gas distribution companies. In providing service to the customers, Avangrid seeks to comply with all regulatory requirements, both state and federal.

No cases related to monopoly practices or anti-competitive behaviour have been recorded at the other companies of the Iberdrola group.



## B. Electric Utilities Sector Specific Aspects

### Availability and reliability System efficiency

#### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



#### Management approach

##### Spain

The planning of generation in Spain is a government function and is indicative in nature, as participants make investment decisions within a free-market environment.

Analysing the reliability of the short-term electricity supply is a task assumed by the System Operator, which regularly studies different operation scenarios to verify the robustness of the system. Iberdrola significantly contributes to increasing reliability in the operation of the system by providing great flexibility through hydroelectric generating capacity as well as with a pioneering renewable energy control centre.

The Networks Business also contributes to guaranteeing reliability, performing studies to identify the short- and long-term investments needed to meet the increase in demand and to renew older facilities by adopting more modern technologies, with a view to guaranteeing a more operational and reliable network. Of note is the major deployment of smart meters in the electric grid, with more than 10 million already installed, a modernisation of 97% of the company's meters in Spain. The investments in smart distribution grids helps to improve reliability and availability of the networks.

##### United Kingdom

A large part of the United Kingdom's generating facilities is reaching the end of its use life, and the government is determining an energy policy and regulations to enable renewal without endangering the safety of supply. There are auctions of capacity in which the government calculates the amount of capacity required, depending upon its system reliability target, and industry players offer their facilities until such need is met. February 2018 saw the fourth long-term T-4 auction, in which both existing plants and new projects took part. Iberdrola is developing new projects in the technologies promoted by government policy over the next decade: offshore wind and combined cycle.

Electricity transmission network activities are governed by the RIIO-T1 plan over the 2013-2021 period. Significant investments are being considered during this period, with a dual purpose: first, to increase the transmission capacity of interconnections between Scotland and England, and second, to enable the

evacuation of energy from all renewable facilities expected in the short to medium term. Both objectives will make it possible to guarantee reliable, high-quality service in the coming years.

The reliability of electricity distribution networks is ensured through studies that make it possible to identify the short- and long-term investments needed to meet new demand and to renew older facilities, all of which is managed in accordance with the RIIO-ED1 framework for the 2015-2023 period. The investments in smart distribution grids helps to improve reliability and availability of the networks.

### **United States**

Iberdrola is among the leading producers of wind energy in this country. The construction of a new electricity transmission corridor from Canada to the United States through the State of Maine is an element that allows for the integration of growing wind production, improving grid stability and the reliability of both systems.

The group's North American companies act in accordance with the laws and regulations of the states in which they operate. In the state of New York, the companies participate in planning activities through official bodies, ensuring that they can meet short- and long-term demand under proper conditions of reliability and safety.

The System Operator (ISO) operates within the reliability margins set by the North American Electric Reliability Council, the Northeast Power Coordinating Council and the New York State Reliability Council (NYSRC). NYSRC sets the installed capacity reserve margin, as well as the required level generating capacity, such that the loss of load in the New York control region is no more than one day per ten years. In New England, ISO-NE sets installed capacity requirements (ICR) using similar criteria.

In the State of Maine, transmission and distribution companies have no authority over energy planning, and cooperate with official bodies on operational matters that may be required by such bodies. In any case, electricity distribution companies guarantee reliability, carrying out studies that make it possible to identify the short- and long-term investments needed to meet the increase in demand and to renew older facilities by adopting more modern technologies, with a view to ensuring a more operational and reliable network.

### **Brazil and Mexico**

The group's companies in Brazil manage major electric distribution areas and electricity production plants. It works in close cooperation with the public administrations, developing systems to help them attain energy planning goals, achieving the desired balance between available resources and the quality and reliability of the electricity supply.

Iberdrola's Networks Business contributes to ensuring the reliability of electricity supply, making investments to meet the rapid increase in demand and electricity consumption in the areas in which it distributes, ensuring a more functional and reliable network. It also invests in electricity transmission projects that will encourage robustness by improving the backbone of the system.

The group's companies in these countries also participate in developing generating facilities (thermal and wind, hydroelectric, wind and photovoltaic power).

### **Fuel**

A key element in managing the availability of electricity service is the procurement of the necessary fuel. Iberdrola ensures it has a global portfolio of gas and coal contracts that is flexible and geographically diverse. This is in addition to a stable, long-term and low-risk supply of nuclear fuel.



The risk of fuel cost is managed using financial contracts that fix the price of the fuel at a particular time, allowing for reduction of risks and ensuring a margin on forward sales. These financial contracts are primarily used to fix the costs of coal and gas under long-term contracts. Derivatives are also used to cover fuel costs in euros, as purchases are usually made in U.S. dollars.

### EU10 Planned capacity to address projected electricity demand over the long term

The companies of the Iberdrola group have no direct responsibility for long-term planning processes for the corresponding electricity systems in the countries in which they operate.

Public authorities conduct the studies needed to anticipate the long-term needs of the respective electricity system, and Iberdrola's companies act as market agents, making investment decisions that are consistent with their business plans.

### EU11 Average generation efficiency of thermal plants

The efficiency of Iberdrola's thermal generating facilities is shown in the following table:

Average thermal efficiency <sup>30</sup> at generating facilities (%)	2017	2016
Combined cycle	53.57	51.82
Conventional thermal	34.38	33.00
Cogeneration	53.81	56.14
<b>Report boundary</b>	<b>52.76</b>	<b>51.08</b>

Combined cycles represent 62% of the group's thermal production<sup>31</sup>, as derived from the information reported in disclosure EU2 of this report.

Information on thermal efficiency in the various countries is described Annex 3 Supplementary Information.

### EU12 Transmission and distribution losses

Transmission and distribution network losses (%)	2017	2016
<b>Transmission</b>		
United Kingdom	2.12	1.13
United States	2.67	2.66
<b>Distribution</b>		
Spain	6.70	6.89
United Kingdom	6.32	6.22
United States	3.59	4.79
Brazil <sup>32</sup>	12.24	12.46

<sup>30</sup> Average of efficiencies weighted by the annual production of each thermal power plant.

<sup>31</sup> Includes nuclear generation.

<sup>32</sup> All Iberdrola group networks in Brazil are classified as distribution.

Loss reduction programmes are implemented each year in all regions to improve the reliability and availability of the supply network, which has made it possible to reduce, or at least maintain in most cases, the level of losses. The measures taken are identified in disclosure 302-4 Reduction of energy consumption.

## Demand-side management

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

As part of its demand-side management programmes, Iberdrola's main objective is to improve energy efficiency and the smart use of active electrical grids to thus contribute to the more efficient use of energy by consumers, and thereby reduce CO<sub>2</sub> emissions and contribute to the fight against climate change. The types of actions taken include those relating to information, training and the supply of solutions and technologies that help them improve energy efficiency and reduce the environmental impact of their energy habits and consumption. Iberdrola engages in demand-side management in all of its geographic areas and for its various types of customers.

The most significant specific features of this type of programme in each market are as follows:

#### Spain and Portugal

Iberdrola sells a wide range of products and services that promote efficiency, energy saving and environmental protection:

- Energy efficiency: efficient air conditioning and lighting, capacitor banks, home automation systems and other solutions.
- Renewable energy facilities: solar photovoltaic energy.
- Comprehensive management of energy supplies.
- Electromobility.

In 2017 more than 800,000 customers benefited from products and services that improve energy efficiency.

Noteworthy is the launch in 2017 of the *Smart Irrigation* product, which permits the programming and more efficient control of residential sprinklers. This product supplements others launched in prior years, like smart thermostats, electricity meters capable of distinguishing consumption by the main appliances, etc.

In the industrial and commercial sectors, there are initiatives to diagnose and propose measures for energy savings and efficiency, like efficient lighting, efficient air conditioning, etc.

Iberdrola has also commenced the development of 2 energy efficiency programmes that were approved in Portugal's *Plan to promote efficiency in energy consumption* (PPEC 2017-2018), which is expected to close in 2018.

Other activities to promote energy efficiency were also carried out through the website, campaigns, customer invoices, etc.

### United Kingdom

In the residential customer market, ScottishPower is participating in the *Energy Company Obligation (ECO) Programme*, sponsored by the British government, the purpose of which is to reduce CO<sub>2</sub> emissions and heating costs. It also provides energy consultancy and support services through a range of channels.

The company's projects in the area of commercial and industrial customers are focused on energy savings, cost reductions and CO<sub>2</sub> emissions. These include projects for managing connectivity at buildings and audits to identify low-cost and easily-applied energy savings measures.

In addition, there has been continued development of the Demand-Side Response (DSR) products to generate business opportunities through the management of one's own energy consumption based on network requirements.

### United States

In Maine, residential demand-side management programmes are developed by the *Efficiency Maine Trust*, rather than by electricity companies directly. In addition, the New York Public Service Commission defines goals for the State of New York. In both cases, both the goals and the scope for the 2016-2018 period have been defined. It should also be noted that the Massachusetts energy efficiency programmes have reached 1st place in the American Council for an Energy-Efficient Economy ranking, for the sixth consecutive year, with *Home Energy Solutions* being most noteworthy for reducing total energy consumption of the homes within the programme.

### Brazil

The companies of the Neoenergia group carry out various energy efficiency programmes for residential customers. For example, there is a programme aimed at low-income customers and focused on replacing incandescent lights with led lights, old refrigerators with more efficient ones, etc. Another programme is directed towards environmental improvement, and consists of the exchange of urban solid waste for financial credits on customers' electric bill, to help raise awareness regarding recycling and caring for the environment. There is also a programme for training in the efficient and safe use of energy for educators, students and the general population.

In the institutional segment, Neoenergia has carried out a range of projects relating to the improvement of energy efficiency, the replacement of inefficient lighting and the generation of solar energy.

## Research and development

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

As part of a clear strategy, which is set out in the *Innovation Plan 2015-2017* and continues in the new *Innovation Plan 2018-2020*, innovation is Iberdrola's primary tool for ensuring the company's sustainability, efficiency and competitiveness, based on:

- Disruptive technologies, which seek efficiency, sustainability and environmental friendliness, and optimise the operation of facilities and processes.
- Digitisation and automation in all businesses and processes, to create value in the management of the life cycle of assets, optimisation and aggregation of the network, and the design of integral services for a digital customer.
- Innovation with start-ups, entrepreneurs and suppliers. The company is a pioneer in encouraging innovation by start-ups, entrepreneurs and suppliers in order to develop new disruptive business models, favour the exchange of knowledge and be a driving force among its partners.
- Culture of innovation and talent. Iberdrola promotes a culture of innovation through the transfer of knowledge, attraction of talent and promotion of the entrepreneurial spirit. This includes the *Accelerator* project, which wagers on the internal talent of its employees in order to ponder the keys to making the company the "utility of the future" and launching the *Iberdrola Universities Project*, which groups together all activities in the academic world.

Thanks to human and financial efforts (246 million euros in 2017) allocated to research, development and innovation (R&D&i), Iberdrola is in the vanguard of developing new products, services and business models that are transforming the energy sector.

Some of the innovative initiatives are set out below, classified by major category:

#### Renewable energy

2017 saw continued work on R&D&i projects specifically designed to develop solutions to reduce costs and improve energy efficiency, to integrate renewable energy and to develop new construction designs or processes: projects like *ROMEO*, coordinated by Iberdrola, for early detection of failures using big data techniques, the *ESS2Wind* project for the analysis of windfarm storage systems, and the *Andalusia* substation at the Wikinger wind farm, with an innovative design.

#### Clean generation technologies

In 2017, efforts in the generation area centred on operational flexibility and efficiency, respect for the environment and improved safety at facilities:

- **Flexibility, operational efficiency and safety of facilities:** The *Prexes* project has been successfully carried out, with the development of a model for predicting expansion in concrete hydraulic structures. As for safety of the facilities, there has been continued operation of the *Vidagen* project to design and develop a tool for the lifetime management of pressurised equipment.

In the nuclear segment, the *Filtronuc* and *OPD* projects are of note. The first, completed in 2017, developed a new filtered venting system to maximise performance without diminishing the safety of the system. The *OPD* project seeks to develop an open phase detection system in feeding the start-up of nuclear plants.

- **Environment:** Iberdrola has completed the *CO<sub>2</sub>FORMARE* project, focused on cooling systems at plants to reduce their environmental impact, by means of which it has developed and validated a solution to the problem of macrofouling in these systems.

### Retail - New projects and services

Innovation is essential in retail activities, in order to be able to offer customers the products and services best suited to their needs. Iberdrola continues to work on the development of new products and services, including the *Customer app*, with improvements in performance and a redesign of the app, launched in 2017 for Android and expected to launch in 2018 for the iPhone, and *Smart Irrigation*, which allows one to more efficiently programme and control residential water sprinklers.

### Smart grids

The group's R&D&i activities in electric energy distribution focus on optimising the distribution grid, with special attention on the development of smart grids, with various projects in all of the countries in which it distributes electricity.

In Europe there has been completion of the *UpGrid* project, which enhances the group's ability to integrate active demand and distributed generation under low voltage. The *ASSURED* project has also commenced to develop solutions for fast charging of heavy-duty electric vehicles. Iberdrola also participates in the *INTENSIS44EU* project, which seeks a new focus in the area of smart grids and energy storage.

In the United Kingdom there is development of the *Fusion* and *LV Engine* projects to optimise low-voltage grids, *FITNESS* to continue developing sustainable solutions for the deployment of a new smart grid, and *Assess Late* to analyse future impacts on the distributed generation network.

In Brazil, there are innovation projects to develop smart grids, like *Bid Monitor*, which seeks to develop a support system for decision-making in electricity sales, and *Smart City* for the implementation of an urban benchmark model based on smart grids.

In the United States, there are initiatives included in the *Energy Smart Community* programme to efficiently connect consumers, community and the distributed energy resources market. Also noteworthy in the State of New York are the *Energy Marketplace* projects to facilitate transactions between suppliers of distributed energy and customers, and *Flexible Interconnect Capacity Solution*, which seeks to define less costly and more rapid methods of connecting large distributed energy resources.

Iberdrola has an R&D&i smart grid technology centre in Qatar, at which it continues to develop projects in this field.

### Iberdrola Ventures - Perseo

*Iberdrola Ventures - Perseo* is Iberdrola's corporate venture capital programme with €70 million euros to promote the development of a dynamic ecosystem of start-ups and entrepreneurs in the energy sector. Since its creation in 2008, more than €50 million have already been invested in start-up companies developing technologies and new businesses in the energy sector worldwide. The main activities in 2017 included:

- Investment in the equity of the U.S. company *Innowatts*, focused on the development of artificial intelligence solutions for the energy sector.
- Social investment includes investment in the company *Ilumexico*, dedicated to electrification in rural areas of Mexico. This is Perseo's second investment in projects with high social impact, and is also included within Iberdrola's *Electricity for all* programme.

Further information on the R&D&i projects in which Iberdrola participates can be found in the [Innovation](#) section of the corporate website.

## Nuclear plant decommissioning

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

The company Empresa Nacional de Residuos Radiactivos S.A. (hereinafter, "Enresa") has been responsible for decommissioning nuclear power plants since 1984. This state-owned company is also in charge of managing radioactive waste and spent fuel.

Enresa prepares the *General Radioactive Waste Plan (Plan General de Residuos Radiactivos)* (PGRR), which is the basic document setting forth the strategies to be followed and activities to be carried out in Spain in the fields of decommissioning nuclear power plants and managing radioactive waste and spent fuel. The plan, which also includes a financial/economic study of such activities, is submitted for approval to the Ministry of Energy, Tourism and Digital Agenda (MINETAD) every 4 years or upon request therefrom.

A fund managed by Enresa has been set up to finance the activities contained in the PGRR. The fund includes provisions for the decommissioning of nuclear power plants.

As a company that owns part or all of 7 nuclear reactors, Iberdrola makes contributions to the nuclear plant decommissioning fund through a fee that is calculated by Enresa and approved by the government, in order to cover all management expenses for radioactive waste, spent fuel and the decommissioning of such plants.

In addition, Iberdrola allocates funds to cover the pre-decommissioning stage of its nuclear power plants. Pre-decommissioning means the period between the final shutdown of the plant and the moment when the ownership of the plant passes to Enresa for it to commence decommissioning. This is an estimated period of 3 years, during which all spent fuel - from both the reactor and the pool - must be removed, treated and stored in containers.

Nuclenor, S.A., a company 50%-owned by Iberdrola, created a provision for the pre-decommissioning of the Garoña nuclear plant, from which it has begun to pay expenses upon the cessation of the plant's commercial operation.

## C.

# Specific aspects of the Iberdrola group

### Supply costs

#### Management approach

The cost of electricity supply and the energy transition are taking on a greater role in the political and social agenda. The principal challenge is to reconcile secure and environmentally friendly supply with the use of renewable energy at prices that are competitive and can be afforded by society as a whole.

The electricity sector, which by nature is a basic service for society, is broadly regulated in the various countries in which Iberdrola operates, with varying levels of liberalisation in each. The most significant issues being debated and regulatory developments currently occurring in these countries are described below:

#### European Union

- The Agency for the Cooperation of Energy Regulators and the European Commission, in studies on electricity prices published in 2016, confirmed that taxes and components associated with energy and environmental policies have grown the most, reaching half of the bill in countries like Spain. This increase in costs associated with energy and environmental policies is mainly due to the electricity sector being the only sector that financially supports the renewable energy development goal imposed by the European Union. A competitive electricity supply requires the elimination of cost components outside of the service itself, and paying for these costs through general taxes or taxes on all polluting energies.
- The strategy of the Energy Union that commenced in 2015 and that was specified in legislative proposals like the *Clean Energy for All Europeans* (2016) "package" responds to the need to comply with the 2030 environmental agenda (40% reduction in GHG emissions, 27% increase in renewables and 30% improvement in energy efficiency), monitoring the safety of supply and the competitiveness of the European industry, and allowing prices that are accessible for European citizens.

#### Spain

- The price of electricity supply in Spain is less than the European average. This is despite the fact that less than half the costs of supply are directly related to providing the service. The rest derive from the pursuit of energy policy goals (aid for renewable energy and cogeneration) and social goals (subsidies for electricity in non-mainland territories, recovery of tariff deficits from previous years, etc.).
- Iberdrola has established a *Vulnerable Customer Protection Procedure* in order to ensure energy supply to economically disadvantaged citizens. These are supplies under subsidised rates (*bono social*) due to being pensioners or to the unemployment of all members of a family unit. Since 2015 Iberdrola has also been encouraging the signing of agreements with various public institutions and NGOs, consistent with its goal of protecting customers who cannot pay their gas and electricity bills. 100% of the domestic customers of Iberdrola reside in a locality protected by an agreement.



### United Kingdom

- The debate on prices has focused on higher standard variable tariffs (SVTs, which only apply to customers who have not made an explicit contract decision): reducing the number of people with SVTs and the disadvantages thereof. Iberdrola has the lowest proportion of SVTs amongst the large suppliers.
- Although the government continues to focus on minimising the costs that it controls, it has maintained capacity auctions, the minimum price of CO<sub>2</sub>, and has announced the next auction of Contracts for Differences.

### United States

- 2017 was marked by the approval of the Tax Reform: decrease in corporate tax, elimination of the Alternative Minimum Tax, etc. This reform does not include a chapter dedicated to energy, for which reason the tax credits for renewable energy (PTC/ITC) continue in force as established in 2015.
- The Department of Energy (DOE) proposes a revocation of the *Clean Power Plan* without defining its plans for future rules governing emissions.
- In 2017 a DOE report was published on the reliability of the system, the principal conclusion of which is that the reduction in installed coal and nuclear capacity is to a large extent the result of low natural gas prices and not competition from renewable technologies.
- Tariff revisions reflect pressure by regulators to limit returns on capital, while maintaining the investments required to improve the network infrastructure.
- The development of smart grids, the rapid replenishment of supplies in the face of extreme weather conditions, new EPA regulations, and the integration of new energy sources require major investments, which sometimes conflicts with the goal of reducing final tariffs.

### Mexico

- Energy reforms were launched in 2014, with one of the key goals being to improve competition and lower electricity prices for end users.
- With the opening of electric power generation to private investment, renewable generation objectives and other measures, such as auctions for the purchase of clean energy certificates, the reform is encouraging competition in order to diversify the energy matrix and reduce the costs of generation
- In November 2017 the CRE published a new methodology for calculating the regulated rate for basic supply, which is now additive, reflecting the costs of the system. It will be implemented progressively during the first months of 2018, except for domestic consumption, which remains with the old methodology indefinitely.

### Brazil

- 2017 was marked by a position of energy overcontracting by the distributors, caused by the reduction in consumption deriving from the economic crisis, consumer migration to the free market without distributors being able to reduce the contracts, and assignment of contracts for a higher-than-necessary amount. The regulatory bodies and government have approved a set of measures resolving this distributor risk.

As an electricity operator in these countries, Iberdrola maintains a spirit of cooperation with regulators of the electricity supply systems to help to define their growth, and will operate within the established regulations, supporting frameworks that expand free-market activities and market transparency and

encourage required investments and efficient operations, through tariff schemes that send efficient signals to consumers and do not penalise them with costs unrelated to the supply of electricity.

## Green financing

### Management approach

Iberdrola is the first Spanish company in the world to issue *green* bonds, in order to align with its vision and values, optimise the cost of its debt and diversify its sources of financing.

The differentiating feature of such bonds is the commitment of the issuer to use the proceeds to finance or refinance socially responsible projects like renewable energy, improving efficiencies in electricity transmission grids and researching more efficient energy sources. The issuer also commits to regularly report the return on its investments in these projects in terms of sustainability.

The company issued its first *green* bond in 2014, and since then has intensified its financing in this SRI (Socially Responsible Investing) focused market, with many more issues, in various areas: both public and private, senior and subordinate (November 2017 hybrid bond), by the corporation as well as its subsidiaries (Avangrid *green* bond in November 2017).

The validation of the projects eligible for each issue can be found in the corresponding *Second Party Opinion* prepared by VigeoEiris and available on the corporate website. It is important to note that the issue of this type of financial asset requires not only compliance with the *Green Bond Principles* at the operational level, but also the existence of a strong sustainability profile of the issuing group.

The table below summarises the environmental benefits in 2017 related to investments financed with the *green* bonds issued by Iberdrola.

Bond	Area of investment	Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO <sub>2</sub> avoided due to the bond (Tm)
XS1057055060	Renewables*	474	944	245,471
XS1398476793	Renewables	736	1,432	401,507
XS1490726590	Renewables	403	792	278,812
XS1527758145	Renewables	539	1,070	276,091
XS1564443759	Renewables	111	221	56,926
XS1575444622	Renewables	340	220	56,712
XS1682538183	Renewables	279	301	106,082
XS1721244371	Renewables	648	916	322,544

\* Among others

For more details on these issues and their sustainability returns, see the *Report on Green Bond Returns* available in Annex 2 of this report.

## Fiscal responsibility

### Management approach

The fiscally responsible behaviour of all companies of the Iberdrola group forms part of the [General Corporate Responsibility Policy](#) which contemplates basic principles of conduct that must be respected. The taxes that the group pays in the countries and territories in which it operates are the main contribution of the companies of the group to sustaining public expenditures, and thus one of their contributions to society.

The values that guide the corporate policies, internal rules and other internal codes and procedures include ethical principles, good corporate governance and institutional transparency and loyalty.

In 2010 the Board of Directors approved a [Corporate Tax Policy](#), which was last updated on 21 February 2017. This Policy contains the tax strategy of Iberdrola, S.A. and its commitment to the application of good tax practices, and is applicable to all companies of the group in all of the countries in which it operates.

The *Tax Policy* defines a number of principles, including:

- *“The prevention and reduction of significant tax risks, ensuring that taxes bear an appropriate relationship to the structure and location of activities, human and material resources, and the group’s business risks”.*
- *“The strengthening of the relationship with tax authorities based on respect for the law, fidelity, reliability, professionalism, cooperation, reciprocity, and good faith, without prejudice to the legitimate disputes that, observing the aforementioned principles and in the defence of the corporate interest, may arise with such authorities concerning the interpretation of applicable legal provisions”.*
- *“Envisaging the taxes that group companies pay in the countries and territories in which they operate as the principal contribution to sustaining public expenditures, and therefore one of their contributions to society”.*

And by application of these principles, the group assumes the following good tax practices, among others:

- *“Not to use artificial structures unrelated to the Company’s business for the sole purpose of reducing its tax burden nor, in particular, enter into transactions with related entities solely to erode the tax basis or to transfer profits to low-tax territories”.*
- *“Avoid opaque structures for tax purposes, which are understood as structures calculated to prevent knowledge by the competent tax authorities of the party ultimately responsible for the activities or of the ultimate owner of the assets or rights involved”.*
- *“Not to create or acquire companies resident in tax havens, with the sole exception of those cases in which it is forced to do so because it is an indirect acquisition in which the company that is resident in a tax haven is part of a group of companies that are being acquired”.*

- “Follow the recommendations of the good tax practices codes implemented in the countries in which the companies of the Group do business, taking into account the Group’s specific needs and circumstances”.

Iberdrola, S.A. has thus adhered to the *Code of Good Tax Practices* approved on 20 July 2010 by the full Forum of Large Businesses (*Foro de Grandes Empresas*), established on 10 July 2009 at the behest of the National Tax Administration Agency (*Agencia Estatal de Administración Tributaria*). Iberdrola’s commitment to compliance with, further development and implementation of the Code will extend to any other good tax practices that stem from the recommendations of the Code in effect at any time, even if not expressly set forth in the *Corporate Tax Policy*.

The Iberdrola group does not include within its controlled affiliates and assets any that are resident in tax havens, pursuant to the laws in this regard (Royal Decree 1080/1991 of 5 July and respective updates thereof). With the integration of Neoenergia into the Iberdrola group at the end of August 2017, it indirectly holds an interest in a company called *Garter* (an inactive company resident in the British Virgin Islands) that is expected to be liquidated in the near future.

Furthermore, although the State of Delaware is not considered a tax haven under the above legal provisions, due to the interests involved, it is appropriate to state that various companies within the Iberdrola group were incorporated in this state. In fact, in the United States, it is customary practice to incorporate companies in the State of Delaware, due to the development of its commercial law and strong jurisprudence. This combination provides strong legal security in the commercial arena.

However, the tax domicile of the companies (which determines the tax system applicable thereto and where they should register for such purpose and pay taxes) is determined by the place where the administration and management of the businesses of the companies is concentrated, regardless of the place of incorporation. Thus, the companies of the Iberdrola group incorporated in Delaware as well as in any other state of the United States have their tax domicile and pay taxes in the states in which the centres of activity of the consolidated tax group of which they form a part are located, which does not include Delaware. In summary, the companies of the Iberdrola group are incorporated according to objective business standards and not to tax engineering structures.

Iberdrola is fully aligned with the principles and actions proposed by the OECD’s “BEPS Plan”. Specifically, as regards Transfer Pricing, state that the group assesses related-party transactions at arms’-length prices in line with the OECD Guidelines in this area. Furthermore, all existing related-party transactions of the group are duly documented on the terms provided by the legal provisions of the various countries. The group is also committed to the preparation and presentation in due time and form of the Country-by-Country Report upon the terms provided by the law of its parent company, Spain. In the Country-by-Country Report 2016, submitted in 2017, information regarding the activities of the group during 2016 was reported, as was information regarding all taxes paid and collected by the companies of the group in the various tax jurisdictions in which it is present.

In 2017 Iberdrola was ranked as the leading company on the tax transparency ranking of Ibex 35 companies, prepared by Fundación Compromiso y Transparencia based on 2016 information, in recognition of its good tax practices and its transparency.

The taxes paid are presented in the following table:

Tax contribution (€ millions)	2017	2016 <sup>33</sup>
<b>Iberdrola consolidated</b>		
Company contributions	2,723	2,768
Contributions due to third-party payments	4,388	4,360
<b>Total</b>	<b>7,111</b>	<b>7,128</b>

99% of taxes paid (total contribution) by the group occur in the five most relevant countries. A detailed breakdown by geographic area can be found in Annex 3 Supplementary Information.

## “Cybersecurity”

### Management approach

In order to ensure appropriate protection of the group’s physical and IT assets, in April 2015 Iberdrola’s Board of Directors approved the *Cybersecurity Risk Policy*, which establishes a global framework for the control and management of the cybersecurity risks applicable to all the companies of the group. In particular, it refers to the risks arising from threats to and vulnerabilities in information, information technology and communications systems, facilities and any other asset that forms part of the group’s cyber-infrastructure. It also establishes the guidelines for a cybersecurity management model common to the entire group, based on the establishment of a Cybersecurity Committee and on the development of global rules and standards to be applied within all the businesses and corporate functions.

The group’s Cybersecurity Committee, on which all businesses and corporate functions are represented, promotes and supervises the deployment of this policy and the cybersecurity strategic plan throughout the organisation, based on risk analysis and management, the application of technical and organisational measures for appropriate protection and resilience of assets based on the critical nature thereof, training and awareness-raising of the entire workforce, cybersecurity in the supply chain and the management of threats and incidents, including external monitoring work to defend the brand and the company’s customers against potential cybernetic risks and frauds through social engineering.

## Privacy of the personal information of Stakeholders

### Management approach

Iberdrola has a *Personal Data Protection Policy*, approved by the company’s Board of Directors in 2015 and last amended on 20 February 2018 to conform to the new European Data Protection Regulations, to ensure the privacy of the personal information of the group’s Stakeholders. Its purpose is to guarantee the right to the protection of data of all individuals dealing with companies belonging to the group, ensuring respect for the right to dignity and privacy in processing of the personal data, and particularly the establishment of the common principles and guidelines to govern the group regarding the protection of personal data, guaranteeing compliance with applicable law on this topic in all countries in which the group is present.

To further develop this policy, on 20 June 2017 the Global Cybersecurity and Data Protection Committee approved a *Global Personal Data Protection Framework* of the Iberdrola group, which establishes the general standards and the global governance model on personal data protection and defines responsibilities in this area. The Legal Affairs Division and Corporate Security Division are the bodies of the

<sup>33</sup> For better comparability of the 2017 and 2016 information, 100% of the taxes paid by Neoenergia in Brazil during 2016 are included.

company responsible for applying these principles, with the technological support of the System Division for the processing of personal data by the group, as well as the areas using them.

The Iberdrola group has also appointed a Global Data Protection Officer, who will rely on a network of Data Protection Officers in each of the countries in which the group operates to ensure proper supervision of compliance with applicable law at the local and transnational level.

# B. ENVIRONMENTAL DIMENSION

## Contents of the chapter

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The aspects dealt with in this chapter are the following:

### A. Topics of the GRI Standards

- GRI 301 Materials
  - o Management approach and disclosures 301-1, 301-2 and 301-3
  - o Additional information required by the GRI *Sector Supplement*
- GRI 302 Energy
  - o Management approach and disclosures 302-1, 302-2, 302-3, 302-4 and 302-5
  - o Additional information required by the GRI *Sector Supplement*
- GRI 303 Water
  - o Management approach and disclosures 303-1, 303-2 and 303-3
  - o Additional information required by the GRI *Sector Supplement*
- GRI 304 Biodiversity
  - o Management approach and disclosures 304-1, 304-2, 304-3 and 304-4
  - o Additional information required by the GRI *Sector Supplement* and indicator EU13
- GRI 305 Emissions
  - o Management approach and disclosures 305-1, 305-2, 305-3, 305-4, 305-5, 305-6 and 305-7
  - o Additional information required by the GRI *Sector Supplement*
- GRI 306 Effluents and waste
  - o Management approach and disclosures 306-1, 306-2, 306-3, 306-4 and 306-5
  - o Additional information required by the GRI *Sector Supplement*
- GRI 307 Environmental compliance
  - o Management approach and disclosures 307-1
- GRI 308 Supplier environmental assessment
  - o Management approach and disclosures 308-1 and 308-2

### Scope of information

The information reported in this chapter corresponds to the “report boundary”, as defined in section 102-45 of this report.



# A.

## Topics of the GRI Standards

### Specific management approach to the environmental dimension

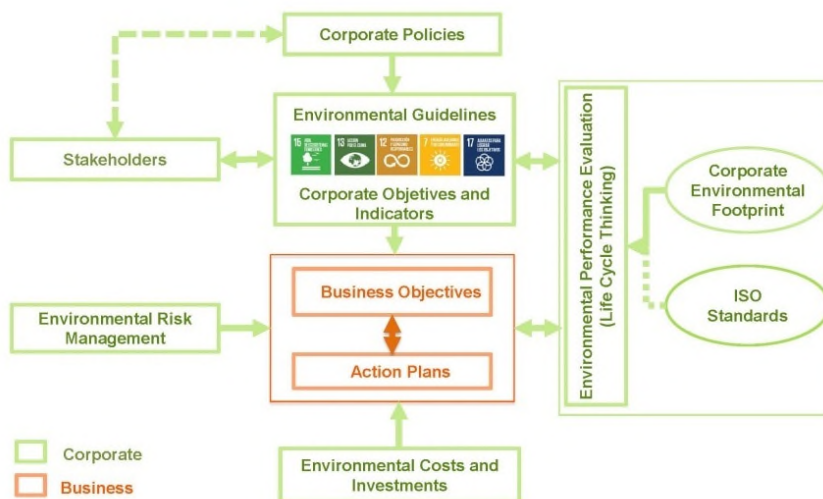
Protection of the environment is one of the concepts that defines Iberdrola as a company, with leadership in the development of clean energy and respect for the environment being significant aspects of its business model, a competitive element that distinguishes it in the industry as one of the leading companies worldwide.

#### Environmental management system

Iberdrola supports this vision in a benchmark environmental management system for all organisations of the group which is common, homogeneous and integrated. This system allows for alignment of the environmental dimension within the group’s sustainability model, integrating the Sustainable Development Goals and articulating the mechanisms to measure and evaluate the group’s environmental performance from the Life Cycle perspective, including in the management thereof the concept of circular economy and return on natural capital.

The system facilitates the development of an on-going, global and homogeneous diagnostic regarding the environmental behaviour of the company in each of its management levels.

The elements making up this system are:



The Environmental Management System is strengthened by a series of complementary activities, including:

- Environmental training, with more than 24,000 hours dedicated in 2017.
- Environmental tracking of suppliers.
- Communication with Stakeholders.

## Organisation of environmental management duties

In order to comply with the approved policies, the company has an organisation that approaches environmental management in a decentralised manner. Thus, applying the principle of “subsidiarity”, all matters relating to the environment must be dealt with and resolved in each region by the affected business, although they must all be included in Iberdrola’s environmental management system.

The environmental function is thus distributed among all organisational and hierarchical levels of the group, from the Chairman’s Office down to each person with local power over his or her surroundings.

Based on this model, Iberdrola’s environmental organisation is structured in the following manner:

- **The Board of Directors and senior management of Iberdrola:** sets and defines the policies, strategy, environmental organisation and global objectives of the company, and provides the resources necessary to perform the environmental functions of the company.
- **The Innovation, Sustainability and Quality Division:** has the following duties relating to the environment:
  - o Define, implement and verify the Environmental Management System.
  - o Propose and ensure compliance with the environmental policies.
  - o Set the environmental guidelines.
  - o Coordinate and align all environmental activity of the company.
- **Environment in the businesses or areas:** those responsible for the environmental management of the business or area, whose principal duties are to:
  - o Prepare and update the documentation of the environmental management system of the business or area.
  - o Identify and verify compliance with legal requirements and other environmental requirements.
  - o Identify the environmental aspects and impacts that affect them.
  - o Determine the environmental risks of the business and actions to handle them.
- **Environment at facilities:** Made up of the persons with local environmental powers at the facilities who report to the Environmental Area of their business and mainly perform environmental duties at the facilities in accordance with the requirements of the Global Environmental Management System.

The corporate committee on the environment, made up of the environmental heads of the regions or businesses and the Innovation, Sustainability and Quality Division, is in charge of coordinating the group’s environmental management. The Committee meets on an ordinary basis at least once per year to present the environmental results from the prior year and future projects.

## Corporate policies

Iberdrola has four specific [corporate policies](#) for environmental management, all approved by the Board of Directors:

- [Sustainability Policy](#)
- [Environmental Policy](#)
- [Policy against Climate Change](#)
- [Biodiversity Policy](#)

## Corporate Environmental Footprint (CEF)

Iberdrola's environmental management includes the CEF methodology, which evaluates the effects of the company's activities on the environment from the life cycle viewpoint (ISO/TS 14072:2014 standard). The objectives of the CEF are:

- To quantify, homogenise and unify the group's environmental performance.
- To determine the effect of Iberdrola's activities in the different environmental impact categories.
- To help monitor the organisation's environmental performance and allow for tracking of the objectives of the businesses and of environmental improvements.
- To identify and assess the environmental aspects having the greatest significance for Iberdrola's activities.

For more information, see [Iberdrola's Environmental Footprint](#).

## Certifications

The group's Environmental Management Model groups together all of the partial certifications of each of the businesses and processes, based on ISO 14001. 80% of the group's energy production took place under certified environmental management systems after passing follow-up or renewal audits in 2017, which production is distributed as shown in the following table:

Energy production of the group under certified systems (%)	2017	2016
Spain	97.4	98.8
United Kingdom	93.2	94.7
United States	13.9	15.2
Brazil	35.5	35.7
Mexico	98.2	96.7
Other countries	0.0	0.0
<b>Total</b>	<b>80.0</b>	<b>82.4</b>

A verification certificate has also been obtained yet another year for:

- The greenhouse gas emissions inventory for the entire Iberdrola group pursuant to the UNE ISO 14064-1:2006 standard.
- The *Corporate Environmental Footprint* of the Iberdrola group under the ISO TS 14072 standard.

More information is available in the [Certifications and Verifications](#) section.

## Environmental Grievance Mechanisms

Iberdrola makes grievance mechanisms and tools and the management processes associated therewith available to its Stakeholders. This is fully described in the "Grievance mechanisms for impact on society" section of the "Specific management approach to the Social Dimension" of this report.

Iberdrola has an email mailbox [medioambiente@iberdrola.es](mailto:medioambiente@iberdrola.es), which serves as a channel of communication with its Stakeholders, and which can be accessed in the [contact](#) section, offering the ability to ask questions, provide suggestions, place concerns or make complaints. The mailbox is included in the Environmental Management System of the company, and is certified under the ISO 14001 standard. 1,865

messages were received through this mailbox in 2017, of which only 2 were an environmental grievance, and which were managed with those responsible and closed during 2017.

In addition to the environment mailbox, and by way of supplement, Iberdrola can also receive messages relating to the environment through various channels that it maintains in [social media](#).

### Expenses and investments

Iberdrola generally considers all expenses or investments regarding projects that have a clear environmental impact, whether direct or indirect, to be environmental expenses or investments, as classified below:

- Treatment of emissions, which includes expenses or investments relating to emissions treatment equipment or systems.
- Treatment of waste, which includes investments and expenses relating to the management and treatment of waste, both hazardous and non-hazardous.
- Reduction of environmental impact through the removal of pollution or pollutants from the environment, soil, groundwater, sediment or surface water.
- Environmental prevention, which considers investments in new renewable energy facilities.
- Environmental management, which encompasses investments and expenses relating to the management of the environment that are not included in the above categories.

All of this is aimed at emphasising environmental activities and initiatives, which are undertaken in order to move towards a more sustainable energy model.

The expenses and investments of an environmental nature made by Iberdrola during 2017 to preserve the environment of the area in which it operates are set forth in the following tables:

Environmental Investments and Expenses (€ millions)	2017	2016
Environmental investments	2,239,917	2,262,237
Environmental expenses	513,233	527,140

### Social awareness-raising on climate change

The fight against climate change, and all that it entails (reduction of greenhouse gas emissions, transition to decarbonised energy model, efficient use of energy, change in consumption habits, etc.) is the work of all of us. Achieving it will require greater awareness and an increased disposition towards action by all of society's players. As part of this commitment, in 2016 Iberdrola included a *Plan to Raise Social Awareness on Climate Change* as an additional linchpin of its action for the climate, which it has since been carrying out with various activities directed towards different public audiences.

This plan consists of four main focus points for action to be implemented globally:

- 1) internal action directed towards employees,
- 2) external communication through the development of specific products, climate awareness-raising events and dissemination activities,
- 3) actions directed towards youth due to their particular importance as present and future consumers, and

- 4) establishment of alliances with the public and private sector as an accelerator and enhancer of action.

The most notable activities performed during 2017 include:

- The launch of a global online course on climate change, its causes and solutions, which in 2017 was completed by more than 8,837 employees and which will continue in 2018.
- The *Moving for Climate NOW* awareness-raising initiative, consisting of a cycling route co-organised with the Red Española del Pacto Mundial (Spanish Global Compact Network). This groups private companies, governments, multilateral institutions, universities and NGOs under a single initiative to bring to the Climate Conferences a call to urgency and climate action.
- On-site school workshops on climate change by Iberdrola volunteers, more than 300 of which were presented during the 16-17 school year, reaching approximately 9,000 students in Spain. A second edition was launched for the 17-18 school year, expanding the scope to Mexico and Brazil.
- Sponsorship of the tour of a children’s theatre play on climate change in 6 Spanish cities which was seen by more than 20,000 students between 2016 and 2017.
- Technical advice in the documentary “Vigilantes del Planeta” (Guardians of the Planet) broadcast on various Spanish television channels.

## GRI 301 Materials

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

Electricity generation is one of the main activities carried out within the group. Iberdrola has continued to wager for years on the most efficient technologies per unit of production, with the lowest environmental impact (eco-efficiency), via:

- Proposed closure of all coal units, pursuing a business strategy of replacing conventional technologies with others offering production with lower emissions.
- Selection of products having a reduced environmental impact.
- Sustainable management and use of chemical products, oils, lubricants and coolants, always respecting the natural environment and taking the necessary measures to reduce the risks of affecting it.

There is a residual presence of polychlorinated biphenyls (PCBs<sup>34</sup>) at Iberdrola, which continues with its policy of eliminating equipment containing PCBs from its facilities.

### 301-1 Materials used by weight or volume

#### Use of materials

<sup>34</sup> PCBs: Dielectric used in transformers and capacitor banks prior to 1999.

The consumption of fuel from non-renewable sources over the last two years and the distribution thereof by country is shown below:

Use of raw materials	2017	2016
Coal (t)	1,205,609	1,746,457
Fuel (t)	48,376	45,117
Natural gas (Nm <sup>3</sup> )	12,293,620,800	11,832,458,331
Gas-oil (m <sup>3</sup> )	15,272	29,520
Uranium (kg) <sup>35</sup>	65,407	56,915
Waste derived fuel (WDF) (t)	2,666	1,800

The following table shows the distribution of fuel consumption (%) for 2017:

Distribution of fuel consumption (%)	Coal	Fuel-oil	Natural Gas	Gas-oil	Uranium	WDF
Spain	100.0	100.0	11.9	31.3	100.0	100.0
United Kingdom	0.0	0.0	11.7	0.0	0.0	0.0
United States	0.0	0.0	4.0	0.0	0.0	0.0
Brazil	0.0	0.0	6.0	0.0	0.0	0.0
Mexico	0.0	0.0	66.4	68.7	0.0	0.0
Other countries	0.0	0.0	0.0	0.0	0.0	0.0

The following table shows the net generation (renewable and non-renewable) for 2017 by country and by technology, with 38.9% of generation from renewable sources.

Net generation by technology and country (GWh)	Spain	United Kingdom	United States	Brazil	Mexico	Other countries
Renewables	19,587	4,880	15,738	8,195	963	1,382
Nuclear	23,249	0	0	0	0	0
Combined cycle	3,812	7,260	12	3,957	39,103	0
Cogeneration	2,607	0	2,354	91	1,800	0
Coal	2,642	0	0	0	0	0

In 2017, 94% of production was achieved using local sources of energy<sup>36</sup>, as shown in the following table:

Production with local sources of energy	(%)
Spain	83%
United Kingdom	100%
United States	100%
Brazil	100%
Mexico	100%
Other countries	100%

<sup>35</sup> The reporting unit is changed compared to the 2016 report, from equivalent tonnes of petroleum to kg of uranium.

<sup>36</sup> All renewable and non-renewable sources available in the country are deemed local sources of energy. Nuclear fuel acquired from the Spanish company Enusa is considered local.

Chemical products are also consumed (to a much lesser extent) for water purification, filtering of gases, etc.; oil for lubrication, maintenance of equipment, and office paper. As to this last consumable, it should be noted that implementation of electronic billing continued during 2017, reaching 2,360,886 users, a savings of 482 t of paper compared to the prior year.

**Elimination of polychlorinated biphenyls (PCBs)**

There are residual PCBs at the group’s facilities in Spain, the United States and Brazil. However, no pyralene transformers with more than 500 ppm of PCBs remain.

Iberdrola maintains a service for the analysis, removal and elimination of equipment containing PCBs, including the performance of a free initial diagnosis with no commitment for third parties.

174 t of oil with pyralene in Spain, 6 t in the United States and 134 t in Brazil were managed during 2017. 359 t of this substance are pending elimination in Brazil in the coming years.

**301-2 Percentage of materials used that are recycled input materials**

There is no substitute in the market for the principal materials used by Iberdrola, for which reason management focuses on the efficient use of energy, water and chemical products, through the best available technologies, optimising the current systems and replacing fossil fuel combustion technologies with other renewable ones.

Waste derived fuel (WDF) is included as recovered material, and 0.01% of the fuel consumed during the year is of this type.

**301-3 Percentage of products sold and their packaging materials that are reclaimed by category.**

This indicator is not applicable to the Iberdrola group, because electricity does not directly generate any waste upon being used.

