AMENDING

SPW INVESTMENTS LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2018

Registered No. SC473190

Group Package Accounts

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SPW INVESTMENTS LIMITED
ANNUAL REPORT AND ACCOUNTS
for the year ended 31 December 2018

CONTENTS

STRATEGIC REPORT	**1**
DIRECTORS' REPORT	**3**
INDEPENDENT AUDITOR'S REPORT	**5**
BALANCE SHEET	**7**
INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME	**8**
STATEMENT OF CHANGES IN EQUITY	**8**
CASH FLOW STATEMENT	**9**
NOTES TO ACCOUNTS	**10**

SPW INVESTMENTS LIMITED
STRATEGIC REPORT

The directors present an overview of SPW Investments Limited's business structure, 2018 performance and strategic outlook, including principal risks and uncertainties.

STRATEGIC OUTLOOK

The principal activity of SPW Investments Limited ("the company"), registered company number SC473190, is that of a holding company. The company will continue with this activity for the foreseeable future.

The immediate and ultimate parent of the company is Iberdrola, S.A. ("Iberdrola") which is listed on the Madrid stock exchange.

The company's sole investment is the entire share capital of Scottish Power Limited ("SPL"), the holding company of the Scottish Power Limited group ("ScottishPower").

2018 PERFORMANCE

The company's net profit for the year ended 31 December 2018 was £401.6 million (2017 £270.1 million). A dividend of £396.0 million (2017 £262.0 million) was received from SPL.

LIQUIDITY AND CASH MANAGEMENT

Cash and net funds

Net cash flows from operating activities increased by £129.7 million to £400.7 million for the year (refer to cash flow statement on page 9). Net funds (consisting of group loans receivable) increased by £400.1 million to £982.8 million.

Capital structure

The company is funded wholly by equity. All equity is held by Iberdrola. Treasury services are provided by Iberdrola Group Treasury. Further details of the treasury policy for Iberdrola and how it manages them is included in the most recent Annual Report and Accounts of Iberdrola.

UK DECISION TO LEAVE THE EU (BREXIT)

The UK was originally scheduled to leave the European Union ("EU") on 29 March 2019. Following intensive negotiations on the subjects of a separation payment, mutual recognition of citizens' rights and avoiding a hard border between Northern Ireland and the Republic of Ireland, two key documents were approved by the EU Council on 25 November 2018: the EU Withdrawal Agreement (a legally binding document setting out the terms of the UK's exit from the EU, including citizens' rights and the Irish 'backstop'); and the Political Declaration (setting out the basis for a future negotiation of the future UK-EU relationship after Brexit, including UK-EU trade and security). As at the date of signing these accounts this deal has not been approved by the UK Parliament. The EU and the UK have now agreed a delay to Brexit until 31 October 2019 at the latest.

If the EU Withdrawal Agreement is not approved by the UK Parliament within the EU timelines the risk of a 'no-deal' Brexit exists. This would probably mean that the trade relationship between the UK and EU would revert to World Trade Organisation ("WTO") rules.

The UK Government has published a series of technical papers covering some of the key areas of concern in the event of 'no-deal' scenario. Essentially these papers seek to minimise the impacts as much as possible, including by limiting the scale of the changes to existing arrangements.

Nevertheless, WTO rules would mean that trade between the UK and EU which is currently frictionless, would become cross-border trade subject to customs checks and tariffs. In the event of a 'no-deal' scenario some economic disruption is expected in the UK and thus Iberdrola is preparing to mitigate any negative impacts arising from this outcome. A cross-party operational working group has been co-ordinating Iberdrola's preparations to mitigate the impact of a 'no-deal' Brexit. Some of the key risks considered are explained in the table overleaf.

UK DECISION TO LEAVE THE EU (BREXIT) *continued*

RISK	RESPONSE
Impacts arising from the UK decision to leave the EU or market reactions to events during the negotiation. These impacts could include movements in the value of Sterling and other financial instruments. In the longer term there could be positive or negative changes in the UK economy and in the political and regulatory environment in which Iberdrola, and therefore the company, operates.	In addition to monitoring ongoing developments related to Brexit the treasury risk management policy is in place to hedge financial risks which are the most prevalent in the short term. Any longer term impact on the UK economy and its impact on Iberdrola and the company will be managed in line with developments. A regulatory group is monitoring any potential risks arising from a regulatory perspective and is engaging with governments and regulators to minimise any disruption.
Data Protection – impact of General Data Protection Regulation ("GDPR") rules and status of UK post Brexit could impact transfer of data between group companies and suppliers in the normal course of business.	All intercompany contracts reviewed to update contractual clauses. High risk suppliers identified and where appropriate discussions commenced to amend contractual terms.

Even in the event of an agreement being concluded, Brexit may have both risks and opportunities for Iberdrola and therefore the company. Until the terms of exit and the nature of the future relationship are clear, it is not possible to be definitive about these.

Many of the risks described above relating to a 'no-deal' scenario arise from so-called 'horizontal' issues where there could be issues affecting businesses in many sectors of the economy. UK official forecasts are for a negative impact on the UK economy as a whole; in the event of a 'no-deal' scenario it might be sharply negative, at least for the short/medium term. Variation in market views on this last factor is likely to manifest itself in movements (up or down) in the value of Sterling and inflation, which is likely to have impacts on most Iberdrola businesses, except to the extent that these can be hedged.

Iberdrola, and therefore the company, will continue to monitor the impact of Brexit and take appropriate action to protect operations as the outcome of the Brexit deal becomes clearer.

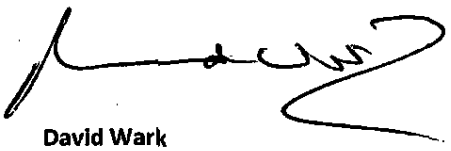
PRINCIPAL RISKS AND UNCERTAINTIES

The company's risk management policy is integrated as part of the risk management policy of Iberdrola. Iberdrola develops and implements risk management policies and procedures and promotes a robust control environment at all levels of the organisation. Further details of the risk management practices of the Iberdrola group can be found in the most recent Annual Report and Accounts of Iberdrola.

The principal risk and uncertainty of the company (other than those specific to Brexit already discussed) that may impact current and future operational and financial performance and the management of this risk is described below:

RISK	RESPONSE
The potential for impairment in the value of investments.	Periodic review of operational financial performance of the subsidiaries and joint venture.

ON BEHALF OF THE BOARD



David Wark
Director
19th **July 2019**

SPW INVESTMENTS LIMITED
DIRECTORS' REPORT

The directors present their report and audited Accounts for the year ended 31 December 2018.

INFORMATION CONTAINED WITHIN THE STRATEGIC REPORT

The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 2:

- information on financial risk management and policies; and
- information regarding future developments of the business.

RESULTS AND DIVIDEND

The net profit for the year amounted to £401.6 million (2017 £270.1 million). No dividend was paid during the year (2017 £nil).

DIRECTORS

The directors who held office during the year were as follows:

Andrés Campaña Ávila
David Wark

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU as at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2018 ("IFRSs as adopted by the EU") and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

Disclosure of information to auditor

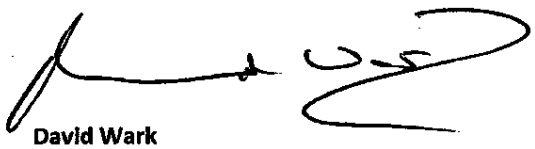
Each of the directors in office as at the date of this Annual Report and Accounts confirms that:

- so far as he is aware, there is no relevant audit information of which the company's auditor is unaware; and;
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

AUDITOR
KPMG LLP were re-appointed as the auditor of the company for the year ended 31 December 2018.

ON BEHALF OF THE BOARD



David Wark
Director
19th **July 2019**

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF SPW INVESTMENTS LIMITED

Opinion

We have audited the financial statements of SPW Investments Limited ("the company") for the year ended 31 December 2018 which comprise the Balance Sheet, Income Statement and Statement of Other Comprehensive Income, Statement of Changes in Equity, Cash Flow Statement, and related notes, including the accounting policies in Note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the recoverability of trade receivables and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depends on assessments of the future economic environment and the company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBER OF SPW INVESTMENTS LIMITED *continued*

Strategic report and directors' report *continued*

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 3, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company'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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Philip Charles (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
319 St. Vincent Street
Glasgow
G2 5AS
22 July 2019

SPW INVESTMENTS LIMITED
BALANCE SHEET
at 31 December 2018

	Notes	2018 £m	2017 £m
ASSETS			
NON-CURRENT ASSETS			
Investments in subsidiaries	3	**6,329.4**	6,329.4
Deferred tax asset	4	**0.1**	-
NON-CURRENT ASSETS		**6,329.5**	6,329.4
CURRENT ASSETS			
Other receivables	5	**990.3**	589.3
CURRENT ASSETS		**990.3**	589.3
TOTAL ASSETS		**7,319.8**	6,918.7
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**7,318.1**	6,916.8
Share capital	6, 7	1.0	1.0
Other reserves	7	5,008.4	5,008.4
Retained earnings	7	2,308.7	1,907.4
TOTAL EQUITY		**7,318.1**	6,916.8
CURRENT LIABILITIES			
Trade and other payables	8	**0.3**	-
Current tax liabilities		**1.4**	1.9
CURRENT LIABILITIES		**1.7**	1.9
TOTAL LIABILITIES		**1.7**	1.9
TOTAL EQUITY AND LIABILITIES		**7,319.8**	6,918.7

Approved by the Board and signed on its behalf on 12 July 2019.

David Wark
Director

The accompanying Notes 1 to 16 are an integral part of the balance sheet at 31 December 2018.

SPW INVESTMENTS LIMITED
INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2018

	Notes	2018 £m	2017 £m
External services		(0.3)	-
OPERATING PROFIT		**(0.3)**	-
Dividends received		396.0	262.0
Finance income	11	7.5	10.0
Finance costs	12	(0.2)	-
PROFIT BEFORE TAX		**403.0**	272.0
Income tax	13	(1.4)	(1.9)
NET PROFIT FOR THE YEAR		**401.6**	270.1

Net profit for the both years is wholly attributable to the equity holder of SPW Investments Limited.

Net profit for both years comprises total comprehensive income.

All results relate to continuing operations.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2018

	Share capital £m	Other reserves £m	Retained earnings £m	Total equity £m
At 1 January 2017	1.0	5,008.4	1,637.3	6,646.7
Total comprehensive income for the year	-	-	270.1	270.1
At 1 January 2018	1.0	5,008.4	1,907.4	6,916.8
Adjustments due to IFRS 9 (refer to Note 1B1)	-	-	(0.3)	(0.3)
Adjusted balance at 1 January 2018	1.0	5,008.4	1,907.1	6,916.5
Total comprehensive income for the year	-	-	401.6	401.6
At 31 December 2018	**1.0**	**5,008.4**	**2,308.7**	**7,318.1**

The accompanying Notes 1 to 16 are an integral part of the income statement and statement of comprehensive income and statement of changes in equity for the year ended 31 December 2018.

SPW INVESTMENTS LIMITED
CASH FLOW STATEMENT
for the year ended 31 December 2018

	2018 £m	2017 £m
Cash flows from operating activities		
Profit before tax	**403.0**	272.0
Adjustments for:		
Finance income and costs	**(7.3)**	(10.0)
Shareholding income	**(396.0)**	(262.0)
Changes in working capital:		
Change in trade payables	**0.3**	-
Interest received	**6.6**	11.5
Income taxes paid	**(1.9)**	(2.5)
Dividends received	**396.0**	262.0
Net cash flows from operating activities (i)	**400.7**	271.0
Cash flows from investing activities		
Investments in other non-current investments	-	(1,320.0)
(Increase)/decrease in amounts due from Iberdrola group companies	**(400.7)**	1,049.0
Net cash flows from investing activities (ii)	**(400.7)**	(271.0)
Net increase/(decrease) in cash and cash equivalents (i)+(ii)	-	-
Cash and cash equivalents at beginning of year	-	-
Cash and cash equivalents at end of year	-	-

The accompanying Notes 1 to 16 are an integral part of the cash flow statement for the year ended 31 December 2018.

SPW INVESTMENTS LIMITED
NOTES TO THE ACCOUNTS
31 December 2018

1 BASIS OF PREPARATION

A COMPANY INFORMATION

SPW Investments Limited, registered company number SC473190, is a private company limited by shares, incorporated in Scotland and its registered address is 320 St Vincent Street, Glasgow, G2 5AD.

B BASIS OF PREPARATION OF THE ACCOUNTS

The company is required by law to prepare accounts for the company and to deliver them to the Registrar of Companies. The Accounts have been prepared in accordance with International Financial Reporting Standards, as adopted by the EU as at the date of approval of these Accounts which are mandatory for the financial year ended 31 December 2018 ("IFRSs as adopted by the EU"). The Accounts are prepared in accordance with the Accounting Policies set out in Note 2. Monetary amounts are presented in pounds Sterling and are rounded to the nearest hundred thousand unless otherwise indicated.

The Accounts contain information about SPW Investments Limited as an individual company and do not contain consolidated financial information as the parent of subsidiary companies. The company is exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated Accounts as it and its subsidiary undertakings are included by full consolidation in the consolidated Accounts of its immediate and ultimate parent, Iberdrola, (refer to Note 14(c)).

B1 EFFECT OF INITIAL APPLICATION OF IFRS 9

This is the first set of the company's annual financial statements in which IFRS 9 'Financial Instruments' have been applied. The nature and effect of the changes as a result of the implementation of this standard is described below.

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' for annual periods beginning on or after 1 January 2018, bringing together all aspects of the accounting for financial instruments: classification and measurement; impairments; and hedge accounting.

The company has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018. In line with consequential amendments to IFRS 7 'Financial Instruments: Disclosures', the company has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the company's previous accounting policy under IAS 39.

Impairment losses continue to be presented under Finance costs in the income statement, similar to their presentation under IAS 39 and are not presented separately in the income statement on the grounds of materiality.

The table below illustrates the impact of the initial application of IFRS 9 on the opening balances at 1 January 2018.

	Adjustments due to IFRS 9 £m
Retained earnings	
Recognition of Expected Credit Losses ("ECLs") under IFRS 9	(0.4)
Related tax	0.1
Impact at 1 January 2018	**(0.3)**

(a) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

1 BASIS OF PREPARATION *continued*

B *BASIS OF PREPARATION OF THE ACCOUNTS continued*

B1 EFFECT OF INITIAL APPLICATION OF IFRS 9 *continued*

(a) Classification and measurement of financial assets and financial liabilities continued

Financial assets

Investments in subsidiaries are carried at cost less impairment as was the case under the previously applied IAS 39. The company has classified its other financial assets as being held at amortised cost. A description of the amortised cost category of financial assets can be found in Note 2A1.1.

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the company's financial assets at 1 January 2018. The effect of adopting IFRS 9 on the carrying amounts of the company's financial assets at 1 January 2018 relates solely to the new impairment requirements.

Financial Asset	Original Classification *under* IAS 39	New Classification *under* IFRS9	Notes	Original carrying value *under IAS 39* £m	New carrying value *under IFRS 9* £m
Current receivables	Loans and receivables	Amortised cost	(i), (ii)	**589.3**	**588.9**

(i) Current receivables comprises loans and interest due from Iberdrola group companies. Refer to Notes 5 and 9.

(ii) Balances that were classified as Loans and receivables under IAS 39 are now classified at amortised cost. An increase of £0.4 million in the allowance for impairment over these balances was recognised in the opening retained earnings at 1 January 2018 on transition to IFRS 9 (refer to 1B1 (b) below).

Refer to Note 9 for details of the company's financial assets in the current year. The classification and measurement requirements did not have a significant impact on the company.

Financial liabilities

The classification of the company's financial liabilities has not undergone any changes with respect to the application of IFRS 9. Consequently the application of IFRS 9 has not had a significant effect on the company's accounting policies related to financial liabilities. For an explanation of how the company classifies and measures financial liabilities and accounts for related gains and losses under IFRS 9, refer to Note 2A1.2.

(b) Impairment of financial assets

The application of IFRS 9 has changed the company's accounting for impairment losses for financial assets by replacing IAS 39's *incurred loss approach with a new ECL approach. Under IFRS 9, credit losses are recognised earlier than under* IAS 39.

The company applies the general model for calculation of ECLs on financial assets measured at amortised cost. Under the general model, the loss allowance is measured at an amount equal to twelve month ECL. However, if the credit risk on that financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime ECL.

Additional information about how the company measures the allowance for impairment is described in Note 2A1.1 and Note 9. The company has adopted the impairment requirements retrospectively, with initial application on 1 January 2018, thus opting not to restate the figures for comparative periods.

The application of IFRS 9's impairment requirements at 1 January 2018 results in an additional allowance for impairment as follows:

	£m
Loss allowance at 31 December 2017 under IAS 39	-
Additional impairment recognised at 1 January 2018 on current receivables	0.4
Loss allowance at 1 January 2018 under IFRS 9	**0.4**

1 BASIS OF PREPARATION *continued*

C ACCOUNTING STANDARDS

C1 IMPACT OF NEW IFRS

In preparing these Accounts, the company has applied all relevant International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") (collectively referred to as IFRS) that have been adopted by the EU as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2018.

For the year ended 31 December 2018, the company has applied the following amendments for the first time:

Standard	Notes
• Annual Improvements to IFRS Standards 2014 –2016 Cycle	(a), (b)
• IFRS 15 'Revenue from Contracts with Customers' (including 'Amendments to IFRS 15: Effective date of IFRS 15' and 'Clarifications to IFRS 15 Revenue from Contracts with Customers')	(a)
• IFRS 9 'Financial Instruments'	(c)
• Amendments to IAS 40 'Investment Property: Transfers of Investment Property'	(a)
• Amendments to IFRS 2 'Share-based Payments: Clarification and Measurement of Share-based Payment Transactions'	(a)
• Amendments to IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'	(a)
• IFRIC 22 'Foreign Currency Transactions and Advance Consideration'	(a)

(a) The application of these pronouncements has not had a material impact on the company's accounting policies, financial position or performance.
(b) This pronouncement includes amendments to three standards. The amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards' and IAS 28 'Investments in Associates and Joint Ventures' have been applied by the company effective 1 January 2018. The amendments to IFRS 12 'Disclosure of Interests in Other Entities' were applied by the company effective 1 January 2017.
(c) Refer to Note 1B1 for further information.

The following new standards and amendments to standards have been issued by the International Accounting Standards Board ("IASB") but have an effective date after the date of these financial statements, or have not been endorsed by the EU, thus have not been implemented by the company:

Standard	Notes	IASB effective *date (for periods* commencing on or after)	*Planned date of* application by the company
• IFRS 16 'Leases'	(d)	1 January 2019	1 January 2019
• IFRIC 23 'Uncertainty over Income Tax Treatments'	(e)	1 January 2019	1 January 2019
• Amendments to IFRS 9 'Financial Instruments: Prepayment Features with Negative Compensation'	(e)	1 January 2019	1 January 2019
• Amendments to IAS 28 'Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures'	(e)	1 January 2019	1 January 2019
• Annual Improvements to IFRS Standards 2015-2017 Cycle	(e)	1 January 2019	1 January 2019
• Amendments to IAS 19 'Employee Benefits: Plan Amendment, Curtailment or Settlement'	(e)	1 January 2019	1 January 2019
• Amendments to References to the Conceptual Framework in IFRS Standards	(e), (f)	1 January 2020	1 January 2020
• Amendments to IFRS 3 'Business Combinations'	(e), (f)	1 January 2020	1 January 2020
• Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors': 'Definition of Material'	(e), (f)	1 January 2020	1 January 2020

1 BASIS OF PREPARATION *continued*
C ACCOUNTING STANDARDS *continued*
C1 IMPACT OF NEW IFRS *continued*

Standard *continued*	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the company
• IFRS 17 'Insurance Contracts'	(e), (f)	1 January 2021	1 January 2021
• IFRS 14 'Regulatory Deferral Accounts'	(e), (f), (g)	1 January 2016	To be decided
• Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures': 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture '	(e), (f), (h)	Deferred indefinitely	To be decided

(d) IFRS 16 'Leases' is effective for the company as from 1 January 2019. The company has carried out analysis in order to assess whether its agreements are, or contain, a lease at their inception considering the requirements of IFRS 16. The future application of this standard is not expected to have a material impact on the company's accounting policies, financial position or performance.
(e) The future application of this pronouncement is not expected to have a material impact on the company's accounting policies, financial position or performance.
(f) This pronouncement has not yet been endorsed by the EU.
(g) The endorsement process of this interim standard has not been launched as the EU has decided to wait for the final standard to be issued.
(h) The IASB set the effective date of this pronouncement as for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The EU endorsement process for this pronouncement has been postponed, awaiting a revised exposure draft from the IASB. The effective date will be amended in due course.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES

In determining and applying accounting policies, judgement is often required in respect of items where the choice of specific policy to be followed could materially affect the reported amounts of revenues, expenses, assets and liabilities of the company, should it later be determined that a difference choice would be more appropriate. The company has no such policies. At 31 December 2018, there are no items which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

The principal accounting policies applied in preparing the company's Accounts are set out below:

A FINANCIAL INSTRUMENTS
B TAXATION
C INVESTMENTS

A FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A1 ACCOUNTING POLICIES UNDER IFRS 9
A1.1 FINANCAL ASSETS
(a) Recognition and initial measurement

The company's financial assets are classified, at initial recognition, as subsequently measured at amortised cost and are initially recognised when the company becomes party to the contractual provisions on the instrument and initially measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

(b) Classification and subsequent measurement
(i) Classification

Financial assets are not reclassified subsequent to their initial recognition unless the company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. These are expected to be infrequent and no other reclassifications are permitted.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*
A FINANCIAL INSTRUMENTS *continued*
A1 ACCOUNTING POLICIES UNDER IFRS 9 continued
A1.1 FINANCAL ASSETS *continued*
(b) Classification and subsequent measurement *continued*
(i) Classification continued
The company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The business model of the company does not depend on the intentions of management for an individual instrument. Therefore it is not an instrument-by-instrument classification approach and should be determined from a higher level of aggregation.

A financial asset is measured at amortised cost if it meets both of the following conditions:
- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the 'SPPI' test.

(ii) Subsequent measurement and gains and losses
Financial assets categorised at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment losses are recognised in the income statement. Any gain or loss on derecognition is recognised in the income statement.

The company's financial assets measured at amortised cost comprise loan and interest receivable due from Iberdrola group companies.

Derecognition
A financial asset (or, where applicable, a part of a financial asset) is primarily derecognised (i.e. removed from the company's balance sheet) when the rights to receive cash flows from the asset have expired.

(iii) Impairment of financial assets
Disclosures relating to impairment of financial assets are provided in Note 9. The company has adopted the general ECL model for its financial assets. The general model works as follows:
- For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next twelve months (a twelve month ECL).
- For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

As an exception to the general model, if the credit risk of a financial instrument is low at the reporting date, management can measure impairment using twelve month ECL and so it does not have to assess whether a significant increase in credit risk has occurred. In order for this operational simplification to apply, the financial instrument has to meet the following requirements:
- it has a low risk of default;
- the borrower is considered, in the short-term, to have a strong capacity to meet its obligations; and
- the lender expects, in the longer term, that adverse changes in economic and business conditions might, but will not necessarily, reduce the ability of the borrower to fulfil its obligations.

All of the company's financial assets have low credit risk at both the beginning and end of the reporting period. The company considers these assets to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The company considers this to be BBB- or higher per rating agency Standard & Poor's.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

A FINANCIAL INSTRUMENTS *continued*

A1 ACCOUNTING POLICIES UNDER IFRS 9 *continued*

A1.1 FINANCAL ASSETS *continued*

(b) Classification and subsequent measurement *continued*

(iii) Impairment of financial assets continued

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. Twelve month ECLs are the portion of ECLs that result from default events that are possible within the twelve months after the reporting date (or a shorter period if the expected life of the instrument is less than twelve months). The maximum period considered when estimating ECLs is the maximum contractual period over which the company is exposed to credit risk.

Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the company assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

A1.2 FINANCIAL LIABILITIES

(a) Recognition and initial measurement

The company's financial liabilities are trade and other payables which are classified as measured at amortised cost. Trade payables are initially recognised at fair value (the invoice amount).

(b) Classification and subsequent measurement

The company's financial liabilities are subsequently measured at amortised cost using the effective interest method. The company derecognises a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

A2 ACCOUNTING POLICIES UNDER IAS 39

As detailed in Note 1B1 on initial application of IFRS 9, the company has elected not to restate comparative information. The accounting policy for the company under IAS 39 has therefore been presented below.

(a) All interest bearing loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs. Interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

B TAXATION

The company's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on the difference between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profits (temporary differences), and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences.

2 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND ACCOUNTING POLICIES *continued*

B TAXATION *continued*

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax losses or credits can be utilised.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is charged to the income statement, except where it relates to items charged or credited to equity (via the statement of comprehensive income), in which case the deferred tax is also dealt with in equity and is shown in the statement of comprehensive income.

C INVESTMENTS

The company's investments in subsidiaries are stated in the balance sheet at cost, or the fair value of shares issued as consideration where applicable. Dividends from subsidiaries are recognised when the rights to receive the dividend is established.

3 INVESTMENTS

(a) Movements in investment in subsidiary

	Note	Subsidiary undertakings shares £m
At 1 January 2017		5,009.4
Additions	(i)	1,320.0
At 1 January 2018 and 31 December 2018		**6,329.4**

(i) On 5 October 2017, the company subscribed for, and was allotted, 2,640,000,000 ordinary shares of 42p each at 50p in its subsidiary, SPL, for a total consideration of £1,320.0 million.

(b) Subsidiaries and joint ventures

The table below sets out details of the subsidiaries and joint ventures of the company as at 31 December 2018. All entities are indirect holdings unless specified.

Name	Principal activities	Registered office and country of incorporation (Note (xiii))	Equity interest in ordinary shares 2018	2017
Energy Networks				
Subsidiaries				
Scottish Power Energy Networks Holdings Limited	Holding company	(A)	100%	100%
SP Distribution plc	Ownership and operation of distribution network within the south of Scotland area	(A)	100%	100%
SP Manweb plc	Ownership and operation of distribution network within the Cheshire, Merseyside, North Shropshire and North Wales area	(B)	100%	100%
SP Network Connections Limited	Design and construction of utility connections	(B)	100%	100%
SP Power Systems Limited	Provision of asset management services	(A)	100%	100%
SP Transmission plc	Ownership and operation of transmission network within the south of Scotland area	(A)	100%	100%
Manweb Services Limited	Operation of a private electricity distribution network	(B)	100%	100%
Joint venture				
NGET/SPT Upgrades Limited	Development of offshore HVDC West Coast transmission link	(C)	50%	50%

3 INVESTMENTS *continued*

(b) Subsidiaries and joint ventures *continued*

Name	Principal activities	Registered office and country of incorporation (Note (xiii))	Equity interest in ordinary shares 2018	2017
Renewables				
Subsidiaries				
ScottishPower Renewable Energy Limited	Holding company	(D)	100%	100%
Coldham Windfarm Limited	Operation of an onshore windfarm	(B)	80%	80%
East Anglia One Limited	Development and construction of offshore wind farm	(E)	100%	100%
East Anglia One North Limited	Development of offshore wind farm	(E)	100% (i)	100%
East Anglia Three Limited	Development of offshore wind farm	(E)	100%	100%
East Anglia Two Limited	Development of offshore wind farm	(E)	100% (i)	100%
ScottishPower Renewables (UK) Limited	Development, construction and operation of wind farms	(F)	100%	100%
ScottishPower Renewables (WODS) Limited	Operation of an offshore wind farm	(D)	100%	100%
ScottishPower Renewables (UK Assets) Limited	Dormant	(D)	100% (ii)	-
Iberdrola Renovables France SAS	Holding company	(G)	- (iii)	-
Iberdrola Renovables Offshore Deutschland GmbH	*Development and construction of offshore* wind farm	*(H)*	- (iv), (v)	-
Iberdrola Renovables Deutschland GmbH	Holding company	(H)	- (iv), (vi)	-
Alles Marines SAS	Development of offshore wind farm	(G)	- (iii)	-
Joint ventures				
Celtpower Limited	Operation of an onshore windfarm	(B)	50%	50%
East Anglia Offshore Wind Limited	Commercial operation of offshore meteorological masts	(E)	50%	50%
Morecambe Wind Limited	Provision of operational services	(I)	50%	50%
Energy Wholesale and Retail				
Subsidiaries				
Scottish Power Generation Holdings Limited	Holding company	(D)	100% (vii)	100%
ScottishPower (DCL) Limited	Holding company	(B)	100%	100%
ScottishPower Energy Management Limited	Wholesale energy management company engaged in purchase and sale of electricity and gas	(D)	100%	100%
ScottishPower Energy Management (Agency) Limited	Agent for energy management activity of ScottishPower Energy Management Limited and Scottish Power UK plc	(D)	100%	100%
ScottishPower Generation Limited	Electricity generation	(D)	- (viii)	100%
ScottishPower (SCPL) Limited	Holding company	(B)	100%	100%
SMW Limited	Wastewater treatment	(D)	- (viii)	100%
SP Gas Transportation Cockenzie Limited	Holder of Gas Transporter Licence	(D)	100%	100%
SP Gas Transportation Hatfield Limited	Holder of Gas Transporter Licence	(D)	100%	100%
ScottishPower Energy Retail Limited	Supply of electricity and gas to domestic and business customers	(D)	100%	100%
SP Dataserve Limited	Data collection, data aggregation, meter operation and revenue protection	(D)	100%	100%
SP Smart Meter Assets Limited	Provider of smart meter assets and services	(D)	100%	100%
ScottishPower Generation (Assets) Limited	Asset owning company	(D)	100% (ix)	-
Joint venture				
ScotAsh Limited	Sales of ash and ash-related cementitious products	(J)	- (x)	-

3 INVESTMENTS *continued*

(b) Subsidiaries and joint ventures *continued*

Name	Principal activities	Registered office and country of incorporation (Note (xiii))	Equity interest in ordinary shares 2018	2017
Other				
Subsidiaries				
Scottish Power Limited	Holding company	(D)	100% (xi)	100%
ScottishPower Investments Limited	Holding company	(D)	100%	100%
Scottish Power UK plc	Holding company	(D)	100%	100%
Dormant subsidiaries in liquidation				
SP Gas Limited	In liquidation	(K)	100%	100%
Dormant subsidiaries now dissolved				
Manweb Nominees Limited	Dissolved	(L)	- (xii)	100%
Scottish Power UK Holdings Limited	Dissolved	(K)	- (xii)	100%
Demon Internet Limited	Dissolved	(L)	- (xii)	100%
Manweb Energy Consultants Limited	Dissolved	(L)	- (xii)	100%
Manweb Share Scheme Trustees Limited	Dissolved	(L)	- (xii)	100%

(i) East Anglia One North Limited and East Anglia Two Limited were incorporated on 21 December 2017 and are direct subsidiaries of ScottishPower Renewables (UK) Limited.

(ii) *ScottishPower Renewables (UK Assets) Limited was incorporated on 5 February 2018 and is a direct subsidiary of Scottish Power Renewable* Energy Limited ("SPREL").

(iii) On 1 August 2017, SPREL sold its entire interest in the issued share capital of Iberdrola Renovables France SAS. Iberdrola Renovables France SAS has a 70% equity holding in one subsidiary, Alles Marines SAS.

(iv) On 1 August 2017, SPREL sold its entire interest in the issued share capital of Iberdrola Renovables Deutschland GmbH. Iberdrola Renovables Deutschland GmbH wholly owns two subsidiaries: Iberdrola Renovables Offshore Deutschland GmbH and Baltic Eagle GmbH (see footnote (vi) below).

(v) On 3 December 2015, Iberdrola Renovables Offshore Deutschland GmbH entered into a joint operation with 50Hertz Offshore GmbH. The agreement is for the joint realisation of the offshore substation being built as part of the Wikinger offshore wind farm project located in Germany. Both parties have joint control of this asset. As noted at (vi) above, SPREL no longer has an interest in this joint operation.

(vi) On 21 February 2017, Iberdrola Renovables Deutschland GmbH acquired the entire share capital of Baltic Eagle GmbH. SPREL no longer has an interest in this entity (see footnote (iv) above).

(vii) Scottish Power Generation Holdings Limited ("SPGH") changed its name to Scottish Power Retail Holdings Limited on 1 February 2019.

(viii) On 31 December 2018, SPGH sold its entire interest in the issued share capital of ScottishPower Generation Limited. ScottishPower Generation Limited has a wholly owned subsidiary, SMW Limited. ScottishPower Generation Limited was renamed post-sale by Drax to Drax Generation Enterprise Limited. The registered offices of SMW Limited and ScottishPower Generation Limited were changed post-sale by the new owner.

(ix) ScottishPower Generation (Assets) Limited was incorporated on 15 March 2018 and is a direct subsidiary of SPGH.

(x) On 19 July 2017 ScottishPower Generation Limited sold its 50% interest in the share capital of ScotAsh Limited.

(xi) The investment in this company is a direct holding of SPW Investments Limited.

(xii) This company was dissolved during the year ended 31 December 2018.

(xiii) The registered offices of the subsidiaries and joint ventures are as listed below, along with their countries of incorporation. Where a company's registered office is in England it is registered in England and Wales:

(A) Ochil House, 10 Technology Avenue, Hamilton International Technology Park, Blantyre G72 0HT, Scotland
(B) 3 Prenton Way, Prenton, CH43 3ET, England
(C) 1–3 Strand, London, WC2N 5EH, England
(D) 320 St Vincent Street, Glasgow, Scotland, G2 5AD
(E) 3rd Floor, 1 Tudor Street, London, EC4Y 0AH, England
(F) The Soloist, 1 Lanyon Place, Belfast, BT1 3LP, Northern Ireland
(G) 40 Rue de la Boetie, 75008, Paris, France
(H) Charlottenstrasse 63, D-10117, Berlin, Germany
(I) 5 Howick Place, London, SW1P 1WG, England
(J) Portland House, Bickenhall Lane, Solihull, Birmingham, B37 7BQ, England
(K) Johnston Carmichael, 107–111 Fleet Street, London, EC4A 2AB, England
(L) Johnston Carmichael, 227 West George Street, Glasgow, G2 2ND, Scotland

4 DEFERRED TAX

Deferred tax recognised in the Accounts is as follows:

	Other temporary differences £m
At 1 January 2017	-
At 1 January 2018	-
Adjustments due to IFRS 9	*0.1*
Adjusted balance at 1 January 2018	0.1
At 31 December 2018	**0.1**

Legislation has been enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020. This reduces the tax rates expected to apply when temporary differences reverse and impacts the deferred tax charge.

5 OTHER RECEIVABLES

	Note	2018 £m	2017 £m
Current receivables:			
Receivables due from Iberdrola group companies - loans	(a)	982.8	582.7
Receivables due from Iberdrola group companies - interest		7.5	6.6
		990.3	589.3

(a) Current loans due from Iberdrola group companies are receivable on demand with interest payable at LIBOR (London Inter-Bank Offer Rate) plus 0.555%.

(b) *Information about the company's exposure to credit and market risks are included in Note 9(b).*

6 SHARE CAPITAL

	2018 £m	2017 £m
Allotted, called up and fully paid shares:		
1,000,100 ordinary shares of £1 each (2017 1,000,100)	**1.0**	1.0

(a) Holders of these ordinary shares are entitled to dividends as declared from time to time; amounts on the capitalisation of profits and reserves; and notice and attendance at general meetings of the company, with every member entitled to one vote on a show of hands and on a poll one vote for every share held.

7 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF SPW INVESTMENTS LIMITED

	Share capital £m	Other reserves (Note (a)) £m	Retained earnings (Note (b)) £m	Total £m
At 1 January 2017	1.0	5,008.4	1,637.3	6,646.7
Profit for the year attributable to equity holder of SPW Investments Limited	-	-	270.1	270.1
At 1 January 2018	1.0	5,008.4	1,907.4	6,916.8
Adjustments due to IFRS 9	-	-	(0.3)	(0.3)
Adjusted balance at 1 January 2018	1.0	5,008.4	1,907.1	6,916.5
Profit for the year attributable to equity holder of SPW Investments Limited	-	-	401.6	401.6
At 31 December 2018	**1.0**	**5,008.4**	**2,308.7**	**7,318.1**

(a) On 1 April 2014 the company issued 1,000,000 ordinary shares of £1 each to Iberdrola in exchange for the entire share capital of SPL. The difference between the nominal value of the shares issued and the deemed fair value of the shares issued was credited to Other reserves, which is non-distributable.

(b) Retained earnings comprise the cumulative balance of profits recognised in the financial statements as adjusted for transactions with *shareholders, principally dividends.*

8 TRADE AND OTHER PAYABLES

	2018 £m	2017 £m
Current trade and other payables:		
Payables due to Iberdrola group companies - trade	0.3	-
	0.3	-

9 FINANCIAL INSTRUMENTS

The effect of initially applying IFRS 9 on the company's Accounts is detailed in Note 1B1. Due to the transition method chosen, comparative information has not been presented to reflect the new requirements.

(a) Carrying value of financial instruments

The table below sets out the carrying amount and fair value of the company's financial instruments that are within the scope of IFRS 9.

	2018			2017		
	Carrying amount £m	Fair value £m	Classification under IFRS 9	Carrying amount £m	Fair value £m	Classification under IAS 39
Financial assets						
Receivables	990.3	990.3	Amortised cost	589.3	589.3	Loans and receivables
Financial liabilities						
Payables	(0.3)	(0.3)	Amortised cost	-	-	Loans and receivables

The carrying amount of these financial instruments is calculated as set out in Note 2A. The carrying value of financial instruments is a reasonable approximation of fair value.

(b) Financial risk management

The company's principal financial liabilities comprise trade and other payables. The main purpose of these financial liabilities is to finance the company's operations. The company has other receivables that arise directly from its operations.

The company has exposure to the following risks arising from the above financial instruments:

i. Credit risk; and
ii. Treasury risk (comprising both liquidity and market risk).

An extensive description of the risk management framework of Iberdrola, and therefore the company, can be found in the most recent Annual Report and Accounts of Iberdrola.

(i) Credit risk

Credit risk is the risk that a counterparty will not meet its contractual obligations under a financial instrument, leading to a financial loss. The company is exposed to credit risk from loans and interest receivables due from Iberdrola group companies. The carrying amount of financial assets represent the maximum credit exposure to the company.

Credit risk management

The company provides funding in the form of interest bearing on demand loans to other Iberdrola group companies. Credit risk from Iberdrola group companies is considered to be low as the company is part of the Iberdrola group's centralised treasury function and no Iberdrola group company has a credit rating lower than BB+ (in line with Standard & Poor's external credit ratings). The ECL on loans due from other Iberdrola group companies is calculated using the general model and therefore a twelve month ECL is applied.

The exposure to credit risk of loans and interest to other Iberdrola group companies held at amortised cost by credit rating are set out in the table below:

	As at 31 December 2018			As at 1 January 2018		
Credit Rating	Gross carrying value £m	ECL £m	Amortised cost £m	Gross carrying value £m	ECL £m	Amortised cost £m
BBB- to AAA	990.9	(0.6)	990.3	589.3	(0.4)	588.9

9 FINANCIAL INSTRUMENTS *continued*

(b) Financial risk management *continued*

(i) Credit risk continued

Credit risk management continued

Reconciliation of opening to closing loss allowance

The closing loss allowances for all financial assets measured at amortised cost, as at 31 December 2018 reconciles to the opening loss allowances as follows:

	Note	Loans and interest due from Iberdrola group companies £m	Total £m
Balance as at 31 December 2017 under IAS 39		-	-
Adjustment on initial application of IFRS 9		0.4	0.4
Balance as at 1 January 2018 under IFRS 9		0.4	0.4
Increase in loss allowance recognised in the income statement	(a)	0.2	0.2
At 31 December 2018		**0.6**	**0.6**

(a) Impairment losses are included within Finance costs.

The overall increase in the loss allowance of £0.2 million from 1 January 2018 is directly related to the rise in gross carrying value of loans due from Iberdrola group companies.

(ii) Treasury risk

Treasury risk is comprised of liquidity risk and market risk. The company's cash management and short-term financing activity is integrated with Iberdrola's. The company produces short-term rolling cash-flow requirements and if necessary any required funding is obtained via the group credit facilities already in place.

Treasury liquidity risk management

The company's liquidity position and short-term financing activities are integrated and aligned with Iberdrola's. Liquidity risk, the risk that the company will have insufficient funds to meet its liabilities, is managed by Iberdrola group Treasury, who are responsible for arranging banking facilities on behalf of the company.

The company's cash flows associated with financial liabilities are all due in less than one year. It is not expected that these cash flows could occur significantly later, or at significantly different amounts.

Treasury market risk management

Market risk is the risk of loss that results from changes in market rates (interest rates and foreign currency).

Sensitivity analysis on interest rate changes

The table below illustrates the impact on the annual interest rate income considering various rate changes. The analysis assumes all other factors remain constant.

Loans receivable category	Interest rate*	Change in rate	Impact on interest rate income in 2018 £m	Impact on interest rate income in 2017 £m
Short-term variable rate loans receivables	LIBOR	+0.25%	**2.5**	1.5
		+0.50%	**4.9**	2.9
		-0.25%	**(2.5)**	(1.5)
		-0.50%	**(4.9)**	(2.9)

*LIBOR – London Inter-Bank Offer Rate.

10 EMPLOYEE INFORMATION

The company had no employees during the year (2017 nil).

11 FINANCE INCOME

	2018 £m	2017 £m
Interest receivable from Iberdrola group companies	7.5	10.0

12 FINANCE COSTS

	2018 £m	2017 £m
Impairment losses	0.2	-

13 INCOME TAX

	2018 £m	2017 £m
Current tax:		
UK Corporation tax charge on profits for the year	1.4	1.9
Current tax for the year	1.4	1.9
Income tax expense for the year	1.4	1.9

The tax charge on profit on ordinary activities for the year varied from the standard rate of UK Corporation Tax as follows:

	2018 £m	2017 £m
Corporation tax at 19% (2017 19.25%)	76.6	52.3
Dividends from subsidiaries	(75.2)	(50.4)
Income tax charge for the year	1.4	1.9

Legislation has been enacted to reduce the rate of UK Corporation Tax to 17% on 1 April 2020. This reduces the tax rates expected to apply when temporary differences reverse and impacts the deferred tax charge.

14 RELATED PARTY TRANSACTIONS

(a) Transactions and balances arising in the normal course of business

	2018	2017	
	Subsidiary (SPL) £m	Immediate and ultimate parent (Iberdrola) £m	Subsidiary (SPL) £m
Types of transaction			
Interest income	7.5	3.4	6.6
Dividends received	396.0	-	262.0
ECL recognised in respect of			
Loans and interest receivable	(0.2)	-	-
Balances outstanding			
Loans receivable	982.8	-	582.7
Interest receivable	7.5	-	6.6
ECL on			
Loans and interest receivable	(0.6)	-	-

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

(b) Remuneration of key management personnel and directors

The directors and key management personnel performed a minimal amount of qualifying services to the company and consequently received no remuneration.

14 RELATED PARTY TRANSACTIONS *continued*

(c) Ultimate and immediate parent company

The directors regard Iberdrola as the immediate and ultimate parent company, which is also the parent company of the only group in which the results of the company are consolidated.

Copies of the consolidated Accounts of Iberdrola may be obtained from Iberdrola, at its registered office; Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain.

In addition to the parent undertaking disclosed above, the company's other related undertakings are disclosed in Note 3.

15 AUDITOR REMUNERATION

	2018	2017
	£000	£000
Audit of the company's annual accounts	7	7

(i) No charge for auditor remuneration is included in the profit for the year. The audit fee was borne by a subsidiary company.

16 GOING CONCERN

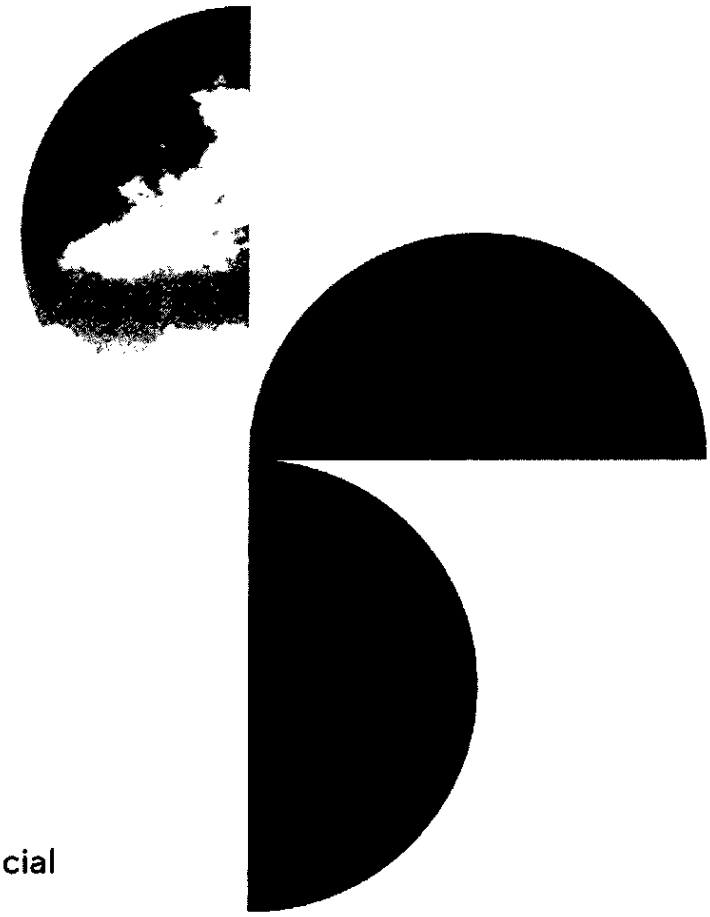
The company's business activities together with the factors likely to affect its future performance are set out in the Strategic Report on pages 1 and 2.

The company has recorded a profit after tax in both the current year and prior year and the company's balance sheet shows that it has net current assets of £988.6 million and net assets of £7,318.1 million at its most recent balance sheet date.

The company is ultimately owned by Iberdrola, S.A. and it participates in the Iberdrola group's centralised treasury arrangements and so shares banking facilities with its parent company and fellow subsidiaries. As a consequence, the company depends, in part, on the ability of the Iberdrola group to continue as a going concern.

The directors have considered the company's funding relationship with Iberdrola to date and have considered available relevant information relating to Iberdrola's ability to continue as a going concern. In addition, the directors have no reason to believe that the Iberdrola group does not have the ability to and will not continue to fund the company, should it become necessary, to enable it to continue in operational existence.

On the basis of these considerations, the directors have a reasonable expectation that the company will be able to continue in operational existence for the foreseeable future. Therefore, they adopt the going concern basis of accounting in preparing the Accounts.



Annual Financial Report

Iberdrola, S.A. and subsidiaries

Financial year 2018

IBERDROLA

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.

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

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 2018, 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 2018 and of its consolidated financial performance and its 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

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.

KPMG Auditores S.L., sociedad española de responsabilidad limitada y firma miembro de la red KPMG de firmas independientes afiliadas a KPMG International Cooperative ("KPMG International"), sociedad suiza.
Paseo de la Castellana, 259C – Torre de Cristal – 28046 Madrid

Inscrita en el Registro Oficial de Auditores de Cuentas con el nº.50702, y en el Registro de Sociedades del Instituto de Censores Jurados de Cuentas con el nº 10
Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M -188.007, Inscrip. 9
N.I.F. B-78510153

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 financial assets See note 12 to the consolidated annual accounts	
Key Audit Matter	*How the Matter was Addressed in Our Audit*
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. Furthermore, as a result of the acquisitions made in recent years, the consolidated annual accounts include goodwill for an amount of Euros 7,838 million. IFRS-EU determine the need to carry out an analysis of the recoverable amounts of assets in those cases in which indications of impairment were identified. Goodwill, intangible assets with indefinite useful lives and in-process intangible assets are not amortised, but are instead tested for impairment at least on an annual basis. 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 requires the use of a high degree of judgement.	Our audit procedures included the following: ▪ Assessing the design and implementation of the key controls related to the process of determining recoverable amount. ▪ Assessing the reasonableness of the methodology used to calculate value in use and the main assumptions *considered, with the involvement of our specialists.* ▪ Analysing the consistency of the estimated growth in future cash flows with the business plans approved by the governing bodies. We also contrasted the cash flow forecasts estimated in prior years with the actual cash flows obtained. ▪ Assessing the sensitivity of certain assumptions to changes that are considered reasonable. ▪ Assessing whether the disclosures in the consolidated annual accounts comply with the requirements of the applicable financial reporting framework.

Provisions for pensions and similar obligations See note 25 to the consolidated annual accounts	
Key Audit Matter	*How the Matter was Addressed in Our Audit*
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. The present value of commitments undertaken is Euros 10,087 million, while the fair value of plan assets amounts to Euros 7,923 million, of which Euros 1,769 million is classified as level 3 of the fair value hierarchy. Non-material variations in the relevant assumptions that determine the valuation of the commitments undertaken or the fair value of the associated assets could have a significant impact on the amounts recognised in the consolidated annual accounts.	Our audit procedures included the following: ▪ Assessing the design and implementation of controls related to the valuation process. ▪ Reading and understanding of collective agreements and other commitments assumed with personnel. ▪ Evaluation of the integrity and accuracy of the databases used for the beneficiaries of the different commitments. ▪ Analysis of the reasonableness of the main actuarial assumptions and calculation methods applied by the Group in the different jurisdictions in which it operates through the involvement of our specialists. ▪ 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. ▪ Evaluation of the reasonableness of the sensitivity analyses performed. ▪ Analysis of compliance with the disclosure requirements established in IFRS-EU.

Provisions for litigation and claims See note 26 to the consolidated annual accounts	
Key Audit Matter	*How the Matter was Addressed in Our Audit*
As a result of the operations carried out by the entities that comprise the Group, the consolidated statement of financial position includes significant provisions amounting to Euros 1,357 million that are shown in the "provisions for litigation, indemnities and other items" and "other provisions" columns of note 26 to the consolidated annual accounts. The criteria for the recognition and disclosure of contingencies and provisions require the application of a high degree of judgement.	Our audit procedures included the following: ▪ Assessing the design and implementation of the controls related to the process of recognising and evaluating litigations and claims. ▪ Obtaining details of litigation prepared by the Group's legal services department and analysing the reasonableness of the amounts recognised in the consolidated annual accounts. ▪ Sending confirmations to the lawyers with whom the Group operates. ▪ Readings of the minutes of board of directors' meetings. ▪ Selection of a sample of the main litigation procedures and analysis with supporting documentation with the involvement of our specialists. ▪ Analysis of compliance with the disclosure requirements established in IFRS-EU.

Revenue recognition See note 5 a) to the consolidated annual accounts	
Key Audit Matter	*How the Matter was Addressed in Our Audit*
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. 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. Estimated electricity supplied and not invoiced amounts to Euros 2,067 million.	Our audit procedures included the following: ▪ Analysis of the design, implementation and operating effectiveness of the key controls related to the estimation of unbilled revenue. ▪ Evaluation of the reasonableness of the calculation model used by comparing the estimates made at the close of the previous period and actual invoicing data (retrospective analysis). ▪ Verification of the reasonableness of the volume of unbilled electricity through an analysis of historical information and other available internal and external data. ▪ Verification of the tariffs applied by comparing them with the data contained in the customer contract databases.

Other information: Consolidated Directors' Report

Other information solely comprises the 2018 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 content of the consolidated directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels:

a) A specific level applicable to the consolidated non-financial information statement and to certain information included in the Annual Corporate Governance Report, as defined in article 35.2. b) of Audit Law 22/2015, which consists solely of verifying that this information has been provided in the directors' report, or where applicable, that the directors' report makes reference to the separate report on non-financial information, as provided for in legislation, and if not, to 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 a) above has been provided in the consolidated directors' report and that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2018 and the content and presentation of the report are in accordance with applicable legislation.

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

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 and Risk Monitoring Committee of Iberdrola, S.A. 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 and Risk Monitoring 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 22 February 2019.

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.

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. 1,797

22 February 2019

CONSOLIDATED ANNUAL ACCOUNTS AND CONSOLIDATED DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

CONTENTS

		Page
Financial Statements		
Consolidated statement of financial position at 31 December 2018		**4**
Consolidated income statement for the year ended at 31 December 2018		**6**
Consolidated statement of comprehensive income for the year ended at 31 December 2018		**7**
Consolidated statement of changes in equity for the year ended at 31 December 2018		**8**
Consolidated statement of cash flows for the years ended at 31 December 2018		**10**
Notes		
1.	**Activity of the Group**	**11**
2.	**Basis of presentation of the Consolidated annual accounts**	**11**
3.	**Accounting policies**	**23**
4.	**Financing and Financial Risk Policy**	**43**
5.	**Use of estimates and sources of uncertainty**	**48**
6.	**Modification to consolidation perimeter**	**53**
7.	**Geographical and business segment reporting**	**56**
8.	**Intangible assets**	**60**
9.	**Real estate investments**	**62**
10.	**Property, plant and equipment**	**64**
11.	**Concession arrangements**	**67**
12.	**Impairment of non-financial assets**	**68**
13.	**Investments**	**73**
14.	**Trade and other assets-non-current**	**77**
15.	**Measurement and compensation of financial instruments**	**78**
16.	**Nuclear fuel**	**81**
17.	**Inventories**	**81**
18.	**Trade and other current assets**	**82**
19.	**Cash and cash equivalents**	**83**
20.	**Equity**	**83**
21.	**Long-term share-based compensation plans**	**93**
22.	**Securities portfolio having the substance of a financial liability**	**97**
23.	**Capital grants**	**98**
24.	**Facilities transferred or financed by third parties**	**99**
25.	**Provision for pensions and similar obligations**	**99**
26.	**Other provisions**	**112**
27.	**Loans and borrowings and other financial liabilities – Loans and others**	**114**
28.	**Derivative Financial instruments**	**119**
29.	**Statement of cash flows**	**122**
30.	**Other current and non-current liabilities**	**124**
31.	**Deferred taxes and corporate income tax**	**124**
32.	**Tax receivables and payables**	**129**
33.	**Trade payables**	**129**
34.	**Information on average payment period to suppliers. Third additional provision. "Reporting requirement" Of Law 15/2010, of 5 July**	**130**
35.	**Revenue**	**131**
36.	**Provisions**	**133**
37.	**Personnel expenses**	**133**
38.	**Operating leases**	**134**
39.	**Taxes**	**135**
40.	**Amortisations and provisions**	**136**
41.	**Gains and losses on disposal of non-current assets**	**136**
42.	**Financial income**	**137**

43. Financial costs 138
44. Contingent assets and liabilities 138
45. Interests in joint ventures 141
46. Guarantee commitments to third parties and other contingent liabilities 142
47. Remuneration of the board of directors 144
48. Information regarding compliance with article 229 of the Spanish Companies act 147
49. Remuneration of senior executives 147
50. Related party transactions and balances 149
51. Events after 31 December 2018 151
52. Fees for services provided by auditors 152
53. Earnings per share 153
54. Preparation of the consolidated annual accounts 154
55. Explanation added for translation to english 154
Appendix I 155
Appendix II 170

Consolidated directors' report 2018

Consolidated directors' report 2018 219
Annual corporate governance report 2018 279
Non-financial information and diversity 2018 391

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

Thousands of Euros			
ASSETS	**Note**	**31.12.2018**	**31.12.2017 (*)**
Intangible assets	**8**	**21,000,248**	**21,148,027**
Goodwill		7,837,843	7,932,404
Other intangible assets		13,162,405	13,215,623
Investment property	**9**	**428,592**	**424,029**
Property, plant and equipment	**10**	**66,109,320**	**64,082,379**
Property, plant and equipment in use		58,517,671	57,301,296
Property, plant and equipment under construction		7,591,649	6,781,083
Current financial investments		**5,191,132**	**5,013,504**
Equity-accounted investees	13.a	1,709,518	1,790,896
Non-current securities portfolio		68,831	65,342
Other non-current financial investments	13.b	2,685,387	2,612,565
Derivative Financial instruments	28	727,396	544,701
Trade and other receivables-non-current	**14**	**1,480,252**	**838,690**
Deferred tax assets	**31**	**5,485,999**	**5,382,373**
Non-current assets		**99,695.543**	**96,889,002**
Assets held for sale	**6**	**62,164**	**355,731**
Nuclear fuel	**16**	**272,674**	**331,883**
Inventories	**17**	**2,173,831**	**1,870,121**
Trade and other receivables current		**6,854,733**	**6,721,258**
Current tax assets	32	252,907	546,304
Public entities, other	32	503,444	318,582
Trade and other receivables current	18	6,098,382	5,856,372
Current Financial investments		**1,177,821**	**1,323,224**
Non-current securities portfolio		–	1,744
Other current financial investments	13.b	571,568	598,883
Derivative financial instruments	28	606,253	722,597
Cash and cash equivalents	**19**	**2,801,157**	**3,197,340**
CURRENT ASSETS		**13,342,380**	**13,799,557**
TOTAL ASSETS		**113,037,923**	**110,688,559**

(*) The consolidated statement of financial position at 31 December 2017 is presented for comparative purposes only.
The accompanying Notes 1 to 54 and the Appendix are an integral part of the consolidated statements of financial position at 31 December 2018.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES
Consolidated statement of financial position at 31 December 2018

Thousands of Euros			
EQUITY AND LIABILITIES	**Note**	**31.12.2018**	**31.12.2017 (*)**
Parent company	**20**	**36,582,199**	**35,509,260**
Subscribed capital		4,798,222	4,738,136
Valuation adjustments		(32,196)	(42,254)
Other reserves		32,731,625	31,435,651
Treasury shares		(1,010,348)	(597,797)
Translation differences		(2,919,156)	(2,828,470)
Net profit for the year		3,014,052	2,803,994
Non-controlling interests		**5,668,803**	**5,671,380**
Perpetual subordinated bonds		**1,725,552**	**1,552,546**
EQUITY		**43,976,554**	**42,733,186**
NON-CURRENT SECURITIES PORTFOLIO HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY	**22**	**140,582**	**14,762**
Capital grants	**23**	1,477,928	1,481,111
Facilities transferred or financed by third parties	**24**	4,823,396	4,763,148
Provisions		**5,447,587**	**5,486,820**
Provision for pensions and similar obligations	25	2,420,032	2,533,465
Other provisions	26	3,027,555	2,953,355
Financial debt		**31,138,863**	**29,784,705**
Financial debt - loans and borrowings	27	30,751,710	29,465,739
Derivative financial instruments	28	387,153	318,966
Other non-current liabilities	**30**	**874,006**	**1,140,638**
Deferred tax liabilities	**31**	**9,042,567**	**8,558,419**
TOTAL NON-CURRENT LIABILITIES		**52,804,347**	**51,214,841**
CURRENT SECURITIES PORTFOLIO HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY	**22**	**36,647**	**32,519**
Liabilities linked to assets held for sale	**6**	**561**	**134,544**
Provisions		**579,984**	**626,841**
Provision for pensions and similar obligations	25	22,874	40,604
Other provisions	26	557,110	586,237
Financial debt		**7,023,143**	**7,509,809**
Financial debt - loans and borrowings	27	6,574,762	7,224,759
Derivative financial instruments	28	448,381	285,050
Trade and other payables		**8,476,105**	**8,422,057**
Trade payables	33	5,428,933	5,307,551
Income tax	32	349,314	259,633
Public entities, other	32	1,039,449	988,926
Other current liabilities	30	1,658,409	1,865,947
Current Liabilities		**16,079,793**	**16,693,251**
TOTAL EQUITY AND LIABILITIES		**113,037,923**	**110,688,559**

(*) The consolidated statement of financial position at 31 December 2017 is presented for comparative purposes only.
The accompanying Notes 1 to 54 and the Appendix are an integral part of the consolidated statements of financial position at 31 December 2018.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). 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 2018

Thousands of Euros			
	Note	31.12.2018	31.12.2017
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS			
Revenue	35	35,075,873	31,263,262
Supplies	36	(19,640,736)	(17,899,454)
GROSS MARGIN		**15,435,137**	**13,363,808**
Personnel expenses	37	(2,678,725)	(2,775,994)
Capitalised personnel expenses	37	658,719	604,398
Net personnel expenses		(2,020,006)	(2,171,596)
External services		(2,797,175)	(2,578,653)
Other operating income		661,950	579,644
Net external services		(2,135,225)	(1,999,009)
Net operating expenses		(4,155,231)	(4,170,605)
Taxes	39	(1,931,003)	(1,874,503)
GROSS OPERATING PROFIT (EBITDA)		**9,348,903**	**7,318,700**
Change in Trade and other contract assets	2.a	(253,656)	(197,399)
Amortisations, depreciation and provisions	40	(3,655,874)	(4,408,670)
OPERATING PROFIT (EBITDA)		**5,439,373**	**2,712,631**
Result of equity-accounted investees - net of taxes	13.a	55,904	(28,733)
Finance income	42	839,911	921,790
Financial costs	43	(1,996,005)	(1,858,892)
Financial result		(1,156,094)	(937,102)
Gains on sales of non-current assets	41	48,468	299,093
Losses on sales of non-current assets	41	(39,617)	(20,039)
Non-current asset profit/(loss)		8,851	279,054
PROFIT OF THE YEAR BEFORE TAX		**4,348,034**	**2,025,850**
Income tax	31	(959,499)	1,397,127
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**3,388,535**	**3,422,977**
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS (NET)		**(51,167)**	**(253,011)**
Non-controlling interests	20	(323,316)	(365,972)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT		**3,014,052**	**2,803,994**
BASIC AND DILUTED EARNINGS PER SHARE IN EUROS FOR CONTINUING OPERATIONS	53	**0.475**	**0.458**
BASIC AND DILUTED EARNINGS PER SHARE IN Euros FOR DESCONTINUED OPERATIONS	53	**(0.008)**	**(0.038)**

(*)The consolidated income statement at 31 December 2017 is presented for comparative purposes only.
The accompanying Notes 1 to 54 and the Appendix are an integral part of the consolidated income statement.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). 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 2018

Miles de euros		31.12.2018				31.12.2017 (*)			
	Note	Of the parent company	From Non-controlling shares	Of perpetual subordinated bonds	Total	Of the parent company	From Non-controlling shares	Of perpetual subordinated bonds	Total
NET PROFIT FOR THE YEAR		**3,014,052**	**285,747**	**37,569**	**3,337,368**	**2,803,994**	**333,730**	**32,242**	**3,169,966**
OTHER COMPREHENSIVE INCOME/(LOSS) TO BE RECLASIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS									
Valuation adjustments		**14,368**	**(7,298)**	**–**	**7,070**	**114,278**	**4,836**	**–**	**119,114**
Change in value of available-for-sale investments	2.a	–	–	–	–	577	–	–	577
Change in value of cash flow hedges		25,554	(9,884)	–	15,670	158,462	7,993	–	166,455
Change in hedging cost		1,041	–	–	1,041	–	–	–	–
Tax effect		(12,227)	2,586	–	(9,641)	(44,761)	(3,157)	–	(47,918)
Differences in exchange rates		**(90,686)**	**(193,420)**	**–**	**(284,106)**	**(1,769,353)**	**(555,977)**	**–**	**(2,325,330)**
Valuation gains or losses		(90,686)	(193,420)	–	(284,106)	(2,065,566)	(555,977)	–	(2,621,543)
Amounts transferred to the consolidated income statement	6	–	–	–	–	296,213	–	–	296,213
TOTAL		**(76,318)**	**(200,718)**	**–**	**(277,036)**	**(1,655,075)**	**(551,141)**	**–**	**(2,206,216)**
OTHER COMPREHENSIVE INCOME NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS EQUITY-ACCOUNTED INVESTEES									
Other reserves		**(39,595)**	**(634)**	**–**	**(40,229)**	**(151,887)**	**1,110**	**–**	**(150,777)**
Actuarial gains and losses on pension schemes	25	(48,501)	(333)	–	(48,834)	(57,818)	28,490	–	(29,328)
Tax effect		8,906	(301)	–	8,605	(20,090)	(10,587)	–	(30,677)
Impact of US Tax reform	31	–	–	–	–	(73,979)	(16,793)	–	(90,772)
Valuation adjustment		**5,613**	**–**	**–**	**5,613**	**(17,596)**	**–**	**–**	**(17,596)**
Change in value of cash flow hedges		7,233	–	–	7,233	(21,992)	–	–	(21,992)
Tax effect		(1,620)	–	–	(1,620)	4,396	–	–	4,396
TOTAL		**(33,982)**	**(634)**	**–**	**(34,616)**	**(169,483)**	**1,110**	**–**	**(168,373)**
OTHER COMPREHENSIVE INCOME OF EQUITY-ACCOUNTED INVESTEES EQUITY-ACCOUNTED INVESTEES (NET OF TAXES)									
Other reserves		**(862)**	**–**	**–**	**(862)**	**(11,952)**	**–**	**–**	**(11,952)**
Valuation adjustments		**(11,031)**	**–**	**–**	**(11,031)**	**10,458**	**–**	**–**	**10,458**
TOTAL	**13.a**	**(11,893)**	**–**	**–**	**(11,893)**	**(1,494)**	**–**	**–**	**(1,494)**
TOTAL NET PROFIT RECOGNISED DIRECTLY IN EQUITY		**(122,193)**	**(201,352)**	**–**	**(323,545)**	**(1,826,052)**	**(550,031)**	**–**	**(2,376,083)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2,891,859	84,395	37,569	3,013,823	977,942	(216,301)	32,242	793,883

(*) The consolidated statement of comprehensive income at 31 December 2017 is presented for comparison purposes only.
The accompanying Notes 1 to 54 and the Appendix are an integral part of the comprehensive income for the year ended at 31 December 2018.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). 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 2018