**GRI 302 Energy**

**Contribution to SDGs of the performance described by the indicators of this section**

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



**Management approach**

The Iberdrola group ensures optimisation in the use of energy throughout its entire energy chain (production, transmission, distribution, supply and end use), contemplating energy efficiency from a three-fold perspective:

- As an electricity generator and distributor, it seeks to improve efficiency by introducing the most advanced technologies and equipment in the generation, transportation and distribution of energy.
- As an energy consumer, Iberdrola promotes the on-going improvement of energy efficiency across all its activities (offices and building, vehicles, water, mobility, employee awareness, etc.).



- As an electricity supplier, it wishes to contribute to a more efficient use of energy by consumers, through information, promotion and supply of solutions and technologies that help them improve their energy efficiency and reduce the environmental impact of their energy habits and consumption.

### 302-1 Energy consumption within the organisation

Internal energy consumption includes the consumption of energy at all of the Iberdrola group's facilities, buildings and offices.

The fuel consumption figure in terms of energy (GJ) is obtained from direct measurement of the fuel used at each facility based on its calorific value<sup>37</sup> (NCV):

$$\text{Consumption(GJ)} = \text{Fuel consumption (kg)} \times \text{PCI} \left( \frac{\text{MJ}}{\text{kg}} \right) / 1000$$

The value of the energy purchased or sold is obtained by direct measurement at the facilities, buildings and offices.

$$\text{Consumption(GJ)} = \sum \text{building/facility consumption (MWh)} \times 3.6 \text{ GJ/MWh}$$

The following table shows the evolution of Iberdrola's internal energy consumption in recent years:

Energy consumption within the organisation (GJ) <sup>38</sup>	2017	2016
<b>Fuel consumption</b>	<b>760,201,810</b>	<b>764,386,296</b>
Natural Gas	462,114,731	442,096,346
Uranium	262,902,924	274,800,068
Coal	33,020,919	45,338,800
Fuel-oil	1,899,317	1,919,103
Gas-oil	175,699	173,154
WDF	88,220	58,826
<b>Energy purchased</b>	<b>11,664,660</b>	<b>13,951,277</b>
Standby and pumping	10,886,544	13,096,768
Buildings	778,116	736,428
<b>Energy sold (non-renewable)</b>	<b>312,791,322</b>	<b>309,683,361</b>
<b>Steam sold<sup>39</sup></b>	<b>18,527,684</b>	<b>26,484,009</b>
<b>Total</b>	<b>440,547,464</b>	<b>442,170,204</b>

The following table shows the evolution of Iberdrola's internal energy consumption in recent years by region:

Energy consumption within the organisation (GJ)	2017	2016
Spain	228,355,590	241,428,586
United Kingdom	30,155,278	47,145,185
United States	10,547,765	11,251,751

<sup>37</sup> Net calorific value (NCV) is calculated at each centre based on the fuel used.

<sup>38</sup> Energy consumption within the organisation (GJ) = Fuel consumption + Energy purchased - Energy sold (non-renewable) - Steam sold.

<sup>39</sup> The reduction in the value of steam sold during 2017 is due to the sale of the cogeneration plants in Brazil.



Brazil	11,861,813	6,788,139
Mexico	159,609,431	135,538,671
Other countries	17,587	17,873
<b>Total</b>	<b>440,547,464</b>	<b>442,170,204</b>

The bulk of Iberdrola's energy consumption is the consumption of fuel for the generation of electricity, and the trend in recent years is shown in the following table:

Fuel consumption (GJ)	2017	2016
Generating plants <sup>40</sup>	691,154,673	693,437,227
Cogeneration	68,440,622	69,893,794
Non-generating plants <sup>41</sup>	606,515	1,055,275
<b>Total</b>	<b>760,201,810</b>	<b>764,386,296</b>

### 302-2 Energy consumption outside of the organisation

The most significant consumption of energy outside of the organisation is consumption associated with the transport of fuel by motorway, with trips to/from work by group employees, and with business travel (planes and motorways). All of this information forms part of scope 3 of the calculation of greenhouse gas emissions. Energy consumption outside of the organisation is estimated based on the distances travelled by each means of transport and is transformed by means of conversion factors from official sources<sup>42</sup>. The energy consumption for these items is around 880,909 GJ.

### 302-3 Energy intensity

#### Fossil fuel consumption (tep/GWh)

The following table shows fuel consumption at the thermal generation plants over the net production of such plants.

Fossil fuel consumption (tep/GWh) <sup>43</sup>	2017	2016
<b>Total</b>	<b>186</b>	<b>189</b>

#### Internal energy consumption (GJ/MWh)

The following table shows total internal energy consumption (indicated in section 302-1) within the total net production of the group.

Intensity of internal energy consumption (GJ/MWh)	2017	2016
<b>Total</b>	<b>3.20</b>	<b>3.10</b>

### 302-4 Reduction of energy consumption

<sup>40</sup> Combined cycle, conventional thermal and nuclear plants.

<sup>41</sup> "Non-generating" facilities are Daldowie (thermal drying) and Hatfield (gas storage) in the United Kingdom.

<sup>42</sup> Defra: Department for Environment, Food and Rural Affairs (United Kingdom).

<sup>43</sup> Conversion factor used: 1GJ= 0.023888889 Tep.

The consumption of fossil fuels for the generation of energy was reduced by 205,934,963 GJ/year in 2017 through the generation of renewable energy and the supply of steam to industrial customers.

The reduction in energy consumption is equal to the savings of primary (non-renewable) energy generated by the production of renewable energy and cogeneration. This value of the energy saved is obtained by direct measurement at the output terminals of the facilities.

$$\text{Consumption(GJ)} = \sum \text{generation (MWh)} \times 3.6 \text{ GJ/MWh}$$

Two fundamental blocks for reducing energy consumption are considered; on the one hand the energy savings from renewable energy and steam generation, and on the other those associated with efficiency, as shown in the following tables:

Areas	Energy type	Energy saved (GJ)	
		2017 <sup>44</sup>	2016
Renewables	Primary energy savings through the production of renewable energy	183,309,359	205,089,621
Cogeneration	Savings through the supply of heat energy (steam) within the group	15,776,528	26,484,009
<b>Total</b>		<b>199,085,887</b>	<b>231,573,630</b>

Areas	Item	Energy saved (GJ)	
		2017	2016
Network efficiency	Savings from network efficiency in Spain, the United Kingdom and Brazil	4,273,557	2,337,062
Efficiency in generation	Savings efficiency improvements at plants in Spain, the United Kingdom and Brazil	44,744 <sup>45</sup>	936
<b>Total</b>		<b>4,318,301</b>	<b>2,337,998</b>

### Efficiency in thermal generation

As in prior years the company continues to take action to improve the efficiency of the plants, avoiding leaks, decreasing emissions, reducing internal consumption, optimising start-up time and procedure and installing recirculation systems, among other things. The savings from efficiency in generation is obtained by measuring the reduction in consumption due to the improvements made.

### Efficiency of the electric grid

Energy savings from network efficiency derives from actions the company takes to control or reduce losses, including:

- Updates and modifications to reduce the length of lines through construction of new substations and increases in the power of existing substations, increases in voltage and improvement of power factor, implementation of remote management, and maintenance work.
- Improvements in contract management and supply point inspections: replacement of electromechanical meters with electronic meters, inspection of facilities and regulation of customers and clandestine connections.
- Increase in top-level reviews and strengthening of field activities with supply point inspections to

<sup>44</sup> The reduction is due decreased renewable generation and the sale of the cogeneration plants in Brazil.

<sup>45</sup> The increase in savings over 2016 is due to the placement into service of more efficient equipment at the generating plants in 2017.

reduce administrative and non-technical losses.

### Efficiency at buildings

Iberdrola continues to implement energy efficiency measures at the buildings and offices of the company all over the world. Energy audits of the buildings allow it to determine the actions to take at the buildings: optimising acclimatisation (heating and air conditioning) performance, improving thermal insulation, efficiency in the lighting of buildings, and automation of the facilities associated therewith.

The savings by application of these measures compared to the prior year was 76,000 GJ.

### 302-5 Reductions in energy requirements of products and services

Iberdrola fosters efficiency, gradually reducing the environmental impact of activities, facilities, products and services. It also offers advice to its customers, encouraging and researching eco-efficient solutions.

In addition to electricity and gas, Iberdrola sells new products and services to encourage energy and financial savings by its customers, efficiency, and care for the environment.

Energy savings of green products and services (GJ)	2017	2016
Photovoltaic solar energy	1,899	605
Energy audits and plans	100,375	199,980
Gas maintenance service	790,441	809,507
Other savings and efficiency activities	948,554	87,459
Green energy supplied In Spain, the United States and Brazil	49,874,302	51,764,036
<b>Total</b>	<b>51,715,571</b>	<b>52,861,587</b>

The green products and services highlighted in this table are described below:

- Photovoltaic solar energy: *Iberdrola Smart Solar* product focused on improving management of energy consumption through the use of solar technology. The figure is obtained by multiplying the installed capacity during the year (kWp) by 1250 kWh/kWp (factor applied by the Spanish Institute for the Diversification and Saving of Energy, IDAE).
- Audits and energy plans: The potential energy saving from audits is due to Iberdrola Retail. In Spain, there have been sales campaigns promoting energy efficiency and collaboration agreements with consumer and business associations as well as with government administrations to promote energy efficiency. In Brazil, the use of solar thermal equipment is encouraged in energy efficiency projects for low-income customers.
- Gas maintenance service: The contract for this service offered by Iberdrola in Spain allows customers to cut energy consumption by annual cleaning and adjustment of gas boilers. The figure is obtained from the average savings according to a study of efficiency by the independent entity multiplied by the average consumption of gas according to the CNMC<sup>46</sup> and the average portfolio of customers of Iberdrola España's Gas Maintenance Service in 2017.
- Other savings, energy efficiency and environmental protection actions in the retail area are:

<sup>46</sup> CNMC: Comisión Nacional de los Mercados y la Competencia de España (National Markets and Competition Commission of Spain).

- o Sale of products and services that promote energy saving and efficiency, as well as comprehensive energy management at buildings and facilities and other energy saving solutions.
- o Electromobility: Iberdrola Customers in Spain facilitates the development of electromobility, offering recharging products and services (*Green Charge*), participating in R&D&i projects (*REMOURBAN* and *AZKARGA*) and the *CIRVE* project that permits Electromobility, and permits the Spain connection with France and Portugal.
- Value of green energy supplied In Spain, the United States and Brazil: This figure comes from the sum of the GE (green energy) and/or GO (guarantee of origin) invoices.

More information about these and other initiatives is available at the websites of [Spain](#), [Brazil](#), [United Kingdom](#), United States (through [NYSEG](#), [RG&E](#) and [CMP](#)) and [Portugal](#).

## GRI 303 Water

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

Water is a basic and irreplaceable natural resource in many of Iberdrola’s activities. The company's awareness of this dependency and of the risks arising from water shortages has led it to set itself the objective of ensuring an increasingly rational and sustainable use of this resource.

The main actions taken by the group for a more sustainable use of water are:

- Limiting the volume of withdrawal and consumption of inland water in all technologies.
- Establishing and controlling limits on ecological flows at the hydroelectric generation reservoirs.
- Continually improving processes at facilities to reduce consumption and impact.
- Avoiding withdrawal of water in water-stressed areas.
- Reusing and recycling water at facilities.
- Conducting awareness-raising campaigns to achieve a more efficient and responsible use of sanitary water by employees at offices.

A return of 78% of the water extracted from the receptor environment was achieved in 2017.

### 303-1 Total water withdrawal by source

The following table breaks down the group’s total water withdrawal by source:

Source of gross water withdrawal (hm <sup>3</sup> )	2017	2016
Surface water (sea, rivers, lakes, reservoirs, wetlands)	1,962	1,839
Groundwater	2	1

Rainwater directly withdrawn and stored	0	0
Purified wastewater	15	13
Municipal water supply or supply from other water companies	5	6
<b>Total</b>	<b>1,984</b>	<b>1,859</b>

Total water withdrawal is the sum of the various sources, and is obtained by direct measurement (flowmeters) or by estimating the performance of the pumps.

Of the total volume of water withdrawn, 1,984 hm<sup>3</sup> corresponds to use at generation facilities, while 0.38 hm<sup>3</sup> corresponds to use at offices.

The group's use of water is summarised in the following table:

Water use <sup>47</sup>	2017	2016
Total water use (hm <sup>3</sup> )	80	82
Water use/overall production (m <sup>3</sup> /GWh)	597	573
Water use/overall sales (m <sup>3</sup> /\$k)	2.15	2.35
Water use/overall sales (m <sup>3</sup> /€k)	2.56	2.79

The following shows the total intake and discharge of water at the thermal generation facilities (coal, combined cycle, nuclear and cogeneration) in 2017.

Water use (hm <sup>3</sup> )	Total thermal generation <sup>48</sup> 2017
<b>Withdrawal</b>	
Withdrawal for standby process and services	14
Withdrawal for cooling	1,970
<b>Discharge</b>	
Evaporation of water used for cooling	74
Discharge into receptor environment	1,902

The following table shows the different sources of withdrawal for cooling:

Source of withdrawal of cooling water	Gross water withdrawal (hm <sup>3</sup> ) <sup>49</sup> 2017
Sea and salt water	1,298
Rivers and groundwater	265
Lakes and reservoirs	397
Purification of wastewater	10
<b>Total</b>	<b>1,970</b>

### Water cycle in hydroelectric generation<sup>50</sup>

<sup>47</sup> Use of water is defined as water withdrawn minus water discharged into the natural environment. The complete table is updated including the use of water in thermal generation in the United Kingdom in 2016.

<sup>48</sup> The total discharge figure includes the return from cooling, the return of water used in processes, and rainwater collected at some thermal facilities without an independent storm sewer system.

<sup>49</sup> Gross water withdrawal: total volume of gross water withdrawal for cooling.

Water used for hydroelectric generation is not considered withdrawn and thus it is analysed separately. The table below shows net water used in hydroelectric generation in Spain, the United Kingdom and Brazil, defined as turbinated water less pumped water.

Water use in hydroelectric generation (hm <sup>3</sup> )	2017	2016
Net water use	49,824 <sup>51</sup>	101,368
Volume of pumped water	2,807	3,623
Annual increase of reservoir water	-1,179	-1,941

Additional information, such as withdrawal locations and discharges from the thermal facilities, can be found at [Water usage](#).

### 303-2 Water sources significantly affected by withdrawal of water

All water withdrawal is strictly regulated by government authorities, which assign permits and determine the maximum permissible volumes of withdrawal to ensure that there are no significant impacts.

No withdrawals are made that significantly affect water resources or habitats relating to the water withdrawal points. The Iberdrola group does not have any plants located in areas considered to have water stress. As can be seen in disclosure 303-1, 66% of the water withdrawn is salt-water or brackish water.

These areas can be seen in [FAO](#).

### 303-3 Water recycled and reused

At the thermal plants with closed or semi-open cooling systems, water withdrawn is reused in the cooling towers an average of approximately three to five cycles per m<sup>3</sup> before being purged. The total volume of this reuse was approximately 2,014.31 hm<sup>3</sup> in 2017.

The La Laguna and Monterrey plants in Mexico and the Klamath cogeneration plant in the United States use wastewater in their cooling systems, which in Mexico was 4% (10,855 hm<sup>3</sup>) and in the United States was 78% (3,242 hm<sup>3</sup>) of the total water withdrawn for each country.

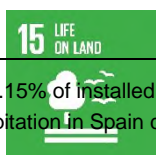
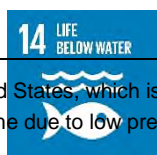
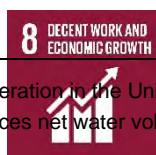
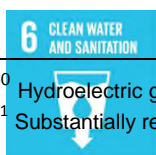
After use in cooling and other auxiliary processes, 78% of the water withdrawn at thermal generation and cogeneration facilities returns to the receptor environment in a physico-chemical condition allowing it to be utilised by other users without affecting the natural environment. The other 22% has been consumed and/or retained in the various processes, or returned to the environment in the form of steam generated in the cooling systems of the thermal power plants.

In addition, at some of ScottishPower's wind farms the control buildings have rooftop rainwater collectors and storage tanks to use the water.

## GRI 304 Biodiversity

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



<sup>50</sup> Hydroelectric generation in the United States, which is 1.15% of installed hydro capacity, is not included (information not available).

<sup>51</sup> Substantially reduces net water volume due to low precipitation in Spain during 2017.

## Management approach

Natural capital, understood as natural resources affected in the performance of the company's activities, is one of the fundamental assets in the Iberdrola group's creation of value and a fundamental asset for all of its Stakeholders.

During their respective life cycles, generation, transmission, distribution and sales activities cause interactions with various ecosystems, landscapes and species. Therefore, these ecosystems occupy a leading role in the business strategy through four priority lines of action:

- Mediation for the protection, preservation and sustainable use of natural capital.
- Information through impact assessment and the development and application of guidelines on biodiversity for new projects.
- Relations with Stakeholders, which seeks to consider the legitimate aspirations of the Stakeholders and develop action plans in accordance therewith.
- Commitment to internal and external training, awareness-raising and communication.

Various instruments are used to carry out these lines of action, including:

- [Biodiversity Policy](#): applicable in all of the geographic areas in which the Iberdrola group does business, the basic principles of which are reflected in the lines of action.
- [Stakeholder Relations Policy](#).
- Biodiversity plans based on avoiding and/or mitigating impact, restoring natural capital, assessing impact, Stakeholder relations and awareness-raising.
- Environmental management systems certified in accordance with ISO 14001 or EMAS standards, in order to prevent and control environmental risks.
- [Corporate Environmental Footprint](#), enabling limitation of the group's impact on biodiversity.

For more information, see [Iberdrola and biodiversity](#), which sets out the management approach, strategies and progress in the activities conducted by the various businesses and regions in which Iberdrola has a presence.

### 304-1 Operational sites owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas.

The location of the group's infrastructure in protected areas or areas of great value for biodiversity, in strategic regions, is shown in the following table:

Facility	Location with respect to protected area	Affected surface area/length	Type of protection <sup>52</sup>
<b>Spain</b>			
Reservoirs	Inside	18,972 ha	Biosphere reserves, Ramsar wetlands, Nature 2000 Network, national parks and nature parks.
Power lines	Inside	19,314 km	Nature 2000 Network, Ramsar wetlands, National Parks, Natural Parks and Biosphere Reserves.
Substations	Inside	144 units	Nature 2000 Network, Ramsar wetlands, National Parks, Natural Parks and Biosphere Reserves.
Transformer centres	Inside	8,793 units	Nature 2000 Network, Ramsar wetlands, National Parks, Natural Parks and Biosphere Reserves.
Wind farms	Inside	139 ha	Nature 2000 Network
<b>United Kingdom</b>			
Thermal and hydroelectric generating facilities	Inside or nearby	3,264 ha (12 production centres)	Ramsar Wetlands, SPA, SAC and SSSI.
Power lines	Inside	3,677 km	NSA, SPA, SAC, Ramsar, NNR, SSSI.
Substations	Inside	367 units	NSA, SPA, SAC, Ramsar, NNR, SSSI.
Transformer centres	Inside	8,608 units	NSA, SPA, SAC, Ramsar, NNR, SSSI.
Wind farms	Adjacent	3 ha	Nature 2000 Network and SAC, SSSI.
Wind farms	Partially inside	9,321 ha	Nature 2000 Network and SAC, SSSI.
<b>United States</b>			
Wind farms	Inside or nearby	0	Protected areas designated by each state, which may be Biosphere Reserves, forests, national parks or national wildlife refuges, and those with high ecological value even though they may not have the same level of protection.
Power lines	Partially inside	392 km	
<b>Brazil</b>			
Power lines	Inside	1,881 km	Environmental protection areas.
Substations	Inside	19 units	Environmental protection areas.
Transformer centres	Inside	4,388 units	Environmental protection areas.
Hydroelectric plants	Inside or nearby	293 ha	Areas protected by Brazilian law.

<sup>52</sup> Names of principal protected areas:

SPA: Special Protection Area for birds, pursuant to the *EC Birds Directive*.

SCI: Site of Community Importance, pursuant to the *EC Habitats Directive*.

SAC: Special Area of Conservation, pursuant to the *EC Habitats Directive*.

Ramsar: Wetlands of international importance, pursuant to the treaty signed in Ramsar.

SSSI: Site of Special Scientific Interest (United Kingdom).

NSA: National Scenic Areas (United Kingdom).

NNR: National Nature Reserve (United Kingdom).



<b>Mexico</b>			
Generating plant	Adjacent	1 production centre	Environmental protection areas.
Wind farms	Adjacent	1 wind farm	Environmental protection areas.
<b>Greece</b>			
Wind farms	Partially inside	1 wind farm	Nature 2000 Network.
<b>Hungary</b>			
Wind farms	Inside or nearby	2 wind farms	Near Nature 2000 Network areas, one inside a national park.
<b>Portugal</b>			
Wind farms	Inside or nearby	1 wind farm	Near Nature 2000 Network areas, one inside a national park.
<b>Romania</b>			
Wind farms	Near	1 wind farm	Near Nature 2000 Network areas, one inside a national park.

### 304-2 Significant impacts of activities, products and services on biodiversity.

100% of the projects that so require it are assessed for environmental impact and are submitted to public consultations; the company works with Stakeholders to ensure that the environmental impact is as low as possible. The following links show some examples in [Spain](#), [SP Networks](#), [SP Renewables](#) and [Avangrid](#).

The most significant general impacts on biodiversity are identified in order to avoid, minimise and properly correct possible impacts that might be caused by the group's activities. These impacts are identified during the various phases of the facilities' life-cycles, as shown in the following table:

<b>Impacts in each phase of a facility's life-cycle</b>	
<b>Construction Phase</b>	Entry of vehicles and machinery.
	Opening of pathways and changes in vegetation.
	Prolonged human presence (which temporarily affects the behaviour of species of fauna, and is generally reversible).
	Changes in landscape.
<b>Operation Phase</b>	Emissions.
	Changes in the natural system of rivers and barrier effect of hydroelectric developments (affecting the ecosystems and habitat of certain species).
	Animal mortality due to collisions and electrocution.
	Changes in vegetation to maintain power line corridors, etc.
<b>Decommissioning Phase</b>	Discharges and spills.
	Use of machinery and vehicles to remove and demolish existing facilities.
	Prolonged human presence (which temporarily affects the behaviour of species of fauna, and is generally reversible).

With a view to these impacts, we can single out a number of significant potential effects on biodiversity, arising from the activities, products and services of the group:

<b>Potential impacts</b>	
General impact	Loss of habitat.

	Greenhouse gas emissions.
	Pollution of environment.
Impact on avifauna	Electrocutions. Collisions.
Impact on terrestrial fauna	Electrocution, trapping, etc.
Impact on ichthyofauna	Changes in water quality. Discharges/spills into hydrological environment.
Impact on flora	Production and spreading of fires. Deterioration in the edaphic environment.

Biodiversity Plans have been drawn up to avoid or mitigate these impacts:

Biodiversity plans		
Cross-sectional plan		Sub-Plan for understanding the environment.
		Sub-Plan for communication.
Principal plans	Reduction of direct impacts on biodiversity	Plan for direct protection of fauna.
		Plan for direct protection of flora.
		Plan for improvement of habitats.
	Reduction of indirect impacts on biodiversity	Plan for edaphic environment management.
Plan for hydrological environment management.		

### 304-3 Habitats protected or restored

Based on the needs of each facility and during the life cycle thereof, Iberdrola carries out the following work on the affected areas:

- Flora and fauna monitoring (especially of protected or vulnerable species).
- Forest treatments.
- Forestry restoration with indigenous plants.
- Landscape integration and accommodation, etc.

The various activities commenced in 2017 or prior years and that have continued during this financial year are shown below:

#### Spain:

Project/ Technology	Actions	Objectives
Power lines	Performance of 99 environmental actions, before and during the construction of substations and power lines (restoration and accommodation of terrain, protection of vegetation, avifauna and the landscape, control of invasive species, training on fires and spills, etc.).	Reduce impact on biodiversity and ecosystem services.
	Performance of 1,058 preventive actions to protect fauna (modification and improvement of supporting services).	Reduce impact on fauna.
	Performance of 1,610 actions to improve the network to protect vegetation.	Reduce impact on flora.
	Management of 32.96 km <sup>2</sup> of vegetation-covered surface to reduce the risk of fire at facilities.	
Hydroelectric plants	Limnological control of the most eutrophicated reservoirs in the Duero and Tajo basins (pollutant loads caused by agents unrelated to Iberdrola that travel along these rivers before they flow into the reservoirs).	Prevent potential impacts on fauna located downriver of reservoirs.
	Ensure turbined waters contain the minimum amounts of dissolved oxygen essential for aquatic life.	Avoid levels that are harmful to ichthyofauna.
	Performance of activities to prevent pollution, improve the environment and recover/restore the natural environment around the plants, including: restoring the ecological flow; environmental adjustment of canals; and environmental recovery around the town of la Rasa (dismantling of buildings and recovery of land).	Reduce impact on biodiversity and ecosystem services.
	Improvement and construction of discharge containment systems at the Trespaderne and Contreras hydroelectric plants.	Prevent potential impacts on fauna located downriver of reservoirs.
	Improvement of wastewater purification systems at the Barázar and Ullivarri hydroelectric plants.	
Thermal plants	Collaboration of the Escombreras Combined Cycle plant with the “El Valle” Wildlife Recovery Centre in recovering birds like the bittern and kestrel for treatment and return to their natural habitat after any physical or psychic problems are treated.	Reduce impact on fauna.
	Perform an evaluation study of the ecological status of the Majaceite river in the area of the Arcos de la Frontera combined cycle plant using biological, hydro-morphological and physicochemical quality indicators.	Knowledge of the surroundings for proper action regarding the habitat.

The projects of Fundación Iberdrola España include collaboration with SEO/BirdLife on the MIGRA project, which aims to study the migratory movements of bird species in Spain, funding the start-up of this programme from the 2011 season to the present.

**United Kingdom:**

Project/ Technology	Actions	Objectives
Thermal generation and gas storage	Implementation of Biodiversity Action Plans (BAPs) at each facility (more information is available at <a href="http://ScottishPower Wholesale Energy Markets / www.iberdrola.com">ScottishPower Wholesale Energy Markets / www.iberdrola.com</a> ).	Recover and promote regeneration of natural habitats and of the flora and fauna characteristic of facilities' environments.
Wind farms	50 activities in 20 areas included in the <i>Habitat Management Plan</i> , mainly consisting of the monitoring of birds and follow-up on reforested areas, and 41 management activities like restoration, removal of invasive species, management of vegetation by grazing, etc.	Recover and improve terrain affected by construction activities.  Reduce impact on fauna.

**United States:**

Project/ Technology	Actions	Objectives
	Water treatments in collaboration with land owners in two river basins, treating runoff from impermeable areas in the basins prior to its entry into the river.	Improve water quality and improve the aquatic habitat of the riverbank.
Power lines	Conditioning of power lines.	Minimisation of the impact on the nesting and reproductive processes of the osprey.
	Acquiring wetlands in financial collaboration with the organisation Ducks Unlimited, via financial collaboration, deriving from the <i>Auburn Transmission Project</i> .	Improve quality of the aquatic habitat and stimulate species.
Wind farms	Recover natural habitats and foster their regeneration, avoid the displacement of indigenous species, monitor species, raise awareness and train local communities.	Reduce impact on flora.  Raise social awareness of the area's rich biodiversity

**Brazil:**

Project/ Technology	Actions	Objectives
Hydroelectric plants	Reforestation of affected areas.	Ensure the success of programmes to recover and offset impact on Permanent

Continuation of environmental biodiversity conservation programmes based on the impacts of plant operation: monitoring of fauna (ichthyofauna, herpetofauna, avifauna, mammalian fauna, entomofauna, etc.); monitoring of flora in reforested areas; water quality control; monitoring of erosive processes, etc.

Conservation Areas (APPs) and degraded areas (quarries, tips).

**Mexico:**

Project/ Technology	Actions	Objectives
Thermal plants	Development of the <i>Garrapatas Estuary Rescue Project</i> .	Improve the habitat, fostering indigenous species, and raise social awareness of the area's rich biodiversity.
	Development of the <i>Feline Support Project in the Altamira region</i> .	
Wind farms	Follow-up of reforestation carried out during construction of the La Ventosa wind farm.	Ensure the success of reforestation work.
	Commencement of reforestation of an area covering approximately 25 ha in the area of the La Venta III power line.	Improve the habitat.
	Commencement of reforestation of an area covering approximately 19 ha in the area of the La Venta III wind farm.	Improve the habitat.

More information is available in Iberdrola's [Biodiversity Report 2014-2017](#).

**304-4 Number of species broken down, based on danger of extinction, included in IUCN Red List species and national conservation list species with habitats in areas affected by operations.**

The group undertakes activities in certain areas that are or may be inhabited by endangered species included in the IUCN Red List, the UK BAP, the USFW list<sup>53</sup> and other national lists such as the Sao Paulo list of endangered species, without such activities entailing a negative impact or threat.

IUCN Red List Classification	No. of species
Critically endangered (CR)	41
Endangered (EN)	82
Vulnerable (VU)	162
Near threatened (NT)	49
Least concern (LC)	490

**EU13 Biodiversity of offset habitats compared to the biodiversity of the affected areas.**

Before a facility is built, the potential environmental impact is analysed through a forecast and assessment, with a view to avoiding placing new infrastructure in protected areas or areas with a high biodiversity value, even if they are not officially protected. If significant impacts are identified in the initial study, the project is modified to the extent possible, and the best available techniques and any measures identified as necessary are employed to correct and minimise these impacts. Where full mitigation is not possible,

<sup>53</sup> International Union for the Conservation of Nature (IUCN) ([www.iucn.es](http://www.iucn.es)), UK BAP "UK Biodiversity Action Plan" ([www.ukbap.org.uk/newprioritylist.aspx](http://www.ukbap.org.uk/newprioritylist.aspx)), USFW "US Fish & Wildlife Services" ([www.fws.gov](http://www.fws.gov)).

remedial measures are implemented. The following table shows the principle activities in this regard during 2017:

Country	Technology	Actions	Results
United Kingdom	Beaulieu Denny (substation)	Continuation of Beaulieu Denny recovery work, exceeding 200 ha of peat bogs, in collaboration with various local Stakeholders.	Improvement of the state of wetlands, coastal grasslands and areas with forests and shrubbery. Acquisition of a carbon sink, retention of water and improvement of habitats.
		Relocation of the crested newt ( <i>Triturus cristatus</i> ) and the Montane water vole ( <i>Arvicola amphibius</i> ) from an original area of 2.4 ha to another of 2.9 ha. The grasslands and ponds of this new site are evolving favourably, and establishment of the ponds has recently been inspected.	Improvement of the state of wetlands, coastal grasslands and areas with forests and shrubbery. Creation of a suitable habitat for the water vole.
	Galloway (hydroelectric)	Continued monitoring by means of the installation of antennae at the Loch Doon Vaki fishing port.	Elimination of potential obstacles to promote, among other phenomena, the migration of Atlantic salmon and other species, working together with the Ayrshire Rivers Trust on Loch Doon and Galloway Fisheries Trust.
		Study of interference with the passage of ichthyofauna using Black Water of Dee (GIS mapping, electrofishing, monitoring habitats, etc.).	
		Management of vegetation around the substation and control and elimination of the invasive <i>Fallopia japonica</i> species.	Improvement of adjacent habitats.
	Cruachan (hydroelectric)	Continuation of study of habitat and of fauna via installation of photo-trap cameras. Special surveillance of the pine marten ( <i>Martes martes</i> ).	Discovery of the environment and spreading knowledge to the local population, collaboration with NGOs.
		Management of vegetation around the substation and control and elimination of the invasive azalea ( <i>Rhododendron</i> ) species.	Improvement of adjacent habitats.
Wind farms	Continued implementation in areas around the Habitat Management Plans, managing more than 93 km <sup>2</sup> to date, with the monitoring of species like the hen harrier ( <i>Circus cyaneus</i> ), blackcock ( <i>tetrao tetrix</i> ) and crested newt ( <i>Triturus cristatus</i> ).	Improvement of adjacent habitats.	
United States	Power lines and substations	Continuation with the identification of habitats (under the lines) suitable for the New England cottontail ( <i>Sylvilagus transitionalis</i> ). Work carried out in collaboration with the US Fish and Wildlife Service.	Promotion of the recovery of species in decline.
		Development of a <i>Comprehensive vegetation management</i> programme; use of lighter vehicles in forest areas, etc.	Improvement of adjacent habitats and protection of associated fauna.

		Construction of platforms in the areas of Milford, Hamden, North Haven, Ansonia and Fairfield to encourage the nesting of the osprey, achieving the settlement and reproduction of the species.	Promotion of the recovery of species in decline.
		Continued monitoring and treatment to remove 14 species of invasive plants, under the <i>Maine Power Reliability Program</i> (MPRP) project.	Improvement of adjacent habitats and encouragement of the proliferation of indigenous species.
		Continued monitoring and treatment to remove species of invasive plants, under the Maguire Road Substation (Kennebunk) project.	Improvement of adjacent habitats and encouragement of the proliferation of indigenous species.
	Wind farms	Continued monitoring and maintenance of habitats (grasslands, meadows, wetlands, deserts, etc.) within and around the area thereof.	Improvement of adjacent habitats and protection of associated fauna.
<b>Brazil</b>	Baguari (hydroelectric)	Recovery of approximately 28 ha in the Legar del Faz reserve.	
	Corumbá (hydroelectric)	Reforestation with 426,496 plants of indigenous species.	Improvement of adjacent habitats, strengthening of soil absorption capacity and reduction of risk of losses due to erosion.
	Dardanelos (hydroelectric)	Strengthening of natural recovery in 5 ha and reforestation of the area around the plant.	
	Power lines	Reforestation of degraded areas with plants at various stages of growth.	

Iberdrola provides further information in the [Biodiversity](#) section of the website.

### GRI 305 Emissions

#### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



#### Management approach

The main source of direct emissions, which contribute to the company's Greenhouse Gases (GHGs), is the emission of CO<sub>2</sub> arising from combustion at the thermal plants. Iberdrola is publicly committed to maintaining its position as one of the leading European companies with the lowest CO<sub>2</sub> emissions per kWh produced. The company focuses its efforts on gradually reducing the intensity of GHG emissions, promoting the use of renewable technology and improving the energy efficiency of its activities and facilities.

Iberdrola has set itself an environmental goal to reduce the intensity of its CO<sub>2</sub> emissions to 50% below those of 2007 by 2030, and to be carbon-neutral by 2050.



Iberdrola has joined the COP23, where it showed its leadership in the fight against climate change, goal 13 of the Sustainable Development Goals (SDGs).

Once again, the company played a very important role with the *Moving for Climate NOW* initiative and with its participation in the main events and meetings of the organisations meeting in Bonn (UN Framework Convention for Climate Change, World Business Council for Sustainable Development, Carbon Pricing Leadership Coalition, UN Global Compact, etc.), energetically supporting the goals previously agreed to in Paris, which agreement entered into force in November 2016.

Iberdrola is registered with the Carbon Footprint, Carbon Offset and Carbon Dioxide Absorption Projects Register of the Ministry of Agriculture and Fisheries, Food and Environment of Spain (Mapama).

Other atmospheric emissions deriving from the combustion of fossil fuels are oxides of nitrogen (NOx), oxides of sulphur (SOx) and particulate matter, which are trending downward thanks to improvements in combustion processes and the company's energy mix, which includes 67% of emissions-free installed capacity. More information is available in the [climate change and emissions](#) section of the website.

### Inventory of Greenhouse Gas Emissions (GHGs)

Iberdrola's inventory of emissions is calculated using the emissions set forth in disclosures 305-1, 305-2 and 305-3. In April 2017, for the seventh consecutive year, Aenor certified Iberdrola's greenhouse gas emissions inventory, covering the direct and indirect emissions from all activities, pursuant to the UNE ISO 14064-1:2006 standard, with 2016 taken as the base year<sup>54</sup>.

Set forth below is the inventory (as of the date of publication of this report) to be submitted for verification in 2018 pursuant to the *Greenhouse Gas Protocol* of the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI).

Updated information is available in the [Greenhouse Gas \(GHG\) Protocol](#) of the corporate website.

CO <sub>2</sub> equivalent emissions to be verified in 2018 (t)	Spain	United Kingdom	United States	Brazil	Mexico
Scope 1: Direct emissions	5.962,832	2.960,801	999,587	1.548,252	15,334,983
Scope 2: Indirect emissions	2,269,453	806,885	1,282,555	649,881	1,790
Scope 3: Other indirect emissions <sup>55</sup>	1,174,512	812,550	510,930	29,075	637,303

### 305-1 Direct greenhouse gas emissions. Scope 1 (per GHG Protocol)

Direct emissions are those from sources of GHGs that are owned or controlled by the company. They include:

- Emissions from electric power generation facilities (fuel consumption).
- Emissions from non-generation facilities (storage of gas and sludge drying).
- Fugitive emissions of methane (CH<sub>4</sub>) (storage and transport of natural gas).
- Fugitive emissions of sulphur hexafluoride (SF<sub>6</sub>) in distribution networks.

<sup>54</sup> Base year changed from 2012 to 2016 compared to prior reports.

<sup>55</sup> Below the numbers reported in disclosure 305-2, due to the fact that the verification of the carbon footprint of Iberdrola does not take into account those corresponding to "Other countries", as defined in disclosure 305-3.



- Emissions from facilities that provide services to buildings (fuel consumption).
- Emissions from mobile combustion sources, associated with road transport of employees with fleet vehicles for work purposes.

The emission factors used in calculating each of these emissions are obtained from official sources. The Scope 1 emissions for the base year are: 35,476,623 t CO<sub>2eq</sub>. For more information, go to the [climate change and emissions](#) section of the corporate website.

The evolution of CO<sub>2</sub> emissions from production facilities is shown in the following table:

CO <sub>2</sub> emissions (t)	2017	2016
Thermal generating plants <sup>56</sup>	23,024,356	22,812,513
Cogeneration	3,671,908	3,728,577
<b>Total</b>	<b>26,696,264</b>	<b>26,541,089</b>

67% of the group's installed capacity is emission-free. Direct emissions other than the above emissions from production facilities are less than 1% of the total:

Other Scope 1 emissions (t CO <sub>2eq</sub> ) in 2017	Source of emission factors
Non-generation emissions	41,634 Defra <sup>57</sup> : United Kingdom.
Fugitive emissions (CH <sub>4</sub> ) (Gas warehousing and transport)	8,717 IPCC <sup>58</sup>
Fugitive emissions (SF <sub>6</sub> ) (Electric power distribution)	19,856 IPCC
Emissions at buildings (fuel consumption)	7,965 Mapama: Spain. Defra: United Kingdom, Mexico and Brazil. EPA <sup>59</sup> : United States.
Emissions from mobile combustion (fleet vehicles)	32,019 Defra: Spain and United Kingdom. EPA: United States, Mexico and Brazil.

### 305-2 Indirect greenhouse gas emissions. Scope 2 (per GHG Protocol).

Indirect emissions are those emissions deriving from the company's activity but generated by other entities, including emissions from the generation of electricity acquired for the company's consumption. These emissions are:

- Emissions associated with the consumption of electric energy by standby systems during shutdowns at the thermal, renewable and nuclear plants and during pumping at the hydroelectric plants.

<sup>56</sup> The emissions data for the thermal generating plants includes the consumption of an auxiliary group of nuclear plants, which is not included in the breakdown of Annex 3.

<sup>57</sup> Department for Environment, Food and Rural Affairs (United Kingdom).

<sup>58</sup> IPCC: Intergovernmental Panel on Climate Change.

<sup>59</sup> Environmental Protection Agency (United States).

- Emissions associated with the consumption of electricity in buildings.
- Emissions associated with network losses.

The emission factor of the generation mix of the respective country is used to calculate CO<sub>2</sub>.

- Spain: Red Eléctrica de España
- United Kingdom: DEFRA
- United States: U.S. Energy Information Administration
- Mexico: SEMARNAT<sup>60</sup>
- Brazil: Ministry of Science, Technology and Innovation for Brazil

The Scope 2 emissions for the base year are: 4,503,670 t CO<sub>2eq</sub>. The Scope 2 emissions for 2017 are indicated in the following table:

Scope 2 (t CO <sub>2eq</sub> ) <sup>61</sup>	2017	2016
Emissions associated with the consumption of power at offices	51,242	39,863
Emissions from consumption at standby and pumping	833,115	749,628
Emissions associated with network losses	4,126,206	3,714,179

More information is available in the [GHG Report](#), which is audited annually under the ISO 14064 standard.

### 305-3 Other indirect greenhouse gas emissions. Scope 3 (per GHG Protocol).

Indirect emissions are a result of the company's activities at sources that are not owned or controlled thereby:

- Emissions associated with the transport of employees for work purposes (hire vehicles and personal vehicles, planes, trains and ferries).
- Emissions associated with the transport of employees from their home to their work place.
- Emissions associated with the transport of fuel.
- Emissions from suppliers that receive and respond to GHG questionnaires.

More information is available in the [GHG Report](#), which is audited annually under the ISO 14064 standard.

The total Scope 3 emissions for the base year are 1,022,158 t CO<sub>2eq</sub>.

#### Emissions associated with the transport of employees for work purposes

The following table shows emissions associated with the transport of employees on business trips using various means of transportation. The Defra emission factors (2017) are used to calculate the emissions.

Emissions of CO <sub>2eq</sub> associated with the transport of employees for work purposes (t)	2017	2016
Air	13,983	10,395
Car	4,472	4,620

<sup>60</sup> Secretaría de Medio Ambiente y Recursos Naturales (Secretary of the Environment and Natural Resources) in Mexico.

<sup>61</sup> Emissions associated with network losses are included in scope 2 to calculate 2017 emissions.

Train

278

296

There were more than 59,151 videoconferences in 2017 that avoided employee travel, entailing a reduction of approximately 22,592 t of CO<sub>2eq</sub>.

### Emissions associated with the transport of employees from their home to their work place

A survey is sent each year to the employees of the Iberdrola group in order to record their emissions through an emissions calculation tool.

The information obtained in the survey for 2017 performed is extrapolated to the entire Iberdrola group. The equivalent value of total emissions for this item was 76,686 t CO<sub>2eq</sub>.

### Emissions associated with the transport of fuel

These are from the analysis of the fuel supply chain, based on the various means of transport employed, using the Defra emission factors and calculating the emissions resulting from this activity. Fuel transport activities in 2017 only occurred in Spain<sup>62</sup>.

Emissions by mode of transport are shown below:

CO <sub>2eq</sub> emissions (t) associated with the transport of fuel	2017	2016
Road	14,782	12,052
Train	4,474	19,905
Ship	72,903	56,786

### Emissions associated with the supply chain

Iberdrola conducted the 8<sup>th</sup> *Supplier Awareness and Greenhouse Gas Measurement Campaign* during 2017, to which end surveys were sent to the group's suppliers in Spain, the United Kingdom, the United States, Mexico and Brazil.

Based on responses to the surveys sent to the suppliers, as indicated in disclosure 308-1, emissions are calculated proportionally to the volume of billing, which information is included in the emissions report as indirect emissions.

CO <sub>2eq</sub> emissions associated with the supply chain (t)	2017
Spain	1,054,507
United Kingdom	795,891
United States	490,768
Brazil	211
Mexico	635,421

### 305-4 Greenhouse gas emissions intensity

The intensity of CO<sub>2</sub> emissions is calculated based on direct emissions from the production facilities (see disclosure 305-1) divided by the group's net production, including steam. The following table shows this intensity.

Intensity of CO <sub>2</sub> emissions	2017	2016
--	------	------

<sup>62</sup> Coal, gas-oil and uranium transport activities are considered.

Specific emissions from global mix (kg/MWh)	187	177
Specific emissions from global mix (kg/€) <sup>63</sup>	0.854	0.908

In 2017, CO<sub>2</sub> emissions per MWh generated remained among the lowest among domestic and international energy companies. Also noteworthy is the fact that the intensity of emissions at the group's thermal plants has dropped over the past 5 years, to 388 kg CO<sub>2</sub>/MWh in 2017.

### 305-5 Reduction of GHG emissions

Initiatives to reduce emissions are undertaken through a broad range of products and services promoting energy efficiency and savings. Some examples of actions taken in 2017 are given below:

Areas	Actions and initiatives	CO <sub>2</sub> avoided (t)
Renewables	Primary energy savings through the production of renewable energy.	15,129,235
Cogeneration	Savings through the supply of heat energy (steam) within the group.	1,128,403
Network efficiency	Savings from distribution network efficiency in Spain, the United Kingdom and Brazil.	117,658
Commercial	Energy savings and efficiency from green products and services.	7,062,225
Group	Use of videoconferencing.	22,592

In total, the emission of 23,460,113 t CO<sub>2</sub> was avoided, equal to the amount of CO<sub>2</sub> absorbed by 1,300 million trees over the course of a year<sup>64</sup>.

The operating regimen of the group's production facilities led to the level of CO<sub>2</sub> emissions described in disclosure 305-1. Disclosures 302-4<sup>65</sup> and 305-2 provide additional information on this subject.

Despite its excellent position in this regard, Iberdrola has committed to reducing the intensity of its emissions to 50% below its 2007 level by 2030. The strategy to achieve this target is based on gradually reducing the intensity of GHG emissions through a commitment to close all of its coal plants and continuing to pursue electricity generation based on renewable sources and progressively introducing more efficient and less carbon-intensive technologies at existing facilities.

Iberdrola's commitment includes the development of a Sustainable Mobility Plan with the ultimate goal of contributing to a rational use of the means of transportation and which is framed within the commitment made by the company in its *Sustainability Policy*.

The inclusive nature of the programme involves employees, the business activity, customers and suppliers, covering approximately 23 specific actions in which the company seeks to strengthen its wager on sustainability.