			Other reserves										
Thousands of Euros	Subscribed capital	Treasury shares	Legal reserve	Revaluation reserves	Share premium	Other restricted reserves	Retained earnings	Valuation adjustments	Translation differences	Net profit for the year	Non-controlling interests	Perpetual subordinated bonds	Total
Balance at 01.01.2018	**4,738,136**	**(597,797)**	**968,998**	**236,866**	**14,667,676**	**693,684**	**14,868,427**	**(42,254)**	**(2,828,470)**	**2,803,994**	**5,671,380**	**1,552,546**	**42,733,186**
Adjustments due to IFRS 9 (Note 2.a.)	–	–	–	–	–	–	100,731	1,108	–	–	(8,017)	–	**93,822**
Adjustments due to IFRS 15 (Note 2.a.)	–	–	–	–	–	–	(40,325)	–	–	–	–	–	**(40,325)**
Adjusted Balance at 01.01.2018	**4,738,136**	**(597,797)**	**968,998**	**236,866**	**14,667,676**	**693,684**	**14,928,833**	**(41,146)**	**(2,828,470)**	**2,803,994**	**5,663,363**	**1,552,546**	**42,786,683**
Net profit for the year	–	–	–	–	–	–	(40,457)	**8,950**	**(90,686)**	**3,014,052**	**84,395**	**37,569**	**3,013,823**
Transactions with shareholders or owners													–
Share capital increase (Note 20)	208,866	–	–	(208,866)	–	–	(859)	–	–	–	–	–	(859)
Share capital reduction (Note 20)	(148,780)	1,245,420	–	–	148,780	–	(1,245,469)	–	–	–	–	–	(49)
Restructuring Distribution of year 2017	–	–	–	–	–	–	2,661,298	–	–	(2,803,994)	(197,955)	–	(340,651)
Acquisition of free allocation rights (Note 20)	–	–	–	–	–	–	(97,899)	–	–	–	–	–	(97,899)
Transactions with treasury shares (Note 20)	–	(1,657,971)	–	–	–	–	(225)	–	–	–	–	–	(1,658,196)
Other changes in equity													–
Securities portfolio-based payments (Note 21)	–	–	–	–	–	–	2,671	–	–	–	(448)	–	2,223
Issue of perpetual subordinated bonds (Note 20)	–	–	–	–	–	–	(2,538)	–	–	–	–	700,000	697,462
Write-off of perpetual subordinated bonds (Note 20)	–	–	–	–	–	–	–	–	–	–	–	(525,000)	(525,000)
Other movements	–	–	–	–	–	–	19,132	–	–	–	119,448	(39,563)	39,017
Balance at 31.12.2018	4,798,222	(1,010,348)	968,998	28,000	14,816,456	693,684	16,224,487	(32,196)	(2,919,156)	3,014,052	5,668,803	1,725,552	43,976,554

Thousands of Euros	Subscribed capital	Treasury shares	Other reserves: Legal reserve	Other reserves: Revaluation reserves	Other reserves: Share premium	Other reserves: Other restricted reserves	Retained earnings	Valuation adjustments	Translation differences	Net profit for the year	Non-controlling interests	Perpetual subordinated bonds	Total
Balance at 01.01.2017 (*)	**4,771,559**	**(1,083,367)**	**958,271**	**368,436**	**14,667,676**	**528,691**	**14,983,227**	**(148,394)**	**(1,059,117)**	**2,704,983**	**3,445,898**	**550,526**	**40,687,389**
Comprehensive income for the year (excluding impact of Changes to the consolidation perimeter) (Note 6)	–	–	–	–	–	–	(163,839)	107,806	(2,407,780)	2,759,982	(216,301)	32,242	112,110
Transactions with shareholders or owners													
Scrip issue (Note 20)	131,570	–	–	(131,570)	–	–	(834)	–	–	–	–	–	(834)
Share capital decrease (Note 20)	(164,993)	1,280,176	–	–	–	164,993	(1,280,214)	–	–	–	–	–	(38)
Distribution of 2016 profit	–	–	10,727	–	–	–	2,507,184	–	–	(2,704,983)	(101,332)	–	(288,404)
Acquisition of free allocation rights (Note 20)	–	–	–	–	–	–	(645,800)	–	–	–	–	–	(645,800)
Transactions with treasury shares (Note 20)	–	(794,606)	–	–	–	–	2,950	–	–	–	–	–	(791,656)
Other movements in equity													–
Share-based payments (Note 21)	–	–	–	–	–	–	6,830	–	–	–	845	–	7,675
Modification of the consolidation perimeter (Note 6)	–	–	–	–	–	–	(500,926)	(666)	638,427	44,012	2,320,651	–	2,501,498
Issue of Perpetual subordinated bonds (Note 20)	–	–	–	–	–	–	(5,150)	–	–	–	–	1,000,000	994,850
Other changes	–	–	–	–	–	–	(35,001)	–	–	–	221,619	(30,222)	156,396
Balance at 31.12.2017 (*)	4,738,136	(597,797)	968,998	236,866	14,667,676	693,684	14,868,427	(42,254)	(2,828,470)	2,803,994	5,671,380	1,552,546	42,733,186

(*) The consolidated statement of changes in equity at 31 December 2017 is presented for comparison purposes only. The accompanying Notes 1 to 54 and the Appendix are an integral part of the consolidated statement of of changes in equity for the year ended at 31 December 2018.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED AT 31 DECEMBER 2018

Thousand of Euros	Note	31.12.2018	31.12.2017 (*)
Profit of the year from continuing activities before tax		4,348,034	2,025,850
Profit of the year before tax discontinued operations before tax		(64,660)	(321,490)
Adjustments for			
Amortisation, depreciation, provisions valuation adjustments finance assets and personnel expenses for pensions	37, 40	4,080,238	4,969,021
Results of companies accounted for using the equity method net of taxes	13	(55,904)	28,405
Grants credited to income and other deferred income	23	(282,898)	(276,795)
Income and expenses financial	42, 43	1,156,094	946,812
Profit from the disposal on non-current assets	41	(8,851)	(278,962)
Changes in working capital			
Change in trade and other receivables		(434,905)	36,145
Change in inventories		(313,389)	(169,087)
Change in trade and other payables		(24,057)	(310,640)
Change in non-current receivables and other payables		(24,520)	(1,397)
Provisions paid		(511,382)	(470,723)
Income tax paid		(332,891)	(542,169)
Dividends received		55,339	50,483
Cash flows from (used in) operating activities		**7,586,248**	**5,685,453**
Change in cash due to variations in the method and / or perimeter of consolidation	6	–	76,366
Investments in intangible assets	8	(1,113,978)	(530,992)
Capitalised interests paid for intangible assets	42	(35,735)	(21,506)
Investments in associates	13.a	(91,305)	(77,331)
Sale of subsidiaries		(1,746)	(1,641)
Other investments		(675,737)	1,016
Acquisition of investment property	9	(11,878)	(4,169)
Acquisition property, plant and equipment	10	(5,237,151)	(5,594,372)
Capital grants and other deferred income	23	14,040	42,761
Capitalised interests paid for property, plant and equipment	42	(156,896)	(112,536)
Net inflow/outflow due to current financial assets		(67,300)	584,087
Interest received		192,291	130,830
Income tax		22,076	–
Proceeds from sales of non-financial assets		6,604	2,800
Proceeds from sales of financial assets		47,152	312,017
Sale of subsidiaries		1,059,150	–
Net cash flows from (used in) investing activities		**(6,050,413)**	**(5,192,670)**
Free-of-charge allocation rights acquisition	20	(97,899)	(645,800)
Dividends paid		(142,696)	(187,072)
Dividends paid to non-controlling interests		(161,241)	(104,029)
Issuance of perpetual subordinated bonds	20	697,462	1,000,000
Reimbursement of perpetual subordinated obligations	20	(525,000)	–
Payments of perpetual subordinated bonds interests	20	(39,563)	(35,337)
Issues and disposal from borrowings	20	13,325,103	13,637,173
Repayment of borrowings	29, 22	(12,493,320)	(10,419,647)
Interest paid excluded capitalised interest		(879,389)	(840,985)
Cash outflows due to capital decrease		(49)	(38)
Cash outflows due to capital increase		(859)	(834)
Treasury shares acquisition	20	(1,674,480)	(1,004,890)
Proceeds from sale of treasury shares	20	63,286	90,589
Transactions with non-controlling interests		132,483	(67,503)
Net cash flows from (used in) financing activities		**(1,796,162)**	**1,421,627**
Effect of exchange rate changes on cash and cash equivalents		**(135,856)**	**(149,756)**
Net increase / (decrease) in cash and cash equivalents		**(396,183)**	**1,764,654**
Cash and cash equivalents at the beginning of the year		**3,197,340**	**1,432,686**
Cash and cash equivalents at the ending of the year		**2,801,157**	**3,197,340**

(*) The consolidated statement of cash flows for 2017 is presented for comparison purposes only.
The accompanying Notes 1 to 54 and the Appendix are an integral part of the consolidated statements of cash flows for the year ended at 31 December 2018.

IBERDROLA, S.A. AND SUBSIDIARIES
Consolidated financial statement for the year ended at 31 December 2018

1. ACTIVITY OF THE GROUP

IBERDROLA S.A. (hereinafter, IBERDROLA), a company incorporated in Spain and with registered office at Plaza Euskadi 5, in Bilbao, is the parent of a group of companies whose main activities are the following:

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

The aforementioned activities may be carried out in Spain as well as abroad, and may be carried out, in whole or in part, either directly by IBERDROLA or through the ownership of shares or equity interests in other companies, subject in all cases and at all times to applicable legal provisions for each industry, especially the electricity industry. The IBERDROLA Group carries out its activities mainly in five countries in the Atlantic region: Spain, United Kingdom (UK), United States of America (USA), Mexico and Brazil.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

2.a) Applicable accounting legislation

The IBERDROLA Group's 2018 consolidated annual accounts authorised for issue by the directors on 19 February 2019, in accordance with International Financial Reporting Standards (hereinafter, IFRS), as adopted by the European Union, in conformity with Regulation (EC) No 1606/2002 of the European Parliament and of the European Council. The directors of IBERDROLA expect these consolidated annual accounts to be approved at the General Shareholders' Meeting without modification.

The IBERDROLA Group's 2017 consolidated annual accounts were approved by the shareholders at their General Meeting held on 13 April 2018.

At 31 December 2018, the annual accounts present negative working capital of Euros 2,774 million. The directors declare the deficit will be offset by the generation of funds from the IBERDROLA Group's businesses. Moreover, as shown in Note 4, the IBERDROLA Group has an undrawn granted borrowings of Euros 10,211 million.

These consolidated annual accounts have been prepared on the basis of a historical cost, except for available-for-sale financial assets and derivatives, 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 preparation of these consolidated annual accounts are those used for the year ended on 31 December 2017, except for the application on January 1 2018, of IFRS 9 "Financial instruments" and IFRS 15 "Revenues from contracts with customers" published by the International Accounting Standards Board (IASB), adopted by the European Union for its use in Europe:

The main impacts of applying the new standards above are:

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

According to the core principle of IFRS 15, an entity recognises revenue from ordinary activities to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The IBERDROLA Group will adopt IFRS 15 retroactively recording the effect of applying this standard at 1 January 2018. Thus, annual accounts for 2017 do not include any effects resulting from the application of IFRS 15.

The adoption of IFRS 15 has affected the accounting treatment of the following concepts::

- The capitalisation of incremental costs incurred in obtaining contracts with customers, which, prior to application of IFRS 15 used to be posted under "External services" in the consolidated income statement.

  Incremental costs capitalised by IBERDROLA Group mainly refer to sales commissions incurred to obtain a contract with a customer which would not otherwise have been incurred if the contract had not been obtained.

  Assets recognised for this item are amortised on a systematic basis according to the average expected life of contracts with customers that are associated with such costs.

- Claims against customers in construction contracts. IFRS 15 establishes that to recognise modifications to contracts with customers as revenue, either because new rights and obligations are generated or because pre-existing ones are changed, these have to be approved in writing, by verbal agreement or implicitly on account of customary business practices. However, under the previous IAS 11 "Contracts under construction" claims where included under income to the extent that they are probable and can be reliably measured.

- Penalties with customers in construction contracts for delays or other reasons. IFRS 15 establishes that the estimated amount of variable consideration is to be included in the transaction price only to the extent that it is highly likely that there will be no significant reversal of the amount of revenue when the uncertainty associated with the variable consideration is subsequently resolved. However, under the previous IAS 11 "Contracts under construction" penalties were included under income to the extent that they are probable or the uncertainties related to them were settled.

- The timing of recognition of the revenue that corresponds to assignment agreements applicable to the capacity of technical facilities.

The impact from the above items that was recognised by the IBERDROLA Group in implementing IFRS 15 as of 1 January 2018 was:

Thousands of Euros	Cost capitalisation	Claims/penalties	Time income recognition	Total
Intangible assets.	175,001	-	-	175,001
Trades and other accounts receivable	-	(133,049)	(50,579)	(183,628)
Deferred tax assets	-	64,562	15,174	79,736
Non-current assets	**175,001**	**(68,487)**	**(35,405)**	**71,109**
Trades and other accounts receivable	-	(57,792)	-	(57,792)
CURRENT ASSETS	**-**	**(57,792)**	**-**	**(57,792)**
TOTAL ASSETS	**175,001**	**(126,279)**	**(35,405)**	**13,317**
Parent company	134,496	(192,116)	17,295	(40,325)
EQUITY	**134,496**	**(192,116)**	**17,295**	**(40,325)**
Other non-current payables	-	-	(75,286)	(75,286)
Deferred tax liabilities	40,505	-	22,586	63,091
NON-CURRENT LIABILITIES	**40,505**	**-**	**(52,700)**	**(12,195)**
Provisions	-	(1,202)	-	(1,202)
Trade and other payables	-	67,039	-	67,039
Current Liabilities	**-**	**65,837**	**-**	**65,837**
TOTAL EQUITY AND LIABILITIES	**175,001**	**(126,279)**	**(35,405)**	**13,317**

While undertaking the performance through transfer of goods or services to the client before the client pays the consideration or before payment may be enforced, IBERDROLA Group submits the contract as an asset of the contract, excluding the amounts submitted as accounts receivable. An account receivable is the unconditional right to receive compensation subject to the passing of time for payment to be enforced. IBERDROLA Group submits the agreement's assets in the sub-headings "Trade debtors and other non-current assets" and "Trade debtors and other current assets-Other trade debtors and other current assets" of the consolidated annual accounts (Notes 14 and 18).

A liability of the agreement is the obligation that IBERDROLA Group has to transfer goods or services to a client from whom it has already received a consideration (or this client consideration has come due). IBERDROLA Group presents the contract's assets in the sub-headings "Other non-current liabilities" and "Trade creditors and other liabilities-Other trade creditors" of the consolidated annual accounts (Notes 30 and 33).

Given below is the amount by which each item in the annual accounts had been affected by implementation of IFRS 15 as of 31 December 2018 compared with the previously applied rules:

Thousands of Euros	In accordance with IFRS 15	Effects due to changes in rules	In accordance with previous rules
Intangible assets	21,000,248	(254,714)	20,745,534
Real estate investments	428,592	-	428,592
Property, plant and equipment	66,109,320	-	66,109,320
Non-Current financial investments	5,191,132	-	5,191,132
Trade and other receivables-non-current	1,480,252	183,628	1,663,880
Deferred tax assets	5,485,999	(79,955)	5,406,044
NON-CURRENT ASSETS	**99,695,543**	**(151,041)**	**99,544,502**
Assets held for sale	62,164	-	62,164
Nuclear fuel	272,674	-	272,674
Inventories	2,173,831	-	2,173,831
Trade and other receivables current	6,854,733	57,792	6,912,525
Current financial investments	1,177,821	-	1,177,821
Cash and cash equivalents	2,801,157	-	2,801,157
CURRENT ASSETS	**13,342,380**	**57,792**	**13,400,172**
TOTAL ASSETS	**113,037,923**	**(93,249)**	**112,944,674**

Thousands of Euros	In accordance with IFRS 15	Effects due to changes in rules	In accordance with previous rules
Parent company	**36,582,199**	**(21,075)**	**36,561,124**
Share capital	4,798,222	-	4,798,222
Valuation adjustments	(32,196)	-	(32,196)
Other reserves	32,731,625	40,325	32,771,950
Treasury shares	(1,010,348)	-	(1,010,348)
Translation differences	(2,919,156)	1,417	(2,917,739)
Net profit for the year	3,014,052	(62,817)	2,951,235
Non-controlling interests	**5,668,803**	**-**	**5,668,803**
Perpetual subordinated bonds	**1,725,552**	**-**	**1,725,552**
EQUITY	**43,976,554**	**(21,075)**	**43,955,479**
NON-CURRENT SECURITIES PORTFOLIO HAVING THE	**140,582**	**-**	140,582
Capital grants	1,477,928	-	1,477,928
Facilities transferred or financed by third parties	4,823,396	-	4,823,396
Provisions	5,447,587	-	5,447,587
Financial debt	31,138,863	-	31,138,863
Other non-current liabilities	874,006	75,381	949,387
Deferred tax liabilities	9,042,567	(80,841)	8,961,726
NON-CURRENT LIABILITIES	**52,804,347**	**(5,460)**	**52,798,887**
NON-CURRENT SECURITIES PORTFOLIO HAVING THE	**36,647**	**-**	**36,647**
Liabilities linked to assets held for sale	561	-	561
Provisions	579,984	1,203	581,187
Financial debt	7,023,143	-	7,023,143
Trade and other payables	8,476,105	(67,917)	8,408,188
CURRENT LIABILITIES	**16,079,793**	**(66,714)**	**16,013,079**
TOTAL EQUITY AND LIABILITIES	**113,037,923**	**(93,249)**	**112,944,674**

Thousands of Euros	In accordance with IFRS 15	Effects due to changes in rules	In accordance with previous rules
Revenue	35,075,873	(6,458)	35,069,415
Provisions	(19,640,736)	-	(19,640,736)
GROSS MARGIN	**15,435,137**	**(6,458)**	**15,428,679**
Net personnel expenses	(2,020,006)	-	(2,020,006)
Net External services	(2,135,225)	(155,462)	(2,290,687)
Net Operating Expenses	(4,155,231)	(155,462)	(4,310,693)
Taxes	(1,931,003)	-	(1,931,003)
Gross operating profit (EBITDA)	**9,348,903**	**(161,920)**	**9,186,983**
Change in Trade and other contract assets	(253,656)	-	(253,656)
Amortisations, depreciation and provisions	(3,655,874)	80,580	(3,575,294)
Operating profit (EBITDA)	**5,439,373**	**(81,340)**	**5,358,033**
Result of equity-accounted investees - net of taxes	55,904	-	55,904
Finance income	839,911	-	839,911
Financial costs	(1,996,005)	-	(1,996,005)
Financial result	(1,156,094)	-	(1,156,094)
Non-current asset profit/(loss)	8,851	-	8,851
profit of the year before tax	**4,348,034**	**(81,340)**	**4,266,694**
Income tax	(959,499)	17,865	(941,634)
PROFIT FOR THE YEAR FROM CONTINUING ACTIVITIES	**3,388,535**	**(63,475)**	**3,325,060**
PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS (NET)	**(51,167)**	**658**	**(50,509)**
Non-controlling interests	(323,316)	-	(323,316)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT	**3,014,052**	**(62,817)**	**2,951,235**

IFRS 9: *"Financial instruments"*:

IFRS 9 establishes the requirements for recognising and measuring financial assets, financial liabilities and certain contracts to buy and sell non-financial items and replaces the previously applied IAS 39.

Classification and measurement of financial assets and liabilities

IFRS 9 replaces the previous classification of financial assets and these are now classified in accordance with the business model within which they are held and the cash flow characteristics under their contractual terms. On the other hand, the new standard to a great extent retains the requirements in IAS 39 for classifying and measuring financial liabilities.

The IBERDROLA Group has adopted the classification and measurement requirements retroactively, with initial application on 1 January 2018, thus taking the option of not restating the figures for comparative periods.

The IBERDROLA Group has classified its financial assets into the following categories:

Categories	
Financial Assets at amortised cost	Financial assets that: - are held within a business model where the objective is to hold the assets to obtain the contract cash flows, and - whose contract terms produce, on specific dates, cash flows which are only payments of the principal and interest on the amount of the outstanding principal.
Financial assets at fair value through profit and loss:	This category embraces those financial assets which fail to meet the conditions for being classified as "measured at amortised cost".

The IBERDROLA Group has irrevocably decided that securities portfolio existing at the time of the initial application of IFRS 9 should be classified at fair value through profit and loss where the changes in fair value are recognised under "Financial costs" and "Financial income" in the consolidated income statement. Under IAS 39 these investments were classified in the category of available-for-sale assets and changes in their fair value were debited or taken to "Value adjustments" in the consolidated statement of financial position up until the time of sale of such investments or their impairment, at which point the cumulative amount for this item was allocated to the consolidated income statement.

Under IAS 39 the amounts classified under IAS 39 have the following equivalent in the new IFRS 9 categories:

In accordance with IAS 39	In accordance with IFRS 9
Loans and receivables	Financial Assets at amortised cost
Available-for-sale assets	Financial assets at fair value through profit and loss:
Assets held for trading	Financial assets at fair value through profit and loss:

On the other hand, classification of the IBERDROLA Group's financial liabilities has not undergone any changes with respect to what featured in the consolidated annual accounts for 2017.

Impairment of financial assets at amortised cost and contract assets

Under IFRS 9 it is no longer necessary for there to be some event that evidences impairment to recognise credit losses. Instead, expected credit losses are carried, which means bringing forward recognition of credit losses compared to IAS 39.

The IBERDROLA Group has adopted the value impairment requirements retroactively, with initial application on 1 January 2018, thus taking the option of not restating the figures for comparative periods.

The impact recognised by the IBERDROLA Group from applying the new expected loss model (Note 3.I) to calculate value impairment of financial assets at amortised cost and contract assets as of 1 January 2018 was:

Thousands of Euros	01.01.2018
Current Financial investments	(475)
Trades and other accounts receivable	(9,090)
Deferred tax assets	2,652
NON-CURRENT ASSETS	**(6,913)**
Trades and other accounts receivable	(7,372)
Current Financial investments	(6,918)
Cash and cash equivalents	(710)
CURRENT ASSETS	**(15,000)**
TOTAL ASSETS	**(21,913)**
Parent company	(14,640)
Non-controlling interests	(7,273)
TOTAL EQUITY AND LIABILITIES	**(21,913)**

Valuation adjustment due to impairment in "Non-current trade and other non-current assets" and "Current trade and other current assets" is detailed separately in the consolidated income statement under "Valuation adjustments trade and other contract assets". Subsequently, the amount of Euros 197,399 million has been reclassified which, in accordance with the previous IAS 39, was detailed in "Amortisations and provisions" in the income statement for 2017.

Hedge accounting

The requirements of IFRS 9 make hedge accounting more closely aligned with risk management, establish a focus that is more in accordance with principles and tackle the incongruences and shortcomings of the hedge accounting model in IAS 39 that was previously applied.

In accordance with IFRS 9, the IBERDROLA Group will record as hedge cost the temporary value of option contracts and term of term contracts should they be excluded from hedges (Note 20). Under IAS 39 these elements were carried in the consolidated income statement.

The transition to IFRS 9 in relation to the recording of hedges will be made prospectively, with the exception of the 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 initial application of IFRS 9 as of 1 January 2018 as regards the above-mentioned time value has meant a charge of Euros 1,552 thousand to "Other reserves" in the consolidated statement of financial position along with a credit to "Value adjustments" in the consolidated statement of financial position (Note 20).

Changes to financial liabilities

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) imply recording in the consolidated annual accounts 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.

Previous to this change, in changes of financial liabilities whose conditions were not substantially different, 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.

The result of retroactively applying these criteria on 1 January 2018 is as follows:

Thousands of Euros	01.01.2018
Parent company	117,627
EQUITY	**117,627**
Finance debt (Note 27).	(156,434)
Deferred tax liabilities	38,807
NON-CURRENT LIABILITIES	**(117,627)**
TOTAL EQUITY AND LIABILITIES	-

The consolidated income statement for 2018 includes a greater cost of Euros 34,600 thousand recognised under "Financial cost" in the consolidated income statement as a result of the rise in the effective interest rate under the new accounting rule for financial liabilities that have been modified to an insignificant degree with respect to the rate which was applied for 2017.

Rules issued pending of application

At the reporting date of these consolidated annual accounts, the following standards, interpretations, and amendments had been adopted, becoming effective after December 31, 2018:

		Mandatory application	
Regulation		IASB	European Union
IFRS 16	Leases	01.01.2019	01.01.2019
IFRS 17	Insurance contracts	01.01.2021	(*)
IFRIC 23	Uncertainties over income tax treatments	01.01.2019	01.01.2019
Modifications to IFRS 9	Prepayment Features with Negative Compensation	01.01.2019	01.01.2019
Modifications to IAS 28	Long-term interests in subsidiaries and joint business	01.01.2019	(*)
Modifications to IAS 19	Changes, reductions or settlement of defined benefit retirement plans	01.01.2019	(*)
Cycle 2015-2017	Annual improvements several standards	01.01.2019	(*)
Modifications to IFRS 3	Business definition	01.01.2020	(*)
Modifications to AIS 1 & AIS 8	Material definition	01.01.2020	(*)

(*) Pending approval from the European Union

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

The IBERDROLA Group believes that their application would not have had a material impact on these consolidated annual accounts, and, furthermore, would not have a material impact when they are applied, except for the application of IFRS 16 *"Leases"*.

IFRS 16: *"Leases"*

The IBERDROLA Group will apply on the annual accounts starting from 01 January 2019 the IFRS 16: *"Leases"*. All the quantitative effects are shown below in gross figures.

From the perspective of the lesser, IFRS 16 eliminates the current classification among operating and financial leases and sets, as regards lease agreements, that the lessee shall recognise in the income statement an asset for right of use and a liability for the present value of the lease during said period.

The lease expense, which in these consolidated annual accounts is recognised under "External services" on the consolidated income statement, will now be recognised in the consolidated income statement under "Amortisations and provisions" due to the amortisation of said right of use asset and "Financial cost" due to the current value of the liability.

From the perspective of the lessor, IFRS 16 does not introduce relevant changes.

IBERDROLA Group has carried out an analysis in order to assess whether an agreement is or includes a lease on the date of its first application in accordance with the conditions set in IFRS 16. In said analysis, IBERDROLA Group has interpreted that assignment of land use does not imply a lease when its owner has the right to carry out any kind of financial activity implying the financial profit inherent to the use of the asset subject to the agreement has not been assigned.

IBERDROLA Group will transition to IFRS 16 through the modified retroactive alternative which does not imply re-stating the comparative period and recognising the effect of the application of IFRS 16 for the first time on 1 January 2019 (date it was first applied). Therefore, in lease agreements in which IBERDROLA Group acts as lessee, lease liabilities will be measured at the present value of the remaining lease payments to which the discount rate at the time of the first application will be discounted. With some exceptions, right-of-use assets will be measured in the same amount as liabilities.

In accordance with the options offered by IFRS 16, the IBERDROLA Group has opted for not applying it to lease agreements for intangible assets, as well as applying the exemption when recognising current leases (lease term equal or under 12 months), which will continue being accounted for as presently.

The same contract may include different lease elements, some of them not qualifying as leases. The IBERDROLA Group has opted for not separating both elements for accounting purposes and recognising them as a sole element, except for the type of underlying assets for which the separation may have a significant impact on the annual accounts.

The implementation of IFRS 16 is well advanced. In this regard, it is estimated that IFRS 16 at 1 January 2019 will imply an increase in current and non-current liabilities of Euros 399,139 million in accordance with the following agreements in accordance with this type of assets:

Thousands of Euros	01 January 2019
Buildings and real property	231,437
Vehicle fleet	34,543
Optical fibre and others (Networks)	38,334
Land related to renewable facilities (solar and other)	46,048
Other	48,803
Total	**399,165**

Details of discount rates (minimum and maximum ranges) used at the time of the first application are as follows:

	Less than 5 years		Between 20 and 30 years	
Currency	**Minimum**	**Maximum**	**Minimum**	**Maximum**
Euro	-	2.15	1.87	2.94
Sterling Pound	1.12	3.21	3.19	4.94
US dollar	2.68	3.3	4.16	4.48
Mexican Pesos	9.09	9.46	11.36	12.62
Brazilian Reals	8.68	11.96	14.55	15.15

Details of the reconciliation between the future minimum payment for non-cancellable operating leases under the scope of the current IAS 17 at 31 December 2018 (Note 38) and lease liabilities estimated to be recognised at 1 January 2019 in the transition to IFRS 16 are as follows:

Thousands of Euros	
Future minimum payments for non-cancellable operating leases in accordance with IAS 17 (Note 38)	1,462,154
Re-stated contracts not qualifying as lease in accordance with IFRS 16	(846,374)
Lease agreements starting after 1 January 2019 and other	(127,144)
Difference in financial discount	(89,471)
Lease liabilities at 1 January 2019 under IFRS 16	**399,165**

Under current standards, the majority of lease agreements for land in which the wind generation facilities are located qualify under operating leases. In application of IFRS 16, IBERDROLA Group interprets that the majority of these agreements do not include lease in accordance with the criteria previously described. Said interpretation in the application of IFRS 16 is in accordance with international practice in the scope of the application of the IFRS.

However, the accounting treatment of agreements observing shared used of underlying assets is subject to changes in accordance with future interpretations. The Group intends on following possible discussions on the matter that may take place in the future in order to confirm the reasonability of the accounting treatment adopted. In the event lease agreements for the use of land in which the wind generation facilities qualified as lease agreements under the scope of IFRS 16 on the date the standard is applied for the first time, estimated current and non-current liabilities for the IBERDROLA Group would increase, in the maximum amount of Euros 846,374 million.

2.b) Basis of consolidation

Appendix I to these consolidated annual accounts lists all IBERDROLA subsidiaries, joint ventures and associates, together with the consolidation method or measurement basis used and other related disclosures.

Subsidiaries

The subsidiaries over which the IBERDROLA Group exercises control have been fully consolidated from the date they were acquired, except when they have a negligible effect on the true and fair view 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 returns from its involvement in the company, and has the capability to influence these returns through its power thereover. For the purpose of preparing 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 Appendix to these consolidated annual accounts contains information on fully consolidated companies in which the Group holds less than a 50% interest, and on companies in which the Group holds more than 50% interest that have not been consolidated.

The results of subsidiaries acquired or sold during 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 the consolidation process.

On the takeover 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 a liability is recognised as goodwill, as it corresponds to assets that cannot be identified and measured separately. If the difference is negative, it is taken to the consolidated income statement.

Non-controlling interests are recognised upon initial recognition at an amount equivalent to their proportional interest in the fair value of the acquiree on the takeover date. The value of non-controlling interests' share of equity and results of fully consolidated subsidiaries is presented under the "Equity –Non-controlling interests" in the consolidated statement of financial position and under the "Non-controlling interests" in the consolidated income statement, respectively.

When there is a loss of control of a company of the Group, its assets, liabilities and any non-controlling interest are derecognised. The resulting gains or losses are recognised in profit or loss. Investments remaining in subsidiaries over which control has been lost are measured at their fair value on the date this loss of control occurred. Gains/losses on shares purchased from non-controlling interests in controlled companies and sales of shares without loss of control, are debited or taken to reserves.

Equity-accounted investees

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

For the purpose of preparing these consolidated annual accounts, significant influence 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 significant influence.

Appendix I to these consolidated annual accounts contains information on equity-accounted companies in which the Group holds less than a 20% interest, and companies in which the Group holds between a 20% and 50% interest that have not been accounted for using the equity method.

In transactions carried out with associates and joint ventures, the gains or losses on the operation are eliminated at the percentage of interest held in each company. The result of measuring investments in equity-accounted associates is recognised under "Other reserves" and "Share of profit/(loss) of equity-accounted investees - net of taxes" in the consolidated statement of financial position and the consolidated income statement, respectively.

Closing date of the annual accounts

The closing date of the annual accounts of subsidiaries, joint ventures and associates is 31 December, with the exception of Siemens Gamesa Renewable Energy, S.A. (hereinafter SIEMENS GAMESA), whose closing date is 30 September. However, for the purposes of preparing these consolidated annual accounts harmonisation has been applied so that the equity method includes the equity of the associate at 31 December.

The accounting policies applied by the companies of the consolidated Group are the same or have been harmonised with those used by the IBERDROLA Group.

Conversion of the annual accounts of foreign companies

The annual accounts of each foreign company were prepared in their respective functional currencies, understood as the currency of the economic environment in which each company operates and in which it generates and uses cash.

The conversion of the annual accounts of foreign companies has been carried out by applying the year-end exchange rate method. This method consists of converting all the assets, rights and obligations to Euros at the exchange rates prevailing at the reporting date of the consolidated annual accounts, and the average exchange rate for the year (provided that there have not been significant transactions that warrant the use the average exchange rate) for the consolidated income statement items, keeping equity at the historical exchange rate at the date of 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 equity accounts.

2.c) Comparative information

When comparing the figures for 2018 included in these consolidated annual accounts with those corresponding to 2017, it is necessary to take into account the following:

The acquisition of Neoenergia, S.A.

As indicated in Note 6, 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. As a result of this transaction, IBERDROLA Group acquired NEOENERGIA compared to the previous control granted by its prior stake. This thus resulted in a business combination in stages.

After the transaction took effect, Banco do Brasil and Previ own 9.35% and 38.21% approximately and respectively of the capital of NEOENERGIA, and IBERDROLA ENERGÍA now holds 52.45%, including the businesses of ELEKTRO as consideration. Currently, Banco do Brasil and Previ are holders of 12% and 49% respectively of the capital of NEOENERGIA, with 39% remaining owned by IBERDROLA ENERGÍA.

The acquisition of NEOENERGÍA should be considered when comparing the figures for 2018 included in these consolidated annual accounts with the 2017 figures.

New applicable rules from 1 January 2018

As mentioned in Note 2.a., on 1 January 2018 IFRS 15 and IFRS 9 were applied for the first time.

Tax reform in the US

On 22 December 2017 the T*ax 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 Federal Tax Structure, the most significant aspect of which is the reduction in federal tax for legal persons from 35% to 21%. This circumstance affected the comparison under "Corporate income tax" in the consolidated annual accounts (Note 31).

Merge GAMESA-SIEMENS

In the first half of 2017, as a result of the conclusion of the decision to merge the wind power businesses of Gamesa Corporación Tecnológica, S.A. (GAMESA) and Siemens AG (SIEMENS) whereby Siemens Wind HoldCo (as disappearing company) was taken over by GAMESA (as surviving company), there was dilution to IBERDROLA Group's percentage holding in GAMESA, which was reduced by 19.69% to 8.07%.

The profit as a result of the aforementioned dilution of the operation reached Euros 250,695 million, which were recognised under 'Gains on disposal of non-current assets' in the 2017 consolidated income statement (Notes 13.a and 41).

2.d) Amendment to comparative information

Geographical and business segment reporting (Note 7)

As provided in IFRS 8: "Operation segments" revises comparative information from the previous year for the following reasons:

- From 1 January 2018, hydropower assets in the countries where the IBERDROLA Group operates have been transferred from the Liberalised business to the Renewables business. The purpose of this restructure is to group clean generation assets in only one operation segment. Said change in the management of hydropower assets entails corporate restructuring completed on 1 August 2018, when all administrative authorisations had been obtained.

- In 2017, the gas business in the United States and Canada was included under the Liberalised-Rest of the World segment. In 2018, after having sold the whole gas business in the United States (Note 41), the remaining assets and liabilities of this business in Canada are included under "Other businesses".

Earnings per share (Note 53)

As described in Note 20 and 51 of these consolidated annual accounts, in July 2018 and January 2019 two free capital increases took place in the context of the "IBERDROLA scrip dividend" programme. According to IAS 33: "Earning per share" these scrip issues meant that earnings per share for 2017 included in the consolidated annual accounts for that year had to be corrected, and have been taken into account when calculating basic and diluted earnings per share for 2018.

3. ACCOUNTING POLICIES

3.a) Goodwill

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

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 are measured at acquisition cost and those that are acquired earlier are measured at the carrying amount at 31 December 2003 in accordance with Spanish accounting standards in effect on that date, as provided for in IFRS 1: "First-time adoption of IFRS".

Goodwill is not amortised. However, at the end of each reporting period its recoverability is analysed and any impairment is recognised (Note 3.i).

3.b) *Other intangible assets*

Concessions, patents, licenses, trademarks and similar rights

The amounts recognised as concessions, patents, licenses, trademarks and similar rights reflect 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, as they are intangible assets with an indefinite useful life, they are not amortised by the IBERDROLA Group, although they are tested yearly for impairment, as described in Note 3.i.

IFRIC 12: "Service concession arrangements" affects public-private service concession arrangements that meet two prerequisites:

- the grantor controls or regulates which services the operator must provide for 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 contractual right to control them.

If the operator performs more than one service (e.g. operation services and construction or upgrade services), the consideration received under the agreement for provision of services is recognised separately in accordance with IFRS 15 "Ordinary income from contracts with customers".

In the case of IBERDROLA Group, IFRIC 12 only affects the electricity distribution and transmission activities carried out by in Brazil (Note 11). 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 investments" in the consolidated statement of financial position (Note 13.b).

- An intangible asset, amortisable in the concession period, which is recognised under "Other intangible assets" in the consolidated statement of financial position (Note 8).

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

Computer software

The acquisition and development costs incurred in relation to computer software are recognised 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 application.

Customer acquisition costs

IBERDROLA Group recognises the incremental costs of signing contracts mainly from commissions for signing sales contracts as an intangible asset and they are redeemed during the estimated duration of those contracts.

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.

3.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 in accordance with the features of each asset concerned.

3.d) Property, plant and equipment

Items of property, plant and equipment are measured at acquisition or production cost less depreciation and accumulated impairment. Acquisition cost includes, where applicable, the following:

1. Prior to the date of transition to IFRS (1 January 2004), the IBERDROLA Group revalued certain Spanish assets under "Property, plant and equipment" in the consolidated statement of financial position as permitted by applicable legislation, including 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:

   - Interests accrued on specific sources of financing used to build certain assets are fully capitalised.

   - Interests accrued on external general-purpose borrowings is capitalised by applying the average effective interest rate of 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. Personnel expenses relating directly or indirectly to constructions in progress (Note 37).

4. If the IBERDROLA Group is required to dismantle its facilities or restore the place where they are located, the present value of said costs are included in the carrying amount of the asset at their present value, with a credit to "Provisions - Other provisions" of the consolidated statement of financial position (Note 3.s).

   The IBERDROLA Group periodically checks its estimate of this current value increasing or decreasing the assets value depending on the results of said estimate.

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

Expansion or improvement costs 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.

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

Every year, the IBERDROLA group reviews the useful life of its assets in accordance with internal and external information sources.

Since 2017, following this review, the IBERDROLA Group considers 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 estimate, which as per accounting regulations has been applied prospectively since 01 January 2017, and resulted in a lower depreciation charge of approximately Euros 65 million. This amount is gradually decreasing as the useful life of hydroelectric and combined cycle power plants in use draws an end 1 January 2017.

The cost of property, plant and equipment in use is depreciated by depreciating the cost of the different items on a straight-line basis, less any residual value, over their estimated useful lives, the majority of which are as follows:

	Average years of estimated useful life
Conventional thermal power plants	25-50
Combined cycle power plants	40
Nuclear plants	40
Wind farms	
Structural components	40
Non-structural components	25
Gas storage facilities	25-40
Transmission facilities	40-56
Distribution facilities	30-54
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 11), civil engineering assets are depreciated over the life of the concession, while their electromechanical equipment is depreciated in 50 years or in the concession period if this was lower.

Significant components of the property, plant and equipment with different useful lives are considered separately.

3.f) Lease agreements

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

Assets acquired under finance leases are recognised 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 are amortised over the useful life of each asset.

Expenses arising from operating leases are taken to the consolidated income statement on an accrual basis over the term of the lease agreement.

3.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 3.d (Note 42).

Nuclear fuel consumed is recognised under "Supplies" in the consolidated income statement from when the fuel loaded into the reactor starts to be used, in accordance with the cost of the fuel and the degree of burning in each reporting period.

3.h) Inventories

Energy resources

Energy resources are measured at acquisition cost, calculated weighted average cost or at net realisable value, if it were lower. No adjustments are made to the value of energy sources that are part of the production process if the finished products into which they will be incorporated are expected to be sold at above cost.

Real estate inventories

Real estate inventories are measured at acquisition cost, which includes both the acquisition cost of the land and plots and the costs of urbanisation and construction of real estate developments incurred until year end. These costs include those incurred by the architecture and construction departments.

Acquisition cost also includes finance costs 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 3.d (Note 42).

Trade costs are charged to the consolidated income statement in the year in which they are incurred except for those incremental costs needed to close contracts with clients.

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 circumstances leading to impairment no longer exist, 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 production and the costs necessary to sell the element.

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

- Forecast revenues: consists of the estimated price at which each of the units of the promotion can be sold, according to a pace of sales as estimated by independent experts.

- 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 the 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).

- Development time: the time necessary for different planning, management, and town planning phases, as well as the forecast building and sale period.

- 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 renewables obligation certificates

Inventories of emission allowances and renewables obligation certificates (ROCs) are measured at acquisition cost, calculated at weighted average cost and at net realisable value, if it were lower. No adjustments are made to the value of emission allowances and ROCs that are part of the production process if the finished products into which they will be incorporated are expected to be sold at above cost.

Emission allowances and ROCs acquired to obtain benefits from fluctuations in their market price are measured at fair value with a credit or debit to the consolidated income statement.

Emission allowances and ROCs are derecognised from the consolidated statement 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.

3.i) Non-Financial assets impairment

At least at each reporting date, the IBERDROLA Group reviews the carrying amounts of its non-current assets, testing them for any indications of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if necessary. For this purpose, in the case of assets that do not generate cash flows that are largely independent of other assets, the IBERDROLA Group estimates the recoverable amount of the cash-generating unit to which they belong.

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

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

Recoverable amount is the higher of fair value less costs sell and value in use, which is taken to be the present value of the estimated future cash flows. The assumptions used in calculating value in use 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 in accordance with contractual commitments that have already been signed, information in the public domain, sector forecasts and the experience of the IBERDROLA Group (Note 12).

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

The IBERDROLA Group distinguishes between impairment allowances and write-downs depending on whether the impairment is reversible or not reversible. A write-down involves derecognising the carrying amount of an asset, either because impairment is considered definitive and non-reversible, because of an accounting standard, such as the case of goodwill, or when the value of the asset is not deemed to be recoverable from its use or disposal. Impairment arises when future expected earnings to be obtained are less than the carrying amount.

Impairment losses recognised for an asset are reversed with a credit to "Amortisation, depreciation and provisions" when there is a change in the estimates used to calculate the recoverable amount of the asset, and the asset's carrying amount is increased to the amount that would have been determined had no impairment loss been recognised.

3.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 impairment.

Some investments in associates and joint ventures which in the context of these consolidated annual accounts are immaterial are recorded at acquisition cost within "Non-current financial assets – Non-current securities portfolio" of the consolidated statement of financial position.

The IBERDROLA Group regularly analyses the existence of impairment in 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 under "Share of profit/(loss) of equity-accounted investees - net of taxes".

3.k) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets liability, obligations, relating to the arrangement. These consolidated annual accounts include the proportional part of the assets, liabilities, income and expenses of the joint operations in which the IBERDROLA Group takes part in (Note 45).

3.l) Finance instruments

Classification and assessment of financial assets

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

1. Assets at amortised cost

   Under this category financial assets that met the following conditions are included:

   - Assets held within a business model where the objective is to hold the assets to obtain the contract cash flows, and

   - whose contract terms produce, on specific dates, cash flows which are only payments of the principal and interest on the amount of the outstanding principal.

These assets are initially recognised at fair value adding transaction costs 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, loans and receivables maturing in less than a year that do not have a contractual interest rate, are measured both initially and subsequently at nominal value when the impact of not discounting cash flows is not significant.

2. Assets at fair value through profit and loss:

The IBERDROLA Group includes in this category the derivative financial instruments which do not satisfy the conditions necessary for hedge accounting in accordance with the requirements established for this purpose in IFRS 9: "Financial instruments (Note 28).

Assets 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 "Expenses" e "Income" of the consolidated annual accounts, as may be applicable.

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

Before 1 January 2018, prior to the application of IFRS 9: "Financial instruments" for the first time (Note 2.a.), IBERDROLA Group classified financial assets into the following categories:

- Loans and accounts receivable: valued at amortised cost through the application of the effective interest method.

- Held-for-sale assets: valued at fair value with changes to the consolidated financial statement of the overall result.

- Assets held for trading: valued at fair value with changes to the results. The IBERDROLA Group includes the derivative financial instruments which did not satisfy the conditions necessary for hedge accounting in this category, based on the requirements established for this purpose in IAS 39: "Financial instruments".

Impairment of financial assets at amortised cost

The IBERDROLA Group recognised valuation adjustments resulting from credit losses expected from financial assets and contract assets at amortised cost.

The IBERDROLA Group 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. IBERDROLA Group recognises that the credit risk of a financial instrument has not increased in a significant manner since its initial recognition if it is determined that at reporting date it has a low credit risk.

Under the simplified model, they qualify as expected credit losses over the life of the asset. The IBERDROLA Group has adopted the practical solution whereby it calculates the expected credit loss on trade receivables by using a matrix of provisions in accordance with its experience of losses historically adjusted for available prospective information.

Valuation adjustments and reversals of trade receivables and contract assets are recognised in "Valuation adjustments in trade and other contract assets" in the consolidated income statement. Impairment losses recognised and reversed relating to other financial assets valued at amortised cost are recorded in the "Finance cost" section of the consolidated statement of comprehensive income (see Note 43).

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows in relation thereto have extinguished or have been transferred or when the risks and profits are considered to have been substantially assigned arising from its ownership.

The derecognition of a financial assets implies a recognition in the consolidated income statement of the difference between is carrying amount and the consideration received, net of expenses, including assets obtained or liabilities assumed and any deferred gain or loss from other comprehensive income.

Classification and assessment of financial liabilities

The IBERDROLA Group classifies all finance liabilities at amortised cost using the effective interest method, except for the derivatives which do not meet the conditions necessary for hedge accounting in accordance with the requirements established for this purpose in IAS 9: "Financial instrument" recognised at fair value.

Derecognition of financial assets and liabilities

A financial liabilities are derecognised when they are extinguished, this means, when 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.

Interests and dividends

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.

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 9 "Finance instruments" 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.

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.

At hedge inception, hedging relationships were formally defined and documented, as were risk management aims and strategy. At the commencement of the hedging relationship, ongoing assessment also ensured that hedge effectiveness thresholds were being met prospectively.

Changes in temporary value of options hedging a component related to a forecasted transaction are recognised in the consolidated comprehensive income statement. If the hedged component results in the recognition of a non-financial asset or liability, the accumulated amount is recognised as a non-financial asset or liability adjustment in the consolidated comprehensive income statement. For other hedges, the deferred amount in the consolidated comprehensive income statement is reclassified as profit for the year or for periods in which the expected cash flows affect the profit.

Changes in temporary value of options hedging a component related to a period of time are recognised in the consolidated comprehensive income statement. The accumulated amount in another comprehensive income is systematically amortised during the period over which the hedge adjustment for the intrinsic option value affecting the consolidated income statement or the consolidated comprehensive income statement when the fundamental contractual terms match the hedged component. The Group also separates the term of term contracts and the differences in exchange rates of financial instruments applying criteria similar to those in previous sections. The election is made on a contract by contract basis.

The accounting treatment for hedging transactions is as follows:

1. Fair value hedges:

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

2. Cash flow hedges:

The IBERDROLA Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge under "Valuation adjustments ", in the case of cash flow hedges and "Translation differences", in the case of net investment hedges. The portion of the hedge deemed ineffective, as well as the specific component of the gain or loss or cash flows related to the hedging instrument, excluding the assessment of hedge effectiveness, are recognised in the consolidated income statement.

The gain or loss accumulated in these captions is transferred to the consolidated income statement caption affected by the hedged item as it affects the consolidated income statement.

If a hedge of a future transaction results in a non-financial asset or liability, this balance is taken into account when determining the initial value of the asset or liability generating the hedging transaction.

If a hedge of future transactions results in a financial asset or a liability, this balance is maintained in "Valuation adjustments" until the hedged risk in the future transaction has an impact on the consolidated income statement

3. Fair value hedges and net investment in foreign operations:

The IBERDROLA Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge under "Valuation adjustments ", in the case of cash flow hedges, and "Translation differences", in the case of net investment hedges. The portion of the hedge deemed ineffective, as well as the specific component of the gain or loss or cash flows related to the hedging instrument, excluding the assessment of hedge effectiveness, are recognised under "Financial Income" and "Financial Cost" in the consolidated income statement.

Discontinuation of hedge accounting

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 goal of the risk management has changes, there is no financial relation between the hedge element and the hedged item, the credit risk effect dominates value changes, the hedge instrument matures or is liquidated or the underlying hedge ceases to exist.

When hedge accounting is discontinued, the cumulative amount at that date recognised under "Adjustments for changes in value" and "Translation differences" in cash flow hedges and net investment hedges abroad, respectively, is retained under said headings 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 headings is transferred to the consolidated income statement.

Implicit derivatives

Implicit derivatives in financial liabilities and transactions whose main contract is out of the scope of IFRS 9: Derivatives embedded in other financial instruments are recognised separately when the IBERDROLA Group considers that their risks and characteristics are not closely related to the financial instruments in which they are embedded, providing the entire contract is not carried at fair value, and changes in value are recognised in the consolidated income statement.

Fair value of derivative financial instruments

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

- For derivatives quoted on an organised market corresponds to its market price at year end.
- To measure derivatives not traded on an organised market, the IBERDROLA Group uses assumptions in accordance with market conditions at year end. In particular,
    - 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 9 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 annual accounts, 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.

Offsetting of financial instruments principle

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.

3.m) Treasury shares

At year end, the IBERDROLA Group's treasury shares are included under "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.

3.n) Capital grants

This heading includes any non-repayable government grants for financing property, plant and equipment, including the cash received from the US Government in the form of investment tax credits as a result of setting up wind power facilities. All capital grants are taken to "Other operating income" in the consolidated income statement as the financed facilities are depreciated.

3.o) Facilities transferred or financed by third parties

According to the regulation applicable to electricity distribution in the countries in which IBERDROLA operates, the 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 taken 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.

3.p) Post-employment and other employee benefits

The contributions to be made to the defined contribution post-employment benefit plans are expensed under the "personnel expenses" 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 limited to the updated value of future revenue to receive from the plan o reduction in future contributions to said plan.

The IBERDROLA Group determines the net financial costs (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 where 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 for the monetary union and not for the particular country. In the case of Brazil and Mexico, the discount rate has been determined taking into account the Brazilian sovereign credit, because a deep corporative market does not exist as they don't satisfy the indicated credit qualifications.

The 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 in accordance with 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 issues that are higher than Euros 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 in accordance with the bonds' duration and the return on each duration and outstanding nominal amount of the issue is shown. As far as possible, the price return is in accordance with the midpoint of the bid/ask spread.

- The benefit payment is calculated using a mathematical formula, i.e., the minimum approximation of the quadratic function, resulting in a market return curve in accordance with the duration. The market curve result will provide the discount rates 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, the reference sovereign rates for those terms combines with the AA corporate credit spread at liquid terms.

- As far as possible, the price return is in accordance with the midpoint of the bid/ask spread.

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.

3.q) 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.

3.r) Provision for CO2 emissions

The IBERDROLA Group records a provision for liabilities and charges in order to recognise the obligation to deliver CO2 emission allowances in Spain and ROCs (Renewables Obligation Certificates) in Scotland (Note 26), under "Supplies" in the consolidated income statement.

3.s) 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 26).

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.

3.t) 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 26). 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.

3.u) 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.

3.v) 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.

The amount of the consideration to be received from the customer does not match the financial component in those cases in which, at the start of the contract, the period between the moment at which the asset or service in question is transferred and the moment at which the customer makes payment is a year or less.

Regulated income

Income from regulated activities where remuneration is in accordance with a fixed margin is booked by the IBERDROLA Group under "Net revenue" 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 recognised as income or expense for the year in which they arise only if its proceed or payment is certain, regardless of future sales.

Revenues from Construction contracts

IBERDROLA Group undertakes construction projects whose revenues are recognised during the time they are being executed since the asset's control in the client's favour is transferred in an ongoing manner.

Income is related to construction contracts recognised in an amount proportionate to the degree of completion of the construction project by measuring the contract costs incurred to date as a proportion of the total estimated costs until the termination of the contract.

Changes to construction work and any claims are included within contract revenue the contract amendments are legally required.

Revenues from the sale of real estate

As to real estate 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.

Criteria applied on previous years

Up until 2018 the Group's income was recognised, mainly, in accordance with IAS 18: "Revenue recognition" and IAS 11: "Construction contracts". IAS 18 determined that revenue recognition from a model based on transfer of risk, whereas IFRS 15 revenue from customer contracts is based on transfer of control.

The main differences between IFRS 15 and the revenue recognition applied to previous years are detailed in Note 2.a).

3.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 to "Financial Cost" or "Financial Income", 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 3.l.

3.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 is 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 those 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.

3.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 1984.

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 annual accounts, 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 according to the methodology proposed by them

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.

3.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 20 and 53).

Meanwhile, diluted 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, 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.

3.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.

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.

The IBERDROLA Group recognises a single heading in the consolidated statement of comprehensive income comprising the total 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.

During the second half of 2017, the activities related to the provision of engineering and construction services were abandoned, meeting the requirements to be considered a discontinued activity. Profit or loss after tax of the discontinued operations is included in "Net profit for the year from discontinued operations (net)" of the consolidated income statement for 2018 and 2017.

3.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.

3.ac) Share-based employee compensation

The delivery of IBERDROLA shares to employees as compensation for their services is recognised under "personnel expenses" 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 securities portfolio 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 in accordance with securities portfolio is paid in cash, the amount booked as "Personnel expenses" in the consolidated income statement is taken 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 securities portfolio included in the determination of the transaction amount, so that finally, the amount recognised for the services received, is in accordance with the number of securities portfolio that will prospectively be consolidated.

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

4. 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. Section 4 of the consolidated directors' report contains additional information on the Group's risks.

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 financial liabilities.

In order to adequately manage and limit this risk, the IBERDROLA Group determines the desired annual structure of debt between fixed and floating interest rate, taking into account the situation of the financial markets, the pegging of income, either interest rate or price index. On a yearly basis, actions to be carried out are throughout the year are determined: new sources of financing (at a fixed, floating or indexed rate) and/or the use of interest rate derivatives. 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 2018 and 2017, after considering the effect of hedging derivatives (Note 28), is as follows:

Thousands of Euros	**31.12.2018**	**31.12.2017**
Fixed interest rate	22,081,044	18,025,210
Floating interest rate	15,245,428	18,665,288
Total gross loans and borrowings (Note 27)	**37,326,472**	**36,690,498**
Cash and cash equivalents(Note 19)	2,801,157	3,197,340
Other current payables	77,840	63,970
Total gross loans and borrowings	**34,447,475**	**33,429,188**

Floating rate borrowings and IBERDROLA Group cash placements are basically pegged to market rates (mainly Euribor, Libor- pound sterling, Libor-dollar and the CDI in the case of the debt of Brazilian subsidiaries).

Currency risk

The IBERDROLA Group is exposed to exchange rate movements in the currencies in which financing transactions and business operations are effected against the functional currency with which the Group's various companies operate. These functional currencies are first and foremost the euro, the US dollar, sterling and the Brazilian real.

Similarly, the IBERDROLA Group is exposed to exchange rate risk as a consequence of its net investment in foreign companies (mainly Scottish Power, Avangrid and Neonergía) due to fluctuations in the spot rates of the various functional currencies (sterling, the US dollar and the Brazilian real, respectively) against the euro. Exchange rate variations represent a risk in terms of net asset valuation and translation of results which might impact on the IBERDROLA Group's financial circumstances.

The IBERDROLA Group mitigates exchange rate risk in the operating currency of each group company by maintaining foreign currency debt or through financial derivatives.

Note 5.c of these consolidated annual accounts 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.

The use of derivatives in risk management

As far as the contracting of derivatives in order to mitigate the aforementioned risk from interest rates, exchange rates and the price of raw materials, the critical terms of the hedging instrument are established under equivalent terms of the hedged element, in line with the IBERDROLA Groups risk management policy. These terms include:

- The notional value of the hedging instrument is equal to or less than that of the hedged element.
- The underlying currency of the hedging instrument is the same as that of the hedged element.
- The term of the hedging instrument is equal to or less than that of the hedged element.
- The variable benchmark interest rate applicable to the hedging instrument is the same as that of the hedged operation, if appropriate.
- The interest frequency of the hedging instrument is the same as that of the hedged element.

Derivatives hired for interest rate, exchange rate and raw material hedging are described in Note 28.

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.

For 2019 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 2018 and 2017, the IBERDROLA Group had undrawn loans and credit facilities amounting to Euros 10,210,609 and 6,863,917 thousand, respectively.

The liquidity position of the IBERDROLA Group is Euros 13.012 million. The breakdown is shown below by maturities of the liquidity position at 31 December 2018 and 2017, considering the balance of "Cash and cash equivalents" in the consolidated statement of financial position.

Thousands of Euros	2018	2017
Available maturity		
2018	–	794,991
2019	671,213	364,250
2020	193,605	179,655
2021 onwards	9,345,791	5,525,021
Total	**10,210,609**	**6,863,917**
Cash and cash equivalents(Note 19)	2,801,157	3,197,340
Total adjusted liquidity	**13,011,766**	**10,061,257**

Credit risk

The IBERDROLA Group is exposed to the credit risk arising from the possibility that counterparties (customers, financial institutions, partners, etc.) might fail to comply with contractual obligations.

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

Below balances for financial assets and contract assets are detailed at 31 December 2018 and 2017 by country:

Thousands of Euros	Other non-current financial investments (Note 13.b)		Other current financial investments (Note 13.b)		Trade and other non-current assets (Note 14)		Trade receivables and other current (Note 18)	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Spain	105,451	172,744	167,609	195,090	1,005,490	288,532	2,335,330	2,368,870
United Kingdom	61	16,089	40,018	115,702	80,354	44,111	1,004,961	898,377
United States	55,187	49,230	65,071	62,544	10,247	72,932	1,022,335	910,691
Mexico	5,947	3,972	2,193	8,846	303,212	303,062	158,976	123,404
Brazil	2,514,505	2,363,590	276,831	180,391	76,813	108,624	1,227,178	1,292,174
RoW	4,236	6,940	19,846	36,310	4,136	21,429	349,602	262,856
Total	**2,685,387**	**2,612,565**	**571,568**	**598,883**	**1,480,252**	**838,690**	**6,098,382**	**5,856,372**

Balances "Other current and non-current financial investments" correspond to concession agreements executed with Brazilian public administrations (Note 11) and receivables related to regulated activities in Spain. With regard to credit risk on trade receivables and other contract assets, the cost of defaults has remained moderate at levels close to 1% of total turnover of this activity, despite the difficult economic environment of recent years.

With regard to the cash and cash equivalents from the consolidated financial statement, the credit quality of the counter parties is BBB+ according to the Standard and Poor's rating.

Sensitivity analysis

The following sensitivity analyses show, for each type of risk (without reflecting the interdependence among risk variables), how profit for the year and equity might be affected by reasonably possible changes in each risk variable at 31 December 2018 and 2017. Therefore, the sensitivity analysis does not show the effect on profit for the year and equity that might have arisen if during 2018 and 2017 the risk variables had been different.

- Financial:

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

Thousands of Euros	Increase/ decrease in interest rate (basis points)	Impact on profit of the year before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2018	25	45	112,923	112,968
	(25)	(45)	(112,923)	(112,968)
2017	25	171	67,229	67,400
	(25)	(171)	(67,229)	(67,400)

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

Thousands of Euros	Change in the dollar/euro exchange rate	Impact on profit of the year before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2018	Depreciation 5%	(2,826)	(774,761)	(777,587)
	Appreciation 5%	3,123	856,315	859,438
2017	Depreciation 5%	(166)	(680,585)	(680,751)
	Appreciation 5%	183	752,226	752,409

Thousands of Euros	Change in the sterling pound/euro exchange rate	Impact on profit of the year before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2018	Depreciation 5%	409	(583,133)	(582,724)
	Appreciation 5%	(451)	644,515	644,064
2017	Depreciation 5%	771	(524,700)	(523,929)
	Appreciation 5%	(853)	579,932	579,079

Thousands of Euros	Change in the Brazilian real/euro exchange rate	Impact on profit of the year before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2018	Depreciation 5%	–	(221,775)	(221,775)
	Appreciation 5%	–	245,120	245,120
2017	Depreciation 5%	9,479	(242,586)	(233,107)
	Appreciation 5%	(10,477)	268,121	257,644

- 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:

Thousands of Euros				
Year 2018	Variation in price	Impact on profit of the year before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
Gas	5%	(2,356)	30,100	27,744
	(5)%	2,360	(30,337)	(27,977)
Electricity	5%	5,825	71,949	77,774
	(5)%	(5,581)	(71,949)	(77,530)
CO2	5%	(171)	–	(171)
	(5)%	171	–	171
Coal	5%	(552)	621	69
	(5)%	552	(621)	(69)

Thousands of Euros				
Year 2017	Variation in price	Impact on profit of the year 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)
CO2	5%	(62)	227	165
	(5)%	62	(227)	(165)
Coal	5%	(1,116)	412	(704)
	(5)%	1,116	(412)	704

5. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

5.a) Accounting estimates

The most significant estimates made by the IBERDROLA Group in these consolidated annual accounts are as follows:

- Unbilled power supplied:

  Sales for each year includes an estimate of the power supplied to customers of liberalised markets but not billed because it had not been measured at year end due to the regular meter-reading period. Estimated unbilled power at 31 December 2018 and 2017 amounted to Euros 2,066,981 and Euros 2,005,863 thousand, respectively. This amount is included under "Trade and other current assets" in the consolidated statements of financial position at 31 December 2018 and 2017 (Note 18).

- *Settlements of regulated activities in Spain:*

  At the end of each year, the IBERDROLA Group estimates the definitive settlement of regulated activities in Spain for that year, establishing any shortfall in revenue and 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 the consolidated annual accounts were authorised for issue and all available sector information.

- Contracts to trade energy supplies:

  As mentioned in Note 3.h, 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 liabilities and charges:

  As indicated in Note 3.t, the IBERDROLA Group recognises provisions to cover present obligations arising from past events. For this purpose, it must assess the outcome of certain legal, tax or other procedures that are ongoing at the date of these consolidated annual accounts were authorised for issue in accordance with 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 3.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 dismantling its facilities.

- Provision for pensions and similar obligations 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 certain 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 3.p, 3.q and 25).

- 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 3.i and 12, the IBERDROLA Group, in accordance with applicable accounting regulations, tests the cash-generating units that require testing for impairment each year. Specific tests are also conducted if indications of impairment are detected. These impairment tests involve estimating the future performance 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, and that its discount rates appropriately reflect the risk of each cash-generating units.

- Other intangible assets:

  As disclosed in Note 3.b of these consolidated annual accounts, "Other intangible assets" in the consolidated statement of financial position include wind farm projects in the development phase acquired in business combinations. 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.

5.b) Sources of uncertainty

There are certain aspects that, at the date of the formulation of these consolidated annual accounts, constitute a source of uncertainty concerning the accounting effect:

- Article 12.5 of the amended Corporate Income Tax Act, in the version drafted prior to Act 31/2011, establishes an applicable deduction for those companies that have acquired significant holdings in foreign companies. 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 2007 the Official Journal of the European Union published a formal investigation procedure launched by the European Commission to determine whether or not this deduction complied with European law, a process that concluded with three EC decisions issued in 2009, 2011 and 2014 (known as the First Decision, the Second Decision and the Third Decision). In differing contexts, these decisions concluded that Article 12.5 was a form of State aid incompatible with the common market, establishing the recovery of the applicable deductions.

  After a long process, the General Court passed a series of rulings on 15 November 2018 that established that tax deduction for goodwill, in the terms outlined in Spanish regulations, is a selective measure, despite the fact that all companies subject to corporate income tax may access the advantage that this measure provides for, thus confirming the EC's First and Second Decision. Spain and IBERDROLA (among other companies) have lodged an application for annulment of the Third Decision before the General Court of the European Union which is pending ruling.

  We expect that these November 2018 rulings will be challenged in a new cassation appeal before the Court of Justice of the European Union. However, what is most important to IBERDROLA is that these General Court rulings maintain legitimate expectations, confirming the provisions of the first two decisions that allow the application of the deduction for goodwill relating to acquisitions of holdings made before 21 December 2007 or where the operation had been irrevocably agreed before this date. This legitimate expectation is the basis for the Group's application for deduction of goodwill.

From the perspective of the Spanish Administration, an aid retrieval procedure has been initiated by virtue of the General Tax Act recovering from IBERDROLA the amount Euros 665 million (Euros 576 million as tax base and Euros 89 million as late interests accrued) by virtue of section 12.5. IBERDROLA paid said amount by (i) compensating the return of the 2016 corporate income tax in the amount of Euros 363 million and (ii) paying the amount of Euros 302 million in February 2018. *All this was carried out in accordance with the Third Decision.*

In any case, actual recovery of the aid will be provisional, subject to the final outcome of the appeals submitted against the three European Commission decisions.

- The IBERDROLA Group has an interest in several nuclear plants, all of which are located in Spain. The operating licences in effect for 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 3.e).

  However, as long as regulatory changes affect the future use of nuclear technologies, IBERDROLA will revise their useful life estimates, as required by the accounting standards.

- The Notes 31 and 44 of these consolidated annual accounts 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 reporting date of these consolidated annual accounts.

- 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 annual accounts.

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.

5.c) IBERDROLA and the United Kingdom's exit from the European Union (Brexit)

On the 29 March 2019, the United Kingdom is expected to conclude its withdrawal from the European Union.

After intense negotiations on matters such as the cost of separation, the mutual recognition of the rights of citizens and the prevention of a return to a hard border between Northern Ireland and the Irish Republic, on 25 November 2018, the Council of the European Union approved two key documents: the EU-UK Withdrawal Agreement (a legally binding document that establishes the terms of the UK's exit from the European Union, including citizen's rights and the Irish backstop) and the Political Declaration (which establishes the basis for a future negotiation of the relationship between the United Kingdom and the EU post-Brexit, including trade relations and matters of UK-EU security). To date, this agreement has not been passed by the UK parliament, the government is seeking changes to the deal and there is talk of delaying Brexit beyond 29 March.