These initiatives include Iberdrola's launch of a new edition of the *Electric Vehicle for Employees* programme in Spain and the United Kingdom and the pilot project launch in the United States, which consists of special advances and financial assistance for the purchase of electric vehicles. Thanks to this

<sup>63</sup> Direct emissions from energy generation facilities (305-1) compared to net revenue in €.

<sup>64</sup> The estimated amount of CO<sub>2</sub> absorbed by one tree in a year is 20 kg.

<sup>65</sup> In addition to the reductions described in 302-4, the group's nuclear production prevented emissions of 8,644,375 t CO<sub>2</sub>, taking into account the emission mix. Source: RRE.

initiative, the local emission of 244 t CO<sub>2e</sub> in employee travel to the work place in Spain and the United Kingdom was avoided in 2017.

Iberdrola's commitment to [sustainable mobility](#) was recognised in 2017 with the award received at the V Best Mobility Practices Award delivered by Renault.

### 305-6 Emissions of ozone-depleting substances

Ozone-depleting substances have a very limited presence within the Iberdrola group, and are located primarily in fire-extinguishing equipment (Halon) and some cooling systems (chlorofluorocarbons, CFCs). These systems and equipment are maintained in accordance with the provisions of applicable laws and regulations.

The only atmospheric emissions originating from these products would be those arising from potential losses, which are identified by the volumes used to recharge the equipment. Although Iberdrola's goal is to eliminate the presence thereof in its facilities, these substances continue to be used where their use is authorised and a better market substitute has not been found. Thus, 44 kg of CFC-11 equivalent was replaced in 2017, consisting of: 38 kg of CFC-11 equivalent in Spain and 6 kg in Mexico.

### 305-7 NO<sub>x</sub>, SO<sub>x</sub> and other significant air emissions

Emissions<sup>66</sup> of sulphur dioxide (SO<sub>2</sub>), nitrogen oxides (NO<sub>x</sub>) and particulate matter are also created by the burning of fossil fuels. These emissions are being reduced due to the company's energy generation mix, discussed in the emissions section, with the incorporation of renewable energy and the support of modern technologies for monitoring combined cycles. This management focus is supplemented with a plan to invest in improvements in the combustion process and in the dismantling of less environmentally-efficient units.

To comply with *Directive 2001/80/CE*, which limits the atmospheric emissions of SO<sub>2</sub>, NO<sub>x</sub> and particulates from large combustion facilities, investments have been made in combustion control systems at the thermal plants, both in Spain and the United Kingdom.

#### Emissions of oxides of nitrogen (NO<sub>x</sub>)

NO <sub>x</sub> emissions (t)	2017	2016
Generating plants	7,613	12,934
Cogeneration	8,539	8,037
<b>Total</b>	<b>16,152</b>	<b>20,971</b>

Intensity of NO <sub>x</sub> emissions (kg/MWh)	2017	2016
<b>Specific emissions from global mix</b>	<b>0.113</b>	<b>0.140</b>

#### Emissions of sulphur dioxide (SO<sub>2</sub>)

Sulphur dioxide (SO <sub>2</sub> ) emissions (t)	2017	2016
Generating plants	4,143	6,510
Cogeneration	1,249	578

<sup>66</sup> These emissions are obtained either by direct measurement or through conversions of fuel consumption using emission factors from official sources.

<b>Total</b>	<b>5,392</b>	<b>7,088</b>
<b>Intensity of SO<sub>2</sub> emissions (kg/MWh)</b>	<b>2017</b>	<b>2016</b>
<b>Specific emissions from global mix</b>	<b>0.038</b>	<b>0.047</b>

**Emissions of particulates**

<b>Particulate emissions (t)</b>	<b>2017</b>	<b>2016</b>
Generating plants	1,114	1,067
Cogeneration	158	141
<b>Total</b>	<b>1,272</b>	<b>1,208</b>
<b>Intensity of particulate emissions (kg/MWh)</b>	<b>2017</b>	<b>2016</b>
<b>Specific emissions from global mix</b>	<b>0.009</b>	<b>0.008</b>

**Emissions of mercury (Hg) and other compounds**

The emission of mercury (Hg) during 2017 was 33.23 kg.

Furthermore, 434.57 t of volatile organic compounds (VOCs) were emitted in Spain, the United Kingdom, Mexico and the United States; and 18.60 kg of hazardous air pollutants (HAPs) were emitted in the United States.

**GRI 306 Effluents and waste**

**Contribution to SDGs of the performance described by the indicators of this section**  
 (according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))

**Management approach**

**Effluents**

Withdrawal, use and return to the environment is the water cycle needed for the generation of power at the thermal generation plants. The quality of this returned effluent is strictly controlled and is kept below the maximum acceptable values established by the government based on the characteristics of the withdrawal and discharge point (sea, reservoir or river).

Ensuring compliance with law and seeking methods to minimise the risk of spills is applicable to all of Iberdrola's facilities, including generating plants, renewable facilities and distribution substations.

Iberdrola has treatment plants and water quality measurement systems at its facilities that allow it to ensure a return to the environment (sea, reservoir or river) in the desired condition, reducing the risk of polluting discharges through the use of preventive control tools:

- Consolidated systems for reporting anomalies and incidents in order to establish plans to minimise spillage risks, by implementing predictive, preventive and corrective actions that ensure the proper condition of the water.
- Certificates in ISO 14001 and EMAS, as tools for continuous improvement.

The company also has emergency plans and protocols to ensure proper and rapid response in the event of discharges or spills with negative effects on the surrounding environment:

### Waste

Iberdrola's goal is to reduce the generation of waste for any process or activity (construction, operation, maintenance of facilities and work centres), and to prioritise recycling and the reuse thereof. Iberdrola commits to the concept of "circular economy" for all players within its activities, having joined the Circular Economy Pact of the Ministry of Agriculture and Fishing, Food and Environment (MAPAMA) in Spain.

The management of waste conforms to the following principles:

- Minimise the generation of waste at source.
- Maximise the reuse, recycling and recovery of waste.
- Promotion of awareness-raising campaigns regarding the minimisation of waste.
- Specific treatment and management of hazardous waste.

Further to its commitment to transparency of information for Stakeholders, Iberdrola provides additional information on its nuclear plants (*General Radioactive Waste Plan*, Enresa<sup>67</sup>). The processes of reduction, reuse, segregation, recycling and recovery is applied to radioactive waste in the safe management thereof.

Iberdrola's nuclear power plants are included within the *Environmental Radiological Monitoring Programme* of the Nuclear Safety Council of Spain, the purpose of which is to monitor the dispersion in the environment of controlled discharges from facilities and to determine and monitor radiological quality throughout the country.<sup>68</sup>

### 306-1 Total water discharge by quality and destination

The thermal power-generation plants treat residual water before discharging it into the natural receptor environment.

- Water from the process undergoes physicochemical treatment, which includes the separation of hydrocarbons and temperature monitoring.
- Wastewater is treated in compact treatment systems with biological aerobic processes.
- Coal plants have a treatment system for slag from the plant, and a decantation/coagulation process that prevents the entry of particulate coal or coal in suspension into the receptor water.

<sup>67</sup> Enresa: Empresa nacional de residuos radioactivos, S.A.

<sup>68</sup> For more information, see the technical report issued by the Nuclear Safety Council "Environmental radiological monitoring programmes. 2014 Results" ("Programas de vigilancia radiológica ambiental. Resultados 2014"), available at [www.csn.es](http://www.csn.es).

After being treated, the process water and the sanitation wastewater are diluted with the water returned from the cooling system and are discharged into the receptor environment, with continuous monitoring of various parameters (temperature, turbidity, conductivity, etc.). An accredited organisation analyses these discharges and regularly reports to the government.

The data relating to the discharge of water into the environment are:

Total water discharged (hm <sup>3</sup> )	2017	2016
Ocean	1,289	1,171
Rivers	249	274
Lakes and reservoirs	360	326
Municipal water	6	5
<b>Total</b>	<b>1,904</b>	<b>1,776</b>

In Mexico, the combined cycles have separate and independent networks for industrial and sanitary water. The latter receive final treatment in biodigestors whereas industrial water is discharged into the natural environment or sent to municipal treatment plants or to the customer for treatment. The La Laguna power plant captures sanitation wastewater for all processes, for which reason the water discharged by this facility is of better quality in some parameters than the water that is collected. For more information, see the [Water Usage](#) section of the corporate website.

### 306-2 Total weight of waste by type and disposal method

Two types of waste are differentiated within the Iberdrola group's activities:

- Waste arising during the energy production process.
- Waste generated at facilities and offices.

The various areas and businesses of the company perform activities to minimise waste and improve waste management, within the framework of the certified environmental management systems.

### Waste from the production process

#### 1. Fly ash and slag

In the generation process at coal plants, fly ash and slag are the most typical types of waste. The following table shows the production and reuse thereof:

Production and reuse of ash at Iberdrola's thermal power plants	2017	2016
Ash produced (t)	174,523	256,399
Ash reused (t)	76,034	87,260
Percentage of product reused (%)	44	34

Reused ash was used for the production of cement as filling in infrastructure work and to produce compost.

#### 2. Nuclear waste

Low-low level and low-medium level radioactive waste generated during 2017 is shown in the following table:



Hazardous waste generated at nuclear facilities	Net output (MWh)	Low-low level waste		Low-medium level waste	
		Produced (m <sup>3</sup> )	Produced (m <sup>3</sup> / MWh)	Produced (m <sup>3</sup> )	Produced (m <sup>3</sup> / MWh)
Cofrentes nuclear plant	7,064	14.4	0.002	104	0.015
Partially-owned nuclear plants	16,185	32.47	0.016	162.01	0.078

As to high level waste, 303 spent fuel assemblies were generated during 2017.

## Other waste

### 1. Hazardous waste

Hazardous waste that is generated is regularly delivered to authorised handlers for proper processing. Not all of the waste generated is deposited or recycled immediately, as there are temporary warehouses for hazardous waste at the facilities.

Hazardous waste generation (t)	2017	2016
Produced	9,193	10,579
Deposited and/or incinerated	3,023	2,148
Recovered, recycled, reused	7,288	7,353

### 2. Non-hazardous waste

Non-hazardous waste generation (t)	2017	2016
Produced <sup>69</sup>	1,053,671	978,845
Deposited and/or incinerated	543,254	443,752
Recovered, recycled, reused	449,920	470,832

Non-hazardous waste produced includes electronic equipment, wood, metals, plastics, paper, etc. The company has minimisation, reutilisation and recycling plans as well as awareness-raising campaigns to promote good environmental practices by its employees.

To promote the reuse of waste, Iberdrola has been working for several years on the optimisation of the management and revaluation thereof, selling it to companies that put it back on the market after transforming it. During 2017, this exercise produced income of €2,449,758 from the sale of non-hazardous waste.

## 306-3 Significant spills

Iberdrola has an Environmental Management System, and prevention is one of its key objectives. To this end, multiple preventive measures have been implemented in all of the group's businesses. These measures are set out in organisational and technical manuals. Plans to minimise risk have been established in the group's various businesses (emergency guides and procedures, regular drills, etc.), as have reporting and environmental incident management systems; these are used to prevent and to control accidental spills and to inform the relevant authorities whenever necessary.

<sup>69</sup> Total value of waste produced, also includes the total value of waste managed.

One example of safety and containment measures taken to mitigate damage are those implemented in Spain, where 505 preventive actions were performed in 2017 to prevent and mitigate the impact of potential spills. These included the construction of 34 oil collection reservoirs in case of a major discharge at the substations or transformer stations, as well as waterproofing of containers.

Of all the leaks and spills recorded within the Iberdrola group in 2017, 23 incidents were significant<sup>70</sup>, with a total spill volume of 10 m<sup>3</sup> of dielectric liquid. All cases were resolved in a satisfactory manner thanks to the emergency response team; the contaminated area was cleaned with appropriate management of any waste. In the case of minor accidents or incidents that did not have permanent environmental impacts on the surroundings, it was not necessary to adopt corrective or compensatory measures.

**306-4 Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of waste shipped internationally.**

Iberdrola does not directly transport, import or export hazardous waste covered by the Basel Convention in any of the countries in which it engages in its activities.

**306-5 Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff.**


Water collection and discharges by the facilities during 2017 were within the limits indicated by the relevant comprehensive environmental permit for each facility, and no anomalies were detected that could materially affect water resources or related habitats.

The company's activities can even be beneficial for the ecosystem, as seen in the following examples:

- In Spain, above and beyond the Integrated Environmental Authorisation requirements, at times additional quality control analyses are conducted on water upstream from hydroelectric generation facilities, with a view to improving, where necessary, the quality of this water once it has passed through the plant and is returned to the environment (see disclosure 304-3).
- The discharge from the Altamira III and IV plant in Mexico has been re-directed over the Garrapatas estuary, which is allowing it to recover its salinity and thus the specific characteristics of this habitat and the species of fauna and flora adapted thereto. This estuary was losing its brackish nature due to salt-water entry being blocked after the construction of a pipeline, with the resulting desalination of the ecosystem.

**GRI 307 Environmental compliance**

**Contribution to SDGs of the performance described by the indicators of this section**



(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))

<sup>70</sup> The term "significant spill" means a spill that causes damage to the external surroundings of the facility or a significant risk thereof and that must be reported to the governmental authorities. Small spills may occur within the facilities during the operation and maintenance thereof, which are properly handled and reported as required.

## Management approach

Iberdrola has a Global Environmental Management System that encompasses all of the partial certifications of each of the businesses that make up the group, reaching 80% of the group's production. Certified environmental management systems identify the legal requirements applicable to the activities carried out by the group and establish an assessment of compliance therewith for purposes of assurance. Below in disclosure 307-1 of this report, supplemental information is provided regarding ongoing environmental legal proceedings directed at companies managed directly by Iberdrola.

### 307-1 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

Incidents relating to the environment during 2017 involved the following fines and monetary sanctions:

Fines imposed relating to the environment (€)	2017	2016
<b>Total amount of fines imposed</b>	<b>3,881,246</b>	<b>2,375,559</b>

Of the total amount of fines imposed during the financial year, 2,197,588 euros were in Spain, 1,582,142 euros in Brazil and 50,508 euros in the United States. In Spain, there were significant fines corresponding to sanction proceedings for the electrocution, injury and death of birds; and in Brazil they were due to non-compliance with environmental conditions, impacts on ichthyofauna and improper pruning.

Non-monetary sanctions, sanction proceedings and arbitrations (no.)	2017	2016
Non-monetary sanctions	14	2
Sanction proceedings	57	86
Cases being resolved through arbitration or similar mechanisms	0	9

## GRI 308 Supplier environmental assessment

### Management approach

308-1 Percentage of new suppliers that were screened using environmental criteria

308-2 Significant (actual and potential) negative environmental impacts in the supply chain and actions taken

The management approach regarding the Iberdrola group's supply practices is described in disclosure 102-9 "Description of supply chain" of this report and the environmental risks of this chain are managed through quality processes and periodic audits.

In the management of suppliers and during the procurement process, the measures adopted to promote proper environmental behaviour by suppliers are based on the *Procurement Policy*, the *Suppliers' Code of Ethics* and the specific environmental clauses in the procurement terms of the group. Subsequently, during the supply stage, the business units monitor the environmental performance of the supplier during the term of the contract.

### Alignment in Procurement and Supplier Management with respect to the environment and sustainability

Internal Procurement Mechanisms		External Supplier Mechanisms	
<b>Procurement Policy</b>	Sets out principles on the environment that suppliers must follow and sustainable and responsible management in the Iberdrola group's supply chain	<b>Suppliers' Code of Ethics</b>	Includes environmental principles. Must be accepted by the Group's suppliers and is attached to orders and contracts
<b>Supplier Registration and Classification</b>	Having environmental certification will be weighed in the overall assessment of the supplier. Suppliers must accept Iberdrola's Environmental Policy	<b>Specific T&amp;Cs</b>	Environmental clauses that suppliers must comply with during the term of the contract
<b>Bid Process</b>	The environmental assessment of the supplier is included during the ITEO (offer evaluation) phase and in the PA (proposed award) for purposes of the contract.	<b>Stimulus Campaigns</b>	As a business driver, we proactively promote the environmental certification of the suppliers, supporting them in the search for excellence and generating a multiplier effect
<b>Annual Improvement Goals</b>	Innovative process: annual improvement goals directly relating to the environmental improvement of suppliers established for the Procurement team and linked to variable remuneration	<b>Carbon Footprint Measurement</b>	Annual greenhouse gas measurement campaign for suppliers: in 2017 more than 1,000 suppliers of the group in Spain, the United Kingdom, Brazil, Mexico and the United States
<b>Global Environmental System</b>	The Procurement Division is part of Iberdrola's Global Environmental System Committee: monitoring of environmental guidelines, established goals and related indicators, Audits.	<b>CSR Scoring</b>	Includes environmental aspects. CSR evaluation of suppliers, quantifying their relative position based on their management of this area
<b>Reporting</b>	<i>Contribution to Sustainability</i> infographic and <i>Annual Procurement and Supplier Management Report</i> published on the corporate website	<b>Supplier of the Year Award</b>	Environmental category: this promotes the environmental responsibility of suppliers and publicly recognises those who stand out in this area

The procurement terms of the group establish certain environmental requirements to meet this commitment, and the company also performs various tracking and reporting activities on an on-going basis. At the end of 2017, procurement from suppliers with a certified environmental management system represented 79.5% of all procurement from suppliers of general supplies.

Fuel procurement is subject to the general principles of Iberdrola's social responsibility policies, which require the encouragement of suppliers to engage in activities that are socially responsible, respectful of the environment and prevent occupational risks. With respect to fuel suppliers, those with an environmental management system represented 92% of the suppliers evaluated.

100% of suppliers (both new and existing) of general supplies and significant suppliers of fuel are evaluated according to environmental and sustainability criteria.

The principal environmental risks are considered to be managed through the current management systems and the periodic audits that are performed.

No supplier with a significant negative environmental impact has been detected. Furthermore, Iberdrola does not have major suppliers located in areas with water stress.

# C. SOCIAL DIMENSION

## Contents of the chapter

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The topics analysed and reported on in this chapter are the following:

- **Management approach to the *Social Dimension***
- **Topics of the GRI Standards**
  - GRI 401 Employment
    - Management approach and disclosures 401-1, 401-2 and 401-3
    - Additional information required by the GRI *Sector Supplement*:
      - Programmes and processes to ensure the availability of a skilled workforce
      - Policies and requirements regarding health and safety
      - Indicators EU15, EU17 and EU18
  - GRI 402 Labour/management relations
    - Management approach and disclosures 402-1
  - GRI 403 Occupational health and safety
    - Management approach and disclosures 403-1, 403-2, 403-3 and 403-4
    - Additional information required by the GRI *Sector Supplement*
  - GRI 404 Training and education
    - Management approach and disclosures 404-1, 404-2 and 404-3
  - GRI 405 Diversity and equal opportunity
    - Management approach and disclosures 405-1 and 405-2
  - GRI 406 Non-discrimination
    - Management approach and disclosures 406-1
  - GRI 407 Freedom of association and collective bargaining
    - Management approach and disclosures 407-1
    - Additional information required by the GRI *Sector Supplement*
  - GRI 408 Child labor
    - Management approach and disclosures 408-1
  - GRI 409 Forced or compulsory labor
    - Management approach and disclosures 409-1
  - GRI 410 Procurement practices
    - Management approach and disclosures 410-1
  - GRI 411 Rights of indigenous peoples
    - Management approach and disclosures 411-1
  - GRI 412 Assessment of impact on human rights
    - Management approach and disclosures 412-1, 412-2 and 412-3

- GRI 413 Local communities
  - o Management approach and disclosures 413-1 and 413-2
  - o Additional information required by the GRI *Sector Supplement*:
    - Stakeholder participation in the decision-making process
    - Management of population displacements, including disclosure EU22
- GRI 414 Supplier social assessment
  - o Management approach and disclosures 414-1 and 414-2
- GRI 415 Public policy
  - o Management approach and disclosures 415-1
- GRI 416 Customer health and safety
  - o Management approach and disclosures 416-1 and 416-2
  - o Additional information required by the GRI *Sector Supplement*:
    - Electric and magnetic fields
    - Disclosure EU25
- GRI 417 Marketing and labelling
  - o Management approach and disclosures 417-1, 417-2 and 417-3
- GRI 418 Customer privacy
  - o Management approach and disclosures 418-1
- GRI 419 Socioeconomic compliance
  - o Management approach and disclosures 419-1
- **Specific topics of the electric utilities sector supplement**
  - Disaster/emergency planning and response
    - o Management approach (no related disclosures)
  - Access to electricity
    - o Management approach and disclosures EU26, EU27, EU28, EU29 and EU30
  - Access to adequate information
    - o Management approach (no related disclosures)
- **Specific topics of the Iberdrola group**
  - Iberdrola and the Global Compact
    - o Management approach
  - Iberdrola's contribution to the community
    - o Management approach
  - Iberdrola, promoting women's sport
    - o Management approach

## Scope of information



The information boundary used in this chapter is defined in disclosure 102-45 of this report.

### Specific management approach to the *Social Dimension*

This management approach covers all “Topics” of the GRI Standards and the Electric Utility Sector Supplement referred to in the above contents of this chapter in the area of labour relations, the protection of human rights, the supply chain, and relations with customers and with society in general. In managing these issues, Iberdrola acts in accordance with the principles described in this section and in the “General Management Approach” section of this report.

Iberdrola establishes firm and permanent bonds with its Stakeholders, taking into consideration the needs and expectations of its workforce, shareholders and the financial community, regulatory bodies, customers, suppliers, the media, society in general and the environment. The development of plans for the company’s relationships and the maintenance of fluid channels of communication with Stakeholders are significant goals, to which Iberdrola dedicates numerous resources, as described in more detail in chapter 5 “Stakeholder Engagement” of this report.

Within the company’s explicit commitment to the creation of sustainable value and the maximisation of the social dividend, and always looking to the long-term future, Iberdrola has an impact on local development, generating employment and wealth in all of the communities in which it is present through the design and preparation of specific programmes focused on promoting education, art and culture, research, protection of the environment, protection of vulnerable groups, etc.

The policies defined for the management of human resources contain guidelines governing labour relations among the various companies of the group and serve as a reference to define the company’s employment-related goals: maintaining employment guarantees and a stable relationship with workers; strengthening of occupational health and safety and training aspects; protection of diversity and equal opportunity in access to employment; promotion of professional development; and promotion of behaviour and attitudes among its entire workforce in line with the principles described in the “Ethics and integrity” section of this report.

In relation to Iberdrola’s commitment to defend human rights, the main goal is to incorporate the management thereof into the group’s operations, thus forming an integral part of operating procedures. This focus is included in the [Policy on Respect for Human Rights](#) approved by the Board of Directors in February 2015 and revised in February 2017. To this end, the company has a set of tools that promote the protection of and respect for human rights, mitigating the risk of violation thereof. The company’s practices are in line with the *Guiding Principles on Business and Human Rights: Implementing the United Nations ‘Protect, Respect and Remedy’ Framework*, the principles of the *United Nations Global Compact*, the *OECD Guidelines for Multinational Enterprises*, the International Labour Organization’s *Social Policy* and the *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy*.

It should be noted that Iberdrola has designed a *Human Rights Management Model* in order to promote a culture of respect for human rights and to raise awareness in this area for all professionals, especially those who perform their activities in countries with a potentially higher risk of violation of these rights due to lax laws. The model includes the planning of activities and measurable goals to be met by the entire organisation, and this has been approved by both the Operating Committee and the Reputation and Social Responsibility Committee.

The company also has other tools approved by the Board, such as the [Code of Ethics](#), which governs the behaviour of all professionals, establishing control measures as well as disciplinary measures in the event of noncompliance, and the *Suppliers’ Code of Ethics*, which fosters compliance with applicable legal



provisions in connection with ethical, labour, environmental and health and safety matters, which must be expressly adhered to by all suppliers and is included as an annex to the respective contracts.

As regards its customers, Iberdrola operates with an organisational structure in which the Networks Business manages the activities of regulated transmission, distribution and sale of energy and any other regulated activity that the group carries out in Spain, the United Kingdom, the United States and Brazil, and the Wholesale and Retail Business manages non-regulated activities in Spain, Portugal, the United Kingdom, Mexico and continental Europe. For its part, the Renewables Business manages long-term power purchase agreements (PPAs) with large companies in the United States and Mexico.

In the retail markets, Iberdrola mainly provides its customers with two products: electricity and natural gas, trying to ensure competitive supply, operational and service excellence, continuous improvement of efficiency in operations, together with safety and respect for the environment. Although the Iberdrola group engages in other activities, due to the nature and scope thereof, these activities are insignificant in connection with customers for purposes of the information presented in this report.

As a whole, the distribution companies of the group handle a total of 34.37 million energy supply points, of which 30.33 million correspond to electric power and 4.04 million to gas supply. This information is described by type of user in indicator EU3 of this report.

### Grievance mechanisms for impacts on society

As provided by Iberdrola's By-Laws, the corporate website ([www.iberdrola.com](http://www.iberdrola.com)) is a permanent channel of communication to serve the *Stakeholder Relations Policy*. For this reason, the website contains the main channels for responding to potential claims, as set out below:

- From the home page, one can directly access pages dedicated to customers and to the distribution networks of the countries in which Iberdrola does business, as well as those of the foundations and of the main companies of the group. There is also a prominent link on the home page to the "[Contact](#)" section, in which the following appear in an organised and accessible form:
  - o The addresses of the Iberdrola group's offices in the various countries.
  - o The specific contact channels (Corporate Communication, Investor Relations Office, Office of the Shareholder, Environment, Supplier Service Centre, Employment Channel, Corporate Social Responsibility, etc.).
  - o Customer service centres in the various countries.
  - o Subject-specific query mailboxes.
- The [Corporate Governance](#) section of website contains the group's corporate structure, with the corresponding links to all the companies.

The company's Stakeholders have the channels described above, which are handled in the various countries, businesses and corporate areas, to make their complaints and suggestions regarding business activities with a specific impact on the environment, labour relations, human rights, local communities, competition or market power, and such complaints will be attended to following established internal procedures.

There are various specific mechanisms for dealing with unethical behaviour or behaviour that might lead to situations of fraud or corruption in any form: the ethics mailbox, the shareholders' ethics mailbox, the suppliers' ethics mailbox and the communication channel with the Audit and Risk Supervision Committee,

through which employees, shareholders and suppliers can report grievances, questions or complaints with the assurances of resolution and confidentiality that such channels require to be effective.

The court claims of which Iberdrola is aware are set forth in disclosures 307-1 and 419-1 of this report.

Disclosure 406-1 sets forth incidents relating to discrimination in the labour area in 2017.

Finally, Iberdrola has not received any complaint during the year regarding other aspects relating to human rights through the channels established for this purpose.

In the United States, there were two complaints to the Maine Human Rights Commission (MHRC) in 2016 alleging discrimination for the imposition of a rate for voluntary exclusion from the use of the new smart meters, where the rejection was due to health reasons. Both complaints were resolved in favour of the company in 2017.

The company has no evidence of any court claims brought in addition to the ones mentioned above that might have a specific social impact.

## GRI 401 Employment GRI 402 Labor/management relations

### Contribution to SDGs of the performance described by the indicators of this section



(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))

### Management approach

#### Policies and commitments

To supplement the general approaches described above, Iberdrola has a [Human Resources Framework Policy](#) to define, design and disseminate a group human resources management model, which is set forth in the following specific policies:

- [Recruitment and Selection Policy](#)
- [Knowledge Management Policy](#)
- [Equal Opportunity and Reconciliation Policy](#)
- [Occupational Safety and Health Policy](#)

supplemented by a [Senior Officer Remuneration Policy](#) and a [Code of Ethics](#) that together establish the principles for managing these areas.

#### Collective bargaining agreements

To properly frame labour relations, the companies of the Iberdrola group have collective bargaining agreements or specific equivalent agreements to govern aspects relating to the management of people.

Generally speaking, the collective bargaining agreements of the Iberdrola group apply to all employees working under an employment relationship and for the account of the companies of the group, regardless of the type of contract entered into, the professional group to which they are assigned, their occupation or the job performed.

However, issues relating to the corporate organisation, the law of each country or even usage and custom in each country lead to certain groups being expressly excluded from the scope of collective bargaining agreements (for example, executives in Spain are not covered by the agreement). This is why there is not 100% coverage, as indicated in the table below:

Employees covered by a collective bargaining agreement	2017	2016
Number of employees	26,643	27,010
Percentage of employees	77.78	79.25

In the companies of the group there are two collective bargaining agreements in Spain, four in the United Kingdom, eleven in the United States, eleven in Brazil and three in Mexico. A breakdown by geographic area is available in Annex 3 Supplementary Information.

These agreements have specific monitoring mechanisms, such as the committees and sub-committees of the Collective Bargaining Agreement in Spain, the *ScottishPower Company Consultative and Negotiating Machinery Constitution* in the United Kingdom, *The Open Items Forum*, Update Meetings, Business Committees, Strategic Safety Panels and the *Joint Union Management Partnership Committee* in the United States, and the Safety Committee in Brazil, which serve to regulate labour, safety and health, and pension issues and consult with employees and with representatives on social matters within the company, as well as to ensure compliance with commitments made.

## Objectives

Iberdrola has identified especially significant issues with respect to its employees, including:

- Define terms and conditions of employment.
- Regulate work rules, shift categories, working hours, etc.
- Define salary structure, supplementary pay, other expenses and form of payment.
- Specify benefits offered and conditions for obtaining them.
- Establish general principles in connection with the Equality Plan.
- Recognise the right to reconciliation of personal, family and working life.

## Specific actions during the financial year

The Iberdrola group's global mobility programmes form part of the set of human resources tools that contribute to the development of talent, transmitting and strengthening the culture of the group and offering opportunities for professional growth in an international environment that attracts, motivates and retains the professionals who will ensure the sustainability of the business. This includes the launch of the *Job Swap Opportunity Program* initiative in 2017, which is intended to facilitate development opportunities for the group's professionals, allowing them to face new professional challenges and responsibilities, thus increasing their global view and knowledge of the business, as well as generating more versatile profiles and strengthening mobility and networking. Through this programme, two employees have the opportunity to temporarily swap their positions for a period of 9-12 months, whether within the same organisation, within the same business, between business and corporate area or between different countries. 15 employees participated in this initiative at the global level during 2017.

During the year, 330 employees participated in the group's international mobility programmes in their various forms.

In addition, with a view to favouring opportunities for internal promotion and international mobility, the group has commenced operating a single employment channel, where more than 27,000 workers can access and apply for internal job vacancies that match their profile.

Under the new homogeneity objectives in the Human Resources model, the management team of Iberdrola and its subsidiaries totals 840 people at year-end 2017, with a voluntary turnover rate of 2.02%.

### Labour practices grievance mechanisms

Using the standard that class actions on the same matter are deemed to be a single grievance, the companies of the group received 253 grievances about labour practices in 2017<sup>71</sup>; of these, 13 were resolved in that same year. In addition, 247 other grievances pending from previous years have been resolved.

### Programmes and processes to ensure the availability of a skilled workforce

Iberdrola needs to have a qualified workforce in keeping with the specific needs of the electric industry, the industry in which it focuses its operations, with the technical competencies necessary to carry out the specialised work required by these types of activities in terms of both technical aspects and safety. Disclosures 404-2 and 404-3 of this chapter provide information in connection with the skills and training management programmes that foster the employability of workers at the company, as well as its performance evaluation processes.

### 401-1 New employee hires and employee turnover

At Iberdrola, talent management is a key factor to ensure the success of the organisation. It is for this reason that Iberdrola works in various critical phases to attract and hire professionals with the skills, knowledge and abilities aligned with the current and future needs of the company: attraction of talent, recruitment and selection, as well as the welcoming and integration of new professionals.

As a global company, it has specific policies approved by the Board of Directors that regulate the selection activity (like the *Recruitment and Selection Policy* and the *Equal Opportunity and Reconciliation Policy*), as well as a master recruitment and selection process that applies at the global level. It also relies on local practices with activities particular to each specific geography and legal system in order to ensure that the best talent is attracted and selected.

Iberdrola's activities to ensure that it has the best and most diverse pool of talent in its various geographical areas include the following:

- Activities to promote training in the STEM (Science, Technology, Engineering and Mathematics) areas among young people and adolescents, as well as among women to equalise the presence of both genders in the sector (for example, visiting high schools and institutes and holding events to explain the industry and the activities of the company).
- Agreements with prestigious universities at the global and local level like:

<sup>71</sup> The grievances received correspond to Spain, the United Kingdom, the United States, Brazil and Mexico. No grievances of this nature have been received in the other countries in which the group operates. In Spain, the United Kingdom, Brazil and Mexico, this includes the grievances that reach the courts, while in the United States grievances include those filed with the various state and/or federal commissions on human rights and equality.

- o Universidad Pontificia de Comillas
  - o Universidad de Salamanca
  - o Massachusetts Institute of Technology
  - o University of Strathclyde
  - o Tecnológico de Monterrey
- Visiting employment forums and holding meetings with students to bring them closer to our company and to support their innovative ability. A total of 107 activities were attended at various prestigious universities in all of the countries where Iberdrola has a presence.
  - Training programmes at the company directed towards vocational students, as well as university students, in order to complete their education within the professional environment. In total, 526 vocational students and 955 university students throughout the world have had the opportunity to engage in training at Iberdrola Spain, ScottishPower, Avangrid, Neoenergia and Iberdrola Mexico.
  - International scholarship programmes for master's studies, with which students obtain financial support to complete their studies. In 2017, Iberdrola's Foundations granted 91 scholarships for Master's studies, investing €3,747,000, with students from Brazil, Spain, Mexico, the United Kingdom and the United States having had the opportunity to study in Spain, the United Kingdom and the United States.
  - Mentoring programmes for university students, with which they can not only develop skills and abilities relevant to the professional area but also work towards their career goals. Specifically, a total of 18 people have been awarded scholarships by the foundation in Spain and have gone through a mentoring programme. All are engaged in training at various offices of Iberdrola Spain.
  - Mainstreaming programmes for junior professionals. A project was launched at the global level in 2017 which incorporated 45 recent graduates into various areas of the company in Mexico, Spain, the United Kingdom and the United States, with a specific development programme for each of them.
  - Definition of the global reception and integration programme, which allows for the sharing of local practices while at the same time defining common lines of activity within different geographical areas, in order to provide common knowledge about the company and facilitate integration into companies and jobs.

New hires	2017		2016	
	Men	Women	Men	Women
<b>By age, in numbers</b>				
Up to 30 years old			962	281
Between 31 and 50 years old	1,012	295	771	290
Over 50 years old	189	43	108	22
<b>By age,<sup>72</sup> in %</b>				
Up to 30 years old			24.90	25.66
Between 31 and 50 years old	26.39	27.09	5.68	5.83
Over 50 years old	2.26	2.10	1.27	1.06

<sup>72</sup> Of the headcount of this group at year end.

<b>Total number</b>	2,554	656	1,841	593
<b>Total<sup>76</sup> %</b>	9.74	8.17	7.10	7.27

Personnel leaving the company	2017		2016	
	Men	Women	Men	Women
<b>By age, in numbers</b>				
Up to 30 years old				
Between 31 and 50 years old	242	113	254	106
Over 50 years old	638	288	614	242
	1,072	336	1,063	216
<b>By age<sup>76</sup>, in %</b>				
Up to 30 years old				
Between 31 and 50 years old	6.31	10.38	6.58	9.68
Over 50 years old	4.55	5.88	4.53	4.86
	12.80	16.45	12.50	10.36
<b>By seniority, in numbers</b>				
Up to 10 years				
Between 11 and 20 years	810	308	766	293
Over 20 years	222	167	245	98
	920	262	920	173
<b>By seniority<sup>76</sup>, in %</b>				
Up to 10 years				
Between 11 and 20 years	6.18	7.18	6.12	7.37
Over 20 years	3.93	4.16	3.92	4.11
	12.32	10.90	11.20	9.64
<b>Total number</b>	1,952	737	1,931	564
<b>Total<sup>76</sup> %</b>	7.44	9.18	7.45	6.91

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.

For employees of companies party to the *7th Collective Bargaining Agreement* in Spain, ScottishPower, Avangrid, Neoenergia and Iberdrola Mexico, which represent 99% of the workforce, there are no significant differences between benefits provided to part-time employees and benefits provided to full-time employees.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

## 401-3 Return to work and retention rates after parental leave, by gender.

Leave and return to work due to paternity/maternity	2017		2016	
	Men	Women	Men	Women
Number of employees entitled to parental leave	26,229	8,026	25,925	8,157
Number of employees taking parental leave	345	440	434	463
Number of employees that returned to work after parental leave ended	363	349	N/Av.	N/Av.
Number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work <sup>73</sup>	328	411	N/Av.	N/Av.
Return to work rate	105.22	79.32	N/Av.	N/Av.

## 402-1 Minimum notice period(s) regarding operational changes, including whether these are specified in collective agreements.

The different organisational changes and significant events that occur are officially reported in compliance with the various legal provisions that apply at both the global and the local level within the labour relations of our companies. These notifications are made via the various channels and forums enabled for the purpose, such as monitoring committees formed by management and employee representatives, intranet, notices to interested parties, unions, etc.

- In Spain, organisational changes are governed by both the *Workers Statute* and by the collective bargaining agreements, and generally provide for a period of at least 15 days.
- In the United Kingdom, when a significant event occurs, interested parties are notified within a period of 4 to 12 weeks, as provided by law as well as the collective bargaining agreements.
- In the United States, notice requirements are governed both by collective bargaining agreement and labour laws. When organisational change or significant events occur that may impact union employees, union leaders are routinely provided with advance notice.
- In Brazil, organisational changes at Elektro are governed by the collective bargaining agreement, which provides guidelines on how these changes should occur, always with prior notice to the union institutions.
- In Mexico, significant operations are reflected in the collective bargaining agreements and notice is provided an average of two to three months in advance.

## EU15 Employees eligible to retire in the next 5 and 10 years.

Employees eligible to retire	In the next 5 years (%)		In the next 10 years (%)	
	2017	2016	2017	2016

<sup>73</sup> Avangrid information not included.



<b>Report boundary</b>	<b>16.21</b>	<b>12.04</b>	<b>27.60</b>	<b>25.30</b>
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A breakdown by professional category and region can be found in Annex 3 Supplementary Information.

**EU17 Days worked by contractor and subcontractor employees involved in construction, operation and maintenance activities.**

To perform those activities that the company deems necessary to carry out at its facilities using subcontracted personnel, Iberdrola follows a procedure of executing services agreements defining the type of activities to be performed, and contractors are responsible for allocating and managing the resources required for the proper performance thereof.

To ensure that the subcontracted activities are performed in alignment with the values of the group, the subcontracted companies:

- Must be approved in accordance with the process described in disclosure 102-9 “Description of Supply Chain” of this report, which takes into account both their technical performance and their labour, environmental and social practices.
- Must meet the requirements set forth in the [contracting terms of the group](#), which take into account financial and quality aspects as well as environmental, labour, health and safety, and social responsibility performance.


Under these terms and conditions, subcontractors, with a total of 12,533,391.7 days worked, manage their technical and human resources and Iberdrola supervises the subcontracted activities performed, and does not deem it necessary to keep statistics regarding subcontracted personnel, except as regards health and safety given the importance of these issues in the social area and because they are considered material topics. Accordingly, this document does not include all the information on subcontracted personnel required by the GRI Standards in disclosures 102-8 and 102-41.

**EU18 Contractor and subcontractor employees that have undergone relevant health and safety training.**

Subcontractors of the group must meet all requirements established in the Iberdrola group’s contracting terms, which can be found in the [contracting terms of the group](#). For that reason, the company believes that 100% of the employees of such companies, regardless of their category, have received appropriate safety and health training.

**GRI 403 Occupational health and safety**

**Contribution to SDGs of the performance described by the indicators of this section**  
 (according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



**Management approach**

**Policies and commitments**



The [Occupational Safety and Health Policy](#) approved by the Board of Directors describes the principles that should guide the behaviour of the group's companies in this area.

With a view to achieving zero accidents and the best workplace safety conditions, apart from this policy, Iberdrola also has a Global Occupational Safety and Health System, which is aligned with corporate policy and the strictest of international standards and incorporates the group's best practices from all of the countries where it has a presence.

This Global Occupational Safety and Health System is the group's tool for continual improvement, whereby the lessons learned from all events that occur are used to create a global knowledge base to prevent them from being repeated in any part of the Iberdrola group. Furthermore, the System is based on the principle that the group's contractors are its collaborators, and Iberdrola involves them in its occupational safety culture.

In alignment with such Global System, group companies are equipped with specific procedures making up the respective local safety and health systems, which are implemented within each company and externally audited. These systems develop the principles that the company has adopted to ensure compliance with legal requirements and to comply with expectations for the ongoing improvement of activities in this area.

### Certifications

In the area of occupational risk prevention, the group has the following evaluation and monitoring mechanisms, which go beyond the legal requirements in each of the countries in which the group has a presence.

- The occupational health and safety management systems of the group's companies in Spain, the United Kingdom, Brazil<sup>74</sup>, Mexico, Portugal, Greece, Hungary and Romania have OHSAS 18001 certification.
- In the United States, the networks businesses in the states of Maine and New York have achieved OHSAS 18001 certification; operations in the states of Connecticut and Massachusetts are expected to be included in the certification in 2018. The Renewables Business successfully completed phase 1 of OHSAS 18001 certification in 2017 and is expected to complete the certification in 2018. Also, within the Renewables Business, the Klamath thermal plant has achieved the highest certification available in that country, the OSHA VPP Star by the OSHA of the State of Oregon.

### Objectives

For financial year 2017, safety and health goals have been established at the group level based on the improvement of accident rates, for both its own and contracted personnel, a continuation of annual planning, and the evaluation and implementation of improvements in management systems.

Particular goals have also been established for the businesses, such as obtaining or maintaining OHSAS 18001 certification, the creation of safe behaviour improvement plans, as well as the quantification of risk detection and of monitoring measures implemented.

### Responsibilities

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<sup>74</sup> Neoenergia has a Safety and Health Management System that defines work procedures and instructions, which is available on its intranet. The Brazilian subsidiary Elektro obtained OHSAS 18001 certification for more than 50% of its employees. The certification for Termopermanbuco and the Teles Pires hydroelectric plant is expected at the beginning of 2018. There is a plan for certification of the companies not yet certified for 2019.

The main responsibility for taking preventive action lies with the company, and therefore, with its organisational hierarchy, which is required to introduce prevention standards, guidelines and policies into all of its activities and decisions, and across all levels of the organisation with executive or decision-making abilities.

In order to assist the company in achieving this end, there is a health and safety organisational structure made up of an Iberdrola Prevention Area within the Human Resources Division in most countries.

In accordance with the principle of integration of occupational risk prevention, the hierarchical/functional organisation of each company is entrusted with giving effect thereto and is responsible for complying with and enforcing health and safety rules within its area of activity.

The companies of the group have occupational safety and health committees, under different names, to establish channels for consultation and participation with the employee representatives in this area, to monitor indicators, and to plan and take measures to correct deficiencies and to improve the Safety and Health System.

### Policies and Requirements regarding Health and Safety of Employees and Employees of Contractors and Subcontractors

The health and safety requirements established for the workforce are set forth in the collective bargaining agreement of each company (when applicable), in the procedures making up the Occupational Risk Prevention Management System, and in the internal regulations of each of the group's companies.

As regards contractors and subcontractors, the group's contracting terms, which can be found in the [contracting terms of the group](#) section of the website, specify the requirements to be met by firms wishing to participate in an award process. In addition, the particular conditions regarding occupational risk prevention are set forth in documents of specific requirements in each country, which are also contractual documents.

By way of example, the following are some of the safety and health requirements specified in the contracting terms:

- Subcontracted employees who have specific duties to monitor and control occupational risk prevention must provide evidence of having received the training established for such purpose under the law applicable thereto.
- Subcontracted employees shall have the necessary training to deal with the risks of the facilities and of the work to be performed.
- In submitting an offer, contractors must provide a report on their accident rate for the last three years, specifying the accident rate of the contractor's group or section engaged in the work bid for or in similar work.
- During the performance of the work or service, the contractor must adopt such measures as are necessary to comply with its obligations and those of the companies to which the contractor has subcontracted such work or services.
- The contractor shall be responsible for safety conditions during the period of execution of the works or performance of the service, as well as for any supplementary measures that are required for the proper performance of the subject matter of the contract.

### 403-1 Employees represented on formal health and safety committees (management/employees).

#### Spain

In Spain, the companies that are signatories of the *7th Collective Bargaining Agreement* have a central committee that coordinates the activities of the thirty-seven local safety and health committees to which all work centres and administrative units are assigned. These committees regularly consult with the workers' representatives on all safety and health issues that affect them.

#### United Kingdom

At ScottishPower, a Health and Safety Governance Committee is responsible for the overall strategy and guidelines and governance in this area. It is made up of members of the management team and by the safety and health director. It is supported by the Safety and Health Boards, which meet every six months, and which are made up of representatives of the workers elected from all of the businesses, unions and directors of occupational safety and health.

#### United States

At Avangrid, in the Networks Business, the Executive Safety Committee and the Strategic Safety Board, along with expert panels and employee safety teams, review work that involves risk-related activities and safety activities that have been undertaken. Unions and executives are also involved through their participation in the committees and regular safety meetings. In the Renewables Business, there are regular meetings of the local executive health and safety committees and of the Central Committee to review health status and the achievement of safety objectives in all regions.

#### Brazil

At Neoenergia, there is a Safety Committee for each distribution company within the Networks Business. There are also safety and health committees at the Generation and Renewables Businesses of the group, made up of members of the management team and by the businesses' occupational safety and health directors and specialists. These committees report to a Central Committee made up of the group's management team to accompany strategic safety and health actions.

#### Mexico

Iberdrola Mexico has a mixed safety and health committee at each facility, governed by the Mexican NOM-029-STPS standard and by the collective bargaining agreement. There is also a Safety Committee (COSE) made up of the heads of safety and environment at each facility and coordinated by the Generation Division.