If the EU-UK Withdrawal Agreement is not passed by parliament, there is the risk of a no-deal Brexit on 29 March, which would probably mean that the trade relationship between the European Union and the EU will be regulated by World Trade Organization (WTO) rules. The government of the United Kingdom has published a series of technical documents that cover some of the key areas of concern in the event of a no-deal scenario. Essentially, these documents seek to minimise impact as much as possible, including changes existing agreements. However, WTO rules would mean that UK-EU trade, which is currently fluid, would become cross-border trade, subject to customs controls and tariffs. In the event of a no-deal scenario, an economic downturn is forecast for the United Kingdom. IBERDROLA and SCOTTISH POWER are therefore preparing to offset any negative impact arising from this situation. To this end the business and corporate areas have drawn up a no-deal Brexit risk map, as well as the implementation of measures designed to monitor and allay this impact. Some of the key areas of risk that were considered are explained below:

Risk	Measures
Impact stemming from the UK's decision to leave the EU and market reaction to events arising during the negotiations. This impact may include movements in the value of sterling and other financial instruments. In the longer term, there may be positive or negative changes to the UK economy in the political and regulatory environment in which the Group operates.	As well as monitoring new legislative developments and ongoing measures related to Brexit, the existing financial risk policy takes into account the most common financial risk in the short term, such as adverse fluctuations to exchange and interest rates. Any long-term impact on the UK economy and its impact on the Group and its business will be managed in line with future developments. A large legal team that is monitoring any potential risk which might arise from a regulatory perspective is in contact with governments and regulators in order to minimise any impact.
Interruptions to the supply chain: delays to the import of equipment and components that are essential to key project, resulting in setbacks.	The key materials and supplies have been identified, with extra orders put in to increase stock levels on 29 March 2019. We have also studied extra storage needs, taking steps to guarantee sufficient provisions.
Exposure to exchange rates and additional tariffs if WTO rules are applied.	The exchange rate has been covered in existing contracts. There has been a legal review of critical contracts to determine any possible exposure to new tariffs.
Contractual risk to existing non-trade contracts, including the risk of reopening, clauses such as force majeure, change of law and material adverse change.	There has been a legal review of critical contracts to determine any potential exposure and the specific mitigation of each contract.
Contractual risk affecting existing trade contracts (affecting wholesale and retail energy sales), including master trade agreements and broker and swap contracts.	Risk assessment of all contracts, although some only deal with the United Kingdom, and are therefore not affected, as the majority of counter parties and swaps are in the UK.
Free movement of employees: possible restrictions affecting EU citizens working in the UK or international assignments from other IBERDROLA Group companies, who are currently not present in the United Kingdom but who wish to operate there.	Recent announcements from the UK government confirm that EU citizens in Britain will form a part of the agreement with the EU. Ongoing initiative to assess the impact on and support for affected employees during the process. Contingency agreements are being put in place for workers outside the United Kingdom.
Data protection: the impact of the General Data Protection Regulation on the UK's regulations and status post-Brexit could affect the transfer of data between Group companies and suppliers in the normal course of business.	All inter-company contracts have been reviewed in order to update contractual clauses. High-risk suppliers have been identified and, where necessary, negotiation have commenced to modify contractual terms.

Even in the event that agreement is reached, Brexit may yet have risks and opportunities for IBERDROLA and SCOTTISH POWER. Until the exit terms and nature of the future relationship are clear, it will not be possible to reach definitive conclusions. Many of the risks described previously regarding a no-deal scenario stem from the so-called horizontal problems which may affect many sectors in the economy. IBERDROLA and SCOTTISH POWER will continue to monitor the impact of Brexit, taking the necessary steps as the outcome of leaving becomes clearer.

6. MODIFICATION TO CONSOLIDATION PERIMETER

In 2018, IBERDROLA Group undertook the following sales of stock in Group companies:

- At the closing of 2017, the US and Canada gas business complied with the requirements set in IFRS 5: "Non-current assets held for sale and discontinued operations" for their recognition as such in the consolidated annual accounts, 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.

  As of 31 December 2017, the IBERDROLA Group reported assets and liabilities linked to the gas business in the US and Canada for sale in the sub-headings "Assets held for sale" and "Liabilities linked to assets held for sale" in the consolidated annual accounts.

  On March 1, 2018, Avangrid Renewables Holdings, Inc., subsidiary of AVANGRID, has formalized the sale of the gas trading business, which operated through the company Enstor Energy Services, LLC, to the company CCI U.S. Asset Holdings LLC, a subsidiary of Castleton Commodities International, LLC. Additionally, on May 1, 2018, Avangrid Renewables Holdings, Inc. has formalized the sale of Enstor Gas, LLC, which managed the gas storage business unit, to Amphora Gas Storage USA, LLC, a subsidiary of ArcLight Capital Partners, LLC.

  Said transactions resulted in gross losses of Euros 13,881 thousand recorded under "Losses on disposal of non-current assets" in the consolidated financial statement of 2018 (Note 41).

- In November 2018 90% of IBERDROLA Energía Solar of Puertollano, S.A. was sold to Sociedad Ence Energía, S.L.U. for Euros 72,300 thousand, which resulted in gross capital gains of Euros 12,470 thousand recorded under "Profits on disposal of non-current assets" in the consolidated financial statement of 2018 (Note 41).

- On 16 October 2018, Scottish Power agreed the sale of Scottish Power Generation Ltd. to Drax Group PLC. (DRAX), an operation that was concluded on 31 December 2018 for Pounds Sterling 693 million (Euros 779,101 thousand). The agreement includes a series of variable considerations which, as of 31 December 2018, were valued at zero Euros.

  The transaction has implied a gross capital gain of Euros 25,579 thousand which has been recorded under the heading "Gains on sale of non-current assets" in the consolidated financial statement for the year 2018 (Note 41).

- In December 2018, the IBERDROLA Group sold an 80% ownership interest in Coyote Ridge Wind LLC to WEC Infrastructure for a sale price of Euros 50,789 thousand, giving rise to a gross loss of Euros 23,116 thousand, which has been recorded under "Losses on disposal of non-current assets" in the consolidated statement of income for 2018 (Notes 13.a and 41).

As regards to 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%.

The operation was structured between NEOENERGIA and ELEKTRO via the Brazilian legal form called "*incorporação*", which involved an increase in share capital in NEOENERGIA that will be fully subscribed by IBERDROLA ENERGÍA and will imply the termination of ELEKTRO and the transfer en bloc of its equity to NEOENERGIA, which acquired the rights and obligations of the former 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 fair value of the assets and liabilities of NEOENERGIA on 24 August 2017 and its carrying value on this date was the following:

Thousands of Euros	Note	Fair value at 24.08.2017	Fair value at 24.08.2017
Intangible assets	8	3,646,381	2,611,485
Property, plant and equipment	10	1,136,997	1,136,997
Non-Current Financial investments		2,879,125	2,707,592
Deferred tax assets	31	176,485	176,485
Non-Current Trades and other accounts receivable		52,048	52,048
Inventories		14,145	14,145
Current Trades 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
Total		**9,759,535**	**8,553,106**

Thousands of Euros	Note	Fair value at 24.08.2017	Fair value at 24.08.2017
Provision for pensions and similar Non-current obligations	25	273,900	273,900
Other non-current provisions	26	269,544	129,657
Non-current financial debt	29	2,667,380	2,667,380
Other non-current payables		128,992	128,992
Deferred tax liabilities	31	452,915	20,586
Provision for pensions and similar current obligations	25	7,985	7,985
Other current provisions	26	45,201	45,201
Current financial debt	29	1,228,822	1,228,822
Current Trade and other payables		1,361,369	1,361,369
Total		**6,436,108**	**5,863,892**
Net assets		**3,323,427**	
Fair value of previous stake in NEONERGIA at 39%		(1,321,844)	
Adjustments in NEOENERGIA shares due to previous control (1)		8,723	
Recognition of non-controlling interests	20	(1,798,535)	
Goodwill arising on the acquisition	**8**	**244,069**	
Total acquisition cost		**455,840**	

(1) For the purposes of calculating acquisition cost, the value of NEONERGIA shares has been reduced in Euros 8,723 thousand due to the existence of previous control by IBERDROLA Group over certain assets over which NEONERGIA in turn had an interest.

As mentioned before, the IBERDROLA Group has acquired an additional stake in NEOENERGIA in exchange 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, Euros 606,918 thousand has been recognised in "Equity - Non-controlling interests" in the 2017 consolidated statement of financial position, which represents the 47.55% non-controlling interest in the carrying amount of ELEKTRO at the transaction date (Note 20). The difference between this amount and fair value of ELEKTRO given as consideration resulted in a charge of Euros 493,293 thousand to "Equity - Other reserves" and a credit of Euros 342,214 thousand to "Equity - Translation differences" in the statement of financial position (negative net impact of Euros 151,079 thousand).

As a consequence of this business combination achieved in stages, an amount of Euros 44,012 thousand was taken to 'Gains/losses on disposal of non-current assets' in the 2017 consolidated income statement (Note 41), which included the following effects:

- Measurement of the previous shareholding in NEOENERGIA at the fair value on the acquisition date, which involved a gain of Euros 325.274 thousand as the difference between the fair value of Euros 1,321,844 thousands and a book value of Euros 996,570 thousand.

- Debit and credit in the consolidated income statement for the losses recognised before the transaction under 'Translation differences' and 'Valuation adjustments ' for an amount of Euros 296,213 thousand and Euros 666 thousand, respectively, from the prior investment of the IBERDROLA Group.

- Measurement of the previous shareholding in which IBERDROLA Group had an interest at the fair value on the acquisition date, resulting in a capital gain of Euros 14,285 thousand.

The IBERDROLA Group has opted to measure the non-controlling interests in NEOENERGIA at their fair value at the acquisition date, crediting Euros 1,798,535 thousand to 'Equity –Non-controlling interests' of the consolidated statement of financial position at 31 December 2017 (Note 20).

The contribution of the net assets incorporated in the transaction with NEOENERGIA to the 2017 net profit from continuing operations of the IBERDROLA Group has amounted to a loss of approximately Euros 3,030 thousand from 24 August 2017, before considering the profit of the Euros 44,012 thousand previously described. Had this acquisition taken place on 1 January 2017, the increase in consolidated revenues in 2017 would have amounted to Euros 3,414,226 thousand and the decrease in net profit from continuing operations would have been Euros 21,825 thousand.

Goodwill resulting from this business combination, of Euros 244,069 thousand, is mainly comprised of future economic benefits derived from the activity of NEOENERGIA that do not qualify for separate recognition at the time of the business combination.

The costs incurred in the acquisition were not significant.

7. 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. The operating segments identified by IBERDROLA bearing in mind the changes described in Note 2.d are as follows:

- Networks business: including all the energy transmission and distribution activities, and any other regulated activity carried out in Spain, the United Kingdom, the United States and Brazil.

- Liberalised business: includes electricity generation and retail businesses carried out by the Group in Spain and Continental Europe, the United Kingdom, Mexico, and Brazil.

- Renewable business: activities related to renewable energies (mainly wind and hydroelectric) in Spain, the United Kingdom, the United States, Mexico, Brazil and the Rest of the world.

- Other businesses: groups supply and gas storage up to the moment of sale (Note 41) and other non-energy related businesses.

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

Transactions between the different segments are generally carried out at arm's length.

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

Business segmentation reporting for 2018

	Liberalised					Renewables							Networks					Other business, Corporation and adjustments	Total
Thousands of Euros	Spain and continental Europe	United Kingdom	Mexico	Brazil	Total	Spain	United Kingdom	United States	Mexico	Brazil	RoW	Total	Spain	United Kingdom	United States	Brazil	Total		
REVENUE																			
External revenues	12,789,028	4,942,455	2,252,552	477,457	20,461,492	367,906	119,913	1,026,925	92,976	56,100	250,958	1,914,810	1,994,890	1,113,669	4,274,777	5,184,160	12,567,516	132,055	35,075,873
Intersegment revenue	295,742	80,220	(6,303)	315,432	685,091	1,328,206	577,560	–	(1,961)	187,701	38,697	2,130,183	130,644	161,879	–	1,199	293,722	3,046	3,112,042
Eliminations					(154,406)							–					–	(2,957,636)	(3,112,042)
Total revenue					20,992,177							4,044,993					12,861,238	(2,822,536)	35,075,873
RESULTS																			
Segment operating profit	478,866	55,301	533,516	71,386	1,139,071	588,298	355,549	213,962	39,803	76,071	123,218	1,396,921	1,174,156	605,283	712,063	542,756	3,034,258	(130,887)	5,439,373
Result of equity-accounted investees - net of taxes	23,590	–	–	–	23,590	3,624	1,527	(3,548)	–	11,303	(9)	12,897	2,769	(18)	11,067	–	13,818	5,599	55,904
ASSETS																			
Segment assets	7,091,946	6,297,480	4,483,086	468,940	18,341,452	6,386,777	5,555,003	11,967,083	1,327,027	1,560,275	2,282,958	31,079,123	12,117,292	12,141,816	21,308,069	5,186,168	50,753,345	3,631,729	103,805,649
Equity-accounted investees	10,409	–	–	–	10,409	82,216	7,834	195,226	–	661,553	–	926,829	29,773	–	123,896	–	153,469	618,811	1,709,518
LIABILITIES																			
Segment liabilities	2,577,697	1,342,529	1,085,490	122,222	5,127,938	1,135,109	907,132	3,841,665	316,362	240,994	358,465	6,799,727	5,587,747	2,456,186	7,121,821	1,694,157	16,859,911	1,933,997	30,721,573
OTHER INFORMATION:																			
Total cost incurred during the period in the acquisition of property, plant and equipment and non-current intangible assets	230,805	194,654	626,716	16,223	1,070,398	369,023	365,037	307,934	324,663	89,184	221,090	1,686,951	495,395	564,223	1,053,662	725,883	2,839,363	148,926	5,745,638
Change in Trade and other receivables(Expenses)/ income	46,557	66,496	2,323	(287)	115,089	9	(355)	(72)	14	260	1,059	915	611	955	72,462	61,629	135,657	1,995	253,656
amortisation and depreciation expenses	475,311	185,425	102,581	20,912	784,229	329,397	162,313	359,158	25,615	53,071	117,313	1,046,867	534,596	313,195	546,677	350,613	1,745,081	79,697	3,655,874
Expenses of the period other than amortisation and depreciation that did not result in cash outflows	13,802	8,189	(3,730)	–	18,261	5,415	–	429	–	–	363	6,207	14,744	8,033	72,905	2,845	98,527	95,299	218,294

IBERDROLA

Business segment reporting for 2017:

Re-stated (Note 2.d)	Liberalised					Renewables							Networks					Other business, Corporation and adjustments	I
Thousands of Euros	Spain and continental Europe	United Kingdom	Mexico	Brazil	Total	Spain	United Kingdom	United States	Mexico	Brazil	RoW	Total	Spain	United Kingdom	United States	Brazil	Total		Tota
REVENUE																			
External revenues	12,125,066	4,797,481	2,334,028	671	19,257,246	192,518	59,966	971,154	73,422	58,722	125,380	1,481,162	1,885,658	1,050,463	4,083,179	3,371,006	10,390,306	134,548	31,263,262
Intersegment revenue	52,320	49,027	(19,061)	398,863	481,149	1,100,780	541,842	(48)	346	34,836	582	1,678,338	131,575	171,565	–	685	303,825	98,313	2,561,625
Eliminations					(170,197)							–					–	(2,391,428)	(2,561,625)
Total revenue					19,568,198							3,159,500					10,694,131	(2,158,567)	31,263,262
RESULTS																			
Segment operating profit	359,883	(124,197)	429,517	38,687	704,090	293,810	239,221	(297,566)	25,646	40,998	49,172	351,281	1,001,287	603,027	778,598	276,812	2,659,734	(1,002,474)	2,712,631
Result of equity-accounted investees - net of taxes	(4,331)	(51)	–	8,835	4,453	6,845	1,128	(43,877)	–	(6,384)	(38)	(42,325)	2,921	(89)	14,669	6,399	23,900	(14,761)	(28,733)
ASSETS																			
Segment assets	7,084,711	7,038,957	3,754,452	609,431	18,487,551	8,597,935	5,071,435	11,255,377	957,661	1,693,914	2,195,210	29,771,532	11,925,748	11,886,622	19,779,894	5,655,755	49,250,017	3,279,950	100,788,750
Equity-accounted investees	31,383	–	–	–	31,383	65,125	6,457	176,077	–	710,242	–	959,901	29,761	–	122,654	–	152,435	647,177	1,790,896
LIABILITIES																			
Segment liabilities	2,339,126	1,472,739	1,104,965	178,356	5,095,186	1,076,841	933,910	3,546,940	298,709	277,654	373,739	6,507,793	5,735,668	2,458,169	6,630,179	2,047,965	16,871,981	2,004,074	30,479,034
OTHER INFORMATION:																			
Total cost incurred during the period in the acquisition of property, plant and equipment and non-current intangible assets	222,803	222,599	707,916	12,433	1,165,751	214,771	432,683	973,640	227,576	132,347	624,851	2,605,868	489,240	692,245	944,008	324,810	2,450,303	59,260	6,281,182
Change in Trade and other receivables(Expenses)/ income	(30,722)	65,290	–	(11,530)	23,038	79,118	11,472	103	10	8,619	–	99,322	(2,376)	754	59,269	16,358	74,005	1,034	197,399
Amortisation and depreciation expenses	450,249	166,989	95,845	23,509	736,592	242,662	143,241	827,209	26,874	16,371	47,816	1,304,173	520,569	282,276	496,148	195,326	1,494,319	873,586	4,408,670
Expenses of the period other than amortisation and depreciation that did not result in cash outflows	45,012	3,468	2,239	–	50,719	4,029	(75)	9,179	–	–	98	13,231	97,248	24,328	72,385	21,680	215,641	154,270	433,861

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

Thousands of Euros	31.12.2018	31.12.2017
Net Revenue		
Spain	14,282,389	13,733,470
United Kingdom	6,176,037	5,907,910
United States	5,324,939	5,016,448
Mexico	2,345,528	2,407,450
Brazil	5,717,489	3,430,399
ROW	1,229,491	767,585
Total	**35,075,873**	**31,263,262**

Thousands of Euros	31.12.2018	31.12.2017
Non-current assets (*)		
Spain	22,783,838	22,881,482
United Kingdom	21,972,709	22,433,802
United States	30,063,052	28,192,131
Mexico	4,818,762	3,770,088
Brazil	5,699,371	6,290,435
ROW	2,200,428	2,086,497
Total	**87,538,160**	**85,654,435**

(*) Non-current financial investments, deferred tax assets and trade receivables and other non-current are excluded.

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:

Thousands of Euros	31.12.2018	31.12.2017
Segment assets	**103,805,649**	**100,798,760**
Non- Current Financial investments	5,191,132	5,013,504
Current Financial investments	1,177,821	1,323,224
Cash and cash equivalents	2,801,157	3,197,340
Assets held for sale	62,164	355,731
Total assets	**113,037,923**	**110,688,559**

Thousands of Euros	31.12.2018	31.12.2017
Segment liabilities	**30,721,573**	**30,479,034**
Equity	43,976,554	42,733,186
Non-current securities portfolio having the substance of financial liability	140,582	14,762
Long-term financial debt	31,138,863	29,784,705
Current securities portfolio having the substance of financial liability	36,647	32,519
Current Financial debt	7,023,143	7,509,809
Liabilities linked to assets held for sale	561	134,544
Total liabilities and equity	**113,037,923**	**110,688,559**

8. INTANGIBLE ASSETS

The changes in 2018 and 2017 in intangible assets and the appropriate accumulated amortisations and procurement has been as follows:

Thousands of Euros	Balance at 01.01.2017	Translation differences	Modification of the consolidation perimeter (Note 6)	Additions/ (charge)/ reversals	Capitalised Personnel expenses(Note 37)	Transfers	Decreases, disposals or reductions	Assets held for sale (Note 41)	Write-off	Balance at 31.12.2017	First application of IFRS 15 (Note 2.a.)	Translation differences	Modification of the consolidation perimeter (Note 6)	Additions/ (charge)/ reversals	Capitalised Personnel expenses(Note 37)	Transfers	Decreases, disposals or reductions	Balance at 31.12.2018
Cost:																		
Goodwill	8,711,053	(573,238)	244,069	–	–	–	–	–	(449,480)	7,932,404	–	(77,605)	(16,956)	–	–	–	–	7,837,843
Concessions, Patents, licenses, trademarks and others	7,696,409	(796,107)	1,034,895	8,501	–	(336)	–	(12,695)	–	7,930,667	–	(31,055)	(318,228)	5,704	8,725	23,888	(3,858)	7,615,843
Intangibles assets under IFRIC 12 (Notes 3.b. and 11)	966,774	(404,484)	4,802,502	338,120	34,372	(189,211)	(41,717)	–	–	5,506,356	–	(688,654)	–	739,358	55,408	(271,146)	(64,639)	5,276,683
Computer software	1,960,017	(116,012)	–	157,639	7,927	40,599	(9,634)	(527)	–	2,040,009	–	25,506	(12,057)	144,163	8,644	(10,823)	(18,831)	2,176,611
Customer acquisition costs	–	–	–	–	–	–	–	–	–	–	298,028	(2,564)	–	161,784	–	–	–	457,248
Other intangible assets	4,504,425	(444,142)	32,755	5,939	–	(71,660)	(7,017)	(471,230)	–	3,549,070	–	97,144	–	24,805	1,122	(73,742)	(332,303)	3,266,096
Total cost	**23,838,67 8**	**(2,333,983)**	**6,114,221**	**510,199**	**42,299**	**(220,608)**	**(58,368)**	**(484,452)**	**(449,480)**	**26,958,506**	**298,028**	**(677,228)**	**(347,241)**	**1,075,814**	**73,899**	**(331,823)**	**(419,631)**	**25,630,324**
Accumulated depreciation and procurement:																		
Concessions, Patents, licenses, trademarks and others	779,847	(55,164)	–	104,311	–	(142)	–	(5,355)	–	823,497	–	(36,948)	(305,838)	141,299	–	2,215	–	624,225
Intangible assets under IFRIC 12 (Note 3.b. and 11)	310,498	(172,658)	2,221,975	134,587	–	–	(26,495)	–	–	2,467,907	–	(309,147)	–	260,855	–	5,519	(47,520)	2,377,614
Computer software	1,364,497	(72,083)	–	182,870	–	1,852	(9,586)	(486)	–	1,467,064	–	16,599	(11,374)	132,754	–	(10,823)	(17,695)	1,576,525
Customer acquisition costs	–	–	–	–	–	–	–	–	–	–	123,027	(1,073)	–	80,580	–	–	–	202,534
Other intangible assets	651,214	(46,021)	1,796	120,325	–	(3,175)	(252)	(49,726)	–	674,161	–	14,218	–	121,648	–	(1,061)	(299,962)	509,004
Total accumulated depreciation	**3,106,056**	**(345,926)**	**2,223,771**	**542,093**	**–**	**(1,465)**	**(36,333)**	**(55,567)**	**–**	**5,432,629**	**123,027**	**(316,351)**	**(317,212)**	**737,136**	**–**	**(4,150)**	**(365,177)**	**5,289,902**
Impairment allowance (Note 40)	**798,459**	**(81,435)**	**–**	**25,756**	**–**	**(18,706)**	**–**	**(346,224)**	**–**	**377,850**	**–**	**15,012**	**–**	**(52,688)**	**–**	**–**	**–**	**340,174**
Total accumulated depreciation and procurement	**3,904,515**	**(427,361)**	**2,223,771**	**567,849**	**–**	**(20,171)**	**(36,333)**	**(401,791)**	**–**	**5,810,479**	**123,027**	**(301,339)**	**(317,212)**	**684,448**	**–**	**(4,150)**	**(365,177)**	**5,630,076**
Total net cost	19,934,16 3	(1,906,622)	3,890,450	(57,650)	42,299	(200,437)	(22,035)	(82,661)	(449,480)	21,148,027	175,001	(375,889)	(30,029)	391,366	73,899	(327,673)	(54,454)	21,000,248

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

The amounts incurred in due to research and development activities (expenses and investment) in 2018 and 2017 totals Euros 266,547 and 246,392 respectively.

The fully amortised intangible assets in use at 31 December 2018 and 2017 amounted to Euros 1,122,173 and 1,093,271 thousand, respectively.

The IBERDROLA Group maintains at 31 December 2018 and 2017 commitments to acquire intangible assets for Euros 18,942 and 48.559 thousand, respectively.

In addition, at 31 December 2018 and 2017, 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 different cash-generating units at 31 December 2018 and 2017 is as follows:

Thousands of Euros	31.12.2018	31.12.2017 Re-stated (Note 2.d)
Electricity and gas generation and supply in the UK	4,256,753	4,330,358
Regulated activities in the UK	832,954	858,779
Renewables in the UK	495,720	493,279
Renewables in the USA	866,431	828,687
Regulated activities in the USA	1,044,989	999,482
Regulated activities in Brazil	153,038	198,115
Electricity generation and retail in Brazil	41,059	46,760
Renewable activities in Brazil	120,976	137,772
Other activities	25,923	39,172
Total	**7,837,843**	**7,932,404**

The allocation of indefinite life and in-progress intangible assets at 31 December 2018 and 2017 to the different cash generating units is as follows:

	2018			2017		
Thousands of Euros	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	738,734	–	738,734	751,075	–	751,075
Electricity distribution in Wales and England	710,979	–	710,979	722,856	–	722,856
Electricity transmission in the UK	280,772	–	280,772	285,463	–	285,463
Renewable in the USA	–	126,756	126,756	–	150,563	150,563
Electricity and gas distribution in New York (NYSEG)	1,041,374	–	1,041,374	996,025	–	996,025
Electricity and gas distribution in New York (RG&E)	938,641	–	938,641	897,766	–	897,766
Electricity transmission and distribution in Maine (CMP)	258,609	4,908	263,517	247,347	9,758	257,105
Electricity transmission and distribution in Connecticut (UI)	1,084,487	–	1,084,487	1,037,259	–	1,037,259
Gas distribution in Connecticut (CNG)	273,647	–	273,647	261,730	–	261,730
Gas distribution in Connecticut (SCG)	537,200	–	537,200	513,807	–	513,807
Gas distribution in Massachusetts (BGC)	36,638	–	36,638	35,042	–	35,042
Others	–	387,560	387,560	–	374,647	374,647
Total	**5,901,081**	**519,224**	**6,420,305**	**5,748,370**	**534,968**	**6,283,338**

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 IBERDROLA Group.

9. REAL ESTATE INVESTMENTS

The changes in 2018 and 2017 in the IBERDROLA Group's investment property were as follows:

Thousands of Euros	Balance at 01.01.2017	Additions/ (charge)/ reversals	Transfers	Decreases, disposals or reductions	Balance at 31.12.2017	Additions/ (charge)/ reversals	Transfers	Decreases, disposals or reductions	Balance at 31.12.2018
Real estate investments	545,115	4,169	61,434	(108,759)	501,959	11,878	(23)	(742)	513,072
Impairment allowance	(27,835)	–	1,030	–	(26,805)	960	–	–	(25,845)
Accumulated depreciation	(54,938)	(6,965)	–	10,778	(51,125)	(7,533)	(49)	72	(58,635)
Total net cost	**462,342**	**(2,796)**	**62,464**	**(97,981)**	**424,029**	**5,305**	**(72)**	**(670)**	**428,592**

The investment property owned by the IBERDROLA Group relates primarily to properties destined for leasing. The income accrued during fiscal years 2018 and 2017 for this operation are Euros 26,764 and 25,177 thousand, respectively, and were registered in sub-heading "Turnover" of the consolidated income statement. The operating expenses directly related to real estate investments during fiscal years 2018 and 2017 were not significant.

The fair value of real property investments in operation fully amortised intangible assets at 31 December 2018 and 2017 amounted to Euros 479,864 and Euros 477,299 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 2018 and 2017 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 in accordance with 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, considering the criteria of obsolescence, liquidity and market uncertainty.

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 2018 and 2017, none of the investment properties had been fully depreciated and there were no restrictions on their realisation. Moreover, there were no contractual obligations to acquire, build, develop, repair or maintain investment property.

10. PROPERTY, PLANT AND EQUIPMENT

The changes in 2018 and 2017 in "Property, plant and equipment" and the appropriate accumulated amortisations and procurement has been as follows:

Thousands of Euros	Balance at 01.01.2017	Translation differences	Modification of the consolidation perimeter (Note 6)	Additions and charge (reversals)	Transfers	Decreases, disposals or reductions	Assets held for sale (Note 41)	Write-off	Balance at 31.12.2017	Translation differences	Modification of the consolidation perimeter (Note 6)	Additions/ charge/(reversals)	Transfers	Decreases, disposals or reductions	Write-off	Balance at 31.12.2018
Cost:																
Land and constructions	**2,299,587**	**(166,584)**	**21,668**	**50,966**	**55,432**	**(70,153)**	**(4,146)**	**–**	**2,186,770**	**42,770**	**(59,956)**	**61,919**	**121,624**	**(28,846)**	**(2,289)**	**2,321,994**
Electricity plant in operation:																
Hydroelectric power plants	6,843,335	(66,744)	483,853	782	41,505	(1,546)	–	–	7,301,185	(45,882)	(314,643)	12,006	5,303	–	(1,478)	6,956,491
Thermal power plants	1,216,695	(80)	–	1,739	2,035	–	–	–	1,220,389	8	–	81	5,269	(73)	–	1,225,674
Combined cycle power plant	7,975,124	(533,449)	387,961	10,181	370,015	(70,487)	–	–	8,139,345	122,547	(1,218,052)	11,760	243,107	(75,290)	–	7,223,417
Nuclear power plants	7,508,330	–	–	64,495	106,402	(56,230)	–	–	7,622,997	(1)	–	15,977	106,638	(54,040)	–	7,691,571
Wind farms	23,003,959	(1,774,746)	173,632	200,975	1,600,322	(41,179)	–	–	23,162,963	379,751	111,256	40,334	1,408,562	(253,536)	(20,713)	24,828,617
Facilities:																
- Gas storage and other alternative plants	1,547,485	(108,079)	–	148	(56,357)	(6,678)	(1,275,314)	–	101,205	2,369	–	11	41,242	(4,072)	(1,223)	139,532
- Electricity Transmission	7,394,848	(700,661)	–	–	1,212,265	(14,540)	–	–	7,891,912	139,539	–	2,521	411,060	(5,304)	(21,672)	8,418,056
- Gas transmission	52,162	(3,974)	–	–	(38,652)	–	(6,507)	–	3,029	(39)	–	165	(790)	–	(2,365)	-
- Electricity distribution	30,186,048	(1,157,705)	–	85,628	1,295,496	(1,620,725)	–	–	28,788,742	183,229	16,121	88,936	1,181,079	(109,930)	(22,970)	30,125,207
- Gas distribution	2,885,851	(375,723)	–	–	302,575	(7,319)	(36,496)	–	2,768,888	131,024	–	–	138,576	(6,097)	(3,358)	3,029,033
Meters and metering devices	2,105,937	(118,329)	–	148,325	(24,739)	(60,493)	–	–	2,050,701	24,581	–	102,068	68,453	(278,054)	(1,243)	1,966,506
Dispatching centres and other facilities	1,858,624	(35,986)	–	48,939	259,591	(152,930)	–	–	1,978,238	5,404	(32,356)	15,795	136,830	(17,601)	(256)	2,086,052
Total Electricity plant in operation	**92,578,398**	**(4,875,476)**	**1,046,446**	**561,212**	**5,070,458**	**(2,032,127)**	**(1,318,317)**	**–**	**91,029,594**	**842,530**	**(1,437,676)**	**289,554**	**3,745,329**	**(803,997)**	**(75,278)**	**93,690,156**
Others in use	**1,707,060**	**(104,005)**	**2,320**	**151,910**	**38,757**	**(79,215)**	**(4,823)**	**–**	**1,712,004**	**33,482**	**(4,905)**	**203,381**	**4,017**	**(48,107)**	**(679)**	**1,899,193**
Electricity plant under construction	**6,165,502**	**(424,346)**	**351,302**	**5,180,922**	**(4,736,672)**	**(19,436)**	**–**	**(37,499)**	**6,479,773**	**40,190**	**(23,006)**	**4,381,212**	**(3,778,551)**	**(4,233)**	**–**	**7,095,385**
Prepayments and other PP&E under construction(*)	**561,171**	**(42,442)**	**4,668**	**518,888**	**(691,663)**	**(93,515)**	**–**	**–**	**357,117**	**4,022**	**(4,185)**	**507,962**	**(76,927)**	**(229,842)**	**(2,803)**	**555,344**
Total cost	103,311,718	(5,612,853)	1,425,404	6,463,898	(163,678)	(2,294,446)	(1,327,286)	(37,499)	101,765,258	1,062,994	(1,529,727)	5,444,128	15,492	(1,115,024)	(81,049)	105,562,072

(*) Prepayment amounts at 31 December 2018 and 2017 amount to Euros 152,724 and 46.708 thousand respectively.