In-house staff represented on health and safety committees (%)	2017	2016
<b>Report boundary</b>	<b>97.14</b>	<b>93.61</b>

46% of the staff of contractors are represented on safety and health committees in Spain and the United States. This analysis will be expanded to the United Kingdom, Brazil, Mexico and Other Countries in the coming years.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

403-2 Type of injury and rates of injury, occupational diseases, lost days, absenteeism and total number of work-related fatalities, by region and by gender.

Injury rate among group personnel <sup>75</sup>	2017	2016
<b>Number of accidents</b>	<b>455</b>	<b>472</b>
Men	376	407
Women	79	65
<b>With fatality</b>	<b>0</b>	<b>0</b>
Men	0	0
Women	0	0
<b>With leave</b>	<b>104</b>	<b>108</b>
Men	101	96
Women	3	12
<b>Without leave</b>	<b>341</b>	<b>364</b>
Men	265	311
Women	76	53
<b>Number of fatalities</b>	<b>0</b>	<b>0</b>
Men	0	0
Women	0	0
<b>Number of lost days</b>	<b>4,374</b>	<b>2,877</b>
Men	4,318	2,534
Women	56	343
<b>Injury with leave rate (IR)</b>	<b>0.36</b>	<b>0.36</b>
Men	0.45	0.42
Women	0.05	0.17
<b>Occupational disease rate (ODR)</b>	<b>0.02</b>	<b>0.01</b>
Men	0.03	0.00
Women	0.00	0.03
<b>Lost day rate (LDR)</b>	<b>14.96</b>	<b>9.66</b>
Men	19.01	12.70
Women	0.86	40.33

<sup>75</sup> Methodology for calculating the indicators (per GRI standard):

- Injury rate (IR) = (number of injuries with missed (absentee) days\*200,000)/hours worked
- Occupational disease rate (ODR) = (number of occupational disease cases/hours worked)\*200,000
- Lost day rate (LDR) = (calendar days lost per accident, as from first day of leave/hours worked)\*200,000
- Absenteeism rate (AR) = (missed (absentee) working days, as from first day of leave/days worked)\*200,000

Absenteeism among group personnel <sup>79</sup>	2017	2016
<b>Number of missed days per year</b>	<b>11,447</b>	<b>15,734</b>
Men	7,420	10,217
Women	4,027	5,517
<b>Number of lost days</b>	<b>189,025</b>	<b>199,665</b>
Men	125,955	130,461
Women	63,070	69,204
<b>Number of person equivalents</b>	<b>517.88</b>	<b>547.03</b>
Men	345.09	357.43
Women	172.79	189.60
<b>Absenteeism rate (AR)</b>	<b>5,171.71</b>	<b>5,508.74</b>

In addition to the indicators mentioned above, the following indicators are considered to be relevant in Spain: frequency rate, severity rate and incidence rate. Information is provided by geographic area and the information from these indexes in Spain is provided in Annex 3 Supplementary Information.

The table below shows the accident and absenteeism rates of subcontracted employees:

Injuries and absenteeism among subcontracted personnel	2017	2016
<b>Number of accidents</b>	<b>631</b>	<b>438</b>
Men	614	N/Av.
Women	17	N/Av.
<b>With fatality</b>	<b>13</b>	<b>4</b>
Men	13	N/Av.
Women	0	N/Av.
<b>With leave</b>	<b>309</b>	<b>268</b>
Men	307	N/Av.
Women	2	N/Av.
<b>Without leave</b>	<b>309</b>	<b>166<sup>76</sup></b>
Men	294	N/Av.
Women	15	N/Av.
<b>Number of fatalities</b>	<b>13</b>	<b>4</b>
Men	13	N/Av.
Women	0	N/Av.
<b>Number of lost days</b>	<b>11,927</b>	<b>10,194</b>
<b>Injury with leave rate (IR)</b>	<b>0.643</b>	<b>0.543</b>

Despite the gradual reduction in the number of injuries among contracted personnel achieved through 2016, there was an unusual increase in fatal injuries with contracted personnel in 2017 (mainly in Brazil, where there were 10 deaths among contracted personnel of Neenergia, a company recently integrated into the group). The company has established an action plan to reduce them with actions in the short, medium

<sup>76</sup> Does not contain information from Neenergia.

and long term. These measures include improvements in the classification and monitoring of contractor performance, training, operating processes, and in some cases, contracting of internal staff in order to improve control over the performance of key tasks. This plan is already rendering its first results in the form of a reduced injury rate.

Management of health and safety is organised in accordance with the guidelines set out in the OHSAS 18001 standard, as described in the management approach for this section, ensuring that the group has monitoring and evaluation mechanisms in all operations that go beyond legal requirements.

#### 403-3 Workers with high incidence or high risk of diseases related to their occupation

The Iberdrola group's companies monitor the health of their employees for prevention purposes, using in-house or outsourced medical services that are responsible for monitoring the health of employees through regular medical check-ups.

In general terms, the group considers that employees are not exposed to specific occupational or work-related diseases in the course of their work that may be considered to have a high level of incidence or to carry a high risk.

#### 403-4 Health and safety topics covered in formal agreements with trade unions

All work centres and administrative units of the companies that are signatories of the *7th Collective Bargaining Agreement* in Spain are assigned to local safety and health committees. Overall, there are thirty-seven committees, which coordinate their activities through a Central Committee. All were created in accordance with the Occupational Risk Prevention Act and are formed with equal representation between the company and the workers. In 2017, the committees met on a quarterly basis and were the most important consultation, participation and control bodies of the Occupational Risk Prevention Management System, as well as the forum where formal agreements on the matter were reached with the trade unions. The bodies responsible for coordinating and monitoring the implementation of preventive standards and procedures are the Prevention Coordinating Committees, working closely with the Joint Prevention Service.

At ScottishPower, an *Occupational Health and Safety Policy* sets forth the company's principles to ensure compliance with statutory requirements and to comply with the expected on-going improvement in this matter. At these ScottishPower companies, where unions are formally recognised, the health and safety issues or agreements are specified through the general constitution of the company's Consultative and Negotiating Council. This document is agreed between the company and the union representatives. This document has a specific section dedicated to forming the terms of reference for the Health & Safety Council, which meets every six months.

At Avangrid, the Networks Business and trade unions have signed various collective bargaining agreements that cover personal protective equipment, and worker participation in inspections, audits, incident investigations, training and grievance mechanisms. Within the Renewables Business, the process to develop both occupational safety and health regulations and training is carried out by a committee made up of executive officers, health and safety personnel and field personnel.

Neoenergia has a Safety and Health Management System that defines work procedures and instructions, which is available on its intranet. The companies within Iberdrola's domain that have not implemented such a system have developed a certification plan for 2019. The company also has a Safety Committee that ensures the effectiveness of activities and communication on risk prevention actions as a value that informs all of its activities and is part of the company's culture. The company also has 62 internal accident

prevention committees. The committees are made up 50% of company representatives and 50% of worker representatives.

At Iberdrola Mexico, organised workers have a collective bargaining agreement that deals with safety issues like EPIs, safety organisation, worker representation, handling of accidents and professional diseases, application of health and safety law, etc.

In other countries the Renewables Business has safety management systems duly certified under OHSAS 18.001:2007, there are committees with the participation of the company and employees that deal with occurrences in the area of health and safety at the end of each month and reporting on noteworthy activities and plans for future actions.

## GRI 404 Training and education

### Contribution to SDGs of the performance described by the indicators of this section



(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))

## Management approach

### Policies and commitments

Iberdrola recognises the importance of intellectual capital to the company in its [Knowledge Management Policy](#). In implementing this policy, which is intended to disseminate and share the knowledge existing within the company by fostering ongoing learning and cultural exchange, Iberdrola reaffirms that the company's intellectual capital depends on its people, its operational and organisational structures, and its internal and external relationships with all Stakeholder groups. At Iberdrola, learning is thus permanent, ongoing and aligned with the strategy of the group.

At Iberdrola, training and development are considered to be a key factor to the success of the organisation. This understanding is embodied in the design of specific programmes to equip Iberdrola's professionals with the qualifications needed to perform their roles, and to foster a culture of development, value creation and ongoing improvement that allows them to assume new responsibilities in the future. These plans are validated by the heads of the businesses and by the Human Resources Division.

The commitments assumed with the start-up of these plans and programmes are summarised below:

- Alignment with the strategic goals of the company.
- Professional improvement for job performance.
- Better professional development, fostering personal advancement and employability.
- Adjustment of human resources to technological and organisational changes.
- Adaptation of new employees to the company.
- Ease of access to an international job framework.

### Specific Goals and Activities

The following significant training and development activities were carried out during 2017:



- The Iberdrola Campus has become the company's leading training centre in Spain. These facilities house training and development activities across all knowledge areas and for all Iberdrola groups. In 2017, it hosted numerous courses, development programmes and corporate events, and construction has begun on the second phase of the project.
- There has been an expansion of the catalogue of development resources, available at the global level, within the framework of the Personal Development Plans (PDPs), making new online courses available to the employees in English and Spanish. A new cycle of the process of preparing PDPs in Spain, the United Kingdom, the United States, Brazil and Mexico has also begun.
- Strengthening of professional development resources aimed at persons with management potential.
- As a result of the overall work of reviewing the portfolio of training and development activities, work has continued on defining the *Development Roadmap*, with the design of a global programme for those professionals in their preliminary management stages in order to strengthen the abilities and skills needed for the management of teams. This programme will be implemented locally, adapting to the needs of each country. Spain saw the launch of a pilot edition under the name DINAMO, with a modular skills structure. The other countries (the United Kingdom, the United States, Brazil and Mexico) are working on review and design to adjust it to the global model, and will implement it during 2018.
- There is a continuation of the language programme (Pangea), which combines the various features of the three languages of the company (Spanish, English and Portuguese) based on a new website that can be accessed by all Iberdrola's employees in Spain.
- A new development programme has been launched for a group of junior professionals who recently joined the company in Spain, the United Kingdom, the United States and Mexico. This programme is intended not only to facilitate their welcome and inclusion into the company, but also to strengthen their professional development. It consists of global activities, including a Mentoring programme in which they are given the opportunity to be tutored by long-time managers of the company, as well as local activities, including training programmes made up of technical and skills-based modules, rotational programmes, visits to company facilities and headquarters, and assignment to a technical tutor.
- The evaluation of the leadership skills and identification of employee potential through a homogeneous global process has continued. After this first analysis, development meetings continue to be held with employees identified as having potential in Spain, the United States, the United Kingdom, Brazil and Mexico. This has provided significant information at the individual and global level and has served to design a Global Development Programme for professionals identified as having executive potential, which is made up of: global and local training programmes, participation in mentoring programmes as mentors or mentees, participation in coaching programmes, internal mobility programmes, participation in individual projects, and participation in events with Senior Management to increase their visibility. As a result of this programme, a large group of the identified persons have already engaged in some of these activities during 2017.
- In the area of talent management, there have been development meetings with professionals in the various countries in which Iberdrola has a presence in order to improve knowledge about their skills, interests, professional aspirations and development needs.
- There is a new edition of the mentoring programme designed for the participants in the *Early Career Global Program (ECGP)*, which is intended to help with the adjustment and integration of junior professionals from the United States, Mexico, Brazil and the United Kingdom to their new responsibilities in Spain, as well as to strengthen their professional development with the support of an internal mentor from the company.



- There is a new programme focused on increasing internal mobility through Job Swaps, as a lever for professional development, between the employees of Spain and the United Kingdom.
- The global initiatives related to virtual training include the launch of the following courses for all employees: “Procurement Policy awareness-raising”, “Introduction to Climate Change”, “Code of Ethics” and “Corporate Social Responsibility”; and the course “La energía que mueve el mundo” (The energy that moves the world) has been made available to Spanish-speaking employees. These courses fit within the line of strengthening the values of the company.

#### 404-1 Hours of training

Employees and hours of training by professional category and gender	2017		2016	
	Men	Women	Men	Women
<b>Hours of training</b>	21,477	5,225	19,734	4,766
Management team				
Middle managers and skilled technicians	355,838	132,073	440,544	129,480
Skilled workers and support personnel				
	895,808	96,690	649,260	121,210
<b>Average hours of training per employee</b>	18.06	28.09	33.62	35.83
Management team				
Middle managers and skilled technicians	33.55	26.96	40.46	33.22
Skilled workers and support personnel				
	56.16	30.16	51.92	55.40

The differences between men and women are a result of the different specific training for the various professional categories of the workforce, and are not due to a policy of discrimination.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

#### 404-2 Programmes for skills management and lifelong learning

The Iberdrola group believes that professional development contributes to achievement of the company's results and improving the efficiency of the organisation, by equipping employees with the skills and competencies they need to perform their work efficiently today and preparing them to undertake greater responsibilities and challenges in the future.

In addition to the specific activities and goals described in the “Management approach”, various development and training programmes have been carried out in 2017.

Iberdrola has various programmes aimed towards those who have been identified as professionals with the potential for management development, including the two-and-a-half year *MBA in the Global Energy Industry* offered by Universidad Pontificia de Comillas in Madrid and the Strathclyde University Business School in Glasgow. This is a global programme with participating professionals from Spain, the United States, the United Kingdom, Brazil and Mexico. The second edition of this programme concluded successfully in 2017 and the third edition has commenced.

For technicians and middle managers, Iberdrola has a global skills-based development model implemented through a process that permits the formation of personal development plans for these professionals. Through various development resources such as on-site activities, workshops, online resources or jobsite actions, the programme allows employees to work in annual periods on the development of their

professional skills. In Spain, this process takes the form of the SAVIA programme, which, after a one-year extension, finalised its third cycle in 2016, and has thus commenced a new biannual cycle in 2017 (4<sup>th</sup> Edition).

In addition to the resources available in the skills-based development model, Iberdrola continued offering specific skills development programmes in 2017 to ensure that employees not only have the necessary training to perform their tasks efficiently but are prepared to assume new responsibilities in the future. These activities are provided locally and are adapted to the particular culture and characteristics of each country.

Iberdrola also continued offering its Welcome Plans (*Planes de acogida*) for new employees in 2017. These plans afford an overall vision of the company and familiarisation with its culture and values. In addition to these onsite plans, all Iberdrola employees can access the virtual global welcome module, available in English, Spanish and Portuguese.

In line with the 70/20/10 model, a model of learning and development supported by the theory that 70% of a professional's learning comes from experience and on-the-job practice (learning by doing), 20% is acquired through conversations and feedback with other people, and only 10% comes from structured courses and programmes, the company also has mentoring programmes that serve not only to develop the skills of our professionals but also as a knowledge management tool, including the one described in the Management Approach directed towards participants in the international mobility programme called *Early Career Global Program*.

2017 saw the continuation of various working sessions, mainly with ScottishPower, Avangrid, Neoenergia and Iberdrola Mexico, primarily in order to exchange knowledge, information and experience in the training and development areas. Along these lines, the Annual Development Meeting of the Executives and Talent area was held in Scotland in 2017.

### Specific Training for Executives

The Executive Management and Talent Unit worked during 2017 on coordinating and supervising the global talent management process in the various countries; it also attends to all management training and development needs through the Management School, with the following noteworthy programmes conducted in 2017:

- *Energising Leadership Programme*, taught by ESADE Business School. Geared towards management trainees with high potential and/or executives who are beginning their careers.
- *Leading in a Volatile, Uncertain, Complex and Ambiguous world (VUCA world)*. This programme analyses the challenges that executives face in their daily activities as a result of this new environment.
- *Global Leadership Programme*, taught by IMD Business School. Programme directed towards executives with experience and a background within the organisation. The main goal is to help them develop their leadership abilities in a global environment, working on personal skills and provoking a process of individual transformation.
- *Driving Leadership Transformation Programme*, jointly taught by IESE and IMD Business School. This new programme is directed towards established executives who have a track record with the group and who have already taken the Global Leadership Programme. The main goal is to complete and strengthen previously-acquired knowledge.
- In Spain, the *Lead by Communicating* and the *Personal Productivity* improvement programmes (Getting Things Done methodology) are still being provided, and there has been a strengthening of

the programmes *Conversaciones poderosas* (Powerful conversations), *Cómo hacer CRECER a tu equipo* (How to make your team BELIEVE), *Taller de mindfulness ¡Transforma tus límites en posibilidades!* (Mindfulness workshop - Transform your limits into possibilities!) and *Coaching ejecutivo* (Executive coaching), as part of the training offering for the management team in Spain.

- Various executives from Neoenergia, Avangrid and ScottishPower participated in their respective local coaching programmes.
- ScottishPower continued with the *Leadership Excellence* programme based on the elements of Iberdrola's leadership model.
- Avangrid has continued to successfully offer its programme *Working Successfully Across Cultures*, focused on learning about and understanding cultural differences. Avangrid also began a process of redesigning its training and development offer for its management team in 2017.

Other activities with the management team in 2017 included the holding of conferences, workshops, meetings, etc., as well as continued access to e-Leaders, the Management School's virtual space, in both its web and mobile versions.

#### 404-3 Employees receiving regular performance and career development reviews

At the Iberdrola group, employees are included in formal performance review processes, which vary based on the internal level of the employees and their corresponding responsibility, as well as the country in which they are located. These processes have an impact on variable remuneration and the annual salary review.

Employees can be reviewed through two types of processes, based on the level of responsibility relating to their position.

##### **Executive officers:**

- Goals review ("What"): measurable, quantifiable and specific goals to be achieved over the course of the review period, relating to the goals of the company. This process affects variable remuneration.
- Performance review ("How"): review of conduct during the achievement of the goals. This has an impact both on the employee's annual review and on their personal development plan for the future.

##### **Other employees:**

- Performance review ("How"): in this case, the performance review is used for the calculation of the annual salary increase and for the calculation of variable remuneration. Employees are reviewed on the basis of a number of personal competencies.

A tool has been developed for these processes with the support of SAP that allows management of the Human Resources processes relating to review, development and remuneration, amongst other things. In this way, all users involved in such processes (employee, evaluator and Human Resources team) can work in real time and globally. However, the main advantage of this tool is that it allows for the global handling of all participants, thereby unifying the focus and standards of application to help ensure that a single global policy applies to all employees.

As regards the multidimensional review process, a 360° review is applied at only one of the companies of the group, which includes approximately 14% of the group's employees. This type of review is performed every two years, alternating with a standard performance review.

Performance and development reviews	2017	2016
<b>Number of employees</b>	<b>34,255</b>	<b>34,082</b>
<b>Men</b>	<b>26,229</b>	<b>25,925</b>
Management team	736	693
Middle managers and skilled technicians	10,005	11,720
Skilled workers and support personnel	15,488	13,512
<b>Women</b>	<b>8,026</b>	<b>8,157</b>
Management team	192	161
Middle managers and skilled technicians	4,671	4,869
Skilled workers and support personnel	3,163	3,127
<b>Employees with performance reviews (%)</b>	<b>84.15</b>	<b>85.38</b>
<b>Men (%)</b>	<b>83.58</b>	<b>85.13</b>
Management team	94.57	97.11
Middle managers and skilled technicians	96.20	98.23
Skilled workers and support personnel	74.91	73.13
<b>Women (%)</b>	<b>86.00</b>	<b>86.18</b>
Management team	90.10	98.14
Middle managers and skilled technicians	95.23	94.31
Skilled workers and support personnel	72.15	72.95

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

## GRI 405 Diversity and equal opportunity

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

#### Policies and commitments

The development of labour relations based on equal opportunity, non-discrimination and respect for diversity are key goals in the company's *Human Resources Framework Policy*.

The policies applied by Iberdrola in the area of labour relations are identified in the introduction to this chapter, and include the [Equal Opportunity and Reconciliation Policy](#), which promotes the commitments of equal treatment between men and women and support for workers with diverse abilities, promoting their effective employment.

The group's companies, in the various countries in which they operate, promote equal opportunity and respect diversity, effective equality between men and women in access to employment, training, promotion and working conditions, and provide support to workers with diverse abilities, facilitating their integration into the workplace.

To put the principle of diversity and equal opportunities into effect, in Spain the *7th Collective Bargaining Agreement* includes an Equality Plan within the framework of labour relations (hiring, training, promotion, remuneration, etc.), which guarantees such principle. Within the Equality Plan, an Equal Opportunity Committee has been created with the main mission of engaging in an appropriate review of the measures implemented to ensure equal opportunities and non-discrimination, and to encourage the inclusion of new activities in this area. A number of appropriate measures are also established for workers with disabilities in order for them to adjust to and access the work position, based on the requirements and characteristics thereof and on the needs in each specific situation, which facilitates their integration. In turn, Iberdrola continues collaboration with the Diversity Charter, of which it has been a signatory since 2009, and has the category of patron member; as such, it respects prevailing legal provisions in terms of equal opportunity and non-discrimination, and puts diversity policies into practice.

In the United Kingdom, ScottishPower is committed to policies that promote diversity in order to create an innovative and integrative work environment, for which reason it has a Diversity and Inclusion Governance Committee. The British subsidiary guarantees equal opportunity in selection processes for persons with disabilities, and for this reason received the Disability Confident Standard award and also holds one of the highest positions in the Carers Scotland ranking.

In the United States, Avangrid has a four diversity policies: equal opportunity in access to employment, support for disabled persons or disabled veterans, promotion of a non-discriminatory work environment and combating sexual harassment in the workplace.

In Brazil, Neoenergia's most important goals include the hiring of disabled persons, and specifically, its subsidiary Elektro has designed a training course to facilitate access by these persons to work positions within the company. There has also been an analysis of the suitability of the work positions for each of the people with various disabilities in order to relocate them into more appropriate positions if required.

Two companies of Neoenergia have been recognised by the consultant Great Place to Work: Elektro as the best company to work for in Latin America, and Cosern as one of the most valued companies to work for.

Iberdrola Mexico complies with the group's policies to generate an inclusive labour environment.

## Objectives

The main goals in this area during 2017 have focused on:

- The encouragement of reconciliation between employees' work and family life, which includes measures to ensure compatibility between a positive experience of parenthood and a successful professional career.
- The development of labour relations based on equal opportunity, non-discrimination and respect for diversity.

- The fostering of diversity and the social inclusion of vulnerable groups through the corporate volunteer programme, which affords our employees an opportunity to participate in various community support initiatives to raise awareness of this group and to improve the quality of their life.

### Specific activities

- Iberdrola has been included in Bloomberg's 2018 GEI (Gender Equality Index) as one of the best companies recognised for its policies in favour of gender equality and its best practices in the area of work/life balance.
- In recognition of the company's work in the area of reconciliation, in 2017 Iberdrola was also awarded the Vocento Business Award for Work/Life Balance (*Premio Empresarial Vocento a la Conciliación*) for its commitment to the quality of life of its employees as well as for reconciling work with family. In Spain, Iberdrola was the first Ibex 35 company to apply the shortened uninterrupted workday (*jornada continuada*), a pioneering measure, among a set of more than 70 practices included in the company's *Reconciliation Policies Manual*.
- In Spain, there are various options for employees on non-school days, and educational courses for children. There has also been a continuation of the "Iberdrola Parents' School", which offers employees the opportunity to participate with their children in various programmes. And as is the case every year, there have been summer camps for the children of employees, especially taking into account those with different abilities.

In addition, in order to comply with the principle of non-discrimination for reasons of diverse abilities, arrangements were made to obtain disability certificates for those employees who applied for them. 80 families have also benefited from the Family Plan, which is intended to facilitate the social and workplace integration of family members with a disability who are the dependent of an employee. Finally, donations have been made to entities or foundations whose purpose is professional training, entry into the job market or the creation of employment for persons with disabilities; and contracts have been signed with special employment centres, in excess of the amount required by law for investment in alternative measures, thus promoting protected employment.

- As regards diversity, the group has held the *Hello/Hola* and *My Guest (Mi invitado)* cultural exchange programs for the children of employees in Spain, the United Kingdom and the United States.
- In the United States, Avangrid has continued its collaboration with various initiatives supporting diversity, like *Troops to Energy* jobs to foster the inclusion of veterans in the workforce; and it forms part of the consortium, along with other services companies, to discuss good practices to achieve this goal.
- In the United Kingdom, ScottishPower continued during 2017 with its commitment to well-known entities such as the Business Disability Forum, Employers Network for Equality & Inclusion, Equate, Working Families, ENABLE, POWERful Women and Stonewall, and has maintained the certification granted by Tommy's Healthy Pregnancy Charity. It is also a member of the Women's Engineering Society, the goal of which is to help women with engineering training and motivate girls to study careers in engineering as a professional option. During 2017 ScottishPower sponsored The Topgraph 50 and the Women in Engineering Campaign and supported the International Women In Engineering Day. The British subsidiary has also engaged in e-learning and training activities on diversity to increase the awareness of its workforce in this area, and was one of the main sponsors of the first national conference on diversity, which brought together employers, representatives of the education

sector and third sector (civil society) organisations in order to share information and positive experiences to promote diversity among their workforces.

#### 405-1 Composition of governance bodies and employees

Employees in the workforce	2017		2016	
	no.	%	no.	%
<b>By gender</b>				
Men	26,229	77%	25,925	76%
Women	8,026	23%	8,157	24%
<b>By age group</b>				
Up to 30 years old	4,924	14%	4,955	14%
Between 31 and 50 years old	18,912	55%	18,541	55%
Over 50 years old	10,419	31%	10,587	31%
<b>By professional category</b>				
Management team	928	3%	854	2%
Middle managers and skilled technicians	14,676	43%	16,589	49%
Skilled workers and support personnel	18,651	54%	16,639	49%
<b>Number of employees<sup>77</sup></b>	<b>34,255</b>	<b>100%</b>	<b>34,082</b>	<b>100%</b>

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

Board of Directors	2017		2016	
	no.	%	no.	%
<b>By gender</b>				
Men	9	64	9	64
Women	5	36	5	36
<b>By age group</b>				
Up to 30 years old	0	0	0	0
Between 31 and 50 years old	2	14	3	21
Over 50 years old	12	86	11	79
<b>Number of members</b>	<b>14</b>	<b>100</b>	<b>14</b>	<b>100</b>

For reasons of confidentiality, in order to comply with the requirement established by the personal data protection laws in effect in each country, the information systems of the companies making up the Iberdrola group do not record their membership by ethnic group, religious group or any other diversity indicator.

#### 405-2 Ratio of basic salary and remuneration of women to men

In each country, the average salary received by men and the average salary received by women is compared in each of their categories. Base salary is understood as fixed salary, and does not include any fixed or variable supplement.

<sup>77</sup> The total number of workers and the definitions of the boundary can be found in disclosures 102-7, 102-8 and 102-45 of this report.



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Ratio of base salary of men to women by professional category <sup>78</sup> (%)										
	Spain		United Kingdom		United States		Brazil <sup>79</sup>		Mexico	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Management team	119.21	124.31	107.81	105.61	112.82	115.70	93.30	N/A	113.83	113.53
Middle managers and skilled technicians	108.44	108.46	108.69	109.59	122.76	123.01	123.50	N/A	130.00	130.03
Skilled workers and support personnel	102.26	103.82	110.34	109.14	128.70	128.30	99.76	N/A	87.93	85.49

It is presented at the country level given the occupational idiosyncrasies of each jurisdiction and its applicable laws.

**GRI 406 Non-discrimination**

**Contribution to SDGs of the performance described by the indicators of this section**



(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))

**Management approach**

Iberdrola has appropriate procedures in place to prevent any discrimination for reasons of race, colour, gender, language, religion, political opinion, national origin, social status, status as a member of an indigenous community, disability, health, marital status, pregnancy, sexual orientation or other personal condition that is unrelated to job-performance requirements.

The principles of non-discrimination and equal opportunity applied at the Iberdrola group are contained in both the *Code of Ethics* and in the global policies and procedures that have been approved and implemented (*Recruitment and Selection Policy, Equal Opportunity and Reconciliation Policy, etc.*) and in local collective bargaining agreements and policies such as:

- Equality and Reconciliation Plan and Anti-Harassment Action Plan for companies of the *7th Collective Bargaining Agreement* in Spain.
- Policies on equal opportunity and reconciliation, anti-age discrimination, people with disabilities, equal pay, harassment and flexible working policies, as applied in the United Kingdom.
- Equal remuneration policy at Elektro, subsidiary of Neoenergia, in Brazil.

<sup>78</sup> Index under 100 indicates a negative salary breach, i.e. average salary received by women above the average salary received by men for the category.

<sup>79</sup> Data from Brazil for prior year not provided due to change in boundary.



The application of all these instruments ensure that selection processes are based on the candidate’s merits, enabling non-discriminatory participation in these processes.

Iberdrola believes that non-discrimination in the work place is a concept that is managed in a coordinated fashion with the concepts of diversity and equal opportunity. Therefore, the management of non-discrimination is described in detail in the preceding section, GRI 405 “Diversity and equal opportunity”.


**406-1 Incidents of discrimination**

Reported incidents of discrimination (no.)	2017	2016
<b>Report boundary</b>	<b>12</b>	<b>7</b>

During 2017, the group received a total of 12 reports regarding aspects of labour discrimination and equal opportunity through the various channels provided to its professionals. 8 of the 12 cases recorded are still open. Of the cases that have already been closed (4), one of them was resolved with a written notice, another with a verbal notice, and the rest were closed without specifying action to be taken by the relevant company.

**GRI 407 Freedom of association and collective bargaining  
GRI 408 Child labour  
GRI 409 Forced or compulsory labour**

**Contribution to SDGs of the performance described by the indicators of this section**  
(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



**Management approach**

The group has a firm commitment to the human and labour rights recognised in domestic and international law and to the principles on which the United Nations Global Compact is based, the Guiding Principles on Business and Human Rights. Along these lines, Iberdrola adopts the measures it believes are necessary to ensure that workers can exercise their rights to freedom of association and collective bargaining in all the countries in which it operates. It also has the necessary measures in place to prevent child labour, forced or compulsory labour or the assignment of hazardous work to young people.

- 407-1 Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk
- 408-1 Operations and suppliers identified as having significant risk for incidents of child labour
- 409-1 Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour

Information regarding locations of operations analysed for human rights issues can be found in disclosure 412-1, and information regarding suppliers can be found in section GRI 414 “Supplier social assessment”, both in this chapter.



## GRI 410 Security practices

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

The Corporate [Corporate Security Policy](#) approved by Iberdrola's Board of Directors and the procedures adopted by the Corporate Security Division are compatible with international human rights provisions and with the laws of the countries in which the company is present.

With the certification granted by Aenor and IQNet since 1999 and recently renewed based on the new ISO 9001:2015 standard, the action protocols are defined and implemented in all activities and services provided.

The hiring of suppliers in the security area is carried out through the Procurement Division pursuant to contracting procedures in force at the corporate level. The Corporate Security Division is responsible for setting the requirements and standards to be met by such suppliers in order to be hired, both in terms of physical security as well as cybersecurity, and for the evaluation thereof during the performance of their contract. Evaluations of suppliers are carried out periodically and are intended to identify points for improvement, which are dealt with by the suppliers themselves.

Both employees as well as subcontracted personnel are qualified in their duties and reinforce their knowledge with a rigorous Training Plan that involves an evaluation and ongoing monitoring thereof. Internal and external audits conducted for such purpose provide information on the status of security and personnel involvement at each work centre, detecting strong points and strengthening weaker ones. In addition, in order to have an objective viewpoint, a satisfaction survey is carried out each year to help determine perception of the security status.

Security-related actions at Iberdrola relate to the provision of both preventive and reactive services, which seek to ensure the protection of its assets and the normal conduct of the company's activities, without interfering with the mission of government authorities. Security personnel working at Iberdrola, whether Iberdrola's own employees or subcontracted personnel, avoid the use of force, employing it only and exclusively where strictly necessary and always in proportion to the threat received, in order to protect life.

By implementing specific security procedures for each situation, Iberdrola's *Security Policy* facilitates adjustment to the realities and characteristics of the countries in which it operates, exercising direct responsibility in those cases where it is a majority equity holder, as well as in those where management has been entrusted to it.

Iberdrola's Security Management System is continuously reviewed and updated in order to comply with international human rights provisions in each new activity that it plans to undertake.

#### 410-1 Percentage of security personnel trained in human rights policies or procedures that are relevant to operations

Persons carrying out security activities (no.)	2017	2016
Company personnel	140	130
Subcontracted personnel	1,483	1,242

At the end of financial year 2017, Iberdrola had 140 persons in its workforce to carry out security activities, of which practically 100% have received human rights training, a total of 139 people. It also draws on the services of specialised firms, which are responsible for providing the specific training required by their professionals to carry out the work entrusted to them. In financial year 2017, 1,483 subcontracted persons did this type of work, of which 1,240 (84%) have received human rights training.

This includes Iberdrola's effort to improve the training of its personnel in this area, as can be seen in the considerable increase in trained personnel over financial year 2016, with respect to both in-house staff (+15%) and subcontracted personnel (+17%).

### GRI 411 Rights of indigenous peoples

#### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



#### Management approach

In applying the *Code of Ethics* and its corporate policies (especially the *Policy on Respect for Human Rights*), Iberdrola and its employees undertake to respect both ethnic minorities and the internationally recognised rights of indigenous peoples, in accordance with applicable law and the obligations set out in Convention 169 of the International Labour Organization (ILO).

The company wants business activities to be carried out with respect for different cultural identities, traditions and environmental wealth, as many times these communities depend on natural resources for their subsistence. Therefore, it establishes pathways of dialogue with the participation of the State and of various organisations representing these communities, in order to report with due transparency and integrity. Ultimately, it is the promotion of ethical practices with the goal of preventing conflicts, being competitive and generating mutual benefit, which in the long term is the base social value.

#### 411-1 Total number of incidents of violations involving rights of indigenous people

Iberdrola has a presence in 3 countries in which there are indigenous communities: Brazil, Mexico and the United States. There may be direct or indirect incidents involving these types of communities at some of the company's facilities, for which appropriate solutions are always sought. Specifically, there were 4 incidents with indigenous communities in Brazil in 2017.

In August 2017, after the integration of Elektro (100% owned by IBE) into Neoenergia (39% owned by IBE) in Brazil, Iberdrola became the majority shareholder, with 52.45% of Neoenergia, S.A., a company which in turn holds 10% of Norte Energía, S.A.

Norte Energía, S.A. is the company responsible for the construction and operation of the Belo Monte hydroelectric plant, where there have been impacts on the indigenous communities occupying the region of Medio Río Xingu, in the state of Pará. Specifically, a total of 9 ethnicities (around 3,857 indigenous persons) were affected. In order to mitigate, compensate or prevent such impacts, Norte Energía prepared an ethnological study, and based on that study prepared a Basic Environmental Plan for the Indigenous Component (*Plan Básico Ambiental para el Componente Indígena*) (PBA-CI).

This basic plan is made up of nine programmes: i) Environmental Supervision Programme; Indigenous Territory Management Programme; ii) Works and Infrastructure Programme; iii) Productive Activities Programme; iv) Integrated Indigenous Health Programme; v) Indigenous School Education Programme; vi) Institutional Strengthening Programme; vii) Tangible and Intangible Cultural Heritage Protection Programme; viii) Relocation and Resettlement Programme; and ix) Indigenous and Non-Indigenous Communication Programme. The company also prepared the Medio Xingu Territorial Protection Programme (*Programa de Protección Territorial del Medio Xingu*) (PPTMX) based on the relocation of populations called “riparians” (*riberieños*). Approximately 300 families have been relocated to date, seeking the re-establishment of the traditional life style with the preparation of sites on the edges of the dam (a total of 121), always taking into account applicable environmental law as well as environmental sustainability.

The PBA-CI will be developed during the period of the concession, i.e. 35 years. The plan is to be reviewed every 5 years in order to update it and thus ensure that indigenous rights are respected.

Neoenergia, S.A. also holds 50.1% of Companhia Hidrelétrica Teles Pires, responsible for the construction and operation of the Teles Pires hydroelectric plant, located on the border of the states of Pará and Mato Grosso, on the Teles Pires river, an affluent of the Tapajós river, next to the municipalities of Jacareacanga and Paranaíta.

In its relations with the indigenous communities, Companhia Hidrelétrica Teles Pires has established a joint dialogue with the National Indigenous Foundation (*Fundación Nacional del Indio* - FUNAI), the Federal Public Ministry and indigenous leaders of each ethnicity affected by the project in order to respond to the demands and wishes of each community. The Basic Environmental Plan for the Indigenous Component (PBA-CI) was jointly prepared and approved along with 19 socio-environmental programmes to mitigate and sustainably encourage the cultural, social and economic activities of the ethnicities of the area.

This plan is currently being implemented by Companhia Hidrelétrica Teles Pires and the works approved for the Kayabi have already been completed, the works for the Munduruku are in the final process, and the works for the Apiaká have started. The approved timetable is being met and the plan is revised based on any difficulties in implementation or delay in activities, which are timely adjusted when necessary.

Grid construction activities in the country are carried out under the principle of the *Clean Production* technique, which seeks to lower the local environmental impact of the operations, with reduced suppression of native vegetation, prioritising the plotting of lines through areas that are already transformed by human activity or on existing motorways, as well as the use of protected cables for better co-existence with existing forestation.

The indigenous and quilombola communities without access to the supply grid benefit from the installation of photovoltaic systems made up of solar panels, charge controllers, voltage inverters and batteries. In

order to implement any service in the indigenous communities, the company first contacts FUNAI, and this process was adopted for the Tapi-i and Takuary-Ty communities located in the municipality of Cananéia (Sao Paulo) and in five other indigenous villages, as well as the indigenous community of Aldea Boa Vista, in Ubatuba (Sao Paulo), which were instructed on the operation of the technology and also on the related risks. The quilombola community located in Eldorado (Sao Paulo) also participated in the social project *Meninos Ecológicos*, by means of which young people from 16 to 18 years old carry out activities such as gathering seeds and producing cuttings in tree nurseries for reforestation.

In Mexico, none of the activities have produced any type of negative impact on indigenous communities.

In the United States, in the State of California, during the construction of the Tule Wind Project, a community near Boulevard, California and the Tribes of the Kumeyaay Nation were affected by the project, as various new cultural resources were found, but no incident arose with these communities because each of the impacts was timely handled by the company, which formally consulted with tribal representatives and the Bureau of Land Management (BLM). The representatives of each group met various times during 2017 to better understand the tribal concerns, analyse alternatives and agree on mitigation measures. Some of the protection measures included halting construction until appropriate mitigation was agreed upon, moving the locations of the turbines when line of sight concerns arose due to religious beliefs and practices, and moving some project infrastructure like roads, posts for collector lines and others to avoid impacting the cultural resources. Other mitigation measures include fencing off sensitive areas and offering to install interpretative signage to describe the history of the area and the Kumeyaay Nation. From the beginning of this project it was agreed to donate almost 180,000 euros to the Imperial Valley Desert Museum to catalogue and store any cultural artefact found during the construction, and the donation was made in June 2017.

## GRI 412 Human rights assessment

### Management approach

In its [\*Policy on Respect for Human Rights\*](#), Iberdrola has acquired the following commitments, among others:

- Respect the human and labour rights recognised by domestic and international law, as well as adhere to international standards in those countries in which human rights law has been sufficiently developed.
- Reject child labour and forced or compulsory labour, and to respect freedom of association and collective bargaining as well as non-discrimination, the right to freedom of movement within each country, and the rights of ethnic minorities and of indigenous peoples in the places in which it carries out its activities.
- Promote a culture of respect for human rights and awareness among its professionals in this field at all of the group companies and, in particular, at those in which there may be a higher risk of violation of such rights.

To progress with the implementation of these commitments, it has designed a *Human Rights Management Model*, in which cross-cutting activities and goals have been planned for the entire organisation. In parallel, it is working to review human rights due diligence, which focuses on people, specifically on the relations of the company with affected parties, and it is therefore imperative to obtain a first-hand understanding of the needs of the Stakeholders. Iberdrola has developed a new *Stakeholder Relations Model*, which ensures the existence of appropriate channels of communication for each of them, which helps to better identify

significant issues and will allow for the prevention and mitigation of and response to the main risks and impacts with appropriate agility.

#### 412-1 Total number and percentage of operations that have been subject to human rights reviews or impact assessments

In developing the human rights due diligence process, Iberdrola has updated its risk map by country and business in order to identify the actual and potential impacts of its activities on these rights. To do this, it has used an internal methodology which makes assessments based on the countries ratifying or joining the following international conventions and treaties:

- Forced Labour (C029, C105), Right to Organise and Collective Bargaining (C087, C098), Child Labour (C138, C182) and Non-discrimination (C100, C111).
- Convention C169 on Indigenous and Tribal Peoples.
- The 2017 report of the International Labour Organisation (ILO) entitled *Report of the Committee of Experts on the Application of Conventions and Recommendations*.
- International Covenant on Civil and Political Rights.
- International Covenant on Economic, Social and Cultural Rights.
- American Convention on Human Rights signed at the Inter-American Specialized Conference on Human Rights (Treaty B-32).
- European Social Charter (Turin, 18 October 1961).

The position of countries on the following indexes and studies has also been taken into account:

- UNDP Human Development Index (2015 data, the latest available during the study).
- Transparency International (Corruption Risk, 2016 data, the latest available during the study).
- Countries involved in armed conflict (*Report on Conflicts, Human Rights and Peace Processes. 2016 Alert*. School for a Culture of Peace).

Once the risk map was updated, the data were cross-checked against the analysis identifying the significant locations of operation, in order to know what percentage thereof might have a risk of violating these rights.

Of the 114 significant locations of operation (detailed information in disclosure GRI 102-7) covered by analysis or impact evaluations in the area of human rights (100% of the significant locations), 29 of them (25% of the group total) are in Brazil and Mexico, countries considered to be at risk for violation of these rights.

As a result of this analysis, the United States and Canada could also be considered countries at risk, as they have not yet ratified or joined several of such labour conventions. However, given the socio-political characteristics of these two countries and taking into account the internal procedures defined for the U.S. subsidiary Avangrid, Iberdrola does not believe there is a risk of violation of these rights for the group's workers.

Once possible actual or potential risks of the company's activities are detected, there is an internal review at the corporate level of the framework of policies, processes, persons responsible and current resources to detect any breach in the due diligence process. This analysis will be completed during 2018 with the help



of independent experts and will be completed at the country level during 2019, in which period a new Action Plan will be prepared to review policies, management procedures and grievance and complaint mechanisms, and actions to be implemented in the short, medium and long term will be proposed, all in order to prevent, mitigate and/or repair impacts considered to be priority after the analysis at both the corporate and country level.

#### 412-2 Employee training on human rights

Due to the importance that the company attaches to respect for human rights, various training initiatives have been undertaken in this field over the years for the prevention of violations of both labour and social rights, thus complying with the company's commitment to continuous improvement. Various courses have been provided, such as respect for human rights, security personnel, code of ethics, anti-harassment, equality and non-discrimination, diversity and inclusion, health and safety, legal hiring and performance, climate change, keys for the protection of information, practical advice on cyber-security, etc.

The goal of these courses is to inform the entire organisation of the social and labour rights affecting the activities of the company and to train all employees on the prevention of risks in the operations of the company and on the mitigation and remediation of possible impacts that might occur in the event of any violation of human rights.

During 2017 Iberdrola drove awareness of the human rights of employees throughout the group with more than 200,000 hours of training in this area, as it believes that all employees must become involved in compliance activities and in the dissemination and reporting of any violation in connection with this aspect, and that the entire team is responsible for ensuring that respect for human rights is a reality.

Iberdrola is also aware that merely internal awareness-raising is not sufficient and has therefore set the goal of translating its business culture to the supply chain, acting as a lever to raise awareness on these issues.

#### 412-3 Investment agreements and contracts that include human rights clauses

The policies, codes and procedures governing the operation of the company are applied in all of Iberdrola's activities, including investments. Specifically, the *Procurement Policy*, which contains the general contracting terms of the Iberdrola group, includes a specific section on respect for human rights. For that reason, Iberdrola is confident that investments are made in accordance with strict standards of respect for human rights, and has received no evidence through the channels established for such purpose of any kind of activity, whether internal or external, that is contrary to the protection of these rights.

Currently, by application of the Modern Slavery Act approved in 2015, significant human rights clauses relating to said law are included in all contracts only in the case of the United Kingdom.

There were 10 projects with significant investments in financial year 2017<sup>80</sup>:

- Spain, 2 projects: work has continued on the Madrid Plan, for reducing the size of substations and dismantling high-voltage overhead lines, with an investment by Iberdrola of 178.3 million euros by year-end 2017; and on the STAR project for installing smart grids. This project consolidates compliance with the legal obligation to develop remote management with a significant additional investment to improve the service provided and incorporating numerous innovations into the

<sup>80</sup> Significant investment means one that requires more than 100 million euros or one that is considered to be significant for the company even though it requires a smaller investment due to the size or strategic importance thereof.



electric grid. Approximately 1.4 million meters were installed in 2017, with an investment of 195 million euros, meaning that there are already more than 10.2 million meters installed, most of which are transmitting data.

- United Kingdom, 2 projects: during the first quarter of the year, the East Anglia One offshore wind project (signed in 2016) was completed with 2 additional contracts: a new supply contract with the company Navantia and an installation and logistics contract with Van Oord, both with a value of 302 million euros.
- United States, 4 projects: the acquisition of turbines for the Karankawa windfarm in Texas and Montague windfarm in Oregon, the acquisition of the Gala solar project in Oregon, and an engineering, procurement and construction management project for the Wy'East solar project, which contracts have exceeded 350 million euros.
- Mexico, 2 projects: El Carmen, the combined cycle plant located in the state of Nuevo León, which represents an investment of approximately 400 million euros, and Topolobampo III, a combined cycle plant located in the municipality of Ahome, in the state of Sinaloa, with an investment of approximately 350 million euros.