Thousands of Euros	Balance at 01.01.2017	Translation differences	Modification of the consolidation perimeter	Additions/ (charge)/ reversals	Transfers	Decreases, disposals or reductions	Assets held for sale (Note 41)	Write-off	Balance at 31.12.2017	Translation differences	Modification of the consolidation perimeter (Note 6)	Additions and charges/ reversals	Transfers	Decreases, disposals or reductions	Write-off	Balance at 31.12.2018
Accumulated depreciation and provisions:																
Buildings	**501,034**	**(34,968)**	**2,666**	**35,707**	**5,735**	**(50,419)**	**(972)**	**–**	**458,782**	**8,006**	**3,515**	**84,732**	**–**	**(5,185)**	**–**	**549,850**
Electricity plant in operation:																
Hydroelectric power plants	3,781,892	(18,920)	112,248	104,263	(160)	(1,547)	–	–	3,977,776	(12,340)	(172,034)	108,089	–	–	–	3,901,491
Thermal power plants	1,028,596	(26)	–	33,550	–	–	–	–	1,062,120	8	–	48,862	–	(73)	–	1,110,917
Combined cycle power plant	3,033,371	(188,960)	140,080	243,875	(5,719)	(66,467)	–	–	3,156,180	39,589	(674,419)	223,172	–	(60,160)	–	2,684,362
Nuclear power plants	5,513,862	–	–	267,732	–	(55,612)	–	–	5,725,982	–	–	284,433	–	(52,857)	–	5,957,558
Wind farms	7,130,700	(469,740)	31,495	749,008	(94,428)	(9,971)	–	–	7,337,064	125,049	97,141	830,022	–	(101,314)	–	8,287,962
Facilities:																
- Gas storage and other alternative plants	361,098	(24,561)	–	26,834	(12,170)	(3,390)	(303,370)	–	44,441	426	–	3,743	–	(3,822)	–	44,788
- Electricity Transmission	1,612,248	(157,679)	–	145,509	122,359	(12,988)	–	–	1,709,449	37,877	–	141,697	–	(3,447)	–	1,885,576
- Gas transmission	13,131	(1,049)	–	195	(7,829)	–	(2,334)	–	2,114	(2,114)	–	–	–	–	–	-
- Electricity distribution	11,442,209	(407,799)	–	710,790	(143,299)	(1,611,442)	–	–	9,990,459	75,883	9,867	766,929	–	(96,488)	–	10,746,650
- Gas distribution	1,234,218	(157,392)	–	41,839	20,230	(5,544)	(10,178)	–	1,123,173	52,834	–	48,162	–	(3,977)	–	1,220,192
Meters and metering devices	999,514	(44,116)	–	121,502	(12,483)	(57,627)	–	–	1,006,790	7,553	–	112,020	–	(265,865)	–	860,498
Dispatching centres and other facilities	867,276	(16,333)	–	53,650	8,248	(152,344)	–	–	760,497	1,464	(32,856)	72,020	–	(13,253)	–	787,872
Total Electricity plant in operation	**37,018,115**	**(1,486,575)**	**283,823**	**2,498,747**	**(125,251)**	**(1,976,932)**	**(315,882)**	**–**	**35,896,045**	**326,229**	**(772,301)**	**2,639,149**	**–**	**(601,256)**	**–**	**37,487,886**
Others in use	**1,071,005**	**(47,649)**	**1,848**	**102,536**	**977**	**(76,002)**	**(3,113)**	**–**	**1,049,602**	**12,304**	**(1,573)**	**118,649**	**(9,722)**	**(43,316)**	**–**	**1,125,844**
Total accumulated depreciation	**38,590,154**	**(1,569,192)**	**288,336**	**2,636,990**	**(118,539)**	**(2,103,353)**	**(319,967)**	**–**	**37,404,429**	**346,539**	**(770,359)**	**2,842,430**	**(9,722)**	**(649,757)**	**–**	**39,163,560**
Impairment allowance (Note 40)	887,180	(47,679)	71	608,646	(179,575)	(244)	(989,949)	–	278,450	4,061	–	13,565	–	(6,884)	–	289,192
Total accumulated depreciation and provisions	**39,477,334**	**(1,616,871)**	**288,407**	**3,245,636**	**(298,114)**	**(2,103,597)**	**(1,309,916)**	**–**	**37,682,879**	**350,600**	**(770,359)**	**2,855,995**	**(9,722)**	**(656,641)**	**–**	**39,452,752**
Total net cost	63,834,384	(3,995,982)	1,136,997	3,218,262	134,436	(190,849)	(17,370)	(37,499)	64,082,379	712,394	(759,368)	2,588,133	25,214	(458,383)	(81,049)	66,109,320

The breakdown by business of the main investments made in property, plant and equipment in 2018 and 2017, additional to the ones included in the acquisition of NEONERGIA (Note 6) and not including the capitalization of personnel (Note 37) nor financial expenses (Note 42) is as follows:

Thousands of Euros	31.12.2018	31.12.2017 Re-stated (Note 2.d)
Liberalised business		
Spain and Continental Europe	127,226	216,364
United Kingdom	112,480	200,296
Mexico	620,012	710,948
Brazil	16,147	12,137
Renewable business		
Spain	366,609	210,861
United Kingdom	364,493	806,764
United States	304,186	970,463
Mexico	340,641	192,937
Brazil	95,633	130,471
RoW	220,858	229,079
Network business		
Spain	477,772	484,467
United Kingdom	558,695	678,662
United States	1,019,288	895,638
Brazil	17,708	912
Corporation and other	63,812	52,489
Total	**4,705,560**	**5,792,488**

"Amortisation and provisions" in the consolidated income statement for 2018 includes Euros 94,614 thousand for impairment and write-offs of property, plant and equipment of the IBERDROLA Group (Note 40). In 2017 this heading included a debit of Euros 646,145 thousand.

The fully amortised intangible assets in use at 31 December 2018 and 2017 amounted to Euros 2,211,844 and 2,277,060 thousand, respectively.

The IBERDROLA Group maintains at 31 December 2018 and 2017 commitments to acquire Property, Plant and Equipment for Euros 3,308,813 and 4,130,359 thousand respectively.

At 31 December 2018 and 2017, "Property, plant and equipment – Other elements in use" included Euros 221,257 y 203,835 thousand, respectively, for assets held under finance leases corresponding primarily to IBERDROLA Group´s corporate offices in Madrid, among other financial assets. Details of minimum payments on the lease contracts at 31 December 2018 and 2017 are as follows:

Thousands of Euros	31.12.2018	31.12.2017
2018	–	13,569
2019	31,061	12,927
2020-2022	30,376	31,454
From 2023 onwards	117,367	116,904
Total	**178,804**	**174,854**
Financial Cost	36,501	28,890
Present value of the payments	142,303	145,964
Total	**178,804**	**174,854**

The present value of instalments is recognised in "Financial debt - Loans and borrowings" in current and non-current liabilities on the consolidated income statement at 31 December 2018 and 2017.

11. CONCESSION ARRANGEMENTS

Details of electricity service concession arrangements in Brazil within the scope of IFRIC 12: "Service Concession Arrangements" (Note 3.b):

Distribution

Company	Location	Concession date	Maturity date	No. of towns	Tariff cycle	Last review
Elektro Redes, S.A.	Estado do Sao Paulo	27/08/1998	26/08/2028	223	4 years	Aug-15
Elektro Redes, S.A.	Estado do 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	06/08/1997	07/08/2027	415	5 years	Apr-18
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	31/12/1997	30/12/2027	167	5 years	Apr-18

Transmission in operation

Company	Location	Concession date	Expiry date	Tariff cycle	Last review
Afluente Transmissão 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 Transmissão de Energia, S.A.	Estado da Paraíba do Rio Grande do Norte	01/08/2013	01/08/2043	5 years	(2)

(1) First revision in 2018
(2) Revision in 2019

Transmission in construction

Company	Location	Concession date	Expiry date
EKTT 1-A Serviços de Transmissão de Energia Elétrica SPE S/A	Estados do Tocantis, Bahia e Piauí	08/03/2018	08/03/2048
EKTT 2-A Serviços de Transmissão de Energia Elétrica SPE S/A	Estados da Paraíba e Ceará	08/03/2018	08/03/2048
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

The duration of each concession is 30 years, and they may be extended for up to 30 years at the request of the concession holder and at the discretion of the concession grantor, which is the Agência Nacional de Energia Elétrica (ANEEL). The concession holder may not transfer such assets or use them as collateral without the prior written consent of the regulator. 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. Appendix II details in more depth the Brazilian regulation applicable to the concessions above.

Income from previous concession agreements include the provision of construction services (Note 35) and of operation and maintenance services in the facilities already built owned by the awarding public administration. The provision of these services constitutes two separate obligations subject to different margins.

Construction services have duration of 3 to 5 years, whereas operation and maintenance services are started on the date the facilities are delivered. As a general rule, this delivery date determines the start of the annual payments agreed on the concession agreements. The collection of said annual payments is extended during the concession period (normally 30 years). This circumstance determines a material financial element.

12. IMPAIRMENT OF NON-FINANCIAL ASSETS

Methodology of impairment tests

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

In addition, the IBERDROLA Group conducts a systematic analysis of the impairment of cash-generating units that include goodwill or intangible assets in progress or with indefinite useful life.

Additionally, it must be noted that in October 2018 the sale of practically all traditional generation assets in the United Kingdom to the company Drax Smart Generation, subsidiary of Drax Group, was agreed. The sale was completed in December 2018 (Note 41). Following this sale, the cash-generating unit for electricity and gas Generation and Supply in the United Kingdom is based in the supply activity.

The projections used in the impairment tests are in accordance with 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 liberalised 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 in accordance with the knowledge of the markets in which the IBERDROLA Group operates and the company's relative position in each of them.

- Investment: the best information available has been used on investment plants under way which are going to be put in use in the coming years.

- Operation and maintenance costs: maintenance agreements for existing facilities have been considered. Other operating costs were projected consistent with the expected growth of each cash-generating unit, assuming its headcount grows at the same pace.

b) Assumptions used in the Networks business:

- Regulated income: approved remuneration was used for the years in which it was available, while for subsequent periods, updating mechanisms of this remuneration, which were applied in line with the estimated costs of the corresponding cash-generating units, were used.

- Investment: the projections were in accordance with investment plans consistent with the demand growth in each and the undertakings in the concession agreements with the minimum required by the different regulators and the estimate of future remuneration used.

- Operation and maintenance costs: the best estimation available of trends in operating and maintenance costs was used, taking into account its consistency with the remuneration assumed to be received in each year.

c) Assumptions used in the renewables business:

- Facilities' production: the operating hours of each wind farm were consistent with their historical output. In this respect, the long-term predictability of the facilities' output was taken into account, which was also covered in practically all countries by regulatory mechanisms that enabled wind farms to produce whenever meteorological and network conditions so allowed.

- Selling prices of electricity: the selling prices used are the ones agreed upon in the signed sales agreements. For unsold production, future prices in the market where the IBERDROLA Group operates are used. In any case, existing support mechanisms were taken into account.

- As described in Note 5.b, an estimate has been made of the regulation that will apply to USA facilities applicable from 31 December 2019.

- Investment: the projections were in accordance with the best information available about the plants that were expected to enter operation in the coming years, taking into account the price set in the contracts to buy wind turbines from various suppliers, including SIEMENS GAMESA (Note 50), as well as the technical and financial capacity of the IBERDROLA Group to successfully fulfil said planned projects.

- Operation and maintenance costs: the prices set in land leases and maintenance agreements for the entire useful life of the facilities were used, where the high predictability of the costs of wind farms must be taken into account.

d) Projection period and nominal growth:

The projection period of future cash flows and the nominal growth rate (g) used to extrapolate these projections beyond the reporting period for the different groups of cash-generating units are as follows:

	2018		2017	
	No. of years	g	No. of years	g
Electricity and gas generation and supply in the UK	Useful life / 10	- 2.0%	Useful life / 10	- 1.5%
Electricity transmission and distribution in the UK	10	2.5%	10	2,5%
Renewables in the UK	Useful life	-	Useful life	-
Electricity transmission and distribution in the US	10	1.0%	10	1,0%
Renewable Renewables in the USA	Useful life	-	Useful life	-
Electricity generation and retail in Brazil	Useful life / 15	- 4.5%	n/a	n/a
Electricity transmission and distribution in Brazil	Concession life	-	Concession life	-
Renewable energies in Brazil	Useful life	-	n/a	n/a

Although IAS 36: "Impairment assets" recommends the use of projections not exceeding 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 conventional or renewables generation business is to use their remaining useful lives, especially when in many cases very long-term energy sale contracts have been signed and long-term estimated prices curves are frequently used in the operating activity of the IBERDROLA Group (contracts, hedges, etc.).

- 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.

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

e) Discount rate:

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

The risk-free rate corresponds 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 are estimated so that the aggregate of all these components approximates to be the finance cost without the risk spread of the asset.

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

The discount rates before taxes used for the impairment test for the different groups of cash-generating units were as follows:

	Rates 2018	Rates 2017
Electricity and gas generation and supply in the UK	7.01%	6.25%
Electricity transmission and distribution in the UK	4.57%	4.75%
Renewable energies in the UK onshore/offshore	5.72%/6.29%	5.95%/6.85%
Electricity transmission and distribution in the US	5.49%	5.48%
Renewable energies in the US onshore/offshore	6.29%/7.49%	6.13%/7.58%
Electricity generation and retail in Brazil	13.90%	n/a
Electricity transmission and distribution in the Brazil	12.34%	12.56%
Renewable energies in Brazil	13.61%	n/a

Impairment and write-downs recognised in 2018 and 2017

During 2018 and 2017, the IBERDROLA Group has recognised the following impairment as a consequence of the impairment tests carried out (Note 40):

- As a consequence of the periodic impairment tests carried out in 2018 and 2017 on the renewables facilities under construction in the USA (Note 3.b), the IBERDROLA Group reversed part of the provision accounted for in relation its intangible assets in past years. In 2018 and 2017 this reversal amounted to Euros 52,688 thousand and to Euros 42,959 thousand, respectively.

- In 2017 in the renewables energies cash-generating unit in the US, the recoverable amount is Euros 449,480 thousand lower than the carrying amount due to the tax reform resulting in substantial changes in both the composition of carrying amounts and the tax rate. This amount has been written-off from goodwill (Note 8).

Sensitivity analysis

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

- Electricity and gas generation and supply in the UK and Brazil:
    - 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 supply per kWh.
    - Increase of 10% in operating and maintenance costs.
    - Increase of 10% in investment costs.
- Electricity transmission and distribution in the United Kingdom, United States 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).
- Renewables in the United Kingdom, United States and Brazil:
    - Decrease of 5% in energy produced.
    - Decrease of 10% in total price per kWh, solely applicable to production for which there are no long-term sales agreements.
    - Increase of 10% in operating and maintenance costs.
    - Increase of 10% in investment costs.

Moreover, the IBERDROLA Group has performed an additional sensitivity analysis, consisting in increasing the applicable discount rate to the United Kingdom and United States by 50 basis point and to Brazil by 100 basis points.

These sensitivity analyses, carried out separately for each basic assumption, would not reveal the existence of any depreciation, except in the following cases:

- Electricity generation and supply in the UK, whose value in use is close to each book value, so that practically any negative variation of the key hypothesis would mean that the value in use would be lower than its carrying amount.
- Renewable energies production in the US, whose value in use is Euros 138 million more than its carrying amount, in which a decrease of 0.6% in energy produced, a lower market price of 1.2% or an increase of 10 basis points in the discount rate would mean that the value in use would be lower than its carrying amount.

13. INVESTMENTS

13.a) Equity-accounted investees

Movement in the carrying amounts of equity-accounted investees, associates and joint ventures of the IBERDROLA Group (Appendix I) in 2018 and 2017 is as follows:

Thousands of Euros	Associated companies	Neonergia Subgroup	Flat Rock Subgroup	Other joint ventures	Total
Balance at 01.01.2017	**642,485**	**1,114,073**	**144,788**	**338,309**	**2,239,655**
Investment	6,387	10,422	2,215	58,307	**77,331**
Modification of the consolidation perimeter (Note 6)	–	770,306	–	–	**770,306**
Transfers	–	–	–	88,886	**88,886**
Profit for the year from continuing operations	6,346	(7,189)	(2,302)	14,188	**11,043**
Profit for the year from discontinued operations	328	–	–	–	**328**
Value adjustment (provision)/reversion	–	–	–	(39,776)	**(39,776)**
Other comprehensive income	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 41)	250,695	–	–	–	**250,695**
Others	2,032	–	–	–	**2,032**
Balance at 31.12.2017	**652,204**	**710,242**	**124,938**	**303,512**	**1,790,896**
Investment	3,879	48,997	982	37,447	**91,305**
Modification of the consolidation perimeter	4,821	–	–	(46,197)	**(41,376)**
Transfers	19,569	–	22,492	(19,569)	**22,492**
Profit for the year from continuing operations	11,370	11,301	(3,353)	5,658	**24,976**
Profit for the year from discontinued operations	697	–	–	–	**697**
Other comprehensive income	(2,743)	–	–	(9,150)	**(11,893)**
Dividends	(6,135)	(13,363)	(6,437)	(27,120)	**(53,055)**
Translation differences	(36,034)	(95,785)	6,214	14,819	**(110,786)**
Disposals	–	–	–	(4,460)	**(4,460)**
Others	1,128	161	(2)	(565)	**722**
Balance at 31.12.2018	**648,756**	**661,553**	**144,834**	**254,375**	**1,709,518**

The balance corresponding to the NEOENERGIA Subgroup at 31 December 2018 and 2017 mainly 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) held by IBERDROLA Group through NEOENERGIA.

Companies' balance of the participated entities at 31 December 2018 includes an amount of Euros 571,414 thousand relating to the IBERDROLA Group's ownership interest in SIEMENS GAMESA, the share price of which at year-end amounted to Euros 584,958 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 2018

- In December 2018 IBERDROLA Group sold its 80% interest in its subsidiary Coyote Ridge Wind, LLC, keeping the remaining 20%, over which exercises significant influence and which is now held as equity-accounted investee (Notes 6 and 41).

- In June 2018, the IBERDROLA Group sold its 20% stake in the company Tirme, S.A., for an amount of Euros 35,100 thousand, which implied a gross capital gain of Euros 30,928 thousand which have been recorded under "Income from companies accounted for using the equity method - net of taxes".

- IBERDROLA Group, through the company Vineyard Wind, LLC, takes part in the development of a large scale offshore wind farm off the coast of Massachusetts, United States, construction of which is set to commence in 2019. In 2018, IBERDROLA Group invested Euros 37,067 thousand, taking the group's future investment commitments to approximately Euros 100 million (Note 50).

Year 2017

- In relation to the merger agreement for the wind businesses of Gamesa Corporación Tecnológica, S.A. (GAMESA) and of Siemens AG (SIEMENS) initiated in 2016 by virtue of which Siemens Wind HoldCo would be absorbed (as absorbed company) by GAMESA (as absorbing company):

    - On 13 March 2017 the European competition authorities authorised the merger without commitments, and all the conditions precedent to which the merger was subject were met.

    - On 29 March 2017 the board of directors of GAMESA acknowledged compliance with all the conditions for executing the merger deed, which was filed with the Vizcaya Mercantile Registry on 3 April.

  As a result of the above, GAMESA issued shares representing approximately 59% of the capital given to SIEMENS, causing a dilution in the percentage interest held by the IBERDROLA Group, which dropped from 19.69% to 8.07% (Note 41).

  Despite holding an interest of less than 20%, the IBERDROLA Group considers it has significant influence over Siemens Gamesa Renewable Energy, S.A.(hereinafter, SIEMENS GAMESA), amongst other aspects, due to the status of IBERDROLA as a main shareholder as well as to the presence of one of its representatives on its board of directors and the fact that significant transactions have been carried out with this company.

- On 27 April 2017, the IBERDROLA Group sold its interest in Amara, S.A.U. (Note 41).

- As indicated in Notes 2.c. and 7, on 8 June 2017 the shareholders of NEOENERGIA and IBERDROLA ENERGÍA reached an agreement on the takeover of the Brazilian subsidiary. After the operation took effect, on 24 August 2017, IBERDROLA ENERGÍA's investment rose to 52.45% (compared to 39% before the transaction), in exchange for the businesses of ELEKTRO. The takeover by NEOENERGIA has been recognised in accordance with the requirements of business combinations achieved in stages.

Summary of financial information

A summary of the financial information at 31 December 2018 (at 100% and before intercompany eliminations) for the most significant equity-accounted subgroups is as follows:

	NORTE ENERGIA		TELES PIRES		EAPSA		Flat Rock Subgroup	
Thousands of Euros	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Segment					Liberalised-Brazil		Renewables – USA	
Percentage holding		5.25%		26.75%		26.75%		100%
Current assets	195,966	175,235	37,327	85,647	16,290	21,034	10,126	3,330
Non-current assets	9,611,303	10,443,300	1,150,246	1,332,982	318,000	375,217	318,384	258,311
Total assets	**9,807,269**	**10,618,535**	**1,187,573**	**1,418,629**	**334,290**	**396,251**	**328,510**	**261,641**
Current Liabilities	832,300	949,420	83,786	100,438	19,786	23,256	8,041	715
Non-Current Liabilities	6,003,096	6,803,595	768,145	917,628	98,018	121,243	30,799	13,064
Total assets	**6,835,396**	**7,753,015**	**851,931**	**1,018,066**	**117,804**	**144,499**	**38,840**	**13,779**
Income from ordinary activities	1,020,144	721,344	192,146	242,853	62,214	69,178	17,994	14,728
Amortisation and depreciation	(165,519)	(92,205)	(41,260)	(50,740)	(6,638)	(6,230)	(17,758)	(14,391)
Income from interests	16,272	26,905	–	9,143	1,157	2,269	79	32
Expenses from interests	(274,788)	(209,149)	(73,569)	(102,748)	(6,496)	(8,794)	(329)	(347)
Tax (expense)/income	(109,587)	(86,548)	2,666	22,135	(2,669)	(3,928)	–	386
Profit for the year from continuing operations	209,159	(77,168)	(93,418)	(64,322)	19,572	23,171	(6,963)	(12,049)
Total comprehensive profit	**209,159**	**(77,168)**	**(93,418)**	**(64,322)**	**19,572**	**23,171**	**(6,963)**	**(12,049)**
Other information								
Cash and cash equivalents	20,601	2,998	6,226	47,437	5,933	8,184	7,613	2,057
Current financial liabilities (*)	576,430	479,081	53,779	56,799	15,653	16,708	–	47
Non-Current financial liabilities (*)	5,934,007	6,564,756	708,671	856,687	57,848	74,074	–	–

(*) Excluding trade and other payables

13.b) Other investments

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:

Thousands of Euros	31.12.2018	31.12.2017
Non-current (Note 4)		
Receivables in Brazil (Notes 3.b and 11)	2,196,551	2,084,988
Long-term deposits and guarantees	281,942	282,156
Fixed-income securities	4,061	4,116
Concessional guarantee of the sufficiency tariff in Brazil (Note 11)	1,922	55,642
Long-term deposits	52,429	28,757
Credits to third parties	70,999	87,576
Assets for pension plans (Note 25)	7,007	3,326
Other investments in equity-accounted investees	9,195	4,824
Others	80,413	79,995
Bad debt provisions	(19,132)	(18,815)
Total	**2,685,387**	**2,612,565**
Current (Note 4)		
Receivables in Brazil (Notes 3.b and 11)	11,606	17,167
Short-term deposits and guarantees	716	2,065
Concessional guarantee of the sufficiency tariff in Brazil (Note 11)	227,698	129,244
Accounts receivable for financing imbalance in revenues in 2018	25,727	–
Accounts receivable for financing imbalance in revenues in 2017	–	57,297
Other investments in equity-accounted investees	7,542	5,970
Short-term deposits	241,305	158,126
Others	66,603	236,808
Bad debt provisions	(9,629)	(7,794)
Total	**571,568**	**598,883**

Receivables in Brazil

"Receivables in Brazil" reflects the amount receivable by the Brazilian companies upon collection of their service concession arrangements (Notes 3.b and 11). Law N°12.783/13 provides that such amount will be determined by the reference to the reposition value (Valor Novo de Reposiçao, VNR) of the concession assets which have not been amortised at the end of the concession period using the residual value of the Regulatory Asset Base (Base de Remuneração Regulatoria BRR) at the end of the contractual term of the concession.

The method specified by the regulator allows reasonable estimates of receivables resulting from the concession as long as the awarding public administration protects the value of the Regulatory Asset Base after each ordinary tariff review. Ordinary reviews are conducted every four or five years, based on the concession. This means that after the regulator has conducted a tariff review the value of the Regulatory Asset Base prior to that date it is adjusted for Brazilian Market Prices General Index (or Índice General de Precios de Mercado Brasileño - IGPM). The next tariff review will determine the value of the regulatory asset base 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 translation differences or, as the case may be, any changes in the method of calculation of the net realizable value and the IGPM.

Long-term deposits and guarantees

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 30) and have been deposited with the competent Public Administrations 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 2018 and 2017, the IBERDROLA Group estimated that the definitive settlement of the Spanish electricity system for 2018 and 2017, respectively, would have a surplus, even though, the provisional settlements made until 31 December 2018 and 2017 had a revenue deficit. IBERDROLA Group's financed deficit as of 31 December 2018 and 2017 amounted to Euros 222,841 and 215,889 respectively.

In 2018 and 2017 the amounts of Euros 197,114 and 158,592 thousand respectively correspond to financed deficit and have been subject to a non-recourse factoring contract with credit assignment. Therefore said amounts have been derecognised in the consolidated financial statements at 31 December 2018 and 2017.

IBERDROLA Group's financed deficit as of 31 December 2017 has been collected in 2018.

14. TRADE AND OTHER ASSETS-NON-CURRENT

Details of "Non-current trade and other receivables" in the consolidated statements of financial position is as follows:

Thousands of Euros	31.12.2018	31.12.2017
Receivables from Brazilian customers	80,691	107,840
Contract assets (Note 2.a.)	303,407	435,136
Public Administrations receivables	658,258	–
Others	442,271	299,975
Bad debt provisions	(4,375)	(4,261)
Total (Note 4)	**1,480,252**	**838,690**

Balances with third parties other than public administrations correspond to assets 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.

15. 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 annual accounts of IBERDROLA Group as of 31 December 2018 and 2017 amounts to Euros 38,422,381 and 38,208,032 thousand. Carrying amount is Euros 37,326,472 and 36,690,498, 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 euro- sterling pound and euro-Brazilian Reals exchange rates is as follows:

Thousands of Euros	2018		2017	
Exchange rate variation	Depreciation 5%	Appreciation 5%	Depreciation 5%	Appreciation 5%
Debt's fair value variation:				
US dollar	(326,675)	361,062	(276,383)	305,476
Sterling Pound	(151,563)	167,517	(126,534)	139,854
Brazilian reals	(224,082)	247,670	(221,734)	245,074

The estimated fair value of borrowings bearing fixed interest rates, after the effect of hedge accounting at 31 December 2018 and 2017, calculated by discounting future cash flows at market interest rates, amounted to Euros 22,752,999 thousand and Euros 18,675,372 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:

Thousands of Euros	31.12.2018		31.12.2017	
Variation of interest rate	+0.25%	+(0.25)%	+0.25%	+(0.25)%
Variation in debt value	(272,305)	300,099	(246,825)	253,059

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:

Thousands of Euros	Value at 31.12.2018	Level 1	Level 2	Level 3
Derivative financial instruments (financial assets)	1,333,649	4,721	1,221,240	107,688
Derivative financial instruments (financial liabilities)	(835,534)	(208)	(699,489)	(135,837)
Total (Note 28)	**498,115**	**4,513**	**521,751**	**(28,149)**

Thousands of Euros	Value at 31.12.2017	Level 1	Level 2	Level 3
Derivative financial instruments (financial assets)	1,267,298	10,952	1,159,198	97,148
Derivative financial instruments (financial liabilities)	(604,016)	(87,528)	(501,210)	(15,278)
Total (Note 28)	**663,282**	**(76,576)**	**657,988**	**81,870**

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

	Derivative Financial instruments	
Thousands of Euros	**2018**	**2017**
Initial balance	**81,870**	**30,534**
Income and expense recognised in consolidated income statement	6,655	15,544
Income and expense recognised in equity	(17,298)	(4,930)
Purchases	(9,402)	(1,736)
Sales and settlements	(7,422)	(5,990)
Translation differences	(597)	(6,247)
Transfers	(81,955)	54,695
Final balance	**(28,149)**	**81,870**

The fair value of Level 3-classified financial instruments has been determined by the discounted cash flow method. Projections of these cash flows are in accordance with assumptions not observable in the market, and mainly correspond to purchase and sale price estimates that the Group normally uses, in accordance with 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 2018 and 2017 is as follows:

	31.12.2018					
				Uncompensated amounts under compensation agreements		
Thousands of Euros	Gross amount	Compensated amount	Net amount	Financial instruments	Financial guarantee	Net amount
ASSET DERIVATIVES						
Current						
Raw materials	544,729	(356,914)	187,815	(59,254)	(6,745)	121,816
Others	5,705	(636)	5,069	(1)	–	5,068
Non-current						
Raw materials	143,668	(16,126)	127,542	(11,123)	(29,770)	86,649
Others	58,284	–	58,284	–	(53,490)	4,794
Total	**752,386**	**(373,676)**	**378,710**	**(70,378)**	**(90,005)**	**218,327**
OTHER FINANCIAL ASSETS						
Receivables	510,806	(380,637)	130,169	(38,454)	(7,841)	83,874
LIABILITIES DERIVATIVES						
Current						
Raw materials	495,500	(356,913)	138,587	(59,254)	(9,852)	69,481
Others	2,122	(637)	1,485	(1)	(1)	1,483
Non-current						
Raw materials	68,401	(16,126)	52,275	(11,123)	(14,864)	26,288
Others	2	–	2	–	–	2
Total	**566,025**	**(373,676)**	**192,349**	**(70,378)**	**(24,717)**	**97,254**
OTHER FINANCIAL LIABILITIES						
Payables	694,988	(380,637)	314,351	(38,454)	(33,179)	242,718

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

16. NUCLEAR FUEL

Details of and movement in "Nuclear Fuel" of the consolidated statement of financial position at 31 December 2018 and 2017, are as follows:

Thousands of Euros	Fuel loaded into the reactor core	Nuclear fuel in progress	Total
Balance at 01.01.2017	**250,448**	**72,182**	**322,630**
Additions	–	135,311	135,311
Capitalised borrowing costs (Notes 3.g and 42)	–	2,193	2,193
Transfers	141,188	(141,188)	–
Fuel consumed (Note 3.g)	(128,251)	–	(128,251)
Balance at 31.12.2017	**263,385**	**68,498**	**331,883**
Additions	–	63,198	63,198
Capitalised borrowing costs (Notes 3.g and 42)	–	633	633
Transfers	82,082	(82,082)	–
Fuel consumed (Note 3.g)	(123,040)	–	(123,040)
Balance at 31.12.2018	**222,427**	**50,247**	**272,674**

The IBERDROLA Group's nuclear fuel purchase commitments at 31 December 2018 and 2017 amount to Euros 485,015 thousand and Euros 433,577 thousand, respectively.

17. INVENTORIES

At 31 December 2018 details of "Inventories" (Note 3.h) in the consolidated statements of financial position is as follows:

Thousands of Euros	31.12.2018	31.12.2017
Energy materials	215,277	212,475
Emission allowances and renewables obligation certificates	351,575	338,534
Real estate inventories	1,177,230	1,224,092
Land and plots	962,665	985,623
Developments under construction	200,763	229,361
Completed developments	13,802	9,108
Other inventories	581,230	226,644
Real estate inventories impairment allowance	(151,481)	(131,624)
Total	**2,173,831**	**1,870,121**

Variations in the impairment allowance in 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Opening balance	**131,624**	**125,205**
Charges	2,284	20,832
Reversals	(2,622)	(13,404)
Applications and others	20,195	(1,009)
Closing balance	**151,481**	**131,624**

"Revenue" in the 2018 and 2017 consolidated income statements includes Euros 81,274 thousand and Euros 169,045 thousand, respectively, in respect of sales of real estate inventories.

At 31 December 2018, the IBERDROLA Group has "take or pay" contracts with several natural and liquefied natural gas suppliers for the supply of 28 bcm of gas during the period from 2019 to 2039, earmarked for supply 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, at 31 December 2018, the IBERDROLA Group has purchase commitments of 10 bcm of natural gas in the National Balancing Point (NBP) (11 bcm at 31 December 2017).

Information on the commitments under said contracts at 31 December 2018 is as follows:

Thousands of Euros	31.12.2018
2019	2,457,288
2020	585,429
2021	467,174
2022	441,506
2023	463,858
From 2024 onwards	5,500,374
Total	**9,915,629**

18. TRADE AND OTHER CURRENT ASSETS

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

Thousands of Euros	31.12.2018	31.12.2017
Trade receivables (Note 5.a)	5,949,227	5,521,173
Receivables	543,840	735,201
Contract assets (Note 2.a.)	221,477	232,530
Receivables from equity-accounted investees	6,587	9,610
Bad debt provisions	(622,749)	(642,142)
Total (Note 4)	**6,098,382**	**5,856,372**

Generally, the amounts included under this caption on the consolidated statement of financial position do not accrue any interest.

Movement in the impairment allowance in 2018 and 2017 is as follows:

Thousands of Euros	2018	2017
Initial balance	**642,142**	**412,953**
First application of IFRS 9 (Note 2.a.)	31,021	–
Charges	344,868	219,397
Applications	(274,314)	(212,575)
Translation differences	(29,730)	(53,594)
Transfers	852	1,674
Surplus	(92,067)	(5,202)
Modification of the consolidation perimeter (Note 6)	(23)	279,489
Final balance	**622,749**	**642,142**

Practically all of this provision corresponds to gas and electricity consumers.

19. CASH AND CASH EQUIVALENTS

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

Thousands of Euros	31.12.2018	31.12.2017
Cash	143,868	188,165
Short-term deposits	2,657,289	3,009,175
Total	**2,801,157**	**3,197,340**

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

20. EQUITY

Subscribed capital

Movement in 2018 and 2017 in the different items of share capital of IBERDROLA is as follows:

	Date recorded Companies Registry	% Capital	Number of shares	Nominal	Euros
Balance at 01.01.2017		–	**6,362,079,000**	**0.75**	**4,771,559,250**
Free capital increase	25 January 2017	1,539	97,911,000	0.75	73,433,250
Capital reduction	25 May 2017	3,405	(219,990,000)	0.75	(164,992,500)
Free capital increase	21 July 2017	1,242	77,515,000	0.75	58,136,250
Balance at 31.12.2017		–	**6,317,515,000**	**0.75**	**4,738,136,250**
Free capital increase	29 January 2018	1,913	120,859,000	0.75	90,644,250
Capital reduction	22 June 2018	3,081	(198,374,000)	0.75	(148,780,500)
Free capital increase	25 July 2018	2,526	157,629,000	0.75	118,221,750
Balance at 31.12.2018			**6,397,629,000**	**0.75**	**4,798,221,750**

The free capital increases made in 2018 and 2017 correspond to the issues approved by the shareholders at their General Meeting through which the IBERDROLA scrip dividend system is implemented.