## GRI 413 Local communities

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

Iberdrola maintains a policy of strong involvement in the communities in which it operates, making a contribution to society linked to its own business activities: the supply of an essential product like energy, significant investments in basic infrastructure, promotion of local supplier networks, creation of qualified job positions, etc., with the intention of being a long-term investor in the regions in which it has a presence, in order to generate sustainable economic and social value.

Iberdrola's commitment to the local communities of the countries in which it operates takes shape through social activities in cooperation with governments, institutions and civil society organisations, as well as through sponsorships and patronage. The programmes of activity focused on social and economic development of the surroundings are especially significant.

These programmes and activities are implemented in various complementary ways:

- Directly by Iberdrola, through the Institutional Relations Division.
- Directly by subsidiaries or affiliates (i.e. investee companies, i.e. those in which the company has an equity interest), in their respective areas of activity.
- Sponsorship and patronage activities, primarily through Fundación Iberdrola in Spain, ScottishPower Foundation in the United Kingdom, Avangrid Foundation in the United States, Instituto Neoenergia in Brazil and Fundación Iberdrola in Mexico.

- There are also two other organisations in the United Kingdom with a philanthropic purpose: The ScottishPower Energy People Trust and The ScottishPower Green Energy Trust, which carry out activities in their specific areas of competence.

#### 413-1 Local community engagement, impact assessments and development programmes.

#### 413-2 Significant negative impacts on local communities

In each of the countries in which the group operates, environmental impact assessment studies are performed at Iberdrola's centres of operation in accordance with applicable law prior to the construction of facilities. Activities addressing its Stakeholders are also performed, including social development programmes and participation in local communities. Almost 100% of the company's locations of operation are subject to these types of activities, focused on meeting the needs of its Stakeholders, especially in local communities, and engaging in the most appropriate activities in all those areas that most directly affect them. The principal activities are described in greater detail below:

##### a) Impact assessments

Iberdrola believes that the impacts of the start-up of electric power generation plants are especially significant. In the countries in which the company develops these types of facilities, applicable laws require the performance of studies assessing the impact on the environment and the community, and such studies must be approved by the competent public authorities. Iberdrola believes that these studies and assessments are appropriate to safeguard the rights of communities, as they include the most significant issues for the affected areas.

These studies include an evaluation of the environment providing a review of environmental impacts such as emissions, effluent, waste, changes in land use, changes in landscape aesthetics and quality, etc. They also include an evaluation of the socio-economic environment, which reviews demographic aspects such as changes in population in neighbouring municipalities, economic sectors that are present in the region, basic infrastructure such as railway and road networks, and historic and cultural heritage, along with the growth in job demand in certain sectors, which is seen as a positive impact.

The impacts of the various types of facilities developed by Iberdrola are similar at the various sites at which they are implemented, and none of them are noteworthy for significant negative impacts. Consultation with and participation of both the affected government administrations and interested parties are usually guaranteed during the performance of these studies, and part of the documentation of the project is subject to public review for a period of time that varies according to the law applicable in each country. The viewpoints of the Stakeholders consulted are thus taken into account in defining the future project.

These studies also contemplate the preventive and corrective measures required to mitigate the impacts identified, and if necessary, the appropriate budgetary allocations to comply with the commitments assumed are included.

To conclude the process, programmes are implemented to monitor the various aspects identified. The effectiveness of the programmes is reviewed by means of internal and external audits, as well as by the management team. For example, in the case of nuclear plants, an Environmental Radiological Monitoring Plan is prepared to control and monitor the impacts of the facility during the operation thereof.

Most facilities have an integrated quality and environmental management system, the principal goal of which is to foster continual improvement in the results of the organisation's activities with respect to the environment, in addition to compliance with environmental laws.

Iberdrola prepares information and plans for the closure and decommissioning of facilities in accordance with applicable law and informs the workers' representatives thereof.

#### **b) Development programmes for local communities**

Iberdrola takes various types of actions to minimise, mitigate and offset unfavourable socioeconomic impacts that might be caused by its facilities. Local communities benefit from these measures, which are usually established and agreed on with local authorities. They include: improvements in communication infrastructure, water supply or roadways; public lighting; creation of direct and indirect employment; professional training courses; activities to support entrepreneurs; opening of communication processes with various Stakeholders; protection of biodiversity; and the restoration of areas, among other measures.

One noteworthy example is the creation of Energy Classrooms to foster an understanding of renewable production technologies, which involve not only visits to facilities but the development of an educational programme to acquire knowledge about energy, especially about renewable energy sources, and to promote an active attitude for the efficient use of energy and thus to contribute to energy saving.

Actions to support municipalities are also planned during the construction of the group's hydroelectric plants in Brazil, such as rural relocations at Baixo Iguaçu and its hydroelectric plant, where the population has been served by various programmes and there has been socio-economic monitoring of the population with a commitment to entrepreneurship.

A more detailed description of these activities can be found in section GRI 203 "Indirect Economic Impacts" of the "Economic Dimension" chapter of this report, as well as in the last section of this "Iberdrola's Contribution to the Community" chapter.

#### **c) Advisory committees and processes and participation of local communities**

The participation of local communities during the project planning and construction phases is described below in the section "Stakeholder participation in the decision-making process" of this chapter.

During the operation phase for facilities, Iberdrola engages in different processes of participation with the various Stakeholders that it relates to and that are described in detail in section "5.-Stakeholder engagement" (disclosures 102-40 to 102-44) of this report.

### **Additional information required by the GRI Sector Supplement for the "Local Communities" Topic**

#### **Management approach**

##### **Stakeholder participation in the decision-making process**

Within Iberdrola's field of activity, energy planning (energy sources, technology and long-term needs) is carried out by governmental authorities; this is the institutional area in which the various Stakeholders can participate in accordance with the mechanisms established in each country. Iberdrola plays an active role in these processes, expressing its points of view and making its knowledge and experience available to governments.

Once the most appropriate infrastructure is selected, the viewpoints of the affected communities are taken into account through consultation processes, which vary depending on the country and the type of facility. All these processes, which are included in the facilities' impact assessment studies, are regulated, and they are determining factors in order to secure the construction and operating permits for the power plants; in

addition, they are frequently completed with processes voluntarily performed by the company. Along these lines, it should be noted that methods have been incorporated into the Environmental Management System so that Stakeholders can send their concerns, complaints, requests for information or any other kind of request to minimise impacts in the area.

During the planning and development of assets, prior consultations are also held and an active dialogue is maintained with the affected communities and interested parties in order to identify and address any concerns or areas of interest. In every project, relations are established with local authorities, communities and any other groups that may be relevant to the project. Information concerning the planned development is presented through newsletters, exhibitions, presentations, meetings, the group's websites, etc. There are also e-mail addresses to allow local communities to communicate with the company during the process and, in some cases, public information days are held for such purpose.

Set out below are some of the activities conducted by Iberdrola in this field for projects currently under development:

- In the Wholesale and Retail Business, since the commencement of the Támeiga River hydroelectric project in Portugal, there has been an impact assessment process with the participation of Stakeholders through public consultations in the affected municipalities. In December 2017, a seventh meeting was held with the Environmental Monitoring Commission (*Comissão de Acompanhamento Ambiental*) (CAA), made up of Iberdrola and various local and national entities, the objective of which is to supervise environmental aspects and socioeconomic impact, which is completed with visits to the works. The agreements with the municipal chambers of the influence zone were also renewed in 2017. In the United Kingdom, communication strategies have been designed for the development of the new Damhead Creek gas combined cycle plant, which include various information channels like bulletins, presentations, on-site meetings and additional information at [www.scottishpower.com](http://www.scottishpower.com), as well as the consulting processes applied for the modernisation of the lines in Scotland. In Mexico, there have been studies of the social impact of the projects currently under construction for the Topolobampo (in Ahome, Sinaloa) and Noreste and Escobedo II (in El Carmen, Nuevo León) combined cycle plants. And in Brazil, there has been a *Social Dialogue Programme* with the Salto de Divisa and Itapebi communities, which includes an Environmental Education Programme and social communication in four municipalities within the area of influence.
- In the Networks Business in the United Kingdom, there has been a change towards an organisational model in which the key project decisions are made by local teams of the company to ensure consideration of local community interests: there was a strengthening of the local grid between Oswestry and Wem in North Shropshire in 2017, where multiple responses have been received, taking into account the comments received in the process. There have also been a large number of queries at Dumfries and Galloway; as regards the definition of the new transmission line, and a new Community Liaison Group has been established making changes to the destination route in order to address the considerations of the Stakeholders, and it has also participated in the reinforcement of the Kendoon to Tongland line.
- In the Renewables Business, during the development of both onshore and offshore windfarms in the United Kingdom, there have been regular informational meetings and even individual visits to groups that may be particularly affected. Additionally, a project summary document has been prepared and circulated among the Stakeholders, and a procedure has been devised for receiving complaints and suggestions, with all communications registered, investigated and answered. In the United States, there are social evaluations regarding community development during the planning and construction phases. There were various consultations with communities around potential

project areas in Illinois, New York, South Dakota and Texas in 2017. In Mexico, in the construction expanding the La Ventosa plant, the affected area is being restored. Finally, in Brazil, work is taking place at the Serra de Santana windfarm complex (under construction) on a preliminary proposal for economic activation of family farming in accordance with the nature of the region, through the sustainable cycle of the manioc (cassava). Neoenergia's new facilities go through a process of analysis through *quimbolas* and indigenous groups. These Stakeholders, along with NGOs and participating entities, are invited to participate in the consulting and impact analysis processes.

### Management of population displacements

As a prevention measure, during the planning phase for new projects, Iberdrola evaluates the land that will potentially be occupied, choosing that which involves lesser displacement of people who either reside in the immediate area or whose economic activities are affected. In this ultimately occurs, Iberdrola and the relevant government authorities review the economic, environmental and social consequences of such projects, and jointly adopt suitable corrective measures. The company believes that such processes ensure the protection of general interests in the countries where these impacts occur. The measures adopted in projects of this nature currently being developed by Iberdrola are described in indicator EU22 below.

#### EU22 People physically or economically displaced and compensation

Iberdrola is currently developing various plants in Portugal and Brazil that involve displacements of population:

- In the construction of the Támeiga hydroelectric complex, in Portugal, it is expected that there will be displacement of some families as well as the occupation of pathways and farmland, pursuant to the process of Declaration of Public Interest by the Portuguese government. In the socio-economic and cultural action plan for the project, which actions are currently being developed and coordinated with the government administration and municipal legislatures, the affected or potentially affected families and small population centres are taken into account. During 2017, after agreement with the affected families, there was a displacement of 3 homes affected by the construction.
- In Brazil, some of the new projects, both for hydroelectric development and for windfarms, may cause population displacements or interfere with their economic activities. Prior to the approval of the projects, this social and environmental impact is evaluated in environmental impact assessments, which propose compensatory measures that are then presented to the interested parties and negotiated with them.

At the Belo Monte power station, there is continued monitoring of the social impacts pursuant to the *Project for social monitoring of the surroundings of the work and host communities*. There were 6 displacements in Brazil in 2017. The processes of relocation to new neighbourhoods, with health, education, entertainment and social assistance teams, respect family and neighbourhood ties, and the option of a related move is made available. Furthermore, vulnerable families are offered social, psychological and training services to facilitate the generation of employment. As regards commercial activities, 1,000 businesses were compensated; they were monitored at the new locations and training and guidance actions were provided. In these processes, the owners received support through training and guidance activities, and their redress process was monitored quarterly for a period of one year, consistent with the redress parameters established by applicable law.

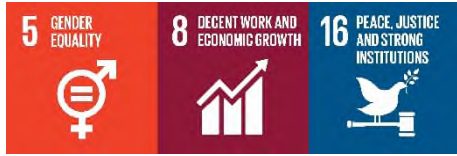
Likewise, at the Baixo Iguaçu plant, there were relocations of 123 families after agreement on compensation, self-resettlement or rural group resettlement. These families are being helped by the

Consortio Emprendedor Baixo Iguaçu (CEBI) in the different programmes, with economic monitoring of the population and the promotion of entrepreneurship.

## GRI 414 Supplier social assessment

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

414-1 New suppliers that were screened using social criteria

414-2 Negative social impacts in the supply chain and actions taken

The management approach regarding the Iberdrola group’s supply practices is described in disclosure 102-9 “Description of supply chain” of this report.

100% of the suppliers of general supplies (both new and existing) and major suppliers of fuel (the majority under long-term contracts that are still in effect) are evaluated following such management approach, and their significant risks for labour practices and human rights in relation to their impacts on society are managed through the quality processes that have been implemented and through regular audits.

The [contracting terms of the group](#) for procuring equipment, material, works and services, as well as the coal contracts, include specific supplier corporate social responsibility clauses based on the UN *Universal Declaration of Human Rights*, the conventions of the International Labour Organisation, the principles of the Global Compact and compliance with the *Suppliers’ Code of Ethics*. In the case of other fuels, the company’s goal is to include such clauses as new contracts are signed.

Suppliers thus commit to the principles of social responsibility and respect for human rights. During the term of the contract, the supplier must allow Iberdrola to review the level of compliance with the principles established in the contracts, and if noncompliance is detected and corrective plans are not adopted, the company reserves the right to cancel the contracts.



## Alignment in Procurement and in Supplier Management using Human Rights standards

In supplier management and during the procurement process, the measures adopted by the company to protect against/manage these rights are based on:

Internal Mechanisms		External Supplier Mechanisms	
Procurement Policy	Promote strict compliance by suppliers with contractual terms and conditions..., with special attention on the principles established in the Policy on Respect for Human Rights	Suppliers' Code of Ethics	LABOUR PRACTICES: to ensure the protection of internationally recognised basic human and workers' rights within their sphere of influence (forced labour, child labour, etc.)
Supplier Registration and Classification	Acceptance of Suppliers' Code of Ethics Weighting of status regarding CSR, labour practices and respect for human rights	Specific T&Cs	Specific contract clauses relating to supplier social responsibility based on the UN Universal Declaration of Human Rights, the ILO Conventions and the principles of the Global Compact
Sanction List Screening	Blocking and remediation plan if a supplier has been sanctioned or there are indications of human rights violations in their activities	Stimulus Campaigns	As a business driver, suppliers are stimulated in areas of common interest as a vehicle to ensure reliable and responsible conduct throughout the supply chain
Annual Improvement Goals	Innovative aspect: annual improvement goals directly relating to supplier CSR improvement established for the Procurement team and linked to variable remuneration	Modern Slavery Act (United Kingdom)	Classification protocols and audit of suppliers in accordance with law "Ethical Procurement: a workshop for buyers", training sessions for the entire procurement team in the UK Contractual clauses in major contracts
CSR Committee and Plan	The Procurement Division is part of the group's CSR Committee: guidelines, established goals and related indicators	CSR Scoring	Leadership, Dialogue, Management, Communication 4 blocks to evaluate the supplier's CSR performance and Human Rights standards
Transparency & Reporting	Procurement indicator in at-risk countries Contribution to sustainability infographic Annual Procurement and Supplier Management Report published on the corporate website	Supplier of the Year Award	CSR, diversity and equality categories: this promotes supplier commitment and improvement in this area and publicly recognises those who stand out

Approximately 25% of general procurement has been made in countries in which there might be a risk of human rights violations, according to the sources consulted. The 8% increase over 2016 is due to the inclusion of Neoenergia in Brazil. The percentage with respect to fuel procurement has decreased from 56% in 2016 to 52% during the period covered by the report. In addition, as described in disclosure 205-1, the company believes that the calculation should exclude purchase of fuel in Mexico and Brazil because they are made in strongly regulated environments that require contracting with state-owned companies. Excluding both countries from the calculation, the percentage of fuel procurement in at-risk countries would decrease to 14%. The standards used to identify countries at risk are the same as those described in disclosure 412-1 of this report.

There was no identification in 2017 of any contracting with suppliers that has generated incidents relating to freedom of association, collective bargaining, use of child or forced or compulsory labour, nor is there evidence of receiving complaints on these grounds. Nor have suppliers been detected with a material negative social impact, or incidents reported through the channels established for such purpose, resulting in the cancellation of orders or of contracts with group suppliers due to negative social impacts.

### Transparency in the general procurement process

In applying the company's policies, the Procurement Division, within its area of responsibility, encourages equality of opportunity, applying standards of objectivity and impartiality in supplier relations, promoting publicity of and participation in selection processes, within management efficiency criteria.

The procurement process is periodically audited both internally and by external entities, with no "non-conformities" having been identified during the financial year. Recommendations and opportunities for improvement that arise during these reviews are analysed and put into place in order to maintain continuous improvement in the processes.



## Dialogue with suppliers

As an indication of its efforts to encourage dialogue with its Stakeholders, and to know the satisfaction and expectations of its interested parties, the Procurement Division periodically surveys the suppliers of the group in all countries in which these processes are carried out.

The results of the surveys are as follows:

Supplier satisfaction survey	5th Survey (2016)	4th Survey (2014)	3rd Survey (2012)	2nd Survey (2009)	1st Survey (2007)
Rating (out of 10)	8.06	8.00	7.74	7.57	7.56

Suppliers value very positively the professional respect of their contacts within Procurement during the bidding phase, as well as transparency and honesty.

The overall perception of the Iberdrola group rates the company's reputation highly, with a score of 8.8, as well as the brand and the confidence it inspires, with a score of 8.6.

The results of the survey also showed some aspects that could be improved, such as the financing possibilities offered.

## Main initiatives with suppliers of materials, equipment, works and services during 2017

- **Supplier of the Year Award: Promoting and rewarding supplier excellence**

Iberdrola uses prizes and [supplier awards](#) to encourage, promote and recognise excellence, quality, internationalisation, innovation, corporate social responsibility, entrepreneurship, occupational risk prevention, the creation of employment and wealth, diversity and equality. Moreover, the award is conceived as a tool and mechanism to thank suppliers for their contribution to the achievement of the group's goals.

Iberdrola works, and wishes to continue to work, with outstanding and sustainable suppliers, and to that end it establishes clear awareness-raising and measuring mechanisms, devoting specific resources within the Procurement Division to such task and establishing personal goals for the management team linked to the ongoing improvement of suppliers' sustainability ratios.

- **Iberdrola extends its commitment to reconciliation of work and personal life to its suppliers.**

Iberdrola has decided to extend to its suppliers its good practices on reconciliation between the work and personal life of its employees. For this reason, the company has revised and amended the text of the *Suppliers' Code of Ethics* to include a title on reconciliation in the *Labour Practices* section.

Iberdrola states therein that the supplier should “*assess the implementation of measures that promote respect for the personal and family life of its professionals and facilitate the achievement of an optimal balance between the latter and the work responsibilities of women and men*”.

- **Supplier sustainability evaluation model: CSR Scoring**

Iberdrola has a *CSR Scoring* model to evaluate its suppliers with respect to social responsibility, quantifying their relative position based on the suppliers' management in terms of social responsibility, so that there is a standard to differentiate them in tenders or contracting. The evaluation provides added value to suppliers,

allowing them to know the areas for improvement in order to focus their efforts in the area of social responsibility.

The CSR scoring data regarding the volume of purchases analysed (85% of the group's total procurement) are shown below:

Supplier CSR Scoring Model	
Classification levels	% amount awarded
A+	78.2
A	20.7
B	1.1
<b>Total</b>	<b>100</b>

Establishing improvement goals throughout the Procurement Division team relating to the increase in procurement with analysed suppliers and the increase in the percentage of procurement from A+ suppliers.

For those suppliers scoring B and A, a notice is sent and specific traction applied to their situation so that they try to improve to A+.

During the financial year, there were 76 social audits of suppliers with an order during the year. Suppliers with "non-conformities" in the process have a specific period within which to rectify the deficiencies found.

• **Supplier diversity**

Avangrid has a *Supplier Diversity Program*, which establishes a commitment to include the following within the supplier network and increase procurement therefrom:

- Minority-Owned Business Enterprises (MBE)
- Women-Owned Business Enterprises (WBE)
- Lesbian, Gay, Bisexual and/or Transgender-Owned Business Enterprises (LGBTBE)
- Veteran-Owned Business Enterprises (VBE)
- Service-Disabled Veteran-Owned Business Enterprises (SDVET)
- Small Disadvantaged Businesses (SDB)
- Historically Underutilized Business Zone Enterprises (HUBZone)

There was approximately 33 million euros of contracting volume with these groups in 2017.

During 2017, the contracting volume with Special Employment Centres in Spain (in order to assist and work with persons with disabilities) totalled 3.2 million euros.

• **Transparency and reporting**

Further information on Iberdrola's relations with and management of its suppliers can be found in the [Periodic Report on Procurement and Supplier Management](#) and in the [Contribution to Sustainability](#) section of the corporate website.

## GRI 415 Public policy

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

Iberdrola has two kinds of relationships with regulatory entities:

- Relationships geared towards contributing to the enactment of efficient regulatory provisions allowing for the development of a competitive market in activities that are not subject to a natural monopoly, and sufficient remuneration for regulated businesses. To that end, there is a continuous and constructive dialogue where information, knowledge and positions are exchanged. Iberdrola is thus acquainted with the concerns and proposals of regulatory entities and provides them with its own positions in the legitimate defence of its interests and those of its shareholders and customers. The company also actively participates in “public hearings” held by regulatory entities in order to ascertain the opinions of the players involved in the processes prior to the revision of regulations or the determination of domestic and European energy policies. It also participates in the official processes of enactment of the laws and regulations and the monitoring of the application thereof.

As a general rule, Iberdrola defends the principles of good regulation: proportionality, effectiveness and efficiency, responsibility and independence, consistency and credibility, and finally, transparency and clarity. As regards specific matters of energy regulation, it champions, among other things:

- o A Sustainable Energy Model, giving priority to lower-emission energy in a manner consistent with market principles.
- o Achievement of competitive supply, which requires an appropriate environmental cost allocation among all energies, following the “polluter pays” principle. Climate actions need to be financed by all polluters.
- o Decarbonisation is now the new challenge. In 2050, the system will be completely different, with significant penetration of renewables and very low use of thermal plants, a trend that is already starting to be seen. The key to this low-emission future is investment, but the design of the current market cannot provide the long-term signals for such investment to occur. Therefore, the current energy market is migrating towards two different markets: the Investment Market on the one hand, related to installed capacity and thus guaranteed supply; and the Operations Market on the other. The Investment Market consists of auctions of long-term capacity and renewables. The Operations Market consists of the delivery of energy and complementary services.
- o Smart grids offer consumers a wide array of possibilities, and must therefore be appropriately promoted and remunerated.
- o All customers, whether self-consumers or not, must receive transparent bills and contribute equitably both to network costs and to the costs of environmental policies.
- o Reasonable profits and sufficient rates for regulated activities.

- Clean electricity rates of costs not related to supply (additional non-mainland costs, annual rate shortfall payments, subsidies for domestic coal, premiums for renewable energy, etc.).
  - Full liberalisation of activities relating to generation and end supply, including the elimination of regulated end rates.
  - Introduction of measures to protect vulnerable customers and elimination of all kinds of cross subsidies among energy customers.
  - Creation of the European single market.
  - A CO<sub>2</sub> price that provides a signal encouraging investments in both low-emission generation and in energy efficiency measures, which will allow for progress in the decarbonisation of the European economy.
- Provision of all information required by regulatory entities, whether in connection with the normal conduct of its business or as a result of any transitory issue.

In addition to its direct relationships with regulatory entities, Iberdrola and the companies in its group participate in the regulatory process through the domestic and international trade associations of which they are members.

As regards lobbying activities, Iberdrola is registered with the Transparency Register created by European institutions to provide adequate transparency to the relations of such institutions with companies, NGOs, citizens' associations, think tanks, etc. The register was created by the European Parliament and the European Commission, and the Council of the European Union supports the initiative. [Iberdrola's record](#) in such register can be found on the EU's website. In its activities to influence public policies, Avangrid has made the financial contributions shown in the [US register](#). And finally, a project for the dissemination of regulatory positions has been developed as part of Iberdrola's transparency policy. Therefore, the company has made publicly available a compilation of [Global Regulatory Positions](#), valid for all countries and businesses. The goal is for the regulatory positions advanced by Iberdrola to be transparent and well-known.

#### 415-1 Contributions to political parties or to related institutions

Iberdrola has a neutral position from a political standpoint. In financial year 2017, none of the group's companies, except in the United Kingdom and the United States, contributed to the financing of political parties or to organisations controlled by them.

Contributions to political parties (€)	2017	2016
<b>United Kingdom</b>	<b>26,266</b>	<b>26,889</b>
<b>United States</b>	<b>14,997</b>	<b>129,543</b>
National level	0	0
State level	14,997	129,543
<b>Other countries</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>41,263</b>	<b>156,432</b>

In the United Kingdom, ScottishPower contributed a total of 26,266 euros, distributed among various parties across the political spectrum, to sponsor lectures and events, pursuant to the *Political Parties, Elections and Referendums Act (2000)*. These occasions are an important opportunity for the group to present its viewpoints to representatives of all political options on a non-partisan basis. The contribution does not involve supporting any particular party.

In the United States, the Networks Business of Avangrid contributed a total of 14,997 euros to candidates and political parties, and reported such contributions in accordance with applicable law. The contributions are those made by the company and do not include additional voluntary contributions made by employees.

## GRI 416 Customer health and safety

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

#### Customer health and safety

For Iberdrola, the safety of the users of the network is of the utmost importance. For this reason, it makes information and training available to the various emergency services in order to explain possible conflicts and how to act in situations involving electricity risks.

All stages of the life cycles of electricity and gas are highly regulated because they are basic products for the development of a country's economy and entail an improvement in the quality of life of citizens.

Therefore, in the *planning* stage for the facilities, the community participates through its social and political representatives in broad discussions concerning the energy model to be adopted in the country. During the *approval* stage, citizens can participate during public information periods, taking into consideration economic, environmental and health and safety aspects, as well as the reliability of supply, generating public policies that lay the groundwork for the companies within the Iberdrola group to adopt investment strategies that are consistent therewith.

In the countries in which Iberdrola engages in electric power production activities, there are extensive environmental and labour regulations aimed at ensuring that existing risks to human health and safety remain within the limits established thereby. The companies thus provide the information required to verify that the operating conditions established in the regulations and in the technical specifications for generation plants are observed in their construction, operation and maintenance.

Likewise, the electricity and gas transmission and distribution stages are subject to extensive regulations governing the construction, operation and maintenance of these facilities, and therefore the companies provide the human, physical and financial resources needed to minimise electricity risks and those associated with the handling of natural gas.

During the *retail* stage, the company also believes that the most effective way of protecting public health and safety in the use of power and gas is the provision of training and information to customers. There are also gas maintenance operating procedures to ensure safety in Spain. In the United Kingdom, devices have been developed to improve the safety of customers, such as carbon dioxide alarms, fire alarms and devices preventing hypothermia. In the United States, the evaluation and control of electrical risks for customers is thoroughly regulated at the state level.

As a complement to the foregoing, the Iberdrola group voluntarily adopts various measures to improve aspects relating to product safety. Specific internal regulations have been developed at distribution networks in this regard and there are also training seminars for third parties so that they understand electricity-related risks (fire brigade, Guardia Civil, Civil Protection, Military Emergency Unit, students, etc.).

Finally, Iberdrola has various means to inform and train the public through actions and programs that are explained in more detail under the "Access to adequate information" section in this chapter. There are also direct channels of communication with customers, as shown in disclosure 102-43 of this report.

### Electric and magnetic fields

The possible influence of electric and magnetic fields on the health of human beings has historically been a topic of certain public debate. However, the different studies performed in this regard show that there has been no identification of detrimental effects on human health with respect to the maximum emission figures established by applicable law. Iberdrola, inspired by the precautionary principle, applies the rules in this regard and is willing to work with the public authorities in adopting such preventive or mitigating measures as may be deemed appropriate to avoid risks or harm to health.

There are differences in the practices relating to this issue in the various countries in which the company does business:

In Spain, two reports are prepared regarding electric and magnetic fields at facilities, which are audited by Aenor: *Emissions of electric and magnetic fields at Distribution facilities 2017* and *Radioelectrical emissions of relay stations 2017*. Both reports show that the emissions of electric and magnetic fields meet legal requirements and that all facilities are below the levels set by law.

In the United Kingdom and the United States, the facilities comply with applicable regulations and measurements are not taken at the facilities unless requested by the customer. During 2017, the company received 45 such requests in the United Kingdom, with 29 field surveys verifying emissions and the provision of the information to the customer, and no pending action for breach of maximum levels was detected. In the United Kingdom, there is also monitoring of applicable legislation, changes therein and research through working groups within the Energy Networks Association.

In Brazil, there are measurements of electromagnetic fields to check compliance with the benchmark figures under current law, and no nonconformity was detected in 2017.

#### 416-1 Products and services for which health and safety impacts are assessed

All processes required for the supply of electricity and gas at all stages, described in the above management approach, ensure that such products arrive at the consumer with an appropriate level of assurance for their health and safety. The impacts on health and safety of 100% of the categories of major products and services are evaluated in order to make improvements.

#### 416-2 Incidents of non-compliance concerning the health and safety impacts of products and services.

The table below sets forth incidents regarding the impacts of products and services on the health and safety of customers during 2017, 6 of which resulted in a fine in the United States and 2 relating to voluntary codes in Brazil.

These incidents are mainly due to violations relating to the cutoffs of gas services. They may also be due to failures in the qualification of a contractor, where the company has participated in the Operator Qualification Programme; and to not complying with construction rules relating to the instalment of piping, with the company reviewing the locations at which the contractor has worked.

Incidents stemming from non-compliance with regulations or voluntary codes (no.)	2017	2016
Resulting in a fine	6	1
Resulting in a warning	0	0
Relating to voluntary codes	2	0
<b>Total incidents</b>	<b>8</b>	<b>1</b>

#### EU25 Injuries and fatalities to the public involving company assets.

In order to facilitate citizens' access to an essential service such as electricity, the construction, operation and maintenance of various infrastructure is required, which entails certain risks, which may at times give rise to incidents affecting people outside of the company. In most of the cases detected the incidents relate to improper construction activities and, to a lesser extent, to unauthorised entry into the company's facilities.

The following table shows the accidents of this kind that occurred during 2017. 6 of the persons who suffered accidents were in Spain, 55 in the United Kingdom, 23 in the United States and 249 in Brazil. Of the accidents that have occurred, 3 involved a fatality in Spain, 1 in the United Kingdom, 1 in the United States and 45 in Brazil.

Accidents of persons not belonging to the company (no.)	2017	2016
Accident victims	333	261
Fatalities	50	45

The claims listed in the table below have been filed against companies of the group on these and other similar grounds not resulting in injuries and are following the relevant legal procedures applicable in each jurisdiction. Legal proceedings finished and pending by year-end 2017 amounted to 110 in Spain, 70 in the United States and 228 in Brazil.

Legal proceedings (no.)	2017	2016
Settled and pending, stemming from those accidents	408	258



## GRI 417 Marketing and labelling

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

#### Marketing communications

Iberdrola observes the laws and abides by the regulations governing its advertising and marketing communications, and adopts mechanisms and voluntary codes that cause such communications to be transparent and truthful, and the *Code of Ethics* also applies in this area for all employees regardless of their area of responsibility.

In Spain, Iberdrola is a member of the Association for Commercial Self-Regulation (*Asociación para la Autorregulación Comercial*) (Autocontrol), the Spanish Electronic Commerce and Relational Marketing Association (*Asociación Española de Comercio Electrónico y Marketing Relacional*) (AECEM), the Spanish Advertisers' Association (*Asociación Española de Anunciantes*) (AEA) and the Marketing Association of Spain (*Asociación de Marketing de España*) (MKT), and has subscribed to their respective codes of ethical conduct, which entails the assumption of a commitment to offer responsible advertising to society that complies with the codes of conduct, and accepts the decisions of an Advertising Jury (*Jurado de la Publicidad*) regarding complaints that may be filed by consumers or competitors with such body.

ScottishPower in the United Kingdom complies with all the laws applicable to it on these terms, follows a structured internal procedure for all of its actions, and complies with conditions SLC 25 and SLC 7B of the supply licence, which require clarity, simplicity and justice for customers. It also complies with the codes of advertising practice of the Advertising Standards Authority, ensuring that each advertisement published is approved by teams that verify compliance with good practices.

Elektro, one of the subsidiaries of the Neoenergia group in Brazil, has a formal communication procedure called P-CT-001, which covers all internal and external communication activities, consistent with the ethical values and principles governing Iberdrola. The other companies of the group, in addition to having internal rules for the preparation of marketing communications and advertising activities, follow the principles of responsible advertising of the National Council on Advertising Self-Regulation (*Consejo Nacional de Autorregulación Publicitaria*) (Conar Statute).

#### Information on and labelling of electricity sold

As regards labelling, in Spain Iberdrola informs its customers about the source of the energy sold by the retail supplier and the associated environmental impact thereof by means of a label included in the electricity bills and in advertising to customers. This information is presented using model images and labels established by the National Markets and Competition Commission (*Comisión Nacional de los Mercados y la Competencia*) (CNMC). The CNMC has launched a System for Guarantees of Origin of



energy produced in order to create the labels and images. This information is also available in the [electricity labelling](#) section of the retail website.

In the United Kingdom, ScottishPower reports the origin of its energy each year and the environmental impact thereof. New customers receive this information as part of their Welcome Cycle communications, and existing customers receive this information in the *Important Information* section of each invoice or notice, in accordance with the guarantees of origin rules established by Ofgem. All information about the label is also available in the [Where you get your energy](#) section of the website.

There is no obligation to label electricity in the United States or Brazil. Gas is not currently labelled in the countries in which the company sells this product.

Finally, such additional information as may be of help for consumers to make a more rational, efficient and safe use of these products is set forth at the end of this chapter in the "Access to adequate information" section.

### Customer satisfaction

Iberdrola has various mechanisms to measure customer satisfaction levels and to gather the opinions of its customers, as well as to verify compliance with its quality standards within the customer service and sales channels. The most significant studies by country are:

- In Spain, most of the studies use the Net Promoter Score (NPS) Index, involving telephone interviews by various research institutes, increasing from 26% in 2016 to 27% in 2017. These studies include the *Customer Voice Study (Estudio de la Voz del Cliente)* in order to know consumer ratings. This survey offers detailed information regarding attributes like agility, treatment within the service channels, clarity of the invoice, management and claims regarding complaints, and others, like quality of supply, price competitiveness and electronic billing, whether for large customers, companies, small businesses or residential customers. Overall satisfaction in 2017 exceeded 7 out of 10 for the third consecutive time. There is also a *Gas Maintenance Service Satisfaction Survey*, conducted on a yearly basis, maintaining a high level of satisfaction with respect to both the service and the professionalism of the technicians, as well as a study of satisfaction with the *Electrical Emergencies* service. There are two types of surveys at the Networks Business, showing the satisfaction of those requesting new supplies and expansions of capacity, with a grade of 3.4 out of 5 in 2017.
- In the United Kingdom, customer satisfaction is measured by a series of internal and external studies within the *Customer Insight* department, including satisfaction surveys that vary in frequency, from monthly to annually, by a customer research panel (*Your Energy People*).  
  
There is also a series of external comparative studies measuring the satisfaction of ScottishPower's customers as compared to its competitors, such as those conducted by USwitch, Which?, Nunwood, NCSI in the United Kingdom and UK-CSI, which is published twice per year. The latest results are based on the UK-CSI study and show that ScottishPower has improved 1.6 points over the prior year, from 68.5% to 70.1% in 2017.
- In the United States, the Avangrid subsidiaries CMP, NYSEG and RGE take two kinds of measurements:
  - o customer satisfaction in recent contracts, the results of which are compared to the regulator's objectives and with the results of other companies in the industry. NYSEG and RGE reached general satisfaction results of 87% and 85%, respectively.

- consumers' perception of the performance of the companies CMP, NYSEG and RGE, which is conducted on an annual basis, through 600 telephone interviews for each company. The results show that in 2017 they are among the 5 leading companies in the Northeast in the 3 leading indexes: customer satisfaction, energy delivery and customer interaction.
- In Brazil, Abradee (*Associação Brasileira de Distribuidores de Energia Elétrica*, or Brazilian Association of Electric Power Distributors), in association with Fundación Instituto de Investigaciones Económicas (FIPE), is responsible for classifying and giving awards to companies based on an evaluation of performance in the following areas: operational excellence, economic/financial management, customer assessment, social responsibility and management quality. The ISQP (*Índice de Satisfacción de la Calidad Percibido*, or Perceived Quality Satisfaction Index) of the services is obtained through evaluations by the customer via surveys performed by Instituto Innovare, which is responsible for customer surveys. The established methodology analyses up to 46 attributes distributed among areas such as customer services, image and price, among others. In 2017 the quality perception grade of low-voltage customers for companies of the Neoenergia group obtained an average rating of 78 points, while the quality of service for high-voltage customers of Elektro was rated at 77.8%. Aneel (*Agencia Nacional de Energia Elétrica*, or National Electric Energy Agency) also performs satisfaction surveys of the customers of the distributors based on 40 attributes. The companies of the Neoenergia group obtained an average rating of 62.05 in this survey.

#### 417-1 Product and service information and labelling required by procedures in force and by regulations.

The data on information and labelling of products and services required by this GRI disclosure is reflected in the above Management Approach to the management of marketing and labelling of this report.

#### 417-2 Incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling.

The following table sets forth the incidents related to information and labelling that occurred during financial year 2017, which have resulted in 2 fines in Spain.

Incidents relating to information and labelling (no.)	2017	2016
Resulting in a fine	2	8
Resulting in a warning	0	0
Relating to voluntary codes	0	0
<b>Total incidents</b>	<b>2</b>	<b>8</b>

#### 417-3 Incidents of non-compliance with regulations and voluntary codes concerning marketing communications.

The following table sets forth the incidents that occurred due to non-compliance regarding marketing, advertising, promotion and sponsorship during financial year 2017, when none occurred.

Incidents of non-compliance concerning marketing, advertising, promotion and sponsorship (no.)	2017	2016
Resulting in a fine	0	2
Resulting in a warning	0	0
Relating to voluntary codes	0	0
<b>Total incidents</b>	<b>0</b>	<b>2</b>

## GRI 418 Customer privacy

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

Iberdrola ensures the privacy of the personal information of the group's customers as set out in the Management Approach "Privacy of the personal information of Stakeholders" included at the end of the "Economic Dimension" chapter of this report.

418-1 Substantiated complaints regarding breaches of customer privacy and losses of customer data.

Incidents relating to privacy (no.)	2017	2016
From regulatory entities	163	175
From other sources, substantiated <sup>81</sup>	29	14
<b>Total substantiated complaints</b>	<b>192</b>	<b>189</b>

Of the incidents arising from regulatory entities, 8 occurred in Spain and 155 in the United Kingdom and of those from other sources, 28 occurred in the United Kingdom and 1 in Brazil.

During 2017 there were also 151 cases of loss of or damage to customer data, all in the United Kingdom.

## GRI 419 Socioeconomic compliance

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))

<sup>81</sup> The 2016 data has been revised because claims were being included in Brazil due to errors in the data unrelated to violations of privacy or the loss of information.



## Management approach

As laid down in its By-Laws, Iberdrola aspires for its conduct and that of the persons connected therewith to conform and adhere not only to applicable law and its Corporate Governance System, but also to ethical principles and generally accepted principles of social responsibility. In this connection, the *Code of Ethics* of the Iberdrola group provides that:

- Group professionals shall comply strictly with the laws in force in the jurisdiction of their workplace, heeding both the spirit and the purpose of such legal provisions, and shall observe the provisions of the *Code of Ethics*, the rules of the Corporate Governance System, and the basic procedures governing the activities of the group and of the company in which they provide their services. They shall also fully observe all obligations and commitments assumed by the group in its contractual relations with third parties, as well as the usage and good practice of the countries in which they carry out their activities.
- The officers of the group shall have particular knowledge of the laws and regulations, including internal ones, affecting their respective areas of activity, and must ensure that the professionals reporting to them receive the required information and training to enable such professionals to understand and fulfil the legal and regulatory obligations, including internal ones, applicable to their position.
- The group shall respect and abide by all court and/or governmental decisions or resolutions that may be issued, but reserves the right to file such appeals as may be appropriate against any such decisions or resolutions when it believes that they do not conform to the law.

## 419-1 Non-compliance with laws and regulations in the social and economic area

The following table shows violations of laws and regulations in the social and economic area, i.e. all violations of any kind (whether labour, tax, competition, related to distribution or retail sale of energy and gas, etc.) of the Iberdrola group, other than violations of environmental regulations, which are set out in disclosure 307-1.

Significant fines and non-monetary sanctions in the social and economic area <sup>82</sup>	2017	2016
Fines imposed (€)	58,891,707	208,758,953
Non-monetary sanctions (no.)	1	3
Cases being resolved through arbitration or similar mechanisms (no.)	465	575

Of the total amount, fines in the amount of 58,005,333 euros have been imposed in Brazil, mainly corresponding to three fines on the Networks Business of the Neoenergia group: 15,011,504 euros for a violation relating to the tax on own equity interests, payment of premium and deduction of regulatory fine

<sup>82</sup> Arbitration mechanisms are not included in the labour area.

and collection of contribution relating to occupational environmental risks; 14,266,488 euros for commencement of Violation Order issued by the Brazilian tax authority collecting the tax on payment of the premium in the acquisition of Elektro in 2011; and 12,330,153 euros for violation in the deduction of regulatory fines from the calculation base for income tax. Of the remainder, 14,102,922 euros correspond to other fines against the Networks Business, 2,198,913 euros to the Wholesale Business and 2,294,265 euros correspond to the Renewables Business for various penalties imposed for different reasons.

In Spain, fines totalling 609,165 euros were imposed, of which 417,606 euros were for digging trenches without a works permit and for the construction of unauthorised facilities, all of which have been appealed. The remaining 217,908 euros corresponds to penalties for violations of personal data protection and customer information regulations, as well as other penalties in the consumer and labour areas.

In the United States, fines have been imposed in the amount of 220,295 euros, of which 155,512 euros correspond to fines mainly due to failures in the inspection systems and proceedings regarding abandonment and deactivation of gas services and violations of pipe installation requirements. The remaining 64,783 euros mainly corresponds to violations of safety regulations during the “Dig Safe” excavations.

In the United Kingdom, ScottishPower has received a fine in the amount of 3,988 euros for delay in the payment of the tax relating to the management of easements in the East Anglia One project.

No fines were imposed during 2017 in the other countries in which the company operates.

Finally, in Brazil, Neoenergia received a non-monetary penalty for labour reasons.

## Electric Utilities Sector Specific Aspects

### Disaster/emergency planning and response

#### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



### Management approach

As in any industrial activity, situations of risk to the facilities or the public at large may occur at power generation plants and in electricity grids, either because of an accident or due to loss of electricity supply.

Where this occurs, the subsidiaries of the Iberdrola group and the companies in which the company has an interest have put plans, procedures and other mechanisms in place in order to try to minimise the consequences. Such measures include preventive measures that have been jointly established with local authorities, as well as training both for its own and subcontracted staff and ongoing education, and regular safety drills with on-site audits.

The Wholesale and Retail Business has various documented emergency management procedures in place at its facilities: for example, in Spain and Mexico there is an *Emergency Response Organisation (Organización de respuesta ante emergencias) (ORE)* procedure, which involves personnel of all levels and is put into operation in the event of emergencies that jeopardise the assets of the company or its employees. In the United Kingdom, there is a Business Continuity Management System for the management and minimisation of emergency situations, which is externally audited and ISO 22301 certified. In the United States and Canada, each facility has a Prevention, Control and Countermeasures Plan, which includes preventive and reactive actions, and also has an Emergency Response Plan. There are also emergency plans at the generation plants in Brazil.

In addition, there may be specific plans based on each technology; for example, hydroelectric generation facilities also have an internal process to monitor a Reservoir Emergency Plan implemented at all of the Cuenca Units.

Thermal generation plants have established general procedures to identify and respond to potential accidents and emergency situations, as well as to prevent and reduce environmental impacts, serious accidents and possible injuries to employees.

Nuclear power plants have specific emergency plans in order to ensure that emergency systems are operational and to guarantee the safety of employees and the public, which include both an External Emergency Plan (*Plan de emergencia exterior*) (PEN), for which the governmental authorities are responsible (called the Nuclear Emergency Plan of the Province in which each plant is located), and an Internal Emergency Plan (*Plan de emergencia interior*) (PEI), compliance with which is the responsibility of the companies that own the power plant. The PEI is known by the public authorities and municipalities of the region, which participate in its adoption and verify its effectiveness through annual emergency drills supervised by the Nuclear Safety Council (*Consejo de Seguridad Nuclear*) (CSN), as well as tests and internal exercises performed at the facility itself.

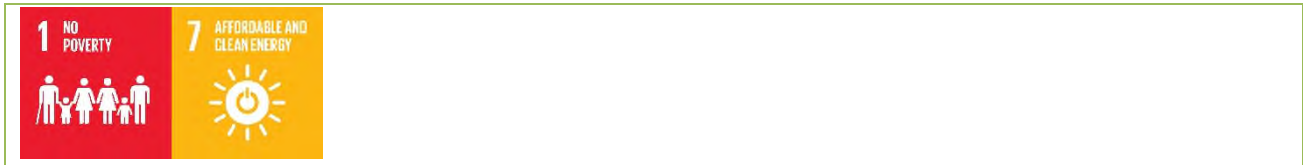
Another example of emergency management is the cooperation of the company with the authorities responsible for the operation of the national electricity grids and of connections with other countries in order to deal with the possibility of a global supply failure. System operators are responsible for guaranteeing the reliable and safe operation thereof and for restoring service following severe incidents in a controlled manner and within the shortest possible time. To that end, they draw up detailed plans and procedures that determine the responsibilities and guidelines for action by geographic areas. Concurrently therewith, Iberdrola conducts tests at its facilities to ensure that the main generation centres can resume production in the event of a power grid failure.