Information on the holders of free- allocation rights who accepted IBERDROLA's irrevocable commitment to purchase rights is as follows:

	Free of charges allocation rights		Rights waved [1]
	Number	Thousands of Euros	Number
Free capital increase			
25 January 2017	1,956,083,947	264,071	38
21 July 2017	2,596,794,942	381,729	37
29 January 2018	699,283,602	97,899	30

(1) IBERDROLA has waived its right to certain free allocation rights so that new shares issued are a full figure.

Additionally, the holders of 58,717,340 shares opted for receiving the interim dividend paid (Euros 0.14 gross per share) amounting to a gross total of Euros 8,220 thousand in interim dividend distributed. As a result, these shareholders have expressly forgone 58,717,340 free allotment rights and therefore 1,276,464 new shares.

Additionally, on 21 June 2018 and 24 May 2017, capital reductions were carried out through the redemption of treasury shares already held, as approved by the shareholders at their General Meeting held on 13 April 2018 and 31 March 2017, respectively, through the amortisation of treasury shares.

There was no movement in IBERDROLA's share capital other than those resulting from the transactions described above, and IBERDROLA has no share capital obligations other than those provided for in the Spanish Companies Act.

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

Significant shareholders

Since IBERDROLA's shares are represented by book entries, the exact interest held by its shareholders is unknown. The table below summarises significant direct and indirect interests in the share capital of IBERDROLA at 31 December 2018 and 2017, as well as any financial instruments disclosed by the shareholders in compliance with the Royal Decree 1362/2007 of 19 October 2007. This information is in accordance with filings made by these shareholders in the official registers of the National Securities Market Commission (Comisión Nacional del Mercado de Valores - CNMV) or to the Company itself and its respective annual accounts or press releases, and is presented in the 2018 IBERDROLA Group´s Annual Corporate Governance Report.

Among direct or indirect shareholders with a significant interest, IBERDROLA treats any shareholder who exerts a significant influence as a "significant shareholder" when they i) sit on the board of directors or a similar governing body or ii) they have the possibility of exercising the proportional representation system. Therefore, the Company considers Qatar Investment Authority as a significant shareholder, which is the only shareholder who qualifies as such at 31 December 2018 and 2017.

	% of voting rights 2018				
Holder	Direct	Indirect	Total	Financial instruments 2018	Directors in IBERDROLA 2018
Qatar Investment Authority [1]	–	8.646	8.646	–	–

	% of voting rights 2017				
Holder	Direct	Indirect	Total	Financial instruments 2017	Directors in IBERDROLA 2017
Qatar Investment Authority [1]	–	8.570	8.570	–	–

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

In addition, details of other companies having direct and indirect voting rights greater than 3% of the share capital at 31 December 2018 and 2017 are as follows:

	% of voting rights 2018			% of voting rights 2017		
Holder	**Direct**	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**
Norges Bank	3.332	–	3.332	3.210	–	3.210
Blackrock, Inc	–	5.131	5.131	–	3.030	3.030
Capital Research and Management Company (CRMC)	–	–	–	–	3.100	3.100

Financial management

The IBERDROLA Group's main financial management objectives are to ensure a solid financial profile, robust solvency ratios, optimisation of the liquidity position and management of financial risks, all the while maintaining a sustainable remuneration policy for its shareholders.

At 31 December 2018 Moody's, Standard & Poor's y Fitch's ratings were Baa1, BBB+ and BBB+, respectively.

Leverage ratios at 31 December 2018 and 2017 were as follows:

Thousands of Euros	**31.12.2018**	**31.12.2017**
Financial debt - Loans and borrowings (Note 27)	37,326,472	36,690,498
Securities portfolio having the substance of a financial liability (Note 22)	177,229	47,281
Liability derivatives	486,453	377,398
Gross debt	**37,990,154**	**37,115,177**
Asset derivative	911,966	969,398
Other current loans	77,840	63,970
Cash and cash equivalents (Note 19)	2,801,157	3,197,340
Cash assets	3,790,963	4,230,708
Net debt	**34,199,191**	**32,884,469**
Equity		
Parent company	36,582,199	35,509,260
Non-controlling shareholders	5.668,803	5,671,380
Perpetual subordinated bonds	1,725.552	1,552,546
	43,976,554	**42,733,186**
Leverage	**43.75%**	**43.49%**

Derivative financial instruments detailed in the table above include those relating to financing operations whose breakdown is as follows (Note 28):

	2018					
	Derivative assets			Derivative liabilities		
Thousands of Euros	**Short term**	**Long term**	**Total**	**Short term**	**Long term**	**Total**
Interest rate hedges	29,462	110,135	139,597	3,905	(109,077)	(105,172)
Interest rate hedges	346,919	404,239	751,158	(242,663)	(121,484)	(364,147)
Total hedging derivatives	**376,381**	**514,374**	**890,755**	**(238,758)**	**(230,561)**	**(469,319)**
Interest rate derivatives	4,980	–	4,980	(100)	(34)	(134)
Interest rate derivatives	–	183	183	(377)	(575)	(952)
Treasury shares derivatives	–	16,048	16,048	–	(16,048)	(16,048)
Total non-hedging derivatives	**4,980**	**16,231**	**21,211**	**(477)**	**(16,657)**	**(17,134)**
Total	381,361	530,605	911,966	(239,235)	(247,218)	(486,453)

	2017					
	Derivative assets			Derivative liabilities		
Thousands of Euros	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)
Interest rate hedges	502,059	301,682	803,741	(168,028)	(141,488)	(309,516)
Total hedging derivatives	**544,869**	**406,213**	**951,082**	**(136,661)**	**(210,788)**	**(347,449)**
Interest 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)
Total non-hedging derivatives	**3,017**	**15,299**	**18,316**	**(12,851)**	**(17,098)**	**(29,949)**
Total	**547,886**	**421,512**	**969,398**	**(149,512)**	**(227,886)**	**(377,398)**

Powers delegated by the shareholders at their General Meeting

The shareholders at their General Meeting held on 8 April 2016 resolved, under items seven and eight on the agenda, to delegate powers to the board of directors, with express powers of delegation, for a period of five years, to:

- increase share capital in the terms and up to the limits stipulated in Article 297.1 b) of the Spanish Companies Act ("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, up to a maximum amount of Euros 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 Act, 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 only be used to increase share capital provided that the balance left on the reserve is at least equal to 10% of the share capital after the increase. Except for this purpose, until the reserve exceeds 20% of share capital it may only be used to offset losses if no other reserves are available.

Revaluation reserves

The balance of "Revaluation reserves" arose as a result of the revaluation of property, plant and equipment made by IBERDROLA pursuant to Royal Decree-law 7/1996. This balance can be used, free of tax, to offset 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 is used in any way other than as specified in Royal Decree-law 7/1996, it would be taxable.

Share premium

The Spanish Companies Act 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" in "Equity" on the consolidated statement of financial position includes other restricted reserves set up mainly by IBERDROLA in accordance with article 335.c) of the Spanish Companies Act, arising from the capital reductions carried out in prior years through the redemption of treasury shares. Restricted reserves corresponding to Group companies other than the parent, IBERDROLA, are included under "Retained earnings" of the same heading.

Non-controlling interests

Movement in this heading in 2018 and 2017 is as follows:

Thousands of Euros	AVANGRID subgroup	NEONERGIA subgroup	Other	Total
Balance at 01.01.2017	**3,277,109**	**24,787**	**144,002**	**3,445,898**
Modification of the consolidation perimeter (Note 6)	–	2,320,651	–	2,320,651
Share capital increase	–	318,086	241	318,327
Profit/(Loss) for the year of non-controlling interests	294,822	30,412	8,496	333,730
Other comprehensive income	(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)
Balance at 31.12.2017	**3,060,962**	**2,538,003**	**72,415**	**5,671,380**
Share capital increase	9,727	128,954	10,571	149,252
Profit for the year transactions with non-controlling interests	99,796	165,979	19,972	285,747
Other comprehensive profit	(12,627)	4,440	255	(7,932)
Dividends	(82,295)	(106,713)	(8,947)	(197,955)
Translation differences	131,673	(325,715)	622	(193,420)
Other	(19,787)	(3,241)	(15,241)	(38,269)
Balance at 31.12.2018	**3,187,449**	**2,401,707**	**79,647**	**5,668,803**

In March 2018 the subsidiary company Neonergia, S.A., resolved to increase share capital in BRL 999,999,963, taking into consideration the percentage of ownership of its shareholders, resulting in a payment of Euros 115,795 thousand in "Equity in non-controlling interests" in the consolidated financial statement.

On 27 December 2017, NEOENERGIA approved a capital increase of BRL 2,585 thousand (Euros 659,175 thousand). The IBERDROLA Group subscribed to this capital increase in proportion to its shareholding by means of a cash contribution of Euros 60,062 thousand and the writing-off of receivables from NEOENERGIA totalling Euros 285,643 thousand.

The summarised financial information related to subgroups in which IBERDROLA Group does not have a 100% interest refers to amounts consolidated before intercompany eliminations:

	AVANGRID Subgroup		NEONERGIA Subgroup	
Thousands of Euros	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Current assets	1,271,334	1,452,916	2,595,495	2,772,747
Non-current assets	32,254,086	30,197,275	9,256,051	9,769,105
Total assets	**33,525,420**	**31,650,191**	**11,851,546**	**12,541,852**
Current Liabilities	2,754,223	2,647,748	1,794,650	2,929,339
Non-Current Liabilities	13,706,546	12,620,537	5,129,099	4,484,977
Total assets	**16,460,769**	**15,268,285**	**6,923,749**	**7,414,316**
Gross operating profit (EBITDA)	1,925,397	1,834,662	1,143,272	577,588
Valuation adjustments to trade	(906,613)	(59,248)	(63,731)	(13,447)
Amortisations, depreciation and provisions	(72,393)	(1,909,196)	(425,225)	(235,569)
Operating profit (EBITDA)	7,519	(29,207)	11,301	(9,160)
Financial result	(201,618)	(172,378)	(268,214)	(171,945)
Non-current asset profit/(loss)	(34,794)	1,006	893	44,098
Income tax	(186,914)	1,923,433	(60,640)	(43,157)
Non-controlling interests	(2,010)	(1,034)	(165,978)	(30,412)
Net profit for the year	**528,574**	**1,588,038**	**171,678**	**117,996**

Perpetual subordinated bonds

On 27 February 2013, the IBERDROLA Group's perpetual subordinated bonds issue was completed for an amount of Euros 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. On 27 February 2018 the IBERDROLA Group exercised its early redemption option on a series of subordinated bonds that it had issued for Euros 525 million. Redemption was at par, as laid down in the terms and conditions attaching to the bonds.

On 22 November 2017, the IBERDROLA Group's perpetual subordinated bonds issue was completed and disbursed, in the amount of Euros 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.

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.

On 19 March 2018, the IBERDROLA Group's perpetual subordinated bonds issue was completed and disbursed, in the amount of Euros 700 million. The issue price was set at 100% of the face value, with a fixed annual coupon of 2.625% as from the issue date to 26 March 2024. From the first repricing date on, the coupon will be equal to the applicable five-year swap rate plus a 2.061% annual spread during the following five years, a 2.311% annual spread during each of the five-year repricing periods beginning on 26 March 2029, 2034 and 2039, and a 3.061% annual spread during the following five-year repricing periods.

Although these bonds do not have a contractual maturity date, the IBERDROLA Group has the option of redeeming them in advance during the three previous months until (and included) on March 26, 2024, and from that date on, every five years.

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.

After analysing the issue conditions, the IBERDROLA Group recognised the cash received with a credit to "Perpetual subordinated bonds" 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.

The amount of interests accrued on 31 December 2018 and 2017 whose payment would have taken place if IBERDROLA's profit distribution amounted to Euros 37,569 and 32,242 thousand respectively.

Valuation adjustments

The change in this reserve arising from valuation adjustments to available-for-sale assets and derivatives designated as cash flow hedges at 31 December 2018 and 2017 is as follows:

Thousands of Euros	01.01.2017	Change in fair value and other	Allocation to the values of hedged assets	Amounts allocated to income	31.12.2017	First application of IFRS 9 (Note 2.a.)	Change in fair value and other	Allocation to the values of hedged assets	Amounts allocated to income	31.12.2018
Valuation adjustments for equity-accounted investees (net of tax):	**2,959**	**10,442**	**–**	**16**	**13,417**	**–**	**(11,045)**	**–**	**14**	**2,386**
Available-for-sale assets (Note 2.a.)	**38**	**577**			615	(615)				
	38	**577**	**–**	**–**	**615**	**(615)**	**–**	**–**	**–**	**–**
Cash flow hedges (Note 2.a.):										
Interest rate swaps	(461,611)	51,156	–	51,561	(358,894)	–	(64,580)	–	63,389	(360,085)
Collars	(4,250)	(130)	–	128	(4,252)	–	(1,499)	–	–	(5,751)
Derivatives on commodities	117,606	88,042	–	31,070	236,718	–	199,105	–	(207,039)	228,784
Exchange insurances	133,550	(46,442)	(24,965)	(13,950)	48,193	–	39,424	(1,138)	5,125	91,604
	(214,705)	**92,626**	**(24,965)**	**68,809**	**(78,235)**	**–**	**172,450**	**(1,138)**	**(138,525)**	**(45,448)**
Hedge costs	**–**	**–**	**–**	**–**	**–**	**2,069**	**(86,950)**	**–**	**87,991**	**3,110**
Tax effect on available-for-sale assets and cash flow hedges	**62,314**	**(22,220)**	**4,787**	**(22,932)**	**21,949**	**(346)**	**(17,756)**	**170**	**3,739**	**7,756**
Total	(149,394)	81,425	(20,178)	45,893	(42,254)	1,108	56,699	(968)	(46,781)	(32,196)

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 sale and purchase of company shares and of derivative instruments having company shares as the underlying asset.

At 31 December 2018 y 2017 the balances of the various instruments are as follows:

	31.12.2018		31.12.2017	
	No. of shares	Thousands of Euros	No. of shares	Thousands of Euros
Treasury shares of IBERDROLA	135,985,344	873,065	75,710,149	507,175
Treasury shares of SCOTTISH POWER	1,050,639	8,076	1,156,863	8,417
Swaps over treasury shares	11,810,088	77,599	6,000,000	41,646
Accumulators (exercised shares)	209,361	1,378	1,835,379	11,561
Accumulators (potential shares)	7,613,376	50,230	4,592,392	28,998
Total	**156,668,808**	**1,010,348**	**89,294,783**	**597,797**

(a) Treasury shares

Movement in 2018 and 2017 in the treasury shares of IBERDROLA and SCOTTISH POWER (Note 3.m) is as follows:

	IBERDROLA		SCOTTISH POWER	
	No. of shares	Thousands of Euros	No. of shares	Thousands of Euros
Balance at 01.01.2017	**151,224,777**	**868,936**	**1,374,405**	**9,580**
Additions	154,508,438	1,002,731	318,172	2,159
Share capital decrease	(219,990,000)	(1,280,176)	–	–
IBERDROLA scrip dividend [1]	1,896,638	–	95,524	–
IBERDROLA scrip dividend [2]	–	(9,379)	–	–
Disposals [3]	(11,929,704)	(74,937)	(631,238)	(3,322)
Balance at 31.12.2017	**75,710,149**	**507,175**	**1,156,863**	**8,417**
Additions	266,442,793	1,672,087	362,108	2,393
Share capital decrease	(198,374,000)	(1,245,420)	–	–
IBERDROLA scrip dividend [1]	5,117	–	144,747	–
IBERDROLA scrip dividend [2]	–	(11,044)	–	–
Disposals [3]	(7,798,715)	(49,733)	(613,079)	(2,734)
Balance at 31.12.2018	**135,985,344**	**873,065**	**1,050,639**	**8,076**

(1) Shares received
(2) Free allocation rights disposed
(3) Includes awards to employees

SCOTTISH POWER's Treasury Shares correspond to the matching shares held by the trust in the share plan called Share Incentive Plan.

During 2018 and 2017, treasury shares held by the IBERDROLA Group were below the legal limit.

(b) Derivatives settled by physical delivery

The IBERDROLA Group recognises these transactions directly in equity under "Treasury shares" and records the obligation to buy back the shares under "Loans and borrowingss and other financial liabilities – loans and others" on 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 2018 and 2017 are as follows:

	No. of shares as of 31.12.2018	Strike price	Maturity date	Interest rate	2018 thousands of Euros
Total Return Swap	5,810,088	6.188	24/07/2019	Euribor 3 months + 0.38%	35,953
Total Return Swap	6,000,000	6.941	25/07/2019	Euribor 3 months + 0.30%	41,646
Total	**11,810,088**				**77,599**

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

- 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 2018 and 2017 are as follows:

2018	No. of shares	Average Price of the period	Maturity date	Thousands of Euros
Exercised shares	209,361	6.5819	14/02/2019	1,378
Potential maximum (1)	7,613,376	6.5976	14/02/2019	50,230

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

(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 2018 results

IBERDROLA´s board of directors has agreed to propose at the General Shareholders' Meeting, the distribution, chargeable to the results of 2018 and the retained earnings from previous years, a gross dividend whose gross amount will be the same as the following amounts:

(a) the Euros 131,426 thousand were paid as the interim dividend for 2018 on 5 February 2019 to the 870,368,973 IBERDROLA shares that opted for receiving their remuneration in cash within the scope of the second settlement of the IBERDROLA scrip dividend for 2018 in the amount of 0.151 Euros per share, and

(b) the amount to be determined by multiplying:

i) The gross amount per share, as additional dividend payment for 2018, will be distributed by the Company as part of the first settlement of the IBERDROLA scrip dividend optional dividend for 2019; by

ii) The total number of shares the holders may have opted for receiving as complementary dividend as part of the first settlement of the IBERDROLA scrip dividend optional dividend.

On the date of authorisation of these annual accounts, it is not possible to determine the amount of the complimentary dividend or, consequently, the amount of the dividend cannot be determined.

The payment of the complimentary 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 complimentary dividend) or in the free shares of the new issue of the Company (through the aforementioned increase in share capital).

The payment of the complimentary dividend is configured as one of the alternatives that the shareholder may choose when receiving their remuneration within the scope of the first execution of the IBERDROLA scrip dividend corresponding to 2019. 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 complimentary dividend with respect to all or part of their shares, expressly, automatically and irrevocably waive the free allocation rights corresponding to these shares and therefore the possibility of putting them on the market or to receive new free shares corresponding to those free-allocation rights.

21. LONG-TERM SHARE-BASED COMPENSATION PLANS

21.1 Shared-based compensation plans

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 2014-2016 Strategic Bonus on determining that 93.20% of the objectives had been met. By virtue thereof, having confirmed the bases underlying the delivery of the shares in the first settlement, in the second half of 2017 the first annual payments were made in the form of 2,497,353 shares. These shares included those delivered to executive directors (Note 47) and to senior management (Note 49).

Moreover, as a result of UIL's integration, 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 second and last settlement as scheduled was made in the first quarter of 2018

Furthermore and arising from the corporate restructuring operation in Brazil, the second phase of the liquidation of the 2014-2016 Strategic Bond corresponding to the 14 beneficiaries of the ELEKTRO Group was settled in cash in the first half of 2018. The amount corresponding to the cash settlement of the second phase rose to Euros 1,037 million.

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 (up to a maximum of 300 beneficiaries), tied to the IBERDROLA Group's performance in relation to certain metrics throughout the assessment period, from 2017 to 2019:

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 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 2018, 11,685,416 shares were issued as follows:

	No. Of shares
Balance 01.01.2017	-
Additions	12,535,000
Balance 31.12.2017	**12,535,000**
Additions	400,000
Cancelled	(1,249,584)
Balance 31.12.2018	**11,685,416**

Also stemming from the corporate restructuring operation in Brazil, at its 19 December 2017 meeting, the IBERDROLA S.A. Board of Directors approved authorisation of the offer of the option to receive a cash sum as a partial early settlement of the programme to the 17 beneficiaries of the ELEKTRO Group. In the first half of 2018, the 17 beneficiaries of the ELEKTRO Group received a proportional part corresponding to the time between the date on which the remuneration began and 31 December 2017, the date of the partial early termination, after assessment by the Board of Directors of the level compliance with the targets that link accrual to the date of partial early termination. The amount corresponding to the partial early settlement rose to Euros 1,527 thousand.

2016-2019 long-term incentives 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.

The maximum number of gross shares to be delivered to the group of the Bonus beneficiaries will be 2,500,000 shares, of which 1,199,596 shares were delivered at 31 December 2018.

The period 2020-2022 will be the settlement period, to be materialised in the deferred issue of shared during those three years.

Restrictive AVANGRID shares scheme

Under the scope of the Avangrid Omnibus Plan, a general plan establishing the governance framework for executive remuneration in cash and shares, 68,000 restricted shares were assigned to a number of executives in 2018. The granting of these shares is dependent on the eligible executives remaining in the company for two years after their assignment.

In relation to the bonuses described above, whose settlement will be in shares, the detail of the transactions under "Other reserves" on the consolidated financial statement is as follows:

Thousands of Euros	Strategic bonus 14-16	Strategic bonus 17-19	AVANGRID's 16-19 Strategic Bonus Programme (*)	Restrictive shares programme (*)	Total
Balance at 01.01.2017	**44,083**	**-**	**2,152**	**-**	**46,235**
Charges	23,162	11,884	4,569	-	39,615
Payment in shares	(27,125)	-	-	-	(27,125)
Payments in cash derecognition	(4,479)	-	-	-	(4,479)
Balance at 31.12.2017	**35,641**	**11,884**	**6,721**	**-**	**54,246**
Charges	9,095	26,718	(3,191)	765	33,387
Payment in shares	(21,699)	-	-	-	(21,699)
Payments in cash derecognition	(3,709)	-	-	-	(3,709)
Transfers	(1,247)	(1,581)	2	-	(2,826)
Balance at 31.12.2018	**18,081**	**37,021**	**3,532**	**765**	**59,399**

(*) Presented by 100%. The minority own 18,5%

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 consolidated income statement over the plan's consolidation period (three or five years) with a credit to equity. The "Personnel expenses" heading in the 2017 and 2018 consolidated income statements includes Euros 700 and 904 thousand respectively for this concept, which have been taken to "Accumulated profit and remaining", in the consolidated financial statement of changes in equity.

  Additionally, in 2018 and 2017 payments for options were made in the amounts of Euros 3,118 and Euros 175 thousand, respectively.

  The number of transactions of stock options are as follows:

	Number of accounts	Number of shares
Balance at 01.01.2017	**2,616**	**5,531,681**
Exercised	(90)	(125,025)
Derecognised	(117)	(279,308)
Balance at 31.12.2017	**2,409**	**5,127,348**
Exercised	(1,090)	(1,414,705)
Derecognised	(59)	(138,761)
Balance at 31.12.2018	**1,260**	**3,573,882**

- 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 2018 and 2017 amount to 1,149,547 and 1,326,848 shares, respectively.

  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.

"Personnel expenses" in the 2018 and 2017 consolidated income statements amounted to Euros 2,223 thousand and Euros 2,257 thousand, respectively for this concept, which have been recognised under "Other reserves" on the consolidated finance income statement.

Furthermore, 2018 and 2017 saw transfers to participants for exercised options totalling Euros 2,734 million and Euros 3,322 million , respectively.

21.2 Cash-based compensation plans

The following outlines long-term compensation plans with cash settlements.

2014-2016 Strategic bonus - IBERDROLA Distribución Eléctrica

The board of directors of IBERDROLA Distribución Eléctrica, on the recommendation of the Appointments and Remuneration Committee, decided to pay the 2014-2016 Strategic Bonus on determining that 93.20% of the objectives had been met. In the first half of 2018 the second of the three annual payments was made.

The second of the three settlements in cash resulted in the Euros 1,262 thousand being paid.

2017-2019 Strategic bonus - IBERDROLA Distribución Eléctrica

At its 13 December 2017 meeting, the IBERDROLA Distribución Eléctrica S.A. (Sociedad Unipersonal) board of directors approved a strategic bond payable to the Company's executive officers and directors undertaking regulated activities in Spain who are deemed to be "Persons Responsible for the Management of Regulated Companies", as stipulated in the "Code for the Separation of Activities of Companies in the IBERDROLA Group with Regulated Activities in Spain", or who, due to their position within the company or their responsibilities, are deemed to have decisively contributed to the creation of value (to a maximum of 12 beneficiaries).

This strategic bond is linked to the performance of IBERDROLA Distribución Eléctrica S.A. (Sociedad Unipersonal) with regard to a series of parameters over the period of evaluation from 2017 to 2019. 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.

Long-term NEOENERGIA 2018-2019 incentive

At its 27 September 2017 meeting, NEOENERGIA's Board of Directors approved a long-term incentive programme aimed at executives and employees who, through their position or level of responsibility in the NEOENERGIA Group, are felt to have contributed decisively to the creation of value (to a maximum of 100 beneficiaries), an initiative costing 50 million Brazilian reals.

This long-term incentive is linked to the NEOENERGIA Group's performance with regard to a series of parameters over the period of evaluation from 2018 to 2019.

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.

"Personnel expenses" on the consolidated income statement from 2018 and 2017 includes a charge of Euros 4,072 and 1,636 thousand respectively corresponding to the amount accrued for this incentive plan has been recorded with charge and debit to the sub-headings "Other Provisions" of the consolidated statement of financial position.

The movement of the bonds described above which are settled in cash is as follows:

Thousands of Euros	Strategic bonus 14-16	Strategic bonus 17-19	Bonus paid in cash Brazil	Bonus paid in cash USA	Total
Balance at 01.01.2017	**2,126**	**-**	**-**	**9,159**	**11,285**
Charges	2,096	698	-	1,278	4,072
Payments	(1,578)	-	-	(4,859)	(6,437)
Payments for deregistration	-	-	-	-	-
Translation differences	-	-	-	(967)	(967)
Balance at 31.12.2017	**2,644**	**698**	**-**	**4,611**	**7,953**
Charges	441	1,525	-	(330)	1,636
Payments	(1,262)	-	-	(4,204)	(5,466)
Disposal payments	(621)	-	-	-	(621)
Transfers	-	-	2,827	-	2,827
Translation differences	-	-	-	(77)	(77)
Balance at 31.12.2018	**1,202**	**2,223**	**2,827**	**-**	**6,252**

(*) Filed for 100%

22. SECURITIES PORTFOLIO HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY

In the United States, the IBERDROLA Group has signed several contracts that have brought in third parties as non-controlling interests in some of its wind farms in exchange for cash and other financial assets primarily.

The main characteristics of these contracts are as follows:

- Regardless of the interest acquired by the non-controlling interests, the IBERDROLA Group retains the control and management of the wind farms; accordingly they are fully consolidated in these consolidated annual accounts.

- The non-controlling interests have the right to a substantial portion of the profits and tax credits generated by these wind farms up to the return level established at the beginning of the contract.

- The non-controlling interests remain in the equity of the wind farms until they achieve the stipulated returns.

- Once these returns have been obtained, the non-controlling interests must renounce their stake in the wind farms, thus losing their right to the profits and tax credits generated.

- Whether or not the non-controlling interests of the IBERDROLA Group obtain the agreed upon returns depends on the economic performance of the wind farms. Although the IBERDROLA Group is obliged 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 non-controlling interests 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 "Non-current securities portfolio having the substance of a financial liability" and "Current securities portfolio having the substance of a financial liability" in the consolidated statement of financial position. Subsequently, this consideration is measured at amortised cost.

The amount at 31 December 2018 and 2017 accrues an average interest rate in US dollars of 7.05% and 8.63%, respectively.

The change in this heading of the consolidated statements of financial position for 2018 and 2017 is as follows:

Thousands of Euros	2018	2017
Initial balance	**47,281**	**137,054**
finance cost accrued in the year	12,026	6,230
Payments	(65,658)	(76,427)
Translation differences	6,876	(13,294)
Derecognitions	–	(6,282)
Additions	176,704	–
Final balance	**177,229**	**47,281**

In May 2018 the Group executed a new contract through its US subsidiary El Cabo Wind LLC.

23. CAPITAL GRANTS

The change in this heading of the consolidated statements of financial position for 2018 and 2017 is as follows (Note 3.n):

Thousands of Euros	Capital grants	Investment Tax Credits	Total
Balance at 01.01.2017	**297,695**	**1,404,236**	**1,701,931**
Additions	10,385	29,568	39,953
Derecognitions	(92)	(1,423)	(1,515)
Translation differences	(9,392)	(174,808)	(184,200)
Allocation to the income statement (Note 3.n)	(16,200)	(58,635)	(74,835)
Modification of the consolidation perimeter (Note 6)	(223)	–	(223)
Balance at 31.12.2017	**282,173**	**1,198,938**	**1,481,111**
Additions	6,184	7,856	14,040
Derecognitions	(147)	–	(147)
Transfers	2,252	–	2,252
Translation differences	2,864	52,683	55,547
Allocation to the income statement (Note 3.n)	(17,121)	(57,516)	(74,637)
Modification of the consolidation perimeter (Note 6)	(238)	–	(238)
Balance at 31.12.2018	**275,967**	**1,201,961**	**1,477,928**

24. FACILITIES TRANSFERRED OR FINANCED BY THIRD PARTIES

The change in this heading of the consolidated statements of financial position for 2018 and 2017 is as follows (Note 3.o):

Thousands of Euros	Transfer of assets from third parties	Assets financed from third parties	Total
Balance at 01.01.2017	**2,629,249**	**2,094,339**	**4,723,588**
Additions	*92,921*	*228,651*	*321,572*
Derecognitions	(2)	(8,213)	(8,215)
Translation differences	(4,381)	(79,672)	(84,053)
Allocation to the income statement (Note 3.n)	(116,001)	(73,743)	(189,744)
Balance at 31.12.2017	**2,601,786**	**2,161,362**	**4,763,148**
Additions	88,873	170,419	259,292
Derecognitions	(9)	(769)	(778)
Transfers	(1,018)	(1,234)	(2,252)
Translation differences	(266)	1,172	906
Allocation to the income statement (Note 3.n)	(118,321)	(78,599)	(196,920)
Balance at 31.12.2018	**2,571,045**	**2,252,351**	**4,823,396**

25. PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS

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

Thousands of Euros	31.12.2018	31.12.2017
Defined benefit plans (Spain)	372,553	402,883
Long-service bonuses and other long-term benefits (Spain)	40,796	42,539
Defined benefit plans (United Kingdom)	569,204	637,521
Defined benefit plans (United States)	1,006,606	918,186
Defined benefit plans (Brazil)	210,432	248,537
Defined benefit plans and other long term benefits (Spain and other countries)	55,542	58,376
Restructuring plans	187,773	266,027
Total	**2.442.906**	**2,574,069**

Each year IBERDROLA estimates, in accordance with 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.

25.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 2018 and 2017.

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 2018 and 2017 are recognised under "Personnel expenses" in the income statement and came to Euros 10,621 thousand and Euros 10.065 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).

One-off capital sums have been offered to pensioners and deferred beneficiaries, reducing the defined benefit burden.

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 Avangrid 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).

Defined benefit pension schemes are closed to new entrants and wherever possible, only past service is recognised for those remaining.

One-off capital sums have been offered to pensioners and deferred beneficiaries, reducing the defined benefit burden.

Brazil

Such as is indicated in Notes 2.c. 6, 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 post-employment health plan too.

Defined benefit pension schemes are closed to new entrants.

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:

					United States						Brazil							
	Spain		United Kingdom		ARHI		UIL		AVANGRID NETWORKS		ELEKTRO (1)		NEOENERGIA (2)		Other		Total	
Thousands of Euros	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Present value of the obligation	(413,349)	(445,422)	(5,463,614)	(6,189,753)	(61,192)	(63,425)	(1,004,348)	(1,015,714)	(2,307,689)	(2,389,049)	(299,674)	(303,237)	(481,917)	(542,248)	(55,542)	(58,376)	(10,087,325)	(11,007,224)
Fair value of plan assets	–	–	4,894,410	5,552,232	30,514	34,622	609,765	661,511	1,726,344	1,853,869	330,695	343,432	331,671	348,118	–	–	7,923,399	8,793,784
Net asset / (Net provision)	**(413,349)**	**(445,422)**	**(569,204)**	**(637,521)**	**(30,678)**	**(28,803)**	**(394,583)**	**(354,203)**	**(581,345)**	**(535,180)**	**31,021**	**40,195**	**(150,246)**	**(194,130)**	**(55,542)**	**(58,376)**	**(2,163,926)**	**(2,213,440)**
Amounts recognised in the consolidated statement of financial position:																		
Provision for pensions and similar obligations	(413,349)	(445,422)	(569,204)	(637,521)	(30,678)	(28,803)	(394,583)	(354,203)	(581,345)	(535,180)	–	–	(210,432)	(248,537)	(55,542)	(58,376)	(2,255,133)	(2,308,042)
Assets for pensions and similar obligations (Note 13.b)	–	–	–	–	–	–	–	–	–	–	–	–	7,007	3,326	–	–	7,007	3,326
Net asset / (Net provision)	(413,349)	(445,422)	(569,204)	(637,521)	(30,678)	(28,803)	(394,583)	(354,203)	(581,345)	(535,180)	–	–	(203,425)	(245,211)	(55,542)	(58,376)	(2,248,126)	(2,304,716)

(1) These amounts have not been recognised in the consolidated statement of financial position at 31 December 2018 and 2017, respectively, since the requirements set forth in the current legislation for their accounting treatment are not met.

(2) At 31 December 2018 and 2017 a surplus of Euros 53,179 and 51,081 thousand is not recognised in application of the legistation IFRIC14:"IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction".