The Networks Business also has various management plans and procedures to deal with these situations, such as the electric emergency plans of the distribution subsidiaries of Avangrid in the United States, where CMP also has a Service Restoration Plan, and for which drills are performed every year. Also noteworthy are the operations centres of the distributors in Brazil, which standardise safety in operations and the procedures to restore supply and for the maintenance of the electricity system. ScottishPower actively communicates with vulnerable groups during power outages to ensure that they are provided the assistance that may be required. The company has its own fleet of generators, as well as a portfolio of suppliers to support consumers during long-lasting emergencies if necessary.

## Access to electricity

### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



## Management approach

### Access to electricity for vulnerable customers

In February 2016 the Board of Directors approved a change to the *General Corporate Social Responsibility Policy*, which makes it a principle of conduct to pay attention to customers who are financially disadvantaged or in any other situation of vulnerability, establishing specific protection and collaboration procedures to facilitate continued access to electricity and gas supply in accordance with the policies established by the competent government administrations.

Among the programmes to facilitate access to energy by people who are at risk of exclusion or in a situation of vulnerability, the company and its subsidiaries and affiliates have procedures to protect customers in vulnerable situations to facilitate access for the most disadvantaged groups, including the following:

- In Spain, this commitment takes form through the application of a *Vulnerable Customer Protection Procedure*, which is focused on increasing collection periods, making payment terms more flexible, and providing personalised advice. Iberdrola has also prompted the signing of agreements with various public entities and other organisations, establishing mechanisms to prevent the suspension of electric and/or gas supply due to non-payment of the invoice by economically disadvantaged citizens, and to ensure the immediate restoration of service if already suspended. The company also has a free exclusive telephone service line for customers in vulnerable situations: 900 100 752.

The [agreements signed](#) by the company until the end of 2017 protect 100% of Iberdrola's residential customers in Spain that might be in situations of vulnerability.

There are also subsidised electricity rates (known as *Bono social*) which allow lower electricity prices to be applied to electricity consumers considered to be vulnerable on the basis of certain determined social, consumption and purchasing power characteristics. In 2017, the Government regulated and defined the figure of vulnerable customer, subsidised rates (*bono social*) and other measures of protection for energy consumers through Royal Decree 897/2017, and also expanded the coverage to special groups (family units with disabled members, victims of gender violence or terrorism), among other measures. At the end of 2017, Iberdrola had 855,000 customers with subsidised rates.

- In the United Kingdom, ScottishPower has signed the *Energy UK Safety Net for Vulnerable Customers* agreement, which includes a commitment to never disconnect those customers who have been declared vulnerable due to reasons of age, health, disability or other serious reasons, and to reconnect them, if applicable, on a priority basis. A *Warm Home Discount* scheme for households at risk of poverty is also still in operation.
- In the United States, agreements have been signed with the government to help customers at risk of exclusion and vulnerable customers, and there are energy assistance programmes for these groups at the federal level, such as the *Home Energy Assistance Program (HEAP)*, *CMP's Electricity Lifeline Program (ELP)* (with credits to pay bills based on income and consumption) and the *Energy Assistance Program (EAP)*, to cancel debts for delayed payment. CMP has



implemented an *Arrears Management Program (AMP)*, which offers assistance to low-income customers and also guarantees a connection for people with limited resources who depend on an oxygen tank.

- In Brazil, the group's subsidiaries have a special different rate for low-income customers (TSEE) and advantageous prices and special terms for persons in difficulty. During 2017, Aneel (*Agencia Nacional de Energía Eléctrica*, or National Electric Energy Agency) continued with an update of the registry, selecting beneficiaries therefrom who meet the low-rent criteria of the consumer units determined by the Brazilian regulator.

### Access to electricity for off-grid customers

For populations in Brazil with difficulties accessing the network, such as indigenous populations or *quilombolas*, Elektro provides various assistance programmes and the installation of off-grid photovoltaic systems. Other subsidiaries of Neoenergia also have programmes to ensure universal access to the distribution network.

Iberdrola has an *Electricity for all* programme to extend universal access to modern forms of energy that are more environmentally, socially and economically sustainable, as described in the "Iberdrola's contribution to the community" section of this chapter.

### EU26 Population unserved in distribution areas

For the companies of the Iberdrola group in Spain, the United Kingdom and the United States, the electrification level covers practically the entire population. In Brazil, in the Neoenergia distribution area (around 835,000 km<sup>2</sup>, with a resident population of slightly more than 34.3 million people), approximately 204,779 persons do not have electricity, representing around 0.6% of the total population within the area of the Neoenergia group companies.

### EU27 Residential disconnections for non-payment

A detailed description of the set of procedures implemented in various countries to minimise the effect of supply outages and to provide access to the supply of electric power and gas is contained in the management approach to this "Topic" in the section called "Access to electricity for vulnerable customers".

Information regarding disconnection for non-payment and subsequent reconnections in accordance with the *Electric Utilities Sector Supplement* of the Global Reporting Initiative (GRI) is shown in the following table:

Residential disconnections for non-payment (no.)	2017	2016
Paid up to 48 h after disconnection	1,304,986	1,182,466
Paid between 48 h and one week after disconnection	236,436	237,576
Paid between one week and one month after disconnection	226,654	214,745
Paid between one month and one year	181,141	188,504
Paid after more than one year	7	0
Outstanding and unclassified	0	48,606
<b>Iberdrola total</b>	<b>1,949,224</b>	<b>1,871,897</b>



Residential reconnections following payment of unpaid bills (no.)	2017	2016
Less than 24 h after payment	1,612,578	1,561,202
Between 24 h and one week after payment	184,780	191,332
More than one week after payment	116,395	102,068
Unclassified	0	14,634
<b>Iberdrola total</b>	<b>1,913,753</b>	<b>1,869,236</b>

Information on disconnections and reconnections in the various countries is described in Annex 3 Supplementary Information of this report.

### EU28 Power outage frequency

Iberdrola supplies electricity and monitors service quality in various countries. However, the measures in each company are taken according to different rules, following the respective legal requirements or customs, for which reason the company does not currently have a homogeneous measure of service quality in the various countries in which it operates. The figures are as follows:

- Installed Capacity Equivalent Interrupt Number (Spanish acronym "NIEPI") is used in Spain.

NIEPI	2017	2016
<b>Spain</b>	1.14	1.04

- Customer interruptions per 100 connected customers ("CI") is used in the United Kingdom.

CI	2017	2016
<b>United Kingdom</b>	36.0	42.7

- System average interruptions frequency index ("SAIFI") is used in the United States.

SAIFI	2017	2016
<b>United States</b>	1.15	1.15

- Equivalent duration of interruption by consumer unit (Portuguese acronym "FEC") is used in Brazil.

FEC	2017	2016
<b>Brazil</b>	7.15	7.44

The "Research and Development" section of the "Economic Dimension" chapter of this report provides additional information regarding the development of smart grids to improve the quality of electric supply, among other things.

### EU29 Average power outage duration

Similarly to the preceding section, the figures are as follows:

- Installed Capacity Equivalent Interrupt Time (Spanish acronym "TIEPI") is used in Spain.

TIEPI	2017	2016
<b>Spain</b>	52.7 min	54.0 min

- Customer minutes lost per connected customers ("CML") is used in the United Kingdom.

CML	2017	2016
<b>United Kingdom</b>	31.0 min	33.8 min

- Customer average interruption duration index (“CAIDI”) is used in the United States.

CAIDI	2017	2016
<b>United States</b>	1.91 h	1.84 h

- Equivalent duration of interruption by consumer unit (Portuguese acronym “DEC”) is used in Brazil.

DEC	2017	2016
<b>Brazil</b>	15.96 h	17.14 h

### EU30 Average plant availability

The following table shows the average availability of the company’s various production technologies during financial year 2017:

Average availability factor (%)	2017	2016
Combined cycle	90.94	89.94
Conventional thermal	93.94	85.54
Cogeneration	82.75	91.00
Nuclear	89.29	85.98
Hydroelectric	86.02	86.96
Wind	94.36	96.84
<b>Total</b>	<b>90.53</b>	<b>91.03</b>

Information on the availability factors in the various countries is described in Annex 3 Supplementary Information.

### Access to adequate information

#### Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass [www.sdgcompass.org](http://www.sdgcompass.org))



#### Management approach

Apart from commercial information, the safety of users of the electricity grid or the promotion of the efficient use of energy is an on-going concern at the companies of the group. To progress in all these areas, information and training plans, programmes and activities are developed in each geographic area.

#### Accessibility of information

The Iberdrola group’s distribution and supply companies develop various initiatives to make communication with customers having specific difficulties, whether idiomatic or sensory, simpler and more agile. With these

services, Iberdrola puts into practice its policy to guarantee equality of opportunity, non-discrimination and universal accessibility, within the framework of its focus on social responsibility, especially with respect to disadvantaged groups. This initiative is also due to the company's commitment to offer individualised services covering the needs of all customers.

For the last 5 years, Iberdrola has been the only company in the energy industry in Spain that has offered sign language video-interpreting in its customer service area. And Iberdrola continues to offer this service to its customers thanks to the collaboration initiative with Fundación CNSE that began in 2012, and that was renewed in 2017. In this way, persons who are deaf or hard of hearing can contact the company through sign language interpreters, the application of which is available on the customer website and is also included in a tool for the exchange of written messages. Furthermore, the website and the Virtual Office of the customer are available in Spanish, Basque (Euskera) and English. Invoices are currently issued in ten languages: Spanish, English, Italian, German, French and Portuguese and the regional languages Valencian, Basque (Euskera), Gallego and Catalan.

The Accessibility Certificate issued by Ilunion Tecnología y Accesibilidad was renewed for the corporate website in 2017, proof of its commitment and of the work of auditing, consulting and certification of both the corporate and customer websites, and is available at [Accessibility Certificate](#). It thus complies with the Web Content Accessibility Guidelines 2.0 of the W3C (World Wide Web Consortium), as well as the requirements to satisfy the UNE 139803:2012 Standard governing the degree of accessibility applicable to the websites of public utilities. Audits are performed on a half-yearly basis to ensure that the website meets the relevant requirements. Ilunion has also given Iberdrola an additional award for its efforts in the area of universal accessibility and service to disabled persons ([see Accessibility diploma](#)).

Finally, Iberdrola promotes information and training campaigns regarding safety and energy saving measures amongst disabled groups and underprivileged groups or those at risk of social exclusion, in order to contribute to the equality of these persons, removing barriers to communication.

In the United Kingdom, ScottishPower provides the necessary mechanisms to communicate effectively with customers who choose Welsh as the language in which they wish to receive service. There is a translation service to facilitate communications in cases where customers find it difficult to make themselves understood in English. In addition, the *Carefree Scheme* offers a variety of additional services to customers who are visually or hearing impaired, suffer from chronic illness or are over sixty years old. This service includes the provision of bills in Braille, large print, compact disc and audio cassette format. ScottishPower offers multiple alternatives so that customers with hearing or speech difficulties can communicate without needing to call: changing account details through the website, chat function on the website itself, Facebook Messenger for private communications, e-mail, etc. With the new *Next Generation Text Services (NGTS)* initiative, the company also offers a range of tools and services that can help customers with difficulties to call using a smart phone, tablet or computer.

In the United States, the companies CMP and NYSEG have a special communication service for hearing-impaired people called *Telecommunication Device for the Deaf (TDD/TYY)*, to facilitate communication through written messages and *Telecommunication Relay Service for Hearing Impaired-711* through which users can make 711 calls from any telephone in each state of the United States, without needing to remember area codes. NYSEG also provides special printed invoices for visually-impaired customers, as well as the ability to designate a third person at NYSEG to receive important notices, called *Third Party Notification*. There is also a service to help people with special needs and advise them on choosing services that might be useful. CMP and RG&E also make interpreters available for persons who request information in a language other than English.

In Brazil, Neoenergia develops improvements in physical accessibility at customer service locations and preferential treatment for persons with different abilities. They also implement programmes to provide service, information and access to billing to persons with visual and hearing impairments, which include: accessible websites, bills in Braille, a dedicated phone line for service to those with hearing or speech problems, special documentation and signage, and the availability of employees trained in sign language.

### Education in the safe use of electricity

Through the group's websites, Iberdrola makes available to consumers recommendations and information available to consumers regarding the [safe use of electricity and gas](#), as well as guidelines to follow in case of an electrical accident. They also publish informational booklets regarding the potential risks of electricity affecting the proper use thereof.

In Spain, Iberdrola promotes informational and educational campaigns on safety measures and energy saving directed towards the general public. It also offers its customers products and services that provide additional safety in the home or business. It also collaborates with consumer associations and special groups in order to contribute to communication on matters relating to safety, training and education. Iberdrola also spreads information messages regarding safety and energy savings via its customer profile on Twitter (@Tulberdrola).

Two new services were launched in Spain during 2017: *Air-Conditioning Protection* and *Home Electrical Protection Plus*. Also noteworthy is the entry into the Italian residential market, with the launch of two services for the home: *Electricity Maintenance Service* and *Gas Maintenance Service*, focused on emergency breakdown assistance within three hours and the performance of small electricity or gas jobs, respectively.

In the United Kingdom, ScottishPower has maintained its [PowerWise](#) program regarding electrical safety for parents, teachers and students, with 25,708 visits in 2017. It has also continued with extensive campaigns to promote electrical safety, with programmes such as children's visits to *DangerPoint* in Northern Wales and *The Risk Factory* in Edinburgh, with a total of 16,435 visits. Further, 9,768 children also attended the *Crucial Crew* event, 190,028 attended the *Royal Highland Show*, 80,000 attended the *Cheshire Show* and 55,000 the *Anglesey Show*, especially dedicated to farm workers and their families. ScottishPower also has the *Stayenergysafe* service in order to inform the public about energy-related crime and the risks it involves.

In the United States, information and recommendations are provided regarding how to act in an emergency, such as adverse weather conditions, poisoning or health risks, as well as [safety advice](#) in case of storms or outages causing lines or equipment to fall. In addition, CMP has launched an *Outreach Campaign* targeting at-risk groups such as school children, safety personnel, contractors and emergency personnel.

In Brazil, the companies of the Neoenergia group provide this information on the bill, in customer service areas, through conferences on the proper use of electricity and building safety, messages on the website, on social media, and while on hold with the call centre, so as to reach all consumers, in addition to awareness-raising campaigns. In 2017 the *Ecoteca* project was rolled out in inland cities, with safety-related games.

### Specific topics of the Iberdrola group

## Iberdrola and the Global Compact

## Management approach

Iberdrola has been a member of the Global Compact since 2002, undertaking to support, promote and disseminate its ten principles regarding human rights, labour practices, the environment and the fight against corruption, both internally and within its area of influence. During these years, the company has continued to further develop the policies and practices proposed by the Compact, which it has made public through its annual *Sustainability Report* and its corporate website.

Since 2004, as a founding member, the company has belonged to the Asociación Española del Pacto Mundial (Spanish Global Compact Association) (Asepam), now re-named the Red Española del Pacto Mundial (Spanish Global Compact Network) and has prepared progress reports on compliance with the principles of the Compact, which are publicly available both on the website of the Red Española del Pacto Mundial and on the Global Compact website

During 2017, Iberdrola took in the following actions in connection with the Global Compact:

- Submission of the Progress Report 2016 on compliance with the principles of the Compact, rated at the highest level for this type of report ("GC Advanced").
- Attendance at the 2017 General Assembly of the Red Española.
- Iberdrola and the Red Española del Pacto Mundial have developed the *Moving for Climate NOW* initiative, within the framework of the COP23 Climate Summit held in Bonn in November 2017. The goal of the initiative is to transmit to society the urgency of fighting climate change, the need to join forces from all areas, and the requirement for ambitious and immediate action. The event, which was included in the official programme of the COP23 Summit, consisted of an almost 800 kilometre bicycle route between Paris and Bonn.
- Iberdrola participated with the Global Compact on numerous initiatives to promote and develop the Sustainable Development Goals, including topic support for the preparation of the book *SDGs Year 2: Analysis, trends and business leadership*.

As mentioned above, Iberdrola has linked the SDGs to its business strategy, and actively works with the Global Compact for the achievement thereof within its scope of activities.

In 2018, Iberdrola plans to actively participate in the activities of the Red Española del Pacto Mundial in a manner similar to the past year.

## Iberdrola's contribution to the community

Social actions, in cooperation with governmental and civil society organisations, constitute a significant part of Iberdrola's commitment to the community. Detailed information on such actions can be obtained both from the published reports and from the corporate websites of Iberdrola's subsidiaries in Spain, the United Kingdom, the United States, Mexico and Brazil.

Rural electrification programmes in Brazil are also particularly worthy of note. The Brazilian companies of the group have continued to develop such programmes, undertaken jointly with government entities, with the goal of extending the electricity infrastructures in order to facilitate economic and social development and minimise inequalities among the various regions and between rural and urban areas. These programmes represent a fundamental component for development of the most disadvantaged sectors of Brazil's population.

## 1.- Dedicated resources



Iberdrola has selected the *London Benchmarking Group* (LBG) model to measure and assess business contributions to the community due to its wide international recognition. It is regarded as the most highly-valued standard for measuring the results and impacts of social programmes, both for the company and for the community.

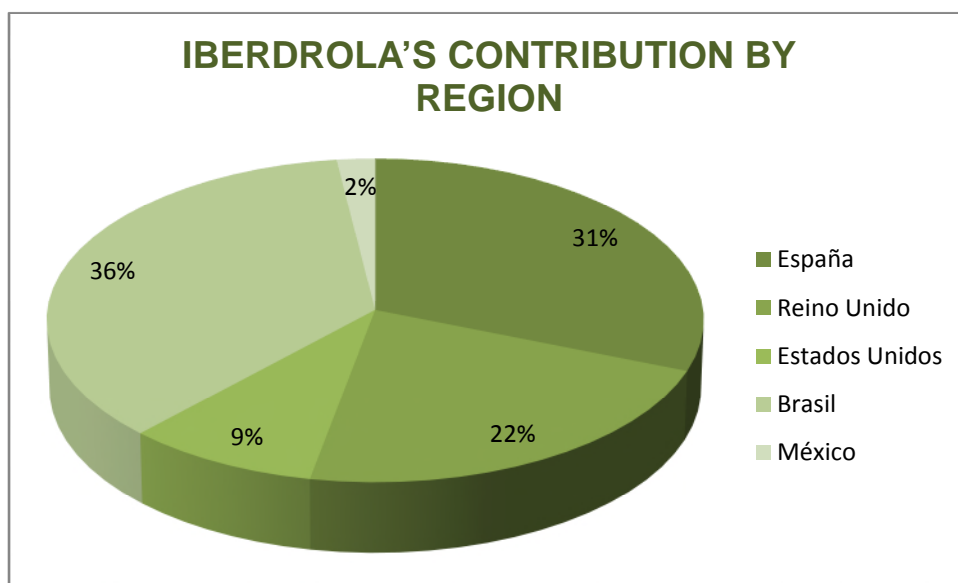
A detailed description of the LBG model can be found at the [www.lbg.es](http://www.lbg.es).

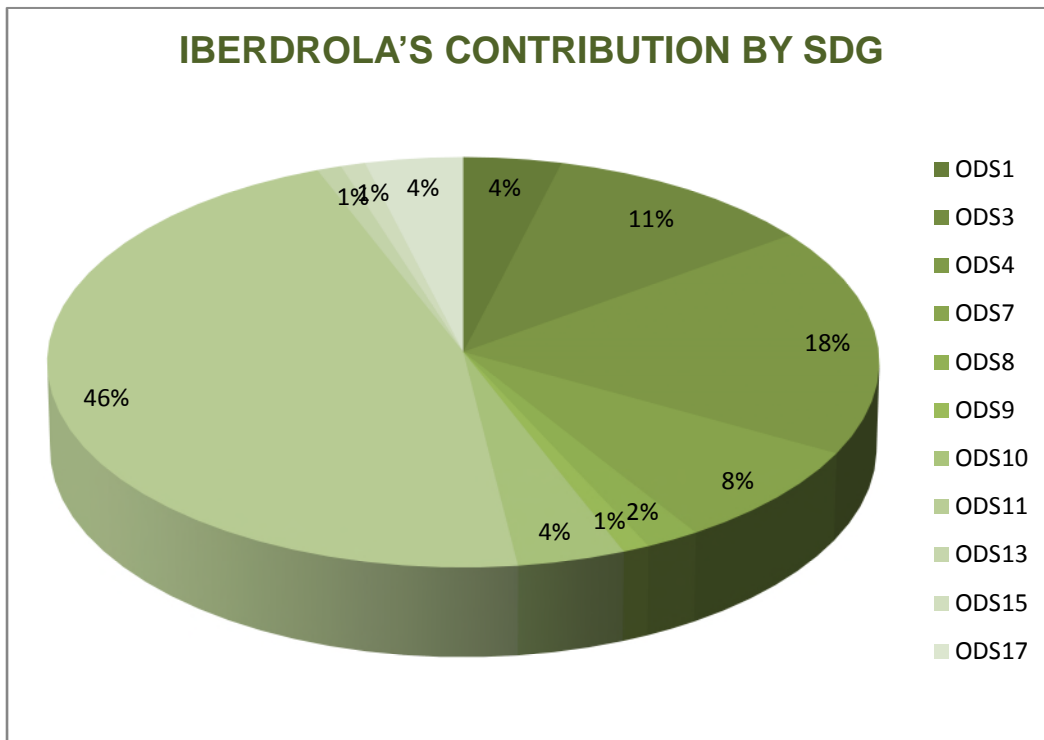
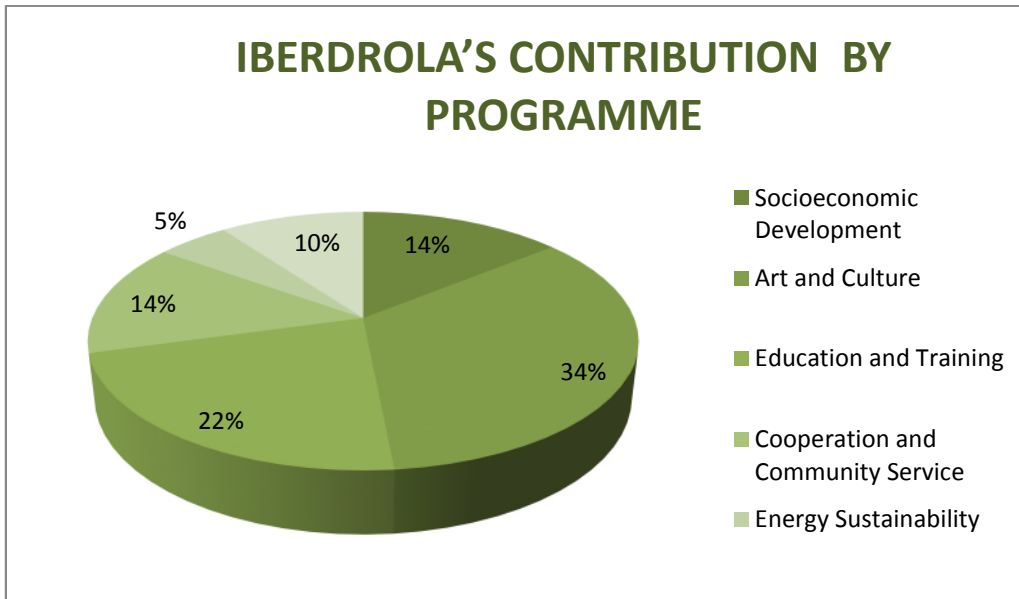
Iberdrola has used the LBG model to report its contributions to society in this *Sustainability Report* for financial year 2017.

Contribution to the community in 2017		(€ thousands)
<b>By category</b>		
- Specific contributions		9,346
- Community investment		43,460
➤ Socioeconomic development of the community		
➤ Energy sustainability		
➤ Art and culture		
➤ Education and training		
➤ Cooperation and community service		
- Commercial initiatives in the community		7,329
- Management costs		2,835
<b>By type of contribution</b>		
- Cash contributions		58,954
- Staff time		214
- In-kind contributions		967
- Management costs		2,835
<b>By Sustainable Development Goals (SDGs)<sup>83</sup></b>		

<sup>83</sup> The breakdown of contributions to the community by SDG covers 95% of the figure reported, as it is not in all cases possible to establish a link between the initiatives and their contribution to an SDG.

- 1. End poverty	2,323
- 2. Zero hunger	16
- 3. Good health and well-being	6,379
- 4. Quality education	10,700
- 5. Gender equality	18
- 6. Clean water and sanitation	11
- 7. Affordable and clean energy	4,795
- 8. Decent work and economic growth	1,374
- 9. Industry, innovation and infrastructure	665
- 10. Reduced inequalities	2,573
- 11. Sustainable cities and communities	27,253
- 12. Responsible consumption and production	79
- 13. Climate action	710
- 14. Life below water	84
- 15. Life on land	634
- 16. Peace, justice and strong institutions	27
- 17. Partnerships for the goals	2,228
<b>Report boundary</b>	<b>62,970</b>





In addition, the aggregate funds allocated to rural electrification programmes in Brazil represented a total of 278.2 million euros on a consolidated basis for the group.

Electrification programmes 2017	(€ thousands)
Neoenergia	278,148



## 2.- Outputs and impacts

### Benefits for society

Iberdrola has been measuring the results achieved by its community support programmes using various parameters. Iberdrola's foundations are applying a methodology adapted from LBG to measure outputs and impacts for its most important programmes and projects.

In 2017, Iberdrola's foundations extended the application of this methodology to a total of 510 projects in Spain, the United Kingdom, the United States, Brazil and Mexico, resulting in a total investment of 13.5 million euros, with more than 220,000 direct beneficiaries as well as more than 5 million indirect beneficiaries. Other notable achievements have been funding the award of 176 scholarships and research grants.

The programmes are divided into the principal areas of activity of Iberdrola's Foundations:

- **Training and Research:** the main goals include contributing to the training of a new generation of professionals able to drive transformation toward a sustainable energy model, with more than 6.4 million euros of investment.
- **Biodiversity:** supporting conservation programmes for endangered species and the restoration of protected habitats, with more than 600,000 euros of investment.
- **Art and Culture:** promoting culture, with particular attention to the care and maintenance of diversity, uniqueness and cultural and artistic wealth, with 1.3 million euros of investment.
- **Cooperation and Community Service:** actively contributing to the improvement of the quality of life of the most vulnerable people and groups, and to social and labour inclusion, with 3.8 million euros of investment.

The charts below show the results and achievements globally and by country during 2017:

**Foundations of the companies of the Iberdrola group – Results in areas of activity in 2017 (€)**



The results and achievements by country is available in Annex 3 Supplementary Information.

**Benefits for the company**

Iberdrola believes that the main benefits that it obtains from its commitment to society are:

- Building and reinforcing relationships of trust with communities, through the support of social organisations and national, regional and local governments, which has a favourable impact on relations with all of the Stakeholders.
- Achieving higher brand recognition and improving its corporate reputation.
- Improving employee satisfaction, by their belonging to a socially valued and recognised company, which favours the attraction and retention of talent.

**3.- Corporate volunteering programme**

The Iberdrola group offers its workforce various volunteering opportunities within the framework of its Corporate Volunteering Programme. This Programme, which was launched in 2006, is a global and international project aligned with the values of the group and its *Sustainability Policy*, which is intended to channel the community service spirit of employees and motivate them to participate in social projects aimed at the integration of vulnerable groups, improving the environment and sustainable development.

The Programme is aligned with the Sustainable Development Goals, defined by the United Nations for the 2015-2030 horizon, and especially focused on goals 3 (good health and well-being), 4 (quality education), 7 (affordable and clean energy), 10 (reduced inequalities) and 13 (climate action). It should be noted that

Iberdrola has joined IMPACT 2030, an initiative launched by the private sector in collaboration with the United Nations, civil society, the academic world and other Stakeholders to strategically mobilise corporate volunteerism towards the SDGs.

Some of the more noteworthy [corporate volunteering](#) initiatives carried out in 2017 were the following:

- The sixth edition of the global INVOLVE (International Volunteering for Education) project, which offers training in new technologies to youths at risk of social exclusion, with a two-week stay of a team of volunteers from Spain, the United Kingdom, the United States, Brazil and Mexico. This year INVOLVE has been recognised by CEMEFI (*Centro Mexicano para la Filantropía*, or Mexican Philanthropy Centre) as one of the best Business Social Responsibility practices, being a finalist in the Corporate Volunteerism category.
- National and international volunteerism days were organised, among which particularly worth noting is the “International Volunteerism Day” held simultaneously in Spain, the United Kingdom, the United States, Mexico, Brazil and Mexico, and this year has had more than 1,300 simultaneous participants in the more than 60 simultaneous activities. “Volunteerism Days” were also held in Spain, with games and sports days to encourage the normalisation and integration of persons with functional diversity.
- Cooperation initiatives for development in African countries, within the framework of the *Electricity for All* programme, and its public-private cooperation project to improve electric power supply at several refugee camps in Ethiopia. Added to this was the *Know your Laws* programme for the integration of immigrants by means of courses offered by employees of the company who are experts in law, and “Lights... and Action!” together with Fundación Tomillo to provide energy efficiency training and develop the employability of youths from disadvantaged environments, which this year is international in nature with the inclusion of volunteers from ScottishPower.
- Launch in Spain and Mexico of the volunteer project *Fight against Climate Change*, to raise awareness regarding this problem among 9,830 children at 101 centres. This activity was supplemented with the donation of the bicycles accompanying the expeditions to the latest climate conferences held in Paris and Marrakesh, which were delivered to the Ciudad Escuela Muchachos (CEMU) and to the entity Entraide Nationale. Not to mention the continuation of environmental activities like the 10<sup>th</sup> Tree Day for the creation of the “Iberdrola Forest”, reforestation workshops in several countries and several popular races or competitions for different social and environmental purposes.
- The Iberdrola “Operation Kilo” campaign allowed for the collection of 4,700 kg of basic foodstuffs and children’s products at work centres in Spain, with the cooperation of social organisations. The activity has been supplemented with volunteer activities at charity canteens and the delivery of food to homeless persons, for the goal of Zero Hunger. At the same time, Iberdrola cooperated with several entities such as Unicef, Aldeas Infantiles and Federación Española de Bancos de Alimentos. The *Smile for Christmas* campaign was also held to deliver Epiphany presents to children in situations of vulnerability.
- Launch of the *Solidarity Recycling* project at various corporate offices combining solidarity and environmental ends, by giving new life to unused household objects.
- Volunteer support for the Spanish Cancer Association in organising its marches against cancer.
- The volunteer activity of the “Iberdrola with Refugees” programme has continued, contributing to the opening of four Integration Schools in which approximately 140 refugees have been able to benefit from digital tools workshops, as well as training in the Spanish language and adaptation to their surroundings, among other aspects.
- In the context of International Women’s Day, volunteer activities have been carried out with inmates in the women’s wing of the Alcalá-Meco prison and with women with intellectual disabilities.

- For the first time, Iberdrola's Volunteering Programme joined the Give & Gain initiative, International Corporate Volunteering Week, with various activities to raise visibility and encourage the role of corporate volunteerism as an agent for social change. The company also participates in the main volunteerism working groups and international associations such as Even, Voluntare, IAVE, IMPACT 2030, etc.
- To provide support regarding the natural disasters that occurred during 2017, the company's has helped with financial and material resources for various social entities to alleviate the damage caused by the hurricanes Harvey, Irma and Maria, which strongly hit the states of Texas and Florida and the island of Puerto Rico, as well as the damage suffered from the September earthquakes in Mexico. Volunteers from Mexico City organised healthcare supplies to provide first aid to those affected by the earthquakes through the Mexican Red Cross, and the company's volunteers in Oaxaca participated in that region by delivering water bottles and dispensers.
- The company also sent to Puerto Rico a group of a volunteer employees from Avangrid who are grid experts in order to re-establish electricity supply, which was seriously affected by Hurricane Maria, as part of an initiative sponsored by the New York Power Authority.
- The *Volunteer Portal* continues to be the meeting point for all professionals of the group interested in social and community service actions, using a global and trilingual website. The *Volunteerism Newsletter* has provided weekly information on activities.

#### 4.- Iberdrola Foundations

[ScottishPower Foundation](#), [Avangrid Foundation](#), [Fundación Iberdrola México](#), Instituto Neoenergia and [Fundación Iberdrola España](#) represent Iberdrola's commitment to the economic and social development of the countries in which it does business. The Foundations of Iberdrola, working with well-known social organisations and institutions, support social, cultural and environmental initiatives intended to contribute to social progress and improve the quality of life of the most vulnerable.

##### a) Training and research area

Fundación Iberdrola's *Scholarship and Research Aid Programme in Energy and Environmental Research* grants Master's scholarships each year in energy and environmental research in Spain, the United Kingdom, the United States, Mexico and Brazil, as well as research grants in Spain. This programme seeks to achieve excellence in applied higher training, in order to train high-level professionals capable of contributing to meeting the energy demands of the population and the protection of the environment, with a complete and global concept of sustainability. A total of 146 scholarships for master's degrees in energy and environment, preservation and restoration, research grants, and Fulbright and Fundación Carolina scholarships were awarded in 2017. In December 2017 the *Presentation of Diplomas* took place at the company's offices in Madrid, and the students and the chairman & CEO of Iberdrola, Ignacio S. Galán, were then received at the La Zarzuela Palace by H. M. the King of Spain.

Another initiative of the Foundation in Spain is the *English Language Training Programme* through immersion courses for students with limited financial resources and professors using the available facilities of the company to the extent possible during holiday periods. In 2017 there were courses in four Autonomous Communities with the participation of 140 students and 32 professors.

At the foundations in the United Kingdom and the United States, there were programmes of collaboration with local universities for the professional training of technicians and youth, as well as support for innovation projects and educational programmes of research and training centres for vulnerable groups.

Fundación Iberdrola México has a programme of collaboration with the Tecnológico de Monterrey university at its Altamira campus for the education of low-income youth in bachelor's and engineering degrees.

### **b) Biodiversity area**

Fundación Iberdrola España collaborated on the *Bird Migration Scheme (Programa de migración de las aves)* (MIGRA), with the tagging of 83 new specimens with GPS transmitters. All information regarding 809 birds of 28 species can be found at [www.migraciondeaves.org](http://www.migraciondeaves.org). The first case study on the migrations of the booted eagle was published in 2017; this is a scientific document prepared based on data provided by the Scheme. The Foundation in Spain also collaborates on a project for the preservation and improvement of habitats in the Tagus International Nature Reserve to encourage the conservation of steppeland birds. In the area of awareness-raising and the fight against climate change, there have been a number of conferences in collaboration with the AISEC Association entitled *What's happening with the climate? (¿Que sucede con el clima?)* and informational workshops of the G2020 Association.

In the United Kingdom, collaboration has continued through ScottishPower Foundation with the Young Scots Climate 2050 programme to train future environmental leaders. 129 youth have developed leadership skills in areas like climate change and sustainability.

In the United States, various collaborations have been carried out through the Avangrid Foundation with environmental institutions, scientific museums and centres, including projects dedicated to the efficient use of energy, promotion of electrical vehicles and smart communities, efficient and sustainable construction and projects to improve marine and river habitats and for the conservation of birds. These include special collaborations with the leading research institute the Peabody Museum and the Museum of Natural History at Yale.

Instituto Neoenergia of Brazil has continued to work with the Flyways projects, involving census work relating to wading birds at risk of extinction. Together with IPEMA (*Instituto de Permacultura y Ecoaldeas de la Mata Atlántica*, or Atlantic Forest Permaculture and Ecovillage Institute), there has also been work on the project *Eco Citizen: building a sustainable future*, with free courses for the training of professionals in sustainable construction through the use of new technologies. 2017 also marked the end of the *Cuida Colmena* (Beehive Care) project, dedicated to the conservation of bees and to encouraging productive projects for a hundred children at risk of social exclusion.

In Mexico, support activities have continued for the *Let's clean the world (Limpiemos el mundo)* campaign in the municipality of La Laguna, and there has been promotion of a new project called *Felino* to protect animals in danger of extinction.

### **c) Art and culture area**

Iberdrola's commitment to the promotion of art focuses on the area of preservation and restoration of cultural heritage, including specific activities in order for these projects to drive local development and sustainable tourism.

The Iberdrola Restoration Programme in Spain supports the workshops of the Prado and Bilbao Fine Arts Museums. In the case of the Prado Museum, in 2017 there was a study and restoration of 276 works, including the painting *Philip II offering the Infante don Ferdinand to Victory* by Tiziano and the *Demetrio Poliorcetes monumental Hellenistic bronze*. The Workshop of the Bilbao Fine Arts Museum took on the restoration of a total of 13 works, with the most complex project being Chillida's *Meeting Place IV* sculpture. Restoration activities are rounded out with the preservation project of the Library of the Monastery of San

Millán de la Cogolla and the conclusion of participation in the last two Flemish tapestries from the collection of the Chapel of the College of the Patriarch (Valencia).

The *Atlantic Romanesque Plan* ([www.romanicoatlantico.org](http://www.romanicoatlantico.org)) continued activities to improve Romanesque churches in the provinces of Salamanca and Zamora, as well as locations in Portugal. The most noteworthy interventions in Spain during 2017 were: Muga de Alba Church in Zamora and Church of San Martín and the Hermitage of Yecla de Yeltes, both in Salamanca. The Portuguese area has seen intervention in the Boticas and Guimaraes churches.

In 2017, within the framework of the *Exhibitions Programme*, the Foundation in Spain has worked with other museums like the Reina Sofía Museum in the exhibition of the *80th Anniversary of Picasso's Guernica* and the Sorolla Museum with *Sorolla in Paris*. Iberdrola joined in the celebration of the XX Anniversary of the Guggenheim Museum in Bilbao with the exhibition *Bill Viola: retrospective*, dedicated to the New York artist, a pioneer in the development of video art.

The goal of the Illumination Programme in Spain is to emphasise the value of historical and artistic heritage and promote local development, including new LED technology in lighting. 6 projects were completed in 2017, including: the renovation of the illumination of the Chapel of the Holy Chalice of the Cathedral of Valencia, a new exterior illumination of the Municipality of Irún, the 2<sup>nd</sup> Phase of the renovation of the rooms of the Museum of the Royal Academy of Fine Arts of San Fernando and the major "Lighting the Prado" project in the rooms of the Prado Museum. Work continues on another 5 projects that will be inaugurated in 2018.

In the United Kingdom, financed by the ScottishPower Foundation, 2017 saw a special collaboration to celebrate the 70th anniversary of the Llangollen International Musical Eisteddfod, with a project in which four choral and dance groups made up of vulnerable persons participated. The groups reflected the diversity of society in order to promote tolerance and plural coexistence through art and culture. The foundation also supports the National Museum of Scotland and the ScottishPower Pipe band.

In 2017, the ScottishPower Foundation received the Wales Arts & Business Award of the year for its continued support and promotion of art and culture.

The focus on art and culture as a driver of sustainable communities is a priority of the Avangrid Foundation in the United States, which continues to support restoration projects like the Eastman School of Music theatre in Rochester and other historic community theatres like the Augusta's Colonial Theater in Maine and the Convoy Theatre in Ohio. The goal is to help revitalise urban centres in a sustainable manner, while also contributing art and culture to communities in difficulty. Avangrid worked with multiple cultural institutions in 2017, including: Abyssinian Meeting House, Binghamton Philharmonic, Eastman Theatre, Maine Irish Heritage Center, Maine State Ballet, Memorial Art Gallery, Portland Museum of Art, Rochester International Jazz festival, Tompkins Country Library, Tri-cities Opera, etc. Other collaborative work includes support for the International Festival of Arts and Ideas and the Rochester Jazz Festival, among others.

In Brazil, the cultural activities of the foundations focused on continuing the project for the exterior illumination of the Fort of Five Points in Pernambuco, the inauguration of which is expected in 2018. Work is also proceeding on a project for the exterior illumination of the Barra Grande Fort, in Guarujá, on the Sao Paulo coast. The fort is the only Spanish building on the Brazilian coast, and hopes to be designated as a cultural heritage site by UNESCO.



Work in Mexico includes the Illumination Project of the National Art Museum (Munal) of Mexico City, which is intended to promote energy efficiency and contribute to the preservation of the works of this museum.

#### d) Cooperation and community service area

The Foundation in Spain has a *Social Programme* and a line of work in international cooperation. The *Social Programme* is intended to contribute to the improvement of the quality of life of the most vulnerable groups, with special attention on infants, youth and women. The programme works with non-profit entities that contribute to eradicating child poverty, promoting education as a useful tool for youth, encouraging the social inclusion of disabled persons and improving the quality of life of persons with serious illnesses and their families. 32 projects in various regions of Spain were supported in 2017, with an investment of more than one million euros, a positive impact on 45,000 beneficiaries, and the creation of one hundred direct jobs. The line of international cooperation supports projects that allow access to electricity and potable water in areas of extreme poverty or humanitarian emergency. In 2017 the Foundation joined the SHIRE Alliance, promoted by Universidad Politécnica de Madrid and made up of ACNUR and the EU, among others. This initiative is intended to provide electricity to common areas and schools in refugee camps during 2018.

The ScottishPower Foundation has promoted a dozen collaborations with social projects in the United Kingdom, prioritising programmes for persons with illnesses and their families. The music in the *Singing Together* programme was intended to reduce the isolation and loneliness experienced by hospitalised persons. Other noteworthy social projects would include the implementation of palliative care at leading hospitals, a rural transport service to help isolated communities access health services, and a mental health project for pregnant women and support for autism, among others.

The annual ScottishPower Foundation Awards were given in Glasgow on 7 November, awarding six well-known social and cultural institutions.

In the United States, the Avangrid Foundation worked with more than 60 social organisations during 2017, including: assistance funds for electricity supply and efficiency (*American Red Cross SHARE Heating Fund, Broome Country Habitat for Humanity, Working cities, Lifespan, etc.*), assistance in the fight against diseases such as heart cancer, heart disease, fibrosis and leukaemia, and social collaborations like *United Ways, Bike Coalition, Habitat for Humanity, Food processing, Kids First Center, Maine General Hospital, etc.*

In Mexico, there is an educational infrastructure project, which during 2017 engaged in social support activities at 9 school and old-age centres, improving the facilities. In addition, the company collaborated with other social entities like: Civil Protection, the Fire Brigade, the Red Cross and the Down Syndrome Foundation, among others. After the earthquake suffered in various areas of the country, the Foundation in Mexico mobilised the donation of funds for this humanitarian emergency. The funds were used to obtain medicine for the affected victims, removal of rubble, paving, reconstruction and expansion of the sewerage network, expansion and reconstruction of the potable water network, and construction of roofs for social infrastructure, etc.

During 2017, Fundación Iberdrola México and España collaborated together in the project for electrification and potable water in the rural community of Catecas Altas in the State of Oaxaca (Mexico). This initiative, included in Iberdrola's *Electricity for all* programme, was developed by Energía sin Fronteras and Save the Children. The first phase consisted of identifying needs, a feasibility study and a participative process with the affected communities. Work has since been performed on the project and the various activities thereof in the area of electrification, improvement of electrical infrastructure, and provision of water in basic community centres.

Instituto Neoenergia in Brazil supported social projects in the areas around the facilities. In addition to promoting the social development of the communities, there were also activities to protect the environment. Another significant social initiative is the collaboration on the “*Brilliant Minds*” project, which consists of supporting the most vulnerable students of the public teaching network of three cities. These students are highly qualified, and the activities are focused on guidance and counselling.

#### **e) Institutional cooperation and new *Master Plan***

Finally, the Foundations collaborate with other cultural institutions in all countries on specific social, scientific and cooperation projects.

In December 2017 the Foundations Committee approved a new *Master Plan* for the 2018-2021 period. This is a guideline for all the foundations that commits to helping reach the specific SDGs and strengthen the transformative focus of social action by foundations, which is representative for Iberdrola’s Stakeholders and relevant for society in general.

#### **5.- *Electricity for All* programme**

The Sustainable Development Goals (SDGs) 2015-2030, to which Iberdrola has linked its business strategy, define universal access to energy as essential and frame sustainable energy as an opportunity that transforms life, the economy and the planet. To meet the challenges and opportunities currently faced by the world, energy has a central role, whether to foment employment, safety, climate change, food production or to increase income.

A lack of access to the supply of energy is an obstacle to human and economic development. The [\*Electricity for All\*](#) programme is Iberdrola’s response to the call of the international community to ensure universal access to energy services that are accessible, reliable and modern, focused on sustainable electrification activities, linking the purpose thereof to SDG 7.1.

The company has set itself the goal of reaching four million beneficiaries of the *Electricity for All* programme by 2020. Iberdrola announced this goal at the UN SE4ALL Forum held in New York in May 2015. There are 3.9 million beneficiaries of the *Electricity for All* 2014-2017 programme with 3 areas of activity:

- Financing of projects through capital investment, using the PERSEO investment fund. This includes the investment in September 2017 in the Mexican company Iluméxico, which promotes solar projects in disadvantaged areas. Iluméxico, created in 2009, carries out programmes of illumination and electrification of homes, schools and clinics, and training in rural areas of the country. To date, 9,700 solar systems have already been installed, with more than 40,000 users, avoiding the emission of 5,000 tonnes of CO<sub>2</sub>.
- Activities with a social impact: investments promoted by businesses in the countries in which Iberdrola has a presence. This is the case with the *Light for All* Programme of the distribution companies in north-eastern Brazil.
- It develops projects with a high social component, through NGOs and corporate volunteers.



## Iberdrola, promoting women's sports in Spain

During 2017 Iberdrola continued to support the [Women, health and sport](#) initiative, the principal goals of which consist of driving the success and practice of women's sport, promoting gender equality and fostering healthy habits from a young age. The company has thus become the main driver behind the "Universal Woman" programme of the Higher Council for Sport (*Consejo Superior de Deportes*) (CSD), placing it in the vanguard of backing for women's sport. Iberdrola was the first company in Spain to make a global commitment to promoting the participation of women in all areas of sport.



Within this context, Iberdrola has recently renewed its commitment to support the various national federations, including:

- By promoting and increasing female participation in all areas of sport.
- By the existence of programmes to promote sport at the grassroots level and other social projects.
- By its extraordinary level of success achieved and high participation rate.

During 2017 Iberdrola continued to support rhythmic gymnastics, triathlon, swimming, rugby, canoeing, badminton, football, handball, volleyball, athletics, boxing, ice sports, hockey, karate, table tennis and water polo. Together with each of the federations, Iberdrola also supports activities to promote women's sport like educational campaigns at high schools and national competitions.

Moreover, in 2017 there were seven more stages of the *Women, energy and sport tour* consisting of a tour around various Spanish cities, which will continue during 2018 with the aim of promoting women's sport and transmitting the concepts of effort and improvement via the practice and exhibition of various disciplines.

In short, through the *Women, health and sport* initiative, Iberdrola reinforces its commitment to the promotion of talent, effective equality and social development, which form part of the company's key pillars. Its support for values such as teamwork and overcoming challenges materialises through various projects with the aim of reinforcing the social and cultural dimension of sport and activating support for women's sport.

# Annexes

**Annual Financial Report**

Iberdrola, S.A. and subsidiaries / Financial Year 2017

Annex 1: Content Index in Relation to the Principles of the Global Compact
















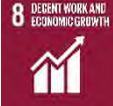












Annex 2: Report on *green* financing returns

Annex 3: Information Supplementary to the Sustainability Report

# Annex 1:

# Content index in relation to the Principles of the Global Compact

The table below shows the GRI indicators of this report that offer more relevant information on compliance with the 10 Principles of the Global Compact, as well as the content of the management approaches to each GRI aspect. Using the table's index, each Stakeholder can assess the level of Iberdrola's advancement with respect to each of such principles:

Issue	Global Compact Principles	Most relevant GRI Standards Indicators	Related SDGs
Human Rights	<b>Principle 1.</b> Businesses should support and respect the protection of internationally proclaimed human rights.	410-1 to 412-1, 412-2, 413-1, 413-2	 
	<b>Principle 2.</b> Businesses should make sure they are not complicit in human rights abuses.	412-3, 414-1, 414-2	 
			 
			 
			 
			 
Labour Rules	<b>Principle 3.</b> Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	102-41, 407-1, 402-1	 
	<b>Principle 4.</b> Businesses should uphold the elimination of all forms of forced and compulsory labour.	409-1	 
	<b>Principle 5.</b> Businesses should uphold the effective abolition of child labour.	408-1	 
	<b>Principle 6.</b> Businesses should uphold the elimination of discrimination in respect of employment and occupation.	102-8, 202-1, 202-2, 401-1, 401-3, 404-1, 404-3, 405-2, 406-1	 
			 
Environment	<b>Principle 7.</b> Businesses should support a precautionary approach to environmental challenges.	201-2, 301-1, 302-1, 303-1, 305-1 to 305-3, 305-6, 305-7	 
	<b>Principle 8.</b> Businesses should undertake initiatives to promote greater environmental responsibility.	301-1 to 308-2	 
	<b>Principle 9.</b> Businesses should encourage the development and diffusion of environmentally friendly technologies.	302-4, 302-5, 305-5	 



**Anti-corruption**

**Principle 10.** Businesses should work against corruption in all its forms, including extortion and bribery.

102-16, 102-17  
205-1 to 205-3, 415-1



# Annex 2: Report on *green* financing returns

Iberdrola has issued a total of 8 *green* bonds. The issue dates, as well as the principal characteristics thereof, are as follows:

Green bonds							
ISIN	Issue date	Issuer	Public / Private	Senior / Subordinate	Face value (€ millions)	Maturity	Coupon
XS1057055060	24-Apr-14	Iberdrola International	Public	Senior	750	Oct-22	2.50%
XS1398476793	21 Apr-16	Iberdrola International	Public	Senior	1,000	Apr-26	1.13%
XS1490726590	15-Sep-16	Iberdrola International	Public	Senior	700	Sep-25	0.38%
XS1527758145	07-Dec-16	Iberdrola Finanzas	Public	Senior	750	Mar-24	1%
XS1564443759	20-Feb-2017 (extended on 22-Jun-2017)	Iberdrola Finanzas	Private	Senior	250	Feb-24	Euribor 3 M + 0.67%
XS1575444622	07-Mar-17	Iberdrola Finanzas	Public	Senior	1,000	Mar-15	1%
XS1682538183	06-Sep-17	Iberdrola Finanzas	Public	Senior	750	Sep-27	1.25%
XS1721244371	22-Nov-17	Iberdrola International	Public	Subordinate	1,000	Perpetual	1.875%

In November 2017 Iberdrola also issued a *green bond* in the U.S. market through its subsidiary Avangrid in the amount of 600 million U.S. dollars, with a coupon of 3.15%. Information on the projects receiving the proceeds of this bond, as well as the environmental benefits achieved therefrom, are described in Avangrid's [Sustainability Report 2017](#).

The proceeds of all of these transactions have been used to fund the refinancing of investments in projects that met certain environmental and social responsibility criteria validated both by Iberdrola and subsequently by VigeoEiris (an independent entity). These projects are mainly within the area of renewable energy

Iberdrola used VigeoEiris as an independent expert in validating the "green" nature of its bonds. VigeoEiris issues its rating of the issuer not only with respect to the management of the selected projects, but also regarding its general environmental commitments and the social responsibility that it implements in the ordinary course of its business.

The methodology followed for the assignment of the various projects to different transactions is described in the document [Iberdrola Framework for green financing](#) (the "**Framework**"), which has been verified by PriceWaterhouseCoopers Auditores, who also verify this *Sustainability Report*. The principal sections contemplated in the *Framework* are described below.

### 1. Use of funds

The proceeds from the various *green* financing instruments are used to finance or refinance *Eligible Green Projects*.



Consistent with the *Green Bond Principles*, Iberdrola considers *Eligible Green Projects* to be those that meet the Eligibility Standards described in the Framework.

## **2. Evaluation and selection of the project**

The Green Financing Committee selects and evaluates projects that are susceptible to (re)financing by *green* instruments. This selection and evaluation process is performed in 5 phases described in the Framework.

## **3. Management of funds**

The proceeds from the *green* financing instruments will be managed based on the phase of development and expense incurred in the selected assets or projects. Therefore, Iberdrola distinguishes between two types: refinancing of projects in operation and (re)financing of projects under development.

## **4. Reporting**

Iberdrola commits to report annually until the maturity date of each of the *green* bonds or *green* financing instruments.

## **5. External assurance**

The *green* financing issued by Iberdrola is supported by three external reviews, depending on the type of instrument.

In the first bond, issued in 2014, the eligible projects were reviewed by VigeoEiris using an analysis of a sample that covered approximately 50% of the nominal value of the financing obtained. In subsequent bonds, the complete inventory of assigned assets was provided for review. On all occasions, VigeoEiris also performed an analysis classifying Iberdrola's sustainability policies and practices, finding that the required standards were met with a level of security that was more than satisfactory.

The conclusions of VigeoEiris, including the controversies identified in the issue of *green* bonds, together with the eligibility standards, are described in the *Second Party Opinion* corresponding to each *green* bond. This information is available in the [Green Bonds](#) section of the corporate website.

## **Report on returns**

The structure of this report on returns is grouped by benefits and indicators for each issue, so that investors can know the impact of the projects financed by each of them.

## ➤ April 2014 Bond (ISIN code XS1057055060)

## ▪ Assets allocated

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW) <sup>84</sup>
Distribution	Networks	Renewable generation connection in Scotland	United Kingdom	2011-2016	N/A	N/A
Distribution	Networks	Strengthen international connection in Scotland	United Kingdom	2011-2016	N/A	N/A
Distribution	Networks	Castile-La Mancha photovoltaic connection plan	Spain	2011-2014	N/A	N/A
Distribution/Smart grids	Networks	STAR project	Spain	2011-2018	N/A	N/A
Renewables	Onshore wind	Pico Collalbas	Spain	2006	30	30
Renewables	Onshore wind	Carrascosa	Spain	2006	38	25
Renewables	Onshore wind	Sierra Menera	Spain	2006	40	40
Renewables	Onshore wind	Clares	Spain	2006	32	32
Renewables	Onshore wind	Escalón	Spain	2006	30	17
Renewables	Onshore wind	Tarayuela	Spain	2006	30	20
Renewables	Onshore wind	Morón de Almazán	Spain	2006	50	15
Renewables	Onshore wind	Los Campillos	Spain	2006	34	26
Renewables	Onshore wind	Dólar I	Spain	2006	49	22
Renewables	Onshore wind	Dólar III	Spain	2006	49	8
Renewables	Onshore wind	Doña Benita	Spain	2006	32	0
Renewables	Onshore wind	Ferreira II	Spain	2006	49	7
Renewables	Onshore wind	Hueneja	Spain	2006	49	8
Renewables	Onshore wind	Sil Expansion	Spain	2006	40	8
Renewables	Onshore wind	O Vieiro	Spain	2006	20	1
Renewables	Onshore wind	Luzón-Norte	Spain	2006	38	9
Renewables	Onshore wind	Bordcorex Norte	Spain	2006	44	7
Renewables	Onshore wind	Cerro Blanco	Spain	2006	42	6
Renewables	Onshore wind	Grijota	Spain	2006	5	5
Renewables	Onshore wind	Cabezuelo	Spain	2006	30	17
Renewables	Onshore wind	Mark Hill	United Kingdom	2011	56	14
Renewables	Onshore wind	Collados	Spain	2011	11	10
Renewables	Onshore wind	Fuentesalada	Spain	2011	46	44
Renewables	Onshore wind	Cruz de Carrutero	Spain	2011	40	32
Renewables	Onshore wind	Cabras	Spain	2012	22	22
Renewables	Onshore wind	Ventosa del Ducado	Spain	2012	44	0
Renewables	Onshore wind	Layna	Spain	2012	50	50

<sup>84</sup> Installed capacities attributable to each Green Bond take into account the proportion represented by the allocated amount of the total investment in each of them.

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Distribution	94
Distribution/Smart grids	80
Renewables	576
<b>TOTAL</b>	<b>750</b>

▪ **Sustainability indicators in the area of distribution**

Name of project	Increase in capacity within the horizon of the investment plan (MW)
Renewable generation connection in Scotland	2,167
Strengthen international connection in Scotland	6,640
Castile-La Mancha photovoltaic connection plan	604

▪ **Sustainability indicators in the area of smart grids**

STAR Project	Status as of 2011 <sup>85</sup>	Status as of 2012
Smart meters (no.)	154,428	449,441
Smart meters installed (%)	1.44	4.16
Transformer centres adapted for remote management (no.)	583	2,692
Transformer centres adapted for remote management (%)	0.88	4.01

▪ **Sustainability indicators in the area of renewable energy<sup>86</sup>**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO <sub>2</sub> avoided due to the bond (Tm) <sup>87</sup>
474	944	245,471

<sup>85</sup> Takes data from 2011 and 2012 in order to allow for identification of profits from investments made.

<sup>86</sup> Emissions avoided take into account the percentage of production of each facility that corresponds to the percentage of the amount invested and installed capacity allocated to each *green* bond issue.

<sup>87</sup> Emissions avoided, reported throughout this Annex 2: *Report on green financing returns*, have been calculated as a product of 2017 production attributable to the bond and the emission factor for the country in which the assets are geographically located. Sources: REE for Spain (January 2018, 2017 mainland data), DEFRA for United Kingdom (September 2017) and World Energy Outlook EU for Portugal (November 2017).

➤ **April 2016 Bond (ISIN code XS1398476793)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Alvao	Portugal	2009	42	42
Renewables	Onshore wind	Puerto de Malaga	Spain	2008	12	12
Renewables	Onshore wind	Cortijo Linera	Spain	2008	28	28
Renewables	Onshore wind	Cabezas	Spain	2009	17	17
Renewables	Onshore wind	Centenar	Spain	2009	40	40
Renewables	Onshore wind	Majal Alto	Spain	2009	50	50
Renewables	Onshore wind	Retuerta	Spain	2009	38	38
Renewables	Onshore wind	Saucito	Spain	2009	30	30
Renewables	Onshore wind	Tallisca	Spain	2009	40	40
Renewables	Onshore wind	Valdefuentes	Spain	2009	28	28
Renewables	Onshore wind	Torrecilla	Spain	2009	16	16
Renewables	Onshore wind	Coterejon II	Spain	2009	6	6
Renewables	Onshore wind	Altamira	Spain	2009	49	49
Renewables	Onshore wind	Lirios	Spain	2010	48	48
Renewables	Onshore wind	Nogueira	Spain	2010	3	3
Renewables	Onshore wind	Alto de la Degollada	Spain	2010	50	50
Renewables	Onshore wind	Gomera	Spain	2010	12	12
Renewables	Onshore wind	Savalla	Spain	2010	18	18
Renewables	Onshore wind	Conesa II	Spain	2011	32	32
Renewables	Onshore wind	Espartal	Spain	2012	6	6
Renewables	Onshore wind	Torrecilla II	Spain	2012	22	22
Renewables	Onshore wind	Gomera II	Spain	2012	6	6
Renewables	Onshore wind	Las Cabras	Spain	2012	22	22
Renewables	Onshore wind	Ventosa del Ducado	Spain	2012	44	0
Renewables	Onshore wind	Arecleoch	United Kingdom	2011	120	120

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	1,000

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO <sub>2</sub> avoided due to the bond (Tm)
736	1,432	401,507

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➤ **September 2016 Bond (ISIN code XS1490726590)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Whitelee Ext	United Kingdom	2012	217	139
Renewables	Onshore wind	Middleton	United Kingdom	2013	12	12
Renewables	Onshore wind	Lynemouth	United Kingdom	2012	26	26
Renewables	Onshore wind	Beinn An Tuirc 2	United Kingdom	2013	44	44
Renewables	Onshore wind	Carland Cross Ext	United Kingdom	2013	20	20
Renewables	Onshore wind	Coal Clough Repowering	United Kingdom	2014	16	16
Renewables	Onshore wind	Blacklaw Ext	United Kingdom	2016	38	38
Renewables	Onshore wind	Blacklaw Ext Ph2	United Kingdom	2016	25	25
Renewables	Onshore wind	Dersalloch	United Kingdom	2016	69	69
Renewables	Onshore wind	Ewe Hill	United Kingdom	2016	14	14

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	700

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO <sub>2</sub> avoided due to the bond (Tm)
403	792	278,812

➤ **December 2016 Bond (ISIN code XS1527758145)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Doña Benita	Spain	2008	32	31
Renewables	Onshore wind	Sabina	Spain	2008	48	48
Renewables	Onshore wind	Vieiro	Spain	2008	20	20
Renewables	Onshore wind	Argañoso	Spain	2009	22	21
Renewables	Onshore wind	Bullana	Spain	2009	38	36
Renewables	Onshore wind	Carril	Spain	2008	28	27
Renewables	Onshore wind	Cerro Blanco	Spain	2009	42	36
Renewables	Onshore wind	Cotera	Spain	2009	18	17
Renewables	Onshore wind	Paramo Vega	Spain	2009	18	17
Renewables	Onshore wind	Radona I	Spain	2009	24	23
Renewables	Onshore wind	Radona II	Spain	2009	32	30
Renewables	Onshore wind	Sombrio	Spain	2008	28	27
Renewables	Onshore wind	Valdecarrion	Spain	2010	34	32
Renewables	Onshore wind	Valdeperondo	Spain	2010	46	44
Renewables	Onshore wind	Viñas	Spain	2010	38	36
Renewables	Onshore wind	Bolaños	Spain	2008	24	24
Renewables	Onshore wind	Dos Pueblos	Spain	2008	20	20
Renewables	Onshore wind	Nacimiento	Spain	2008	24	24
Renewables	Onshore wind	Tacica de Plata	Spain	2008	26	26

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	749

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO <sub>2</sub> avoided due to the bond (Tm)
539	1,070	276,091

➤ **February 2017 Bond (ISIN code XS1564443759)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Bureba	Spain	2010	12	11
Renewables	Onshore wind	Cueza	Spain	2010	8	8
Renewables	Onshore wind	Candal	Spain	2012	38	24
Renewables	Onshore wind	Cerro Higuera	Spain	2009	44	31
Renewables	Solar	Puertollano	Spain	2009	50	36

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	249

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO <sub>2</sub> avoided due to the bond (Tm)
111	221	56,926



➤ **March 2017 Bond (ISIN code XS1575444622)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Valdelanave	Spain	2012	10	6
Renewables	Onshore wind	Ventosa del Ducado	Spain	2012	44	42
Renewables	Onshore wind	Peñaflor III	Spain	2012	49	49
Renewables	Onshore wind	Peñaflor IV	Spain	2012	49	49
Renewables	Offshore wind	Wikinger	Germany	2017	350	195

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	1,000

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO <sub>2</sub> avoided due to the bond (Tm)
340	220	56,712

➤ **September 2017 Bond (ISIN code XS1682538183)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Whitelee Ext	United Kingdom	2012	217	78
Renewables	Onshore wind	Clachan Flats	United Kingdom	2009	15	15
Renewables	Onshore wind	Mark Hill	United Kingdom	2011	56	44
Renewables	Onshore wind	Ewe Hill 16	United Kingdom	2017	22	8
Renewables	Onshore wind	Hare Hill Ext	United Kingdom	2017	33	30
Renewables	Offshore wind	Wikinger	Germany	2017	350	104

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	750

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO <sub>2</sub> avoided due to the bond (Tm)
279	301	106,082

➤ **November 2017 Bond (ISIN code XS1721244371) (hybrid)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Whitelee	United Kingdom	2008	322	251
Renewables	Onshore wind	Harestanes	United Kingdom	2014	136	136
Renewables	Onshore wind	Kilgallioch	United Kingdom	2017	239	239
Renewables	Onshore wind	Glen App	United Kingdom	2017	22	22

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	1,000

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO <sub>2</sub> avoided due to the bond (Tm)
648	916	322,544

# Annex 3: Information supplementary to the Sustainability Report 2017

## Contents of Information Supplementary to the Sustainability Report

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## GRI 102 GENERAL STANDARD DISCLOSURES

## 102-7 Scale of the organisation

**Locations of operation of the Iberdrola group**

The group of companies that belong to the Iberdrola group carry out various activities in a large number of countries, and more than 1,200 sites or facilities have been identified at which employees of the group carry out activities for which it is responsible.

For purposes of reporting under the *GRI Sustainability Reporting Standards*, in order to deal with such a large number of facilities, only those considered to be principal locations of operation have been identified, by business and by country, adopting as a basic standard the number of persons performing their activities at a facility, and based thereon:

- In the countries deemed to be at low risk for the violation of human rights, the most important facilities are identified as principal locations of operation, assuming that the personnel at the smaller facilities are part of a functional or hierarchical reporting structure that assures their rights through the tools and procedures established at the organisation.
- In countries with a higher risk the standard is more restrictive: if there are several facilities of different sizes dedicated to similar activities, the largest facilities are included as principal locations of operation, with the smaller ones deemed to be dependent centres with the same basic guarantees; if the number of facilities is low or it is deemed that the risk is higher, such facilities are included as principal locations of operation, regardless of the number of persons working therein.

According to these standards, the principal locations of operation identified in 2017, by business and by country, are reflected in the following tables:

Significant locations of operation 2017 by business	
Corporate	17
Wholesale and Retail Business	45
Networks Business	36
Renewables Business	16
<b>Iberdrola total</b>	<b>114</b>

Significant locations of operation 2017 by country	
Spain	33
United Kingdom	26
United States	25
Brazil	27
Mexico	2
Other countries	1
<b>Iberdrola total</b>	<b>114</b>

Based on this data, the company has performed a study to identify the significant locations of operation at which there might be some risk of violation of human rights, which is described in detail in disclosure 412-1 of this report.

## 102-8 Information on employees and other workers

Total workforce by employment type, employment contract, region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Total workforce	10,296	10,395	6,067	6,373	6,561	6,849	10,096	9,429
<b>By employment type</b>								
<b>Full-time</b>	10,290	10,390	5,361	5,631	6,550	6,834	9,797	9,081
Men	8,309	8,404	4,032	4,224	4,664	4,836	8,048	7,387
Women	1,981	1,986	1,329	1,407	1,886	1,998	1,749	1,694
<b>Part-time</b>	6	5	706	742	11	15	299	348
Men	4	4	62	56	1	2	112	143
Women	2	1	644	686	10	13	187	205
<b>By type of contract</b>								
<b>Permanent</b>	10,262	10,338	6,027	6,340	6,550	6,830	10,063	9,211
Men	8,287	8,368	4,069	4,255	4,661	4,829	8,134	7,379
Women	1,975	1,970	1,958	2,085	1,889	2,001	1,929	1,832
<b>Temporary</b>	34	57	40	33	11	19	33	218
Men	26	40	25	25	4	9	26	151
Women	8	17	15	8	7	10	7	67

Total workforce by employment type, employment contract, region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Total workforce	944	874	291	162	34,255	34,082
<b>By employment type</b>						
<b>Full-time</b>	943	874	291	162	33,232	32,972
Men	779	736	218	133	26,050	25,720
Women	164	138	73	29	7,182	7,252
<b>Part-time</b>	1	0	0	0	1,023	1,110
Men	0	0	0	0	179	205
Women	1	0	0	0	844	905
<b>By type of contract</b>						
<b>Permanent</b>	849	682	287	148	34,038	33,549
Men	708	580	214	120	26,073	25,531
Women	141	102	73	28	7,965	8,018
<b>Temporary</b>	95	192	4	14	217	533
Men	71	156	4	13	156	394
Women	24	36	0	1	61	139

## 102-41 Employees covered by collective bargaining agreements

Personnel covered by a collective bargaining agreement, by region				
	2017		2016	
	No. of Employees	%	No. of Employees	%
Spain	9,109	88.47	9,753	93.82
United Kingdom	4,219	69.54	4,510	70.77
United States	3,146	47.95	3,234	47.22
Brazil	9,805	97.12	9,190	97.47
Mexico	203	21.50	241	27.57
Other countries	161	55.53	82	50.62
<b>Report boundary</b>	<b>26,643</b>	<b>77.78</b>	<b>27,010</b>	<b>79.25</b>

## GRI electric utilities sector supplement specific disclosures

## EU1 Installed capacity

Installed capacity by region and energy source (MW)								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Renewables	15,821	15,819	2,666	2,572	6,625	6,035	2,629	2,399
Onshore wind	5,752	5,752	1,906	1,812	6,387	5,853	516	421
Offshore wind	0	0	194	194	0	0	0	0
Hydroelectric	9,715	9,715	566	566	118	118	2,113	1,978
Mini-hydro	303	302	0	0	0	0	0	0
Solar and others	50	50	0	0	119	63	0	0
Nuclear	3,177	3,410	0	0	0	0	0	0
Combined cycle	5,695	5,695	2,000	2,000	212	209	533	533
Cogeneration	368	364	1	1	636	636	0	77
Coal	874	874	0	0	0	0	0	0
<b>Iberdrola total</b>	<b>25,934</b>	<b>26,161</b>	<b>4,667</b>	<b>4,573</b>	<b>7,472</b>	<b>6,880</b>	<b>3,162</b>	<b>3,009</b>

Installed capacity by region and energy source (MW)						
	Mexico		Other countries		Iberdrola total	
	2017	2016	2017	2016	2017	2016
Renewables	410	367	961	621	29,112	27,813
Onshore wind	367	367	605	615	15,533	14,820
Offshore wind	0	0	350	0	544	194
Hydroelectric	0	0	0	0	12,513	12,378
Mini-hydro	0	0	0	0	303	302
Solar and others	43	0	6	6	219	120
Nuclear	0	0	0	0	3,177	3,410
Combined cycle	5,546	5,200	0	0	13,985	13,637
Cogeneration	294	237	0	0	1,299	1,315
Coal	0	0	0	0	874	874
<b>Iberdrola total</b>	<b>6,250</b>	<b>5,804</b>	<b>961</b>	<b>621</b>	<b>48,447</b>	<b>47,049</b>



## EU2 Energy production

Net energy output, by region and source of energy (GWh)								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Renewables	19,587	30,319	4,880	3,688	15,738	15,320	8,195	4,559
Onshore wind	11,216	11,236	3,358	2,370	15,103	14,803	1,865	1,204
Offshore wind	N/A	N/A	820	728	N/A	N/A	N/A	N/A
Hydroelectric	7,903	18,325	701	590	385	327	6,330	3,355
Mini-hydro	394	686	N/A	N/A	N/A	N/A	N/A	N/A
Solar and others	74	71	N/A	N/A	250	190	N/A	N/A
Nuclear	23,249	24,381	N/A	N/A	N/A	N/A	N/A	N/A
Combined cycle	3,812	3,709	7,260	8,341	12	14	3,957	4,033
Cogeneration	2,607	2,290	0	N/A	2,354	2,557	91	446
Coal	2,642	2,084	N/A	N/A	N/A	N/A	N/A	N/A
<b>Iberdrola total</b>	<b>51,897</b>	<b>62,783</b>	<b>12,139</b>	<b>13,748</b>	<b>18,104</b>	<b>17,891</b>	<b>12,243</b>	<b>9,038</b>

Net energy output, by region and source of energy (GWh)						
	Mexico		Other countries		Iberdrola total	
	2017	2016	2017	2016	2017	2016
Renewables	963	1,119	1,382	1,437	<b>50,745</b>	<b>56,443</b>
Onshore wind	963	1,119	1,373	1,429	<b>33,878</b>	<b>32,162</b>
Offshore wind	N/A	N/A	0	N/A	<b>821</b>	<b>728</b>
Hydroelectric	N/A	N/A	N/A	N/A	<b>15,320</b>	<b>22,597</b>
Mini-hydro	N/A	N/A	N/A	N/A	<b>394</b>	<b>686</b>
Solar and others	0	N/A	9	9	<b>333</b>	<b>270</b>
Nuclear	N/A	N/A	N/A	N/A	<b>23,249</b>	<b>24,381</b>
Combined cycle	39,103	34,795	N/A	N/A	<b>54,144</b>	<b>50,892</b>
Cogeneration	1,800	1,654	N/A	N/A	<b>6,853</b>	<b>6,947</b>
Coal	N/A	N/A	N/A	N/A	<b>2,642</b>	<b>3,803</b>
<b>Iberdrola total</b>	<b>41,866</b>	<b>37,569</b>	<b>1,382</b>	<b>1,437</b>	<b>137,632</b>	<b>142,466</b>

## EU3 Electricity users and producers

	Electricity users (%)					
	Spain		United Kingdom		United States	
	2017	2016	2017	2016	2017	2016
Residential	92.8	92.8	93.9	93.9	88.2	87.7
Industrial	1.7	1.6	2.1	2.1	0.3	0.3
Institutional	1.1	1.1	0.1	0.1	0.0	0.0
Commercial	4.4	4.5	3.9	3.9	10.6	11.8
Other	0.0	0.0	0.0	0.0	0.9	0.2
<b>Total users (millions)</b>	<b>10.3</b>	<b>10.3</b>	<b>3.1</b>	<b>3.2</b>	<b>2.2</b>	<b>1.6</b>
Users that are producers of electricity (no.)	0	4,832	66,264	64,936	3,776	13,581

	Electricity users (%)					
	Brazil		Other countries		Iberdrola total	
	2017	2016	2017	2016	2017	2016
Residential	87.4	87.5	0	0	90.1	90.2
Industrial	0.3	0.3	0	0	1.0	1.0
Institutional	1.2	1.0	0	0	1.0	0.9
Commercial	6.6	6.7	0	0	5.8	5.8
Other	4.5	4.5	0	0	2.1	2.1
<b>Total users (millions)</b>	<b>13.6</b>	<b>13.4</b>	<b>0</b>	<b>0</b>	<b>29.2</b>	<b>28.5</b>
Users that are producers of electricity (no.)	2,033	277	0	0	72,073	83,626

## EU4 Transmission and distribution lines

Power lines (Km)	Spain		United Kingdom		United States	
	2017	2016	2017	2016	2017	2016
<b>Transmission</b>						
Overhead	0	0	3,636	3,637	30,620	30,835
Underground	0	0	404	352	1,557	604
<b>Total</b>	<b>0</b>	<b>0</b>	<b>4,040</b>	<b>3,989</b>	<b>32,177</b>	<b>31,439</b>
<b>Distribution</b>						
Overhead	155,589	155,317	38,679	38,718	122,884	102,431
Underground	112,981	112,259	66,541	66,111	14,899	14,463
<b>Total</b>	<b>268,570</b>	<b>267,576</b>	<b>105,220</b>	<b>104,829</b>	<b>137,783</b>	<b>116,894</b>

Power lines (Km)	Brazil		Other countries		Iberdrola total	
	2017	2016	2017	2016	2017	2016
<b>Transmission</b>						
Overhead	13,832	13,560	0	0	48,088	48,032
Underground	38	31	0	0	1,999	987
<b>Total</b>	<b>13,870</b>	<b>13,591</b>	<b>0</b>	<b>0</b>	<b>50,087</b>	<b>49,019</b>
<b>Distribution</b>						
Overhead	594,322	578,674	0	0	911,474	875,140
Underground	629	452	0	0	195,050	193,285
<b>Total</b>	<b>594,951</b>	<b>579,126</b>	<b>0</b>	<b>0</b>	<b>1,106,524</b>	<b>1,068,425</b>

## GRI 200 SERIES ECONOMIC DIMENSION

## GRI 201 Economic performance

## 201-1 Direct economic value generated and distributed

Economic value generated, distributed and retained (€ millions)								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Revenue (sales and other income)	13,564	14,280	6,077	6,776	5,337	5,430	3,628	1,717
Operating costs	8,412	8,457	4,080	4,607	2,545	2,470	2,682	1,266
Employee remuneration (excluding company social security costs)	912	847	468	466	879	806	201	94
Payments to providers of capital	1,365	1,784	197	231	501	315	283	119
Payments to government administrations	1,496	1,581	353	380	583	596	160	51
Community investments (verified according to the LBG Model)	20	15	14	14	6	4	22	2
Economic value retained	1,359	1,596	965	1,078	823	1,239	280	185

Economic value generated, distributed and retained (€ millions)						
	Mexico		Other countries		Iberdrola consolidated total	
	2017	2016	2017	2016	2017	2016
Revenue (sales and other income)	2,770	1,769	1,338	734	32,714 <sup>88</sup>	30,706
Operating costs	1,999	1,119	728	669	20,446	18,588
Employee remuneration (excluding company social security costs)	39	32	18	15	2,517	2,260
Payments to providers of capital	217	189	353	54	2,916	2,692
Payments to government administrations	100	108	31	24	2,723	2,740
Community investments (verified according to the LBG Model)	1	1	0	0	63	36
Economic value retained	414	320	209	(28)	4,049	4,390

<sup>88</sup> Includes Turnover in the amount of €31,263 million and Other revenue €1,451 million.

## 201-4 Financial assistance received from governments

Financial assistance (€ millions)	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Capital subsidies	10	13	0	0	0	0	0	0
Investment tax credits	0	0	0	0	30	0	0	0
Emissions rights	0	0	0	0	0	0	0	0
Assistance for other items included in the GRI Protocol	0	0	0	0	0	0	0	0
<b>Total</b>	<b>10</b>	<b>13</b>	<b>0</b>	<b>0</b>	<b>30</b>	<b>0</b>	<b>0</b>	<b>0</b>

Financial assistance (€ millions)	Mexico		Other countries		Iberdrola consolidated total	
	2017	2016	2017	2016	2017	2016
Capital subsidies	0	0	0	0	10	13
Investment tax credits	0	0	0	0	30	0
Emissions rights	0	0	0	0	0	0
Assistance for other items included in the GRI Protocol	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>40</b>	<b>13</b>

## Fiscal responsibility

	Tax contribution (€ millions)					
	Company contributions		Contributions due to third-party payments		Iberdrola consolidated total	
	2017	2016	2017	2016	2017	2016 <sup>89</sup>
Spain	1,496	1,548	1,761	1,904	3,257	3,452
United Kingdom	353	380	168	156	521	535
United States	583	584	292	275	875	859
Brazil	160	126	1,997	1,855	2,157	1,981
Mexico	100	106	86	101	186	207
Other <sup>90</sup>	31	24	84	70	115	94
<b>Total</b>	<b>2,723</b>	<b>2,768</b>	<b>4,388</b>	<b>4,360</b>	<b>7,111</b>	<b>7,128</b>

<sup>89</sup> For better comparability of the 2017 and 2016 information, 100% of the taxes paid by Neoenergia in Brazil during 2016 are included.

<sup>90</sup> The figure for "Other" is mainly distributed among countries of the European Union: Portugal (€71 million), Greece (€16 million), Hungary (€11 million), Italy (€10 million), the Netherlands (€3 million) and Latvia (€1 million).

## Electric Utilities Sector Topic: System efficiency

### EU11 Average generation efficiency of thermal plants

Average thermal efficiency <sup>91</sup> at generating facilities (%)	Spain <sup>92</sup>		United Kingdom		United States	
	2017	2016	2017	2016	2017	2016
Combined cycle	49.55	48.28	51.10	49.93	N/A	N/A
Conventional thermal	34.38	33.00	0.00	33.00	N/A	N/A
Cogeneration	63.26	62.08	56.00	48.00	48.00	47.00

Average thermal efficiency <sup>95</sup> at generating facilities (%)	Brazil		Mexico		Report boundary	
	2017	2016	2017	2016	2017	2016
Combined cycle	49.40	49.00	53.85	52.99	53.57	51.82
Conventional thermal	N/A	N/A	N/A	N/A	34.38	33.00
Cogeneration	0.00	69.07	50.06	58.31	53.81	56.14

<sup>91</sup> Average of efficiencies weighted by the annual production of each thermal power plant.

<sup>92</sup> Does not include the Puertollano thermo solar plant.

## GRI 300 SERIES ENVIRONMENTAL DIMENSION

## GRI 302 Energy

## 302-1 Energy consumption within the organization

Energy consumption in buildings (GJ)	2017	2016
Spain	157,264	165,637
United Kingdom	106,882	121,327
United States	346,014	401,236
Brazil	166,256	46,099
Mexico	554	911
Other countries <sup>93</sup>	1,146	1,218
<b>Total</b>	<b>778,116</b>	<b>736,428</b>

## GRI 303 Water

## 303-1 Total water withdrawal by source

## Water use in thermal generation

The following shows the withdrawal of water at the thermal generation facilities (coal, combined cycle, nuclear and cogeneration) in 2017.

Water use (hm <sup>3</sup> )	Withdrawal			Discharge	
	Total withdrawal	Withdrawal process and standby services	Withdrawal for cooling	Evaporation of water used for cooling	Discharge into receptor environment
Spain	1,500.01	4.39	1,495.75	53.56	1,451.57
United Kingdom <sup>94</sup>	202.81	0.39	202.42	0.01	202.20
United States	4.18	3.67	0.64	1.78	1.54
Brazil	0.22	0.22	0.00	0.00	0.09
Mexico	277.45	5.34	271.52	19.14	246.24
<b>Total<sup>95</sup></b>	<b>1,984.67</b>	<b>14.01</b>	<b>1,970.33</b>	<b>74.49</b>	<b>1,901.74</b>

<sup>93</sup> Other countries: Greece, Romania and Hungary.

<sup>94</sup> The cooling systems in the United Kingdom are open circuits or air condensers, and therefore it is estimated that the volume of evaporated water is practically zero, except for steam from cogeneration. The data include the Daldowie thermal drying facility and the Hatfield gas storage facility.

<sup>95</sup> The total discharge figure includes the return from cooling, the return of water used in processes, and rainwater collected at some thermal facilities without an independent storm sewer system.

## Water consumption at offices and control facilities

Water consumption at offices and facilities <sup>96</sup> (m <sup>3</sup> )	2017	2016
Spain	94,239	84,693
United Kingdom	63,242	93,375
United States	183,256	139,385
Brazil	1,975	89,576
Mexico	36,604	1,124
Other countries	5,132	901
<b>Total</b>	<b>384,448</b>	<b>409,054</b>

## GRI 305 Emissions

## 305-1 Direct greenhouse gas emissions. Scope 1 (per GHG Protocol)

CO <sub>2</sub> emissions (t)	2017	2016
<b>Spain</b>	<b>5,943,916</b>	<b>5,268,737</b>
Generating plants	4,398,610	3,912,787
Cogeneration	1,545,306	1,355,950
<b>United Kingdom</b>	<b>2,899,545</b>	<b>4,944,407</b>
Generating plants	2,881,551	4,927,630
Cogeneration	17,994	16,777
<b>United States</b>	<b>965,570</b>	<b>1,040,335</b>
Generating plants	0	N/A
Cogeneration	965,570	1,040,335
<b>Brazil</b>	<b>1,547,050</b>	<b>1,739,902</b>
Generating plants	1,471,816	1,369,047
Cogeneration	75,234	370,855
<b>Mexico</b>	<b>15,334,843</b>	<b>13,543,565</b>
Generating plants	14,267,039	12,598,905
Cogeneration	1,067,804	944,660
<b>Total</b>	<b>26,690,924</b>	<b>26,536,946</b>
Generating plants	23,019,016	22,808,369
Cogeneration	3,671,908	3,728,577

## 305-2 Indirect greenhouse gas emissions. Scope 2 (per GHG Protocol)

Emissions associated with the consumption of energy at offices	CO <sub>2</sub> (t)
Spain	10,269
United Kingdom	9,586
United States	27,130
Brazil	4,198
Mexico	59
Other countries <sup>97</sup>	N/Av.
<b>Total</b>	<b>51,242</b>

<sup>96</sup> Includes offices, substations and control buildings at wind farms.

<sup>97</sup> Not taken into account to calculate the Carbon Footprint as it entails less than 0.1% of the internal energy consumption of the group.

305-7 NO<sub>x</sub>, SO<sub>x</sub> and other significant air emissions

NO <sub>x</sub> emissions (t)	2017	2016
<b>Spain</b>	<b>12,490</b>	<b>12,172</b>
Generating plants	4,394	5,013
Cogeneration	8,096	7,159
<b>United Kingdom</b>	<b>989</b>	<b>5,363</b>
Generating plants	989	5,363
Cogeneration	0	N/A
<b>United States</b>	<b>18</b>	<b>152</b>
Generating plants	0	N/A
Cogeneration	18	152
<b>Brazil</b>	<b>233</b>	<b>702</b>
Generating plants	233	233
Cogeneration	0	469
<b>Mexico</b>	<b>2,422</b>	<b>2,583</b>
Generating plants	1,997	2,325
Cogeneration	425	258
<b>Total</b>	<b>16,152</b>	<b>20,971</b>
Generating plants	7,613	12,934
Cogeneration	8,539	8,037

Sulphur dioxide (SO <sub>2</sub> ) emissions (t)	2017	2016
<b>Spain</b>	<b>4,936</b>	<b>3,277</b>
Generating plants	3,723	2,744
Cogeneration	1,213	533
<b>United Kingdom</b>	<b>2</b>	<b>3,384</b>
Generating plants	2	3,384
Cogeneration	0	N/A
<b>United States</b>	<b>5</b>	<b>6</b>
Generating plants	0	N/A
Cogeneration	5	6
<b>Brazil</b>	<b>0</b>	<b>23</b>
Generating plants	0	12
Cogeneration	0	11
<b>Mexico</b>	<b>449</b>	<b>398</b>
Generating plants	418	370
Cogeneration	31	28
<b>Total</b>	<b>5,392</b>	<b>7,088</b>
Generating plants	4,143	6,510
Cogeneration	1,249	578



Particulate emissions (t)	2017	2016
<b>Spain</b>	<b>375</b>	<b>305</b>
Generating plants	298	259
Cogeneration	77	46
<b>United Kingdom</b>	<b>2</b>	<b>88</b>
Generating plants	1	88
Cogeneration	1	N/A
<b>United States</b>	<b>19</b>	<b>19</b>
Generating plants	0	N/A
Cogeneration	19	19
<b>Brazil</b>	<b>0</b>	<b>22</b>
Generating plants	0	0
Cogeneration	0	22
<b>Mexico</b>	<b>876</b>	<b>774</b>
Generating plants	815	720
Cogeneration	61	54
<b>Total</b>	<b>1,272</b>	<b>1,208</b>
Generating plants	1,114	1,067
Cogeneration	158	141

### GRI 306 Effluents and waste

#### 306-2 Total weight of waste by type and disposal method

Hazardous waste generation <sup>98</sup> (t)	2017			2016		
	Produced (Total)	Deposited and/or incinerated	Recovered, recycled, reused	Produced (Total)	Deposited and/or incinerated	Recovered, recycled, reused
Spain	5,564	1,256	4,328	5,418	849	4,539
United Kingdom	2,214	562	1,600	3,568	482	2,161
United States	573	425	337	1,183	601	478
Brazil	614	593	981	234	76	140
Mexico	171	171	0	126	126	0
Other countries	57	16	42	50	15	35
<b>Total</b>	<b>9,193</b>	<b>3,023</b>	<b>7,288</b>	<b>10,579</b>	<b>2,149</b>	<b>7,353</b>

Non-hazardous waste generation <sup>102</sup> (t)	2017			2016		
	Produced (Total)	Deposited and/or incinerated	Recovered, recycled, reused	Produced (Total)	Deposited and/or incinerated	Recovered, recycled, reused
Spain	277,282	165,453	109,727	208,681	129,178	79,512
United Kingdom	589,409	224,699	304,434	387,925	189,640	155,103
United States	131,066	96,988	34,097	338,276	107,134	231,038
Brazil	38,330	38,536	1,614	27,513	1,346	5,179
Mexico	17,581	17,576	47	16,449	16,449	0
Other countries	3	2	1	3	3	0
<b>Total</b>	<b>1,053,671</b>	<b>543,220.6</b>	<b>449,920</b>	<b>978,847</b>	<b>443,750</b>	<b>470,832</b>

<sup>98</sup> Liquid waste has been converted into kg using a density of 1.3 kg/m<sup>3</sup>.

## GRI 400 SERIES SOCIAL DIMENSION

GRI 401 Employment<sup>99</sup>

## 401-1 New employee hires and employee turnover

New hires by region, gender and age group								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Total workforce	10,296	10,395	6,067	6,373	6,561	6,849	10,096	9,429
<b>By gender</b>								
Men	252	244	464	261	322	369	1,127	808
Women	64	93	177	81	148	126	174	262
<b>By gender (%)</b>								
Men	3.03	2.90	11.33	6.10	6.90	7.63	13.81	10.73
Women	3.23	4.68	8.97	3.87	7.81	6.27	8.99	13.80
<b>By age group</b>								
<b>Men</b>								
Up to 30 years old	116	121	141	112	114	141	550	515
Between 31 and 50 years old	125	116	245	109	171	181	559	289
More than 50 years old	11	7	78	40	37	47	18	4
<b>Women</b>								
Up to 30 years old	31	35	59	25	54	37	108	167
Between 31 and 50 years old	31	55	104	52	70	75	64	94
More than 50 years old	2	3	14	4	24	14	2	1
<b>By age group (%)</b>								
<b>Men</b>								
Up to 30 years old	35.26	30.17	23.46	18.51	23.17	27.87	24.86	23.90
Between 31 and 50 years old	2.92	2.65	11.84	5.01	8.07	8.24	11.55	6.85
More than 50 years old	0.30	0.19	5.48	2.67	1.80	2.20	1.62	0.35
<b>Women</b>								
Up to 30 years old	41.89	39.77	30.41	11.90	34.39	22.98	18.15	28.02
Between 31 and 50 years old	2.34	4.02	7.76	3.70	7.76	7.89	5.47	8.30
More than 50 years old	0.34	0.56	3.20	1.00	2.87	2.00	1.17	0.59

<sup>99</sup> As the percentage interests in certain companies may not be 100%, the sums added may not correspond to the total presented due to rounding.

New hires by region, gender and age group						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Total workforce	944	874	291	162	34,255	34,082
<b>By gender</b>						
Men	323	146	66	13	2,554	1,841
Women	74	31	19	0	656	593
<b>By gender (%)</b>						
Men	41.46	19.84	30.28	9.77	9.74	7.10
Women	44.85	22.46	26.03	0	8.17	7.27
<b>By age group</b>						
<b>Men</b>						
Up to 30 years old	73	72	18	1	1,012	962
Between 31 and 50 years	210	67	43	9	1,353	771
More than 50 years old	40	7	5	3	189	108
<b>Women</b>						
Up to 30 years old	37	17	6	0	295	281
Between 31 and 50 years	36	14	13	0	318	290
More than 50 years old	1	0	0	0	43	22
<b>By age group (%)</b>						
<b>Men</b>						
Up to 30 years old	42.69	39.13	60.00	11.11	26.39	24.90
Between 31 and 50 years	38.82	13.70	25.75	8.04	9.65	5.68
More than 50 years old	59.70	11.11	23.81	25.00	2.26	1.27
<b>Women</b>						
Up to 30 years old	61.67	44.74	66.67	0	27.09	25.66
Between 31 and 50 years	36.00	14.74	22.41	0	6.50	5.83
More than 50 years old	20.00	0	0.00	0	2.10	1.06

Persons leaving the company by region, gender and age group								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Total workforce	10,296	10,395	6,067	6,373	6,561	6,849	10,096	9,429
<b>By gender</b>								
Men	461	452	346	516	471	320	580	544
Women	76	66	214	119	252	172	165	184
<b>By gender (%)</b>								
Men	5.55	5.38	8.45	12.06	10.10	6.61	7.11	7.22
Women	3.83	3.32	10.85	5.69	13.29	8.55	8.52	9.69
<b>By age group</b>								
<b>Men</b>								
Up to 30 years old	4	6	26	33	53	69	137	116
Between 31 and 50 years old	99	74	75	173	137	89	269	219
More than 50 years old	358	372	245	310	281	162	174	209
<b>Women</b>								
Up to 30 years old	2	3	18	9	34	30	51	56
Between 31 and 50 years old	36	32	85	58	61	61	84	76
More than 50 years old	38	31	111	52	157	81	30	52
<b>By age group (%)</b>								
<b>Men</b>								
Up to 30 years old	1.22	1.50	4.33	5.45	10.77	13.64	6.19	5.38
Between 31 and 50 years old	2.31	1.69	3.62	7.95	6.47	4.05	5.56	5.19
More than 50 years old	9.68	10.23	17.21	20.69	13.68	7.59	15.68	18.06
<b>Women</b>								
Up to 30 years old	2.70	3.41	9.28	4.29	21.66	18.63	8.57	9.40
Between 31 and 50 years old	2.72	2.34	6.34	4.12	6.76	6.42	7.18	6.71
More than 50 years old	6.48	5.83	25.34	10.92	18.76	9.00	17.54	30.59

Persons leaving the company by region, gender and age group						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Total workforce	944	874	291	162	34,255	34,082
<b>By gender</b>						
Men	80	95	14	11	1,952	1,931
Women	23	18	7	5	737	564
<b>By gender (%)</b>						
Men	10.27	12.91	6.25	8.27	7.44	7.45
Women	13.94	13.04	18.92	17.24	9.18	6.91
<b>By age group</b>						
<b>Men</b>						
Up to 30 years old	20	30	2	0	242	254
Between 31 and 50 years old	47	55	11	10	638	614
More than 50 years old	13	10	1	1	1,072	1,063
<b>Women</b>						
Up to 30 years old	7	8	1	0	113	106
Between 31 and 50 years old	16	10	6	5	288	242
More than 50 years old	0	0	0	0	336	216
<b>By age group (%)</b>						
<b>Men</b>						
Up to 30 years old	11.70	16.30	5.88	0.00	6.31	6.58
Between 31 and 50 years old	8.69	11.25	6.56	8.93	4.55	4.53
More than 50 years old	19.40	15.87	4.76	8.33	12.80	12.50
<b>Women</b>						
Up to 30 years old	11.67	21.05	33.33	0.00	10.38	9.68
Between 31 and 50 years old	16.00	10.53	19.35	20.00	5.88	4.86
More than 50 years old	0.00	0.00	0.00	0.00	16.45	10.36

401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation

Benefits offered <sup>100</sup>	2017					
	Life insurance	Medical insurance	Disability insurance	Maternity/paternity leave	Pension fund	Shares
Spain	All	All	All	All	All	-
United Kingdom	All	All	-	All	All	All
United States	All	All	Full-time	All	All	-
Brazil	Full-time	Full-time	All	All	Full-time	-
Mexico	All <sup>101</sup>	All	All	All	All	All <sup>102</sup>

<sup>100</sup> All: Includes full-time and part-time employees.

<sup>101</sup> Only for managers/senior specialists/executives and interns.

<sup>102</sup> Only for executives.

## 401-3 Return to work and retention rates after parental leave, by gender.

Leaves from and returns to work due to maternity/paternity, by region								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Employees entitled to parental leave</b>								
Men	8,313	8,408	4,094	4,280	4,665	4,838	8,160	7,530
Women	1,983	1,987	1,973	2,093	1,896	2,011	1,936	1,899
<b>Total</b>	<b>10,296</b>	<b>10,395</b>	<b>6,067</b>	<b>6,373</b>	<b>6,561</b>	<b>6,849</b>	<b>10,096</b>	<b>9,429</b>
<b>Employees taking parental leave</b>								
Men	31	276	39	26	0	0	274	132
Women	145	158	130	151	48	125	105	18
<b>Total</b>	<b>176</b>	<b>434</b>	<b>169</b>	<b>177</b>	<b>48</b>	<b>125</b>	<b>379</b>	<b>150</b>
<b>Employees that returned to work after parental leave ended</b>								
Men	29	N/Av.	39	N/Av.	0	N/Av.	290	N/Av.
Women	114	N/Av.	73	N/Av.	48	N/Av.	103	N/Av.
<b>Total</b>	<b>143</b>	<b>N/AV.</b>	<b>112</b>	<b>N/AV.</b>	<b>48</b>	<b>N/AV.</b>	<b>393</b>	<b>N/AV.</b>
<b>Employees that returned to work after parental leave ended that were still employed 12 months after their return to work.</b>								
Men	28	N/Av.	28	N/Av.	41	N/Av.	226	N/Av.
Women	114	N/Av.	80	N/Av.	137	N/Av.	74	N/Av.
<b>Total</b>	<b>142</b>	<b>N/AV.</b>	<b>108</b>	<b>N/AV.</b>	<b>178</b>	<b>N/AV.</b>	<b>300</b>	<b>N/AV.</b>
<b>Return to work rate</b>								
Men	93.55	N/AV.	100.00	N/AV.	N/A	N/AV.	105.84	N/AV.
Women	78.62	N/AV.	56.15	N/AV.	100.00	N/AV.	98.10	N/AV.
<b>Total</b>	<b>86.08</b>	<b>N/AV.</b>	<b>78.08</b>	<b>N/AV.</b>	<b>100.00</b>	<b>N/AV.</b>	<b>101.97</b>	<b>N/AV.</b>

Leaves from and returns to work due to maternity/paternity, by region						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
<b>Employees entitled to parental leave</b>						
Men	779	736	218	133	26,229	25,295
Women	165	138	73	29	8,026	8,157
<b>Total</b>	<b>944</b>	<b>874</b>	<b>291</b>	<b>162</b>	<b>34,255</b>	<b>34,082</b>
<b>Employees taking parental leave</b>						
Men	0	0	1	0	345	434
Women	9	10	3	1	440	463
<b>Total</b>	<b>9</b>	<b>10</b>	<b>4</b>	<b>1</b>	<b>785</b>	<b>897</b>
<b>Employees that returned to work after parental leave ended</b>						
Men	4	N/Av.	1	N/Av.	363	N/Av.
Women	10	N/Av.	1	N/Av.	349	N/Av.
<b>Total</b>	<b>14</b>	<b>N/AV.</b>	<b>2</b>	<b>N/AV.</b>	<b>712</b>	<b>N/AV.</b>
<b>Employees that returned to work after parental leave ended that were still employed 12 months after their return to work.</b>						
Men	4	N/Av.	1	N/Av.	328	N/Av.
Women	6	N/Av.	0	N/Av.	411	N/Av.
<b>Total</b>	<b>10</b>	<b>N/AV.</b>	<b>1</b>	<b>N/AV.</b>	<b>739</b>	<b>N/AV.</b>
<b>Return to work rate</b>						
Men	100.00 <sup>103</sup>	N/AV.	100.00	N/AV.	105.22	N/AV.
Women	111.11	N/AV.	33.33	N/AV.	79.32	N/AV.
<b>Total</b>	<b>55.56</b>	<b>N/AV.</b>	<b>66.67</b>	<b>N/AV.</b>	<b>92.27</b>	<b>N/AV.</b>

<sup>103</sup> Although there were no employees using the parental leave, the return rate is considered to 100%, with the return of 4 people from leave last year.

**GRI Electric Utilities Sector Supplement Specific disclosures**

EU15 Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category and by region.

Employees eligible to retire in the next 5 years								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>By professional category</b>								
Management Team	55	46	5	6	80	36	13	2
Middle managers and skilled technicians	396	303	222	300	1,109	685	379	666
Skilled workers and support personnel	850	606	286	320	1,553	726	571	383
<b>Total</b>	<b>1,301</b>	<b>955</b>	<b>513</b>	<b>626</b>	<b>2,742</b>	<b>1,447</b>	<b>963</b>	<b>1,051</b>
<b>By professional category (%)</b>								
Management team	0.53	0.44	0.08	0.09	1.22	0.53	0.13	0.02
Middle managers and skilled technicians	3.85	2.91	3.66	4.71	16.90	10.00	3.75	7.06
Skilled workers and support personnel	8.26	5.83	4.71	5.02	23.67	10.60	5.66	4.06
<b>Total</b>	<b>12.64</b>	<b>9.19</b>	<b>8.45</b>	<b>9.82</b>	<b>41.79</b>	<b>21.13</b>	<b>9.54</b>	<b>11.15</b>

Employees eligible to retire in the next 5 years						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
<b>By professional category</b>						
Management team	2	2	2	1	157	93
Middle managers and skilled technicians	25	14	2	1	2,133	1,969
Skilled workers and support personnel	4	3	0	0	3,264	2,038
<b>Total</b>	<b>31</b>	<b>19</b>	<b>4</b>	<b>2</b>	<b>5,554</b>	<b>4,100</b>
<b>By professional category (%)</b>						
Management team	0.21	0.23	0.69	0.62	0.46	0.27
Middle managers and skilled technicians	2.65	1.60	0.69	0.62	6.23	5.78
Skilled workers and support personnel	0.42	0.34	0.00	0	9.53	5.98
<b>Total</b>	<b>3.28</b>	<b>2.17</b>	<b>1.38</b>	<b>1.24</b>	<b>16.22</b>	<b>12.04</b>



Employees eligible to retire in the next 10 years								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>By professional category</b>								
Management Team	149	120	28	29	94	80	24	7
Middle managers and skilled technicians	931	809	713	823	1,488	1,263	484	905
Skilled workers and support personnel	1,845	1,689	646	739	2,032	1,451	959	634
<b>Total</b>	<b>2,925</b>	<b>2,618</b>	<b>1,387</b>	<b>1,591</b>	<b>3,614</b>	<b>2,794</b>	<b>1,467</b>	<b>1,546</b>
<b>By professional category (%)</b>								
Management Team	1.45	1.15	0.46	0.46	1.43	1.17	0.24	0.07
Middle managers and skilled technicians	9.04	7.78	11.75	12.91	22.68	18.44	4.79	9.60
Skilled workers and support personnel	17.92	16.25	10.65	11.60	30.97	21.19	9.50	6.72
<b>Total</b>	<b>28.41</b>	<b>25.18</b>	<b>22.86</b>	<b>24.96</b>	<b>55.08</b>	<b>40.79</b>	<b>14.53</b>	<b>16.40</b>

Employees eligible to retire in the next 10 years						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
<b>By professional category</b>						
Management team	5	5	1	1	301	242
Middle managers and skilled technicians	32	26	4	2	3,652	3,828
Skilled workers and support personnel	20	15	0	0	5,502	4,528
<b>Total</b>	<b>57</b>	<b>46</b>	<b>5</b>	<b>3</b>	<b>9,455</b>	<b>8,598</b>
<b>By professional category (%)</b>						
Management team	0.53	0.57	0.34	0.62	0.88	0.71
Middle managers and skilled technicians	3.39	2.97	1.37	1.23	10.66	11.23
Skilled workers and support personnel	2.12	1.72	0.00	0	16.06	13.29
<b>Total</b>	<b>6.04</b>	<b>5.26</b>	<b>1.71</b>	<b>1.85</b>	<b>27.60</b>	<b>25.23</b>

## GRI 403 Occupational health and safety

403-1 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes

Employees represented on health and safety committees, by region (%)	2017	2016
Spain	96.88	95.89
United Kingdom	100.00	94.68
United States	100.00	99.40
Brazil	100.00	90.76
Mexico	49.47	48.97
Other countries	37.46	66.05
<b>Report boundary</b>	<b>97.14</b>	<b>93.61</b>

403-2 Type of injury and rates of injury, occupational diseases, lost days, absenteeism and total number of work-related fatalities, by region and by gender.

Number of accidents by region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>By gender</b>								
Men	69	83	61	74	176	154	69	89
Women	13	8	31	27	33	20	0	10
<b>Total</b>	<b>82</b>	<b>91</b>	<b>92</b>	<b>101</b>	<b>209</b>	<b>174</b>	<b>69</b>	<b>99</b>

Number of accidents by region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
<b>By gender</b>						
Men	1	6	0	1	<b>376</b>	<b>407</b>
Women	2	0	0	0	<b>79</b>	<b>65</b>
<b>Total</b>	<b>3</b>	<b>6</b>	<b>0</b>	<b>1</b>	<b>455</b>	<b>472</b>

Number of accidents by type, region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Fatal</b>								
Men	0	0	0	0	0	0	0	0
Women	0	0	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>With leave</b>								
Men	24	25	3	7	40	38	34	23
Women	0	1	0	0	3	8	0	3
<b>Total</b>	<b>24</b>	<b>26</b>	<b>3</b>	<b>7</b>	<b>43</b>	<b>46</b>	<b>34</b>	<b>26</b>
<b>Without leave</b>								
Men	58	58	58	67	136	116	35	66
Women	0	7	31	27	30	12	0	7
<b>Total</b>	<b>58</b>	<b>65</b>	<b>89</b>	<b>94</b>	<b>166</b>	<b>128</b>	<b>35</b>	<b>73</b>

Number of accidents by type, region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
<b>Fatal</b>						
Men	0	0	0	0	0	0
Women	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>With leave</b>						
Men	0	2	0	1	101	96
Women	0	0	0	0	3	12
<b>Total</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>104</b>	<b>108</b>
<b>Without leave</b>						
Men	1	4	0	0	265	311
Women	2	0	0	0	76	53
<b>Total</b>	<b>3</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>341</b>	<b>364</b>

Accident rate and absenteeism by region and gender <sup>104</sup>								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Accident rate</b>								
Number of fatalities - company	0	0	0	0	0	0	0	0
Number of fatalities - subcontractor	1	1	1	0	1	0	10	0
Number of lost days	1,558	998	214	164	2,141	1,274	461	326
Injury with leave rate (IR)	0.32	0.32	0.06	0.13	0.65	0.70	0.40	0.30
Occupational disease rate (ODR)	0.00	0.01	0.02	0.00	0.08	0.00	0.01	0.01
Lost day rate (LDR)	20.20	12.30	4.02	3.03	32.53	19.36	5.40	3.71
<b>Absenteeism</b>								
<b>Number of sick leaves per year</b>	<b>1,926</b>	<b>2,140</b>	<b>2,490</b>	<b>2,776</b>	<b>5,308</b>	<b>4,800</b>	<b>1,552</b>	<b>5,862</b>
Men	1,381	1,486	1,443	1,632	3,587	3,147	886	3,833
Women	545	654	1,047	1,144	1,721	1,653	666	2,029
<b>Lost days</b>	<b>90,991</b>	<b>92,139</b>	<b>46,477</b>	<b>52,916</b>	<b>34,021</b>	<b>36,274</b>	<b>17,354</b>	<b>18,113</b>
Men	67,341	66,689	26,491	29,835	20,848	21,924	11,155	11,900
Women	23,650	25,450	19,986	23,081	13,173	14,350	6,199	6,213
<b>Person equivalents</b>	<b>249.29</b>	<b>252.44</b>	<b>127.33</b>	<b>144.98</b>	<b>93.21</b>	<b>99.38</b>	<b>47.55</b>	<b>49.63</b>
Men	184.50	182.71	72.58	81.74	57.12	60.07	30.56	32.60
Women	64.79	69.73	54.75	63.24	36.09	39.31	16.98	17.03
<b>Absenteeism rate (AR)</b>	<b>9,437.53</b>	<b>10,047.58</b>	<b>6,989.38</b>	<b>7,234.95</b>	<b>4,135.13</b>	<b>4,468.46</b>	<b>1,626.70</b>	<b>1,651.9</b>

<sup>104</sup> Methodology for calculating the indicators (per GRI standard):

- Injury rate (IR) = (number of injuries with missed (absentee) days\*200,000)/hours worked
- Occupational disease rate (ODR) = (number of occupational disease cases/hours worked)\*200,000
- Lost day rate (LDR) = (calendar days lost per accident, as from first day of leave/hours worked)\*200,000
- Absenteeism rate (AR) = (missed (absentee) days, as from first day of leave/days worked)\*200,000

Accident rate and absenteeism by region and gender <sup>105</sup>						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
<b>Accident rate</b>						
Number of fatalities - company	0	0	0	0	0	0
Number of fatalities - subcontractor	0	0	0	0	13	1
Number of lost days	0	105	0	10	4,374	2,877
Injury with leave rate (IR)	0.00	0.27	0.00	0.64	0.35	0.36
Occupational disease rate (ODR)	0.00	0.00	0.00	0.00	0.02	0.01
Lost day rate (LDR)	0.00	14.41	0	6.44	14.96	9.66
<b>Absenteeism</b>						
Number of sick leaves per year	171	153	0	3	11,447	15,734
Men	123	116	0	3	7,420	10,217
Women	48	37	0	0	4,027	5,517
<b>Lost days</b>	<b>182</b>	<b>197</b>	<b>0</b>	<b>26</b>	<b>189,025</b>	<b>199,665</b>
Men	120	87	0	26	125,955	130,461
Women	62	110	0	0	63,070	69,204
<b>Person equivalents</b>	<b>0.50</b>	<b>0.54</b>	<b>0</b>	<b>0.07</b>	<b>517.88</b>	<b>547.03</b>
Men	0.33	0.24	0	0.07	345.09	357.43
Women	0.17	0.30	0	0	172.79	189.60
<b>Absenteeism rate (AR)</b>	<b>160.47</b>	<b>361.06</b>	<b>0</b>	<b>189.54</b>	<b>5,171.71</b>	<b>5,508.74</b>

Specific accident rate in Spain	2017	2016
<b>Frequency ratio</b> (Number of accidents with sick leave per million hours)	1.58	1.60
<b>Incident ratio</b> (Number of accidents with sick leave per one hundred employees)	0.24	0.25
<b>Seriousness ratio</b> (no standard) (Total number of days lost, actual per thousand hours)	0.10	0.06

<sup>105</sup> Methodology for calculating the indicators (per GRI standard):

- Injury rate (IR) = (number of injuries with missed (absentee) days\*200,000)/hours worked
- Occupational disease rate (ODR) = (number of occupational disease cases/hours worked)\*200,000
- Lost day rate (LDR) = (calendar days lost per accident, as from first day of leave/hours worked)\*200,000
- Absenteeism rate (AR) = (missed (absentee) days, as from first day of leave/days worked)\*200,000

## GRI 404 Training and education

## 404-1 Hours of training

Total number of training hours by professional category, region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Total workforce</b>	<b>428,821</b>	<b>447,075</b>	<b>178,233</b>	<b>152,271</b>	<b>239,097</b>	<b>379,200</b>	<b>570,747</b>	<b>337,515</b>
Men	361,284	372,244	155,610	139,262	197,590	264,353	479,619	290,445
Women	67,537	74,831	22,623	13,009	41,507	114,847	91,128	47,070
<b>Management Team</b>								
Men	12,752	12,910	3,061	3,510	1,036	1,576	2,354	1,186
Women	2,952	3,299	1,200	141	540	587	400	217
<b>Total</b>	<b>15,704</b>	<b>16,209</b>	<b>4,261</b>	<b>3,651</b>	<b>1,576</b>	<b>2,163</b>	<b>2,754</b>	<b>1,403</b>
<b>Middle managers and skilled technicians</b>								
Men	150,887	152,006	64,319	84,433	42,425	50,698	64,789	132,450
Women	52,992	59,571	15,282	7,589	13,524	25,100	40,535	33,231
<b>Total</b>	<b>203,879</b>	<b>211,577</b>	<b>79,601</b>	<b>92,022</b>	<b>55,949</b>	<b>75,798</b>	<b>105,324</b>	<b>165,681</b>
<b>Skilled workers and support personnel</b>								
Men	197,645	207,328	88,230	51,319	154,129	212,079	412,476	156,809
Women	11,593	11,961	6,141	5,279	27,443	89,160	50,193	13,622
<b>Total</b>	<b>209,238</b>	<b>219,289</b>	<b>94,371</b>	<b>56,598</b>	<b>181,572</b>	<b>301,239</b>	<b>462,669</b>	<b>170,431</b>

Total number of training hours by professional category, region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
<b>Total workforce</b>	<b>81,059</b>	<b>46,382</b>	<b>9,154</b>	<b>2,551</b>	<b>1,507,111</b>	<b>1,364,994</b>
Men	71,278	40,992	7,742	2,242	1,273,123	1,109,538
Women	9,781	5,390	1,412	309	233,988	255,456
<b>Management Team</b>						
Men	1,968	544	306	8	21,477	19,734
Women	117	522	16	0	5,225	4,766
<b>Total</b>	<b>2,085</b>	<b>1,066</b>	<b>322</b>	<b>8</b>	<b>26,702</b>	<b>24,500</b>
<b>Middle managers and skilled technicians</b>						
Men	28,982	19,703	4,436	1,254	355,838	440,544
Women	8,542	3,709	1,198	280	132,073	129,480
<b>Total</b>	<b>37,524</b>	<b>23,412</b>	<b>5,634</b>	<b>1,534</b>	<b>487,911</b>	<b>570,024</b>
<b>Skilled workers and support personnel</b>						
Men	40,328	20,745	3,000	980	895,808	649,260
Women	1,122	1,159	198	29	96,690	121,210
<b>Total</b>	<b>41,450</b>	<b>21,904</b>	<b>3,198</b>	<b>1,009</b>	<b>992,498</b>	<b>770,470</b>

Average hours of training per employee trained, broken down by professional category, region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Total workforce</b>	<b>39.79</b>	<b>44.67</b>	<b>29.11</b>	<b>35.57</b>	<b>31.80</b>	<b>56.49</b>	<b>56.35</b>	<b>40.30</b>
Men	41.00	45.77	37.61	39.50	36.52	55.28	58.75	42.69
Women	34.37	39.91	11.40	17.23	19.70	59.48	46.38	29.94
<b>Management team</b>								
Men	14.83	36.37	28.34	39.89	9.17	15.92	34.62	40.90
Women	36.44	45.19	41.38	14.10	10.19	15.05	25.00	27.13
<b>Total</b>	<b>16.69</b>	<b>37.87</b>	<b>31.10</b>	<b>37.26</b>	<b>9.49</b>	<b>15.67</b>	<b>32.79</b>	<b>37.92</b>
<b>Middle managers and skilled technicians</b>								
Men	42.96	47.00	25.04	39.02	20.30	27.27	36.28	40.60
Women	40.42	47.77	14.50	18.93	11.65	22.86	35.40	30.74
<b>Total</b>	<b>42.27</b>	<b>47.22</b>	<b>21.97</b>	<b>35.88</b>	<b>17.21</b>	<b>25.63</b>	<b>35.93</b>	<b>38.15</b>
<b>Skilled workers and support personnel</b>								
Men	44.52	45.64	60.39	40.28	48.05	75.10	65.37	44.64
Women	20.23	21.51	6.82	15.35	30.73	112.29	62.43	28.20
<b>Total</b>	<b>41.75</b>	<b>43.01</b>	<b>39.95</b>	<b>34.98</b>	<b>44.28</b>	<b>83.26</b>	<b>65.04</b>	<b>42.65</b>

Average hours of training per employee trained, broken down by professional category, region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
<b>Total workforce</b>	<b>90.17</b>	<b>87.35</b>	<b>15.44</b>	<b>8.80</b>	<b>41.82</b>	<b>45.25</b>
Men	96.71	87.59	15.93	8.37	45.88	46.33
Women	60.38	85.56	13.20	14.05	28.23	41.08
<b>Management team</b>						
Men	70.29	36.27	25.50	8.00	18.06	33.74
Women	29.25	174.00	5.33	0	28.09	35.82
<b>Total</b>	<b>65.16</b>	<b>59.20</b>	<b>21.47</b>	<b>8.00</b>	<b>19.42</b>	<b>34.11</b>
<b>Middle managers and skilled technicians</b>						
Men	69.17	78.19	19.20	10.63	33.55	40.66
Women	64.71	67.45	12.61	17.50	26.96	33.23
<b>Total</b>	<b>68.10</b>	<b>76.26</b>	<b>17.28</b>	<b>11.45</b>	<b>31.47</b>	<b>38.71</b>
<b>Skilled workers and support personnel</b>						
Men	139.06	103.21	12.35	6.58	56.16	51.92
Women	43.15	231.80	22.00	4.83	30.16	55.40
<b>Total</b>	<b>131.17</b>	<b>106.33</b>	<b>12.69</b>	<b>6.51</b>	<b>51.81</b>	<b>52.44</b>

## 404-3 Employees receiving regular performance and career development reviews

Employees receiving performance reviews by region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>By professional category</b>								
<b>Men</b>	<b>8,313</b>	<b>8,408</b>	<b>4,094</b>	<b>4,280</b>	<b>4,665</b>	<b>4,838</b>	<b>8,160</b>	<b>7,530</b>
Management team	408	424	111	111	112	104	73	26
Middle managers and skilled technicians	3,430	3,435	2,547	2,576	1,722	1,856	1,704	3,360
Skilled workers and support personnel	4,475	4,549	1,436	1,593	2,831	2,878	6,383	4,144
<b>Women</b>	<b>1,983</b>	<b>1,987</b>	<b>1,973</b>	<b>2,093</b>	<b>1,896</b>	<b>2,011</b>	<b>1,936</b>	<b>1,899</b>
Management team	87	80	28	28	51	42	19	6
Middle managers and skilled technicians	1,294	1,308	1,068	1,054	1,012	1,097	1,102	1,278
Skilled workers and support personnel	602	599	877	1,011	833	872	815	615
<b>Total</b>	<b>10,296</b>	<b>10,395</b>	<b>6,067</b>	<b>6,373</b>	<b>6,561</b>	<b>6,849</b>	<b>10,096</b>	<b>9,429</b>
<b>Receiving performance reviews (%)</b>								
<b>Men</b>	<b>95.18</b>	<b>95.49</b>	<b>100</b>	<b>99.60</b>	<b>47.03</b>	<b>48.08</b>	<b>83.66</b>	<b>93.60</b>
Management team	97.55	100	100	98.20	99.11	100	61.64	92.31
Middle managers and skilled technicians	94.58	95.84	100	99.42	98.90	99.57	92.78	100.00
Skilled workers and support personnel	95.42	94.64	100	100	13.42	13.00	81.48	85.64
<b>Women</b>	<b>93.29</b>	<b>94.67</b>	<b>100</b>	<b>100</b>	<b>61.34</b>	<b>63.45</b>	<b>88.22</b>	<b>88.31</b>
Management team	90.80	97.50	100	100	98.04	100	47.37	100.00
Middle managers and skilled technicians	93.66	93.41	100	100	98.72	99.54	90.56	86.85
Skilled workers and support personnel	92.86	92.82	100	100	13.69	16.28	86.01	91.06
<b>Total</b>	<b>94.80</b>	<b>95.33</b>	<b>100</b>	<b>99.75</b>	<b>51.17</b>	<b>52.59</b>	<b>84.54</b>	<b>92.53</b>



Employees receiving performance reviews by region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
<b>By professional category</b>						
<b>Men</b>	<b>779</b>	<b>736</b>	<b>218</b>	<b>133</b>	<b>26,229</b>	<b>25,925</b>
Management team	24	22	8	6	736	693
Middle managers and skilled technicians	454	418	148	75	10,005	11,720
Skilled workers and support personnel	301	296	62	52	15,488	13,512
<b>Women</b>	<b>165</b>	<b>138</b>	<b>73</b>	<b>29</b>	<b>8,026</b>	<b>8,157</b>
Management team	4	3	3	2	192	161
Middle managers and skilled technicians	132	110	63	22	4,671	4,869
Skilled workers and support personnel	29	25	7	5	3,163	3,127
<b>Total</b>	<b>944</b>	<b>874</b>	<b>291</b>	<b>162</b>	<b>34,255</b>	<b>34,082</b>
<b>Receiving performance reviews (%)</b>						
<b>Men</b>	<b>100.00</b>	<b>45.92</b>	<b>51.38</b>	<b>48.87</b>	<b>83.58</b>	<b>85.13</b>
Management team	100.00	4.55	75.00	66.67	94.57	97.11
Middle managers and skilled technicians	100.00	69.62	62.16	61.33	96.20	98.23
Skilled workers and support personnel	100.00	15.54	22.58	28.85	74.91	73.13
<b>Women</b>	<b>100.00</b>	<b>65.94</b>	<b>60.27</b>	<b>37.93</b>	<b>86.00</b>	<b>86.18</b>
Management team	100.00	33.33	100.00	100.00	90.10	98.14
Middle managers and skilled technicians	100.00	73.64	61.90	27.27	95.23	94.31
Skilled workers and support personnel	100.00	36.00	28.57	60.00	72.15	72.95
<b>Total</b>	<b>100.00</b>	<b>49.08</b>	<b>53.61</b>	<b>46.91</b>	<b>84.15</b>	<b>85.38</b>

## GRI 405 Diversity and equal opportunity

405-1 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity.

Total workforce by region, gender and professional category								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Total workforce</b>	<b>10,296</b>	<b>10,395</b>	<b>6,067</b>	<b>6,373</b>	<b>6,561</b>	<b>6,849</b>	<b>10,096</b>	<b>9,429</b>
<b>By gender</b>								
Men	8,313	8,408	4,094	4,280	4,665	4,838	8,160	7,530
Women	1,983	1,987	1,973	2,093	1,896	2,011	1,936	1,899
<b>By gender (%)</b>								
Men	81%	81%	67%	67%	71%	71%	81%	80%
Women	19%	19%	33%	33%	29%	29%	19%	20%
<b>By professional category</b>								
<b>Men</b>								
Management team	408	424	111	111	112	104	73	26
Middle managers and skilled technicians	3,430	3,435	2,547	2,576	1,722	1,856	1,704	3,360
Skilled workers and support personnel	4,475	4,549	1,436	1,593	2,831	2,878	6,383	4,144
<b>Women</b>								
Management team	87	80	28	28	51	42	19	6
Middle managers and skilled technicians	1,294	1,308	1,068	1,054	1,012	1,097	1,102	1,278
Skilled workers and support personnel	602	599	877	1,011	833	872	815	615
<b>By professional category (%)</b>								
<b>Men</b>								
Management team	4%	4%	2%	2%	2%	2%	1%	0%
Middle managers and skilled technicians	33%	33%	42%	40%	26%	27%	17%	36%
Skilled workers and support personnel	43%	44%	24%	25%	43%	42%	63%	44%
<b>Women</b>								
Management team	1%	1%	0%	0%	1%	1%	0%	0%
Middle managers and skilled technicians	13%	12%	18%	17%	15%	16%	11%	14%
Skilled workers and support personnel	6%	6%	14%	16%	13%	12%	8%	7%
<b>By age group</b>								
<b>Men</b>								
Up to 30 years old	329	401	601	605	492	506	2,212	2,155
Between 31 and 50 years old	4,284	4,370	2,069	2,177	2,119	2,197	4,838	4,218
More than 50 years old	3,700	3,637	1,424	1,498	2,054	2,135	1,110	1,157
<b>Women</b>								
Up to 30 years old	74	88	194	210	157	161	595	596
Between 31 and 50 years old	1,323	1,367	1,341	1,407	902	950	1,170	1,133
More than 50 years old	586	532	438	476	837	900	171	170

By age group (%)								
<b>Men</b>								
Up to 30 years old	3%	4%	10%	9%	8%	8%	22%	23%
Between 31 and 50 years old	42%	42%	34%	34%	32%	32%	48%	45%
More than 50 years old	36%	35%	24%	24%	31%	31%	11%	12%
<b>Women</b>								
Up to 30 years old	1%	1%	3%	3%	2%	2%	6%	6%
Between 31 and 50 years old	13%	13%	22%	22%	14%	14%	11%	12%
More than 50 years old	5%	5%	7%	8%	13%	13%	2%	2%

Total workforce by region, gender and professional category						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Total workforce	<b>944</b>	<b>874</b>	<b>291</b>	<b>162</b>	<b>34,255</b>	<b>34,082</b>
<b>By gender</b>						
Men	779	736	218	133	<b>26,229</b>	<b>25,925</b>
Women	165	138	73	29	<b>8,026</b>	<b>8,157</b>
<b>By gender (%)</b>						
Men	83%	84%	75%	82%	<b>77%</b>	<b>76%</b>
Women	17%	16%	25%	18%	<b>23%</b>	<b>24%</b>
<b>By professional category</b>						
<b>Men</b>						
Management team	24	22	8	6	<b>736</b>	<b>693</b>
Middle managers and skilled technicians	454	418	148	75	<b>10,005</b>	<b>11,720</b>
Skilled workers and support personnel	301	296	62	52	<b>15,488</b>	<b>13,512</b>
<b>Women</b>						
Management team	4	3	3	2	<b>192</b>	<b>161</b>
Middle managers and skilled technicians	132	110	63	22	<b>4,671</b>	<b>4,869</b>
Skilled workers and support personnel	29	25	7	5	<b>3,163</b>	<b>3,127</b>
<b>By professional category (%)</b>						
<b>Men</b>						
Management team	3%	3%	3%	4%	<b>2%</b>	<b>2%</b>
Middle managers and skilled technicians	48%	48%	51%	46%	<b>29%</b>	<b>35%</b>
Skilled workers and support personnel	32%	34%	21%	32%	<b>45%</b>	<b>40%</b>
<b>Women</b>						
Management team	0%	0%	1%	1%	<b>1%</b>	<b>0%</b>
Middle managers and skilled technicians	14%	12%	22%	14%	<b>14%</b>	<b>14%</b>
Skilled workers and support personnel	3%	3%	2%	3%	<b>9%</b>	<b>9%</b>
<b>By age group</b>						

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<b>Men</b>						
Up to 30 years old	171	184	30	9	<b>3,835</b>	<b>3,859</b>
Between 31 and 50 years old	541	489	167	112	<b>14,018</b>	<b>13,564</b>
More than 50 years old	67	63	21	12	<b>8,376</b>	<b>8,502</b>
<b>Women</b>						
Up to 30 years old	60	38	9	2	<b>1,089</b>	<b>1,095</b>
Between 31 and 50 years old	100	95	58	25	<b>4,894</b>	<b>4,977</b>
More than 50 years old	5	5	6	2	<b>2,043</b>	<b>2,085</b>
<b>By age group (%)</b>						
<b>Men</b>						
Up to 30 years old	18%	21%	10%	6%	<b>11%</b>	<b>11%</b>
Between 31 and 50 years old	57%	56%	58%	69%	<b>41%</b>	<b>40%</b>
More than 50 years old	7%	7%	7%	8%	<b>25%</b>	<b>25%</b>
<b>Women</b>						
Up to 30 years old	6%	4%	3%	1%	<b>3%</b>	<b>3%</b>
Between 31 and 50 years old	11%	11%	20%	15%	<b>14%</b>	<b>15%</b>
More than 50 years old	1%	1%	2%	1%	<b>6%</b>	<b>6%</b>

<b>Breakdown of Board of Directors by gender and age group</b>				
Number of members of the Board	2017		2016	
	no.	%	no.	%
<b>Men</b>				
Up to 30 years old	0	0%	0	0%
Between 31 and 50 years old	1	7%	1	7%
More than 50 years old	8	57%	8	57%
<b>Women</b>				
Up to 30 years old	0	0%	0	0%
Between 31 and 50 years old	1	7%	2	14%
More than 50 years old	4	29%	3	21%

## GRI 414 Supplier social assessment

### Management approach

414-1 New suppliers that were screened using social criteria

414-2 Negative social impacts in the supply chain and actions taken

Volume of general procurement purchases in countries considered to be at risk (%)	2017
Brazil	17.4
Mexico	6.3
Canada	0.8
China	0.4
India	0.1

Volume of fuel purchases in countries considered to be at risk (%)	2017
Brazil	4
Mexico	34
Others (Colombia + Algeria + Nigeria + Peru + Trinidad y Tobago + Dom. Republic)	14

The standards used to identify countries at risk are the same as those described in disclosure 412-1 of the *Sustainability Report* for financial year 2017.

## Electric Utilities Sector Topic: Access

### EU27 Residential disconnections for non-payment

Residential disconnections for non-payment by region (no.)	Spain		United Kingdom		United States	
	2017	2016	2017	2016	2017	2016
Paid up to 48 h after disconnection	24,811	103,802	0	0	40,229	64,437
Paid between 48 h and one week after disconnection	1,942	11,473	0	0	7,487	9,004
Paid between one week and one month after disconnection	2,212	14,963	0	0	3,441	4,299
Paid between one month and one year	1,095	11,465	0	0	1,723	2,221
Paid after more than one year	0	0	0	0	0	0
Outstanding and unclassified	0	0	0	0	0	0
<b>Total</b>	<b>30,060</b>	<b>141,703</b>	<b>0</b>	<b>0</b>	<b>52,880</b>	<b>79,961</b>

Residential disconnections for non-payment by region (no.)				
	Brazil		Iberdrola total	
	2017	2016	2017	2016
Paid up to 48 h after disconnection	1,239,946	1,014,227	1,304,986	1,182,466
Paid between 48 h and one week after disconnection	227,007	217,099	236,436	237,576
Paid between one week and one month after disconnection	221,001	195,483	226,654	214,745
Paid between one month and one year	178,323	174,818	181,141	188,504
Paid after more than one year	7	0	7	0
Outstanding and unclassified	0	48,606	0	48,606
<b>Total</b>	<b>1,866,284</b>	<b>1,650,233</b>	<b>1,949,224</b>	<b>1,871,897</b>

Residential reconnections following payment of unpaid bills, by region (no.)						
	Spain		United Kingdom		United States	
	2017	2016	2017	2016	2017	2016
Less than 24 h after payment	28,784	139,706	0	0	42,560	43,262
Between 24 h and one week after payment	803	3,537	0	0	4,180	5,663
More than one week after payment	141	173	0	0	7,082	5,296
Unclassified	0	0	0	0	0	0
<b>Total</b>	<b>29,728</b>	<b>143,416</b>	<b>0</b>	<b>0</b>	<b>53,822</b>	<b>54,221</b>

Residential reconnections following payment of unpaid bills, by region (no.)				
	Brazil		Iberdrola total	
	2017	2016	2017	2016
Less than 24 h after payment	1,541,234	1,378,234	1,612,578	1,561,202
Between 24 h and one week after payment	179,797	182,132	184,780	191,332
More than one week after payment	109,172	96,599	116,395	102,068
Unclassified	0	14,634	0	14,634
<b>Total</b>	<b>1,830,203</b>	<b>1,671,599</b>	<b>1,913,753</b>	<b>1,869,236</b>

## GRI Electric Utilities Sector Supplement Specific Disclosures

## EU30 Average plant availability

The availability of a plant (during a particular period) is the percentage of time within such period that the plant is able to produce energy. It is calculated using normalising indicators, for which reason, knowing the availability of each facility and the net installed capacity thereof yields the average availability factors of the group, as presented in the following table:

	Average availability factor (%)							
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Combined cycle	91.87	89.94	88.30	86.63	N/A	N/A	85.41	86.00
Conventional thermal	93.94	85.54	N/A	N/A	N/A	N/A	N/A	N/A
Cogeneration	92.65	88.90	1.70	82.00	82.04	90.00	N/A	96.65
Nuclear	89.29	85.98	N/A	N/A	N/A	N/A	N/A	N/A
Hydroelectric	84.45	86.00	87.23	94.00	36.78	31.21	95.66	93.00
Wind	91.87	97.80	95.21	95.91	95.58	N/A	97.34	97.50

	Average availability factor (%)					
	Mexico		Other countries		Total	
	2017	2016	2017	2016	2017	2016
Combined cycle	94.95	95.32	N/A	N/A	<b>90.94</b>	<b>89.94</b>
Conventional thermal	N/A	N/A	N/A	N/A	<b>93.94</b>	<b>85.54</b>
Cogeneration	72.18	95.17	N/A	N/A	<b>82.75</b>	<b>91.00</b>
Nuclear	N/A	N/A	N/A	N/A	<b>89.29</b>	<b>85.98</b>
Hydroelectric	N/A	N/A	N/A	N/A	<b>86.02</b>	<b>86.96</b>
Wind	96.22	97.50	97.61	97.90	<b>94.36</b>	<b>96.84</b>

## Specific topics of the Iberdrola group

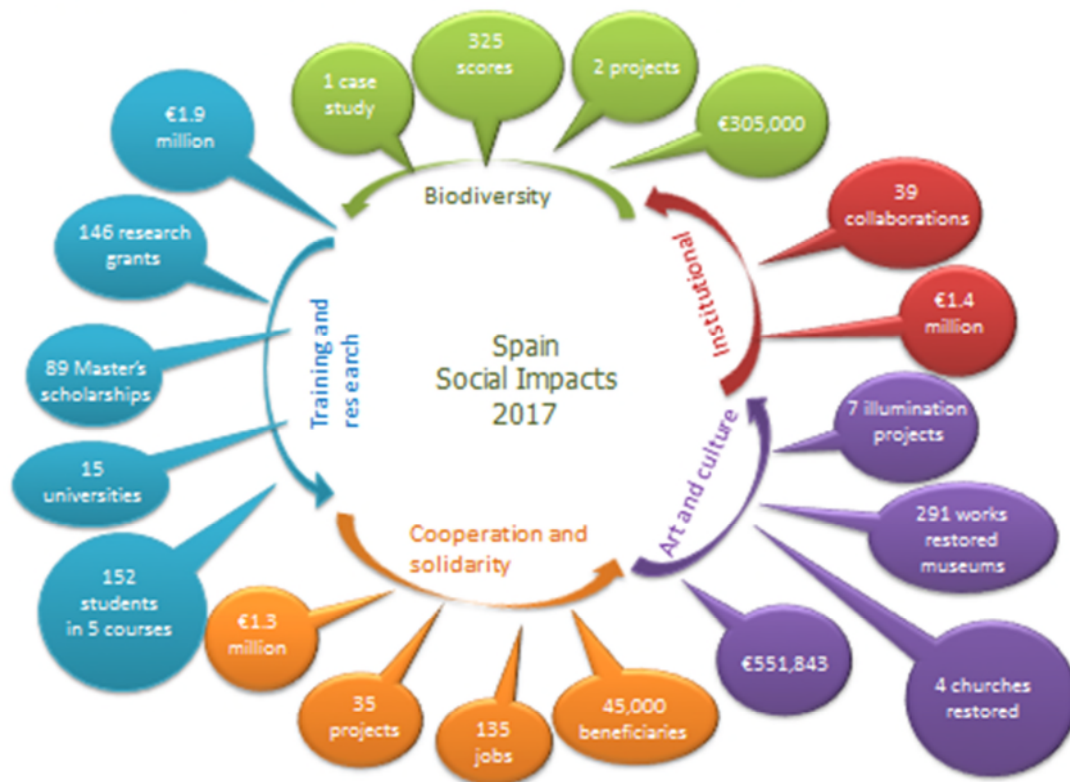
### Iberdrola's contribution to the community

#### Outputs and impacts

Iberdrola has been measuring the results achieved by its community support programmes using various parameters. Iberdrola's foundations are applying a methodology adapted from LBG to measure outputs and impacts for its most important programmes and projects.

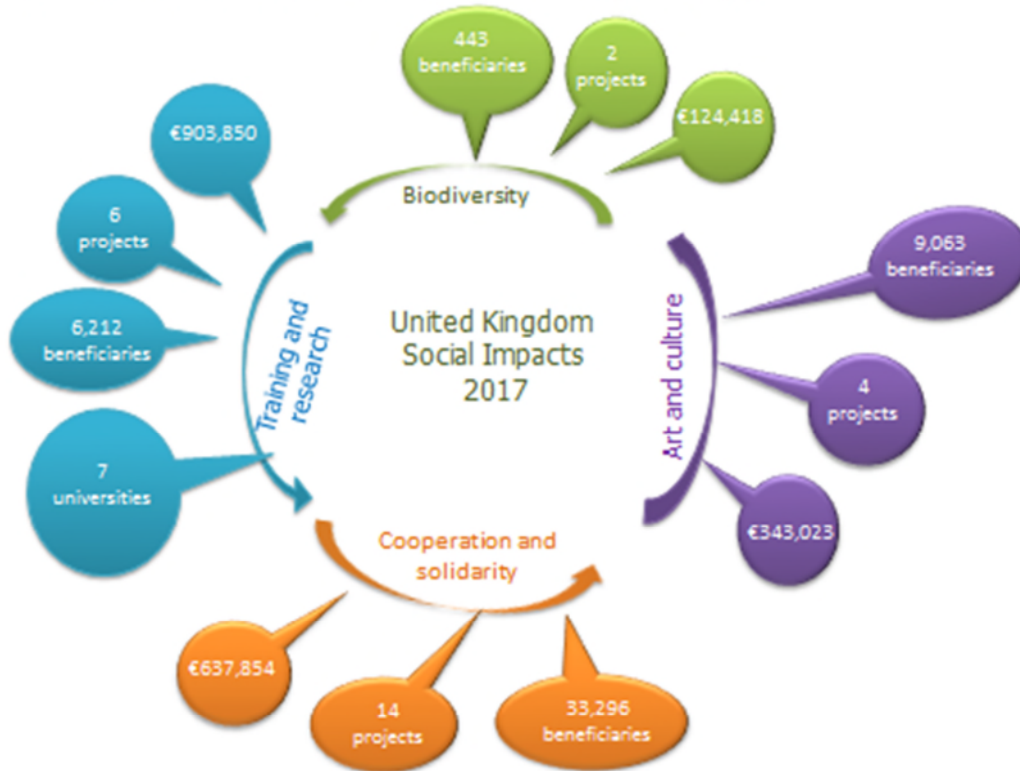
The charts below show the results and achievements by country during 2017:

FUNDACION IBERDROLA ESPAÑA - Results in areas of activity in 2017(€)





**SCOTISHPOWER FOUNDATION: Results in areas of activity in 2017 (€)**



**AVANDGRID FOUNDATION - Results in areas of activity in 2017 (€)**



**INSTITUTO NEOENERGIA BRASIL - Results in areas of activity in 2017 (€)**



**FUNDACION IBERDROLA MEXICO - Results in areas of activity in 2017 (€)**