The changes in provisions for the commitments detailed in the previous section in 2018 and 2017 is as follows:

	Spain			United States			Brazil [1]			
Thousands of Euros	Electricity tariff	long-service bonus	United Kingdom	ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGÍA	Other	Total
Balance at 01.01.2017	**510,299**	**43,062**	**6,261,592**	**72,785**	**1,126,064**	**2,629,032**	**336,323**	**–**	**67,409**	**11,046,566**
Modification of the consolidation perimeter (Note 6)	–	–	–	–	–	–	–	584,319	–	**584,319**
Normal cost (Note 37)	8,117	3,557	66,610	571	15,967	33,062	2,098	500	2,665	**133,147**
Cost for past services (Note 37)	–	–	35,474	–	254	112	–	–	79	**35,919**
Other costs recognised under "Personnel expenses" (Note 37)	–	–	–	–	–	–	–	–	(33)	**(33)**
Finance cost (Note 43).	7,619	339	171,036	2,431	42,817	96,178	34,086	19,747	2,046	**376,299**
Actuarial gains and losses										
To profit (Note 37)	2,878	551	–	–	–	–	–	–	–	**3,429**
To reserves	(113,255)	–	351,828	2,626	27,943	134,144	(5,791)	(23,912)	(2,080)	**371,503**
Members contributions	–	–	8,558	–	–	–	1,056	282	–	**9,896**
Payments	(12,775)	(4,970)	(458,571)	(3,062)	(54,219)	(168,499)	(18,969)	(15,187)	(7,171)	**(743,423)**
Translation differences	–	–	(246,774)	(9,273)	(143,112)	(334,980)	(45,566)	(23,501)	(4,539)	**(807,745)**
Liabilities held for sale (Note 41)	–	–	–	(2,653)	–	–	–	–	–	**(2,653)**
Balance at 31.12.2017	**402,883**	**42,539**	**6,189,753**	**63,425**	**1,015,714**	**2,389,049**	**303,237**	**542,248**	**58,376**	**11,007,224**
Modification of the consolidation perimeter (Note 6)	–	–	(64,774)	–	–	–	–	–	–	**(64,774)**
Normal cost (Note 37)	5,741	3,627	69,226	581	13,909	30,204	1,434	626	6,247	**131,595**
Cost for past services (Note 37)	–	–	(7,662)	(153)	190	(2,656)	–	(2,531)	(6,047)	**(18,859)**
Finance cost (Note 43).	6,518	330	154,304	2,433	37,648	84,065	27,128	47,702	2,033	**362,161**
Actuarial gains and losses										
To profit (Note 37)	537	366	–	–	–	–	–	–	–	**903**
To reserves	(26,706)	–	(289,375)	(5,197)	(45,482)	(126,314)	21,197	8,045	450	**(463,382)**
Members contributions	–	–	7,574	–	–	–	925	534	–	**9,033**
Payments	(16,420)	(6,066)	(505,101)	(5,268)	(61,657)	(168,407)	(15,966)	(50,718)	(5,553)	**(835,156)**
Translation differences	–	–	(90,331)	5,371	44,026	101,748	(38,281)	(63,989)	36	**(41,420)**
Balance at 31.12.2018	372,553	40,796	5,463,614	61,192	1,004,348	2,307,689	299,674	481,917	55,542	10,087,325

(1) As the surplus was not recognised, the actuarial differences recognised in reserves were adjusted upwards in 2018 by Euros 4,120 thousand and in 2017 Euros 5,258 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 2018 and 2017, and for the same concept, the finance costs recognised were adjusted upwards by Euros 8,334 and 6,526 thousand, respectively.

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

	Spain			United States			Brazil		
Years	Electricity tariff	long-service bonus	United Kingdom	ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGÍA	Other
Average length	18	8	19	12	12	10	13	11	–

Changes in fair value of the assets linked to 2018 and 2017 are as follows:

		United States			Brazil		
Thousands of Euros	United Kingdom	ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGÍA	Total
Fair Value at 01.01.2017	**5,741,838**	**37,722**	**695,330**	**1,991,669**	**376,175**	**–**	**8,842,734**
Modification of the consolidation perimeter (Note 6)	–	–	–	–	–	370,102	**370,102**
Revaluation (Note 43)	160,311	1,221	26,101	73,009	38,353	13,839	**312,834**
Actuarial gains and losses to reserves	97,442	3,566	67,827	179,109	(2,734)	(8,293)	**336,917**
Company contributions	230,710	–	9,304	19,406	902	7,886	**268,208**
Members contributions	8,558	–	–	–	1,056	282	**9,896**
Payments	(461,680)	(3,062)	(46,827)	(153,102)	(18,969)	(15,187)	**(698,827)**
Translation differences	(224,947)	(4,825)	(90,224)	(256,222)	(51,351)	(20,511)	**(648,080)**
Fair Value at 31.12.2017	**5,552,232**	**34,622**	**661,511**	**1,853,869**	**343,432**	**348,118**	**8,793,784**
Modification of the consolidation perimeter (Note 6)	(59,348)	–	–	–	–	–	**(59,348)**
Revaluation (Note 43)	140,690	1,254	24,325	65,498	30,922	30,698	**293,387**
Actuarial gains and losses to reserves	(343,877)	(3,070)	(61,367)	(146,210)	13,659	24,529	**(516,336)**
Company contributions	183,149	1,609	19,860	45,018	738	21,972	**272,346**
Members contributions	7,574	–	–	–	925	534	**9,033**
Payments	(505,101)	(5,268)	(61,657)	(168,406)	(15,966)	(50,718)	**(807,116)**
Translation differences	(80,909)	1,367	27,093	76,575	(43,015)	(43,462)	**(62,351)**
Fair Value at 31.12.2018	4,894,410	30,514	609,765	1,726,344	330,695	331,671	7,923,399

The main assumptions applied in the actuarial reports that determined the provisions needed to meet the abovementioned commitments at 31 December 2018 and 2017 are as follows:

2018	Discount rate	Wage increase	Price kWh (euros)	Inflation	Survivorship table	Health insurance cost Pre-Medicare/Medicare
Spain						
Electricity tariff (1)	1.60%	–	2019 0,12722; 2020 0,13072; 2021 0,12215; 2022 0,12185; [...]	–	PERMF 2000P	–
Long-service bonus (1)	0.93%	1.00%	–	–	PERMF 2000P	–
United Kingdom	2.80%	3.76%	–	3.26%	Pre-retirement/Post-retirement Men: 85% AMC00 / 90%S2PMA CMI2017 M (1.25% improvement rate) Women_ 85%AFC00 / 100%S2PFA CMI2017 F (1.25% improvement rate)	-
United States						
ARHI	4.09%	N.A.	–	2.00%	RP-2006 fully generational table using scale MP-2018	Function year RX: 7%(pre-65)/7.75% (post-65) (2019); 6.75%/7.50%(2020) ; [...] : 4,50%/4,50% (2029 onwards)
UIL	4.09%	3.50% - 3.80%	–	2.00%	RP-2006 fully generational table using scale MP-2018	Function year RX: 7%(pre-65)/7.75% (post-65) (2019); 6.75%/7.50%(2020) ; [...] : 4,50%/4,50% (2029 onwards)
AVANGRID NETWORKS	3.93%	In accordance with the age and Union/ Non Union	–	2.00%	RP-2006 fully generational table using scale MP-2018	Function year RX: 7%(pre-65)/7.75% (post-65) (2019); 6.75%/7.50%(2020) ; [...] : 4,50%/4,50% (2029 onwards)
Brazil						
ELEKTRO	9.46%	6.33%	–	4.25%	AT - 2000 male - 10%	–
NEOENERGIA			–			–
		–	–	–		–
Celpe BD	9.36%	5.29%	–	4.25%	AT-2000 male	–
Celpe Mixto	8.94%	5.29%	–	4.25%	AT-2000	–
Coelba BD	9.25%	5.29%	–	4.25%	BR-EMS-sb 2015 Masculina -15%	–
Coelba mixto	9.10%	5.29%	–	4.25%	AT-2000 Basic	–
Coelba Plan As. Médica	9.46%	n.a.	–	n.a.	AT-2000 Basic	–
Cosern BD	9.20%	5.29%	–	4.25%	AT - 2000 (40% masculina; 60% femenina) - 10%	–
Cosern Mixto	9.10%	5.29%	–	4.25%	AT-2000 - 10%	–

2017	Discount rate	Wage increase	CPI increase	Inflation	Survivorship table	Health insurance cost Pre-Medicare/medicare
Spain						
Electricity tariff [1]	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	–
United Kingdom	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)	–
United States						
ARHI	3.8%	n.a.	–	2.00%	RP-2006 fully generational table using MP-2017	Function year RX: 7,50%/8,50% (2018); 7,25%/8,25%(2019) ; [...] : 4,50%/4,50% (2030 onwards)
UIL	3.8%	3.50%-3.80%	–	2.00%	RP-2006 fully generational table using MP-2017	Function year RX: 7,50%/8,50% (2018); 7,25%/8,25%(2019) ; [...] : 4,50%/4,50% (2030 onwards)
AVANGRID NETWORKS	3.63%	In accordance with the age and Union/ Non Union	–	2.00%	RP-2006 fully generational table using MP-2017	Function year RX: 7,50%/8,50% (2018); 7,25%/8,25%(2019) ; [...] : 4,50%/4,50% (2030 onwards)
Brazil						
ELEKTRO	10.1%	n.a.	–		AT – 2000 (1996 US Annuity 2000)	
NEONERGIA	Health plans 10.20%	n.a.	–	–	AT 2000 Basic	
	Saving accruals	5.55%	–	4.50%	Coelba: SUSEP:BR EMSsb v.2015 (male) - 15%; Celpe:AT2000 Male; Cosern:AT2000 (40% male+60%female)-10%	–
	Risk accruals	5.55%	–	4.50%	Coelba: AT 2000 Basic; Celpe:AT2000 Male; Cosern: AT2000 -10%	–
	–	–	–	–	–	–

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

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

Thousands of Euros	2018	2017	2016	2015	2014
Spain					
Present value of the obligation	(413,349)	(445,422)	(553,361)	(501,032)	(639,903)
Net asset / (Net provision)	(413,349)	(445,422)	(553,361)	(501,032)	(639,903)
Experience adjustments	4,914	7,799	4,664	25,355	5,442
United Kingdom					
Present value of the obligation	(5,463,614)	(6,189,753)	(6,261,592)	(6,272,818)	(5,884,621)
Fair value of plan assets	4,894,410	5,552,232	5,741,838	5,915,545	5,491,355
Net asset / (Net provision)	(569,204)	(637,521)	(519,754)	(357,273)	(393,266)
Experience adjustments	81,052	46,097	(17,836)	27,541	59,629
Experience adjustments arising on plan assets	(343,877)	97,442	552,312	(77,098)	329,368
ARHI					
Present value of the obligation	(61,192)	(63,425)	(72,785)	(73,133)	(73,564)
Fair value of plan assets	30,514	34,622	37,722	38,284	38,519
Net asset / (Net provision)	(30,678)	(28,803)	(35,063)	(34,849)	(35,045)
Experience adjustments	(507)	(975)	1,626	7,834	(1,955)
Experience adjustments arising on plan assets	(3,070)	3,810	864	(2,695)	1,805
UIL					
Present value of the obligation	(1,004,348)	(1,015,714)	(1,126,064)	(1,055,586)	–
Fair value of plan assets	609,765	661,511	695,330	647,357	–
Net asset / (Net provision)	(394,583)	(354,202)	(430,734)	(408,229)	–
Experience adjustments	2,995	27,026	(30,075)	182	–
Experience adjustments arising on plan assets	(61,367)	67,787	20,218	(10,620)	–
AVANGRID NETWORKS					
Present value of the obligation	(2,307,689)	(2,389,049)	(2,629,032)	(2,595,775)	(2,460,863)
Fair value of plan assets	1,726,344	1,853,869	1,991,669	1,893,611	1,824,332
Net asset / (Net provision)	(581,345)	(535,180)	(637,363)	(702,164)	(636,531)
Experience adjustments	20,183	(25,591)	37,797	(11,669)	(17,729)
Experience adjustments arising on plan assets	(146,210)	179,082	38,298	(95,019)	40,051
ELEKTRO					
Present value of the obligation	(299,674)	(303,237)	(336,323)	(206,387)	(273,740)
Fair value of plan assets	330,695	343,432	376,175	270,711	336,762
Net asset / (Net provision)	31,021	40,195	39,852	64,324	63,022
Experience adjustments	(1,667)	17,615	(15,966)	(5,980)	(3,507)
Experience adjustments arising on plan assets	13,659	(2,734)	16,502	(10,632)	47
NEOENERGIA					
Present value of the obligation	(481,917)	(542,248)	–	–	–
Fair value of plan assets	331,671	348,118	–	–	–
Net asset / (Net provision)	(150,246)	(194,130)	–	–	–
Experience adjustments	13,637	(7,298)	–	–	–
Experience adjustments arising on plan assets	(24,529)	(8,293)	–	–	–

The sensitivity at 31 December 2018 of the present value of the obligation of these commitments to changes in the discount rate is as follows:

	Spain			United States			Brazil	
Increase/decrease	Electricity tariff	long-service bonus	United Kingdom	ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGÍA
Discount rate (basic points)								
10	(5,818)	(341)	(95,833)	(582)	(12,760)	(24,160)	(3,481)	(4,446)
(10)	5,969	345	102,806	592	13,026	24,607	3,870	4,851
Inflation (basic points)								
10	–	–	96,255	–	–	–		
(10)	–	–	(93,702)	–	–	–		
Wage increase (basic points)								
10	–	367	–	–	2,037	2,300	–	
(10)	–	(356)	–	–	(2,018)	(2,277)	–	
Survivorship table (years)								
1	–	–	216,491	–	–	–	–	
Health insurance cost (basic points)								
25	–	–	–	132	1,094	1,022	–	–
(25)	–	–	–	(118)	(1,046)	(980)	–	–
Price increase kWh (basic points)								
10	3,7259	–	–	–	–	–	–	–
10	(3,725)	–	–	–	–	–	–	–

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:

2018	Equity securities	Fixed income securities	Cash and cash equivalents	Other
United Kingdom	17%	40%	5%	38%
AVANGRID NETWORKS				
Retirement plan	33%	42%	1%	24%
Retiree Benefits Plan	48%	48%	4%	-0%
UIL				
Qualified Pension Plans	51%	43%	-0%	6%
Postretirement Welfare Plans	61%	24%	14%	1%
AVANGRID NETWORKS				
Qualified Pension Plans	36%	41%	3%	20%
Postretirement Welfare Plans	49%	44%	3%	4%
ELEKTRO	12%	84%	-0%	4%
NEOENERGÍA	2%	95%	0%	3%

2017	Equity securities	Fixed income securities	Cash and cash equivalents	Other
United Kingdom	18%	41%	6%	35%
ARHI				
Retirement plan	35%	46%	0%	19%
Retiree Benefits Plan	49%	47%	4%	0%
UIL				
Qualified Pension Plans	53%	42%	0%	5%
Postretirement Welfare Plans	69%	23%	5%	3%
AVANGRID NETWORKS				
Qualified Pension Plans	41%	32%	2%	25%
Postretirement Welfare Plans	49%	38%	2%	11%
ELEKTRO	6%	84%	0%	10%
NEOENERGÍA	3%	82%	10%	6%

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:

Thousands of Euros	Value at 31.12.2018	Level 1	Level 2	Level 3
United Kingdom	4,894,410	711,123	3,027,800	1,155,487
AVANGRID NETWORKS	2,366,623	245,852	1,554,323	566,448
ELEKTRO	330,695	195,700	108,487	26,508
NEONERGIA	331,671	3	311,015	20,653
Total	**7,923,399**	**1,152,678**	**5,001,625**	**1,769,096**

Thousands of Euros	Value at 31.12.2018	Level 1	Level 2	Level 3
United Kingdom	5,552,232	55,522	4,774,918	721,792
AVANGRID	2,550,002	255,001	1,861,501	433,500
ELEKTRO	343,432	247,271	78,989	17,172
NEOENERGÍA	348,118	3,481	302,863	41,774
Total	**8,793,784**	**561,275**	**7,018,271**	**1,214,238**

The strategic distribution of pension plan investments is supported by recurring Asset Liability Management studies specific to each of the plans, which guarantees matching up the funding policy with the expected time to achieve full financing of the commitment in accordance with the flows arising therefrom, providing such studies with the sensitivity to different expected rates of return of the assets and discount of the obligations. On the other hand, it is guaranteed that the financing of the plans is adequate to the recovery time of the regulated cash flows. There are also prudential investment rules regarding pensions within the scope of the Group.

In relation to asset management at a global level, the Group has progressively migrated to passive management, pension plan death and disability benefits have been covered with insurance policies and the management entities and investment assets have been qualified by an independent third party, with the consequent reduction in investments with less liquidity. In addition, in the United Kingdom the longevity risk has been covered via swaps and work is underway to partially cover inflation risk.

25.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 January 2018 are subject to a contributory system where the Company pays 60% and the employee 40% (from 1 June 2017, the Company paid 56.45% and the employee 43.55%, whereas 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 Group's contributions in 2018 and 2017 were Euros 19,006 thousand and Euros 26,205 thousand, respectively, and are recognised under "personnel expenses" heading in the consolidated income statement.

The contribution made on behalf employees out of the scope of the collective bargaining agreement in 2018 and 2017 is recognised under "Personnel expenses" in the consolidated income statements.

Thousands of Euros	2018	2017
SCOTTISH POWER	12,825	10,464
AVANGRID	31,258	31,598
NEOENERGIA	5,883	2,912
Other	646	-
Total	**50,612**	**44,974**

25.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 2018 and 2017, the existing provisions in this regard correspond to the following restructuring plans:

	31.12.2018		31.12.2017	
Thousands of Euros	**Provisions**	**No. of contracts**	**Provisions**	**No. of contracts**
2012 restructuring plan	981	19	3,396	66
2014 restructuring plan	35,738	237	54,986	309
2015 restructuring plan	10,649	69	15,717	82
2016 restructuring plan	8,238	61	12,531	63
2017 restructuring plan	112,824	409	140,934	413
Total	**168,430**	**796**	**227,564**	**933**

Additionally, the following provisions are maintained at 31 December 2018 and 2017 to back commitments for this concept outside Spain and for the subsidiary IBERDROLA Ingeniería y Construcción, S.A.U. (IIC):

Thousands of Euros	**31.12.2018**	**31.12.2017**
SCOTTISH POWER	5,265	5,057
IIC	14,078	18,106
NEOENERGIA	–	15,300
Total	**19,343**	**38,463**

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 2018 and 2017 is as follows:

Thousands of Euros	**2018**	**2017**
Initial balance	**266,027**	**146,677**
Charge	8,200	172,154
Financial Cost	505	29
Actuarial gain and losses and other	(5,799)	(1,931)
Payments and translation differences(*)	(81,160)	(50,902)
Final balance	**187,773**	**266,027**

(*) Payments made during 2018 and 2017 amount to Euros 79,771 thousand and Euros 49,302 thousand, respectively.

The main assumptions applied in the actuarial reports that determined the provisions needed to meet the above mentioned commitments relating to the restructuring plans at 31 December 2018 and 2017 are as follows:

	2018			2017		
	Discount rate	**Inflation**	**Survivorship table**	**Discount rate**	**Inflation**	**Survivorship table**
Other restructuring plans	0.33% / 0.42%	1.00% / 0.70%	PERMF 2000	0.32% / 0.38% / 0.45%	1% / 0.70%	PERMF 2000

26. OTHER PROVISIONS

The movement and breakdown of "Other provisions" in the liabilities in the balance sheet in 2018 and 2017 is as follows:

Thousands of Euros	Provisions for litigation, indemnity payments and similar costs	Provision for CO2 emissions (Note 3.r)	Provision for facility closure costs (Notes 3.s and 5.a)	Other provisions	Total
Balance at 01.01.2017	**600,733**	**54,121**	**1,530,061**	**473,242**	**2,658,157**
Charge or reversals for the year with a debit/credit to "Property, Plant and Equipment" (Note 3.d)	–	–	215,234	–	215,234
Charge for discount to present value (Note 43)	31,879	–	28,096	1,817	61,792
Charge for the year to the 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 6)	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)
Balance at 31.12.2017	**958,047**	**415,906**	**1,715,698**	**449,941**	**3,539,592**
Charge or reversals for the year with a debit/credit to "Property, Plant and Equipment" (Note 3.d)	14,359	–	72,334	–	86,693
Charge for discount to present value (Note 43)	39,695	–	28,381	(19)	68,057
Charge for the year to the income statement	121,852	593,574	416	12,487	743,329
Reversal due to excess	(81,654)	(2)	(15,400)	(11,151)	(108,207)
Modification of the consolidation perimeter (Note 6)	(532)	(30,489)	(5,565)	–	(36,586)
Translation differences	(33,452)	(5,922)	13,027	15,969	(10,378)
Transfers	17,118	–	(5,027)	(21,745)	(9,654)
Payments made and other	(93,492)	–	(6,090)	(30,069)	(129,651)
Emission allowances and Green certificates	–	(543,530)	–	–	(543,530)
Balance at 31.12.2018	**941,941**	**429,537**	**1,797,774**	**415,413**	**3,584,665**

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:

Thousands of Euros	31.12.2018	31.12.2017
Thermal power plants	60,848	80,123
Nuclear power plants	612,174	590,023
Wind-powered farms and other alternative stations	945,344	853,387
Combined cycle power plant	146,194	154,954
Other facilities	33,214	37,211
Total	**1,797,774**	**1,715,698**

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 3.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:

		Discount rate 2018		Discount rate 2017	
Country	**Currency**	**5 years**	**30 years**	**5 years**	**30 years**
Spain	Euro	0.33%	2.61%	0.37%	2.84%
United Kingdom	Sterling Pound	0.90%	1.82%	0.72%	1.76%
United States	US dollar	2.51%	3.01%	2.21%	2.74%

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 2018 are as follows:

Thousands of Euros	
2019	557,110
2020	169,218
2021	102,612
2022 onwards	2,755,725
Total	**3,584,665**

27. LOANS AND BORROWINGS AND OTHER FINANCIAL LIABILITIES – LOANS AND OTHERS

The detail of the loans and borrowingss pending of amortization, once currency swaps have been taken into account, at 31 December 2018 and 2017 stand at:

	Borrowings at 31 December 2018 and maturing in							
		Short term	Long term					
Thousands of Euros	Balance at 31.12.2018 (*)	2019	2020	2021	2022	2023	2024 onwards	Total long term
Euros								
Financial leases	60,760	2,111	2,106	2,107	2,108	2,109	50,219	58,649
Debentures and bonds	16,277,975	3,450,192	1,839,117	1,107,522	1,994,717	1,128,814	6,757,613	12,827,783
Other financing transactions	5,960,870	1,177,961	852,133	1,703,437	973,630	374,642	879,067	4,782,909
Unpaid accrued interest	232,599	232,546	–	–	–	–	53	53
	22,532,204	**4,862,810**	**2,693,356**	**2,813,066**	**2,970,455**	**1,505,565**	**7,686,952**	**17,669,394**
Foreign currency								
US dollars	6,794,968	868,763	501,323	286,952	317,097	611,221	4,209,612	5,926,205
Sterling Pound	3,139,385	96,589	44,813	376,158	43,474	485,860	2,092,491	3,042,796
Brazilian reals	4,640,747	575,203	1,009,109	738,281	800,592	729,450	788,112	4,065,544
Others	43,932	4,239	3,316	3,553	3,809	4,083	24,932	39,693
Unpaid accrued interest	175,236	167,158	1,928	1,787	1,712	1,594	1,057	8,078
	14,794,268	**1,711,952**	**1,560,489**	**1,406,731**	**1,166,684**	**1,832,208**	**7,116,204**	**13,082,316**
Total	**37,326,472**	**6,574,762**	**4,253,845**	**4,219,797**	**4,137,139**	**3,337,773**	**14,803,156**	**30,751,710**

	Borrowings at 31 December 2017 and maturing In							
		Short term	Long term					
Thousands of Euros	Balance at 31.12.2017 (*)	2018	2019	2020	2021	2022	2023 and following	Total long term
Euros								
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	–	–	–	–	–	–
	23,527,331	**4,229,056**	**2,148,723**	**4,071,665**	**1,691,167**	**2,636,103**	**8,750,617**	**19,298,275**
Foreign currency								
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	4,617,129	1,529,724	639,776	925,103	493,172	432,906	596,448	3,087,405
Others	43,926	3,551	2,953	3,163	3,389	3,633	27,237	40,375
Unpaid accrued interest	144,566	144,566	–	–	–	–	–	–
	13,163,167	**2,995,703**	**1,087,580**	**1,553,268**	**1,054,626**	**787,747**	**5,684,243**	**10,167,464**
Total	**36,690,498**	**7,224,759**	**3,236,303**	**5,624,933**	**2,745,793**	**3,423,850**	**14,434,860**	**29,465,739**

(*) At 31 December 2018, financial debt includes Euros 527,380 thousand from draw downs on credit lines and credit facilities, and Euros 2,460,110 thousand from issues of domestic promissory notes (USCP) and the Euro Commercial Paper (ECP).

At 31 December 2017, financial debt includes Euros 883,417 thousand from drawdowns on credit lines and credit facilities, and Euros 2,206,949 thousand from issues of domestic promissory notes and the Euro Commercial Paper (ECP).

The IBERDROLA Group's financial policy recommends maintaining a constant volume of debt issued under the *Euro Commercial Paper* (ECP) programme, the average balance of which amounted to Euros 1,771,712 thousand and Euros 1,527,762 thousand, respectively, in 2018 and 2017.

The borrowings previously mentioned refer to the amounts drawn down and outstanding at 31 December 2018 and 2017.

Significant transactions carried out by IBERDROLA during 2018 are as follows:

2018						
Lessor	**Operation**	**Millions**	**Currency**	**Interest rate**	**Extension**	**Maturity**
Main new financing transactions						
IBERDROLA, S.A. [2]	Sustainable Syndicated loan	2,979	EUR	-	option 1+1	Feb-23
	Sustainable Syndicated loan	2,321	EUR	-	option 1+1	Feb-23
IBERDROLA Financiación, S.A.U.	Bilateral loan	100	EUR		-	Nov-25
	Bilateral loan	200	EUR		-	Dec-25
	IEB loan	500	EUR		-	Upon drawing
IBERDROLA Finanzas, S.A.U.	Increase private issue	200	EUR	1.621%	-	Nov-29
	Private issue	200	EUR	Euribor3m +0.35%	-	Feb-20
	Private issue	800	NOK [1]	3.010%	-	May-28
	Private issue	30	EUR	1.128%	-	June-25
	Green bonds	750	EUR	1.250%	-	Oct-26
	Green bonds	50	USD [1]	3.724%	-	Dec-25
	Private issue	75	EUR	1.621%	-	Nov-29
Avangrid Inc [3]	Sustainable Syndicated loan	2,500	USD	-	option 1+1	Jun-23
Berkshire Gas [5]	Private issue	20	USD	4.07%	-	Jan-29
Connecticut Natural Gas [5]	Private issue	50	USD	4.52%	-	Jan-49
Southern Connecticut Gas [5]	"Mortgage" private emission	75	USD	4.42%	-	Jan-49
Central Maine Power	"Mortgage" private emission	60	USD	3.95%	-	Dec-28
	"Mortgage" private emission	80	USD [5]	3.87%	-	June-26
	"Mortgage" private emission	80	USD [5]	4.05%	-	Jan-30
	"Mortgage" private emission	80	USD [5]	4.20%	-	June-34
New York State Electric & Gas Corp.	Tax exempt bonds	174	USD	3.00%	-	Jun-23/Oct-29
Rochester Gas & Electric Corp.	Tax exempt bonds	152	USD	3.00%	-	June-25
United Illuminating	Tax exempt bonds	64.5	USD	2.80%	-	Oct-23
	Private issue	100	USD	4.07%	-	Oct-28
	Private issue	50	USD [5]	4.52%	-	Jan-49
	Private issue	50	USD	3.96%	-	Dec-25
CELPE	Loan 4131	46	USD [1]	Libor3m +1.50%	-	Jan-21
	Debentures	500	BRL	119.6% CDI	-	Feb-23
	Loan 4131	80	Euros [1]	1.679%	-	Jul-22
	Infrastructure debentures	600	BRL	IPCA+6.0352%	-	Jul-25

2018						
Lessor	**Operation**	**Millions**	**Currency**	**Interest rate**	**Extension**	**Maturity**
	IEB loan	643	BRL	TLP+1.86%	-	Dec-28
	IEB loan	574	BRL	IPCA+3.30%	-	Nov-30
COELBA	Debentures	900	BRL	117% CDI [4]	-	Oct-22/Apr-23
	Infrastructure debentures	300	BRL	IPCA+6.22%	-	Apr-23
	Infrastructure debentures	900	BRL	IPCA+6.2214%	-	Jul-25
	IEB loan	1,043	BRL	TLP+1.69%	-	Dec-25
	IEB loan	800	BRL	IPCA+3.30%	-	Nov-30
COSERN	Infrastructure debentures	130	BRL	IPCA+5.970%	-	Jul-23
	4131 Loan	95	USD [1]	3.689%	-	Nov-23
ELEKTRO	Debentures	1,000	BRL	113.0% CDI [4]	-	May-21/May-23
	Infrastructure debentures	300	BRL	IPCA+5.9%	-	May-25
	4131 Loan	100	USD [1]	3.6937%	-	May-22
	IEB loan	785	BRL	TLP+1.76%	-	Dec-26
IBERDROLA México S.A. de CV	Bilateral green loan	400	USD	-	option 1+1	May-23
Termopernambuco, S.A.	Infrastructure debentures	300	BRL	117,4% CDI	-	Aug-23
	4131 loan	57	USD (1)	4.145%	-	Oct-22
Pier (5)	Project finance	177	USD		-	Aug-33
Ceu Azul	BNDES loan	600	BRL	TJLP+1.78%	-	Jun-35
Sobral III	IEB loan	50	BRL	IPCA+2.57%	-	Dic-38
Main extension transactions for already existing financing						
IBERDROLA S.A.	Syndicated loan	500	EUR	-	+1 year	Jun-23
	Bilateral loan	350	EUR	-	+1 year	Jul-22
	Bilateral green loan	500	EUR	-	+6 months	Aug-19
IBERDROLA Financiación, S.A.U.	Syndicated loan	900	EUR	-	+1 year	Mar-21
	Syndicated loan	75	EUR	-	+1 year	Mar-21
	Bilateral loan	600	EUR	-	+1 year	Jul-21

[1] Currency swap contracts to the company's operating currency

[2] Reconfiguration of Euros 4.4 billion, already existing, and new Euros 900 million, totalling Euros 5.3 billion, with the option of extension for 1+1 years.

[3] Reconfiguration of $1.5 billion, already existing, and new $1 Billion, totalling $2.5 billion, with the option of extension for 1+1 years.

[4] Average cost of different obligations stated in reference to the CDI as of the date of the issue.

[5] Financing signed in 2018 pending of being drawn in 2019.

The most significant financial transactions performed by the IBERDROLA Group during the year 2017 have been the following:

2017						
Lessor	**Operation**	**Millions of Euros**	**Currency**	**Coupon**	**Extension**	**Maturity**
Main new financing transactions						
IBERDROLA S.A.	Bilateral loan	350	EUR	-	Option +1 year	Jul-21
IBERDROLA Financiación, S.A.U.	Bilateral loan	600	EUR	-	Option +1 year	Jul-20
	Bilateral loan	300	EUR	-	-	Jul-22
	Bilateral loan	100	EUR	-	-	Jul-19
	BEI loan	500	EUR	-	-	Dec-24
	Bilateral green loan	500	EUR	-	option 6 + 6 year	Aug-18
IBERDROLA Finanzas. S.A.U.	Private issue (1)	1,000	NOK	2.70%	-	May-27
	Extension	150	EUR	Euribor 3m+0.67%	-	Feb-24
	Extension	50	EUR	1.67%	-	Feb-29
	Green bonds	1,000	EUR	1.00%	-	Mar-25
	Green bonds	750	EUR	1.25%	-	Sept-27
	Private issue	300	EUR	1.62%	-	Nov-29
	Private issue	60	EUR	1.78%	-	Oct-30
	Private issue	50	EUR	1.67%	-	Feb-29
	Green Private issue	100	EUR	Euribor 3m+0.67%	-	Feb-24
AVANGRID Inc	Green bonds	600	USD	3.15%	-	Dec-24
Rochester Gas and Electric Corp.	Bond market US	300	USD	3.10%	-	June-27
COELBA / CELPE	Loan 4131 (1)	235	USD	-	-	Aug-20
COELBA	Loan 4131 (1)	115	USD	-	-	Aug-20
CELPE	Loan 4131 (1)	90	USD	-	-	Aug-20
COSERN	Infrastructure debentures	370	BRL	IPCA+4.7%	-	Sep-22/Sep-24
ELEKTRO	Promissory notes	350	BRL	105% CDI	-	Aug-18
	Loan 4131 (1)	50	USD	-	-	May-20
ELEKTRO	Loan 4131 (1)	110	USD	-	-	May-20
Itapebí Geraçao de Energia, S.A.	Debentures 476	100	BRL	119.2% CDI	-	Dec-20
Lagoa I, S.A.	BEI loan	330	BRL	-	-	Mar-34
Termopernambuco.S.A.	Debentures 476	200	BRL	118.4% CDI	-	Dec-21
Main transactions for extending existing financing						
IBERDROLA S.A.	Syndicated loan	2,331	EUR	-	+1 year	Feb-22
	Syndicated loan	1,856	EUR	-	+1 year	Feb-22
	Syndicated loan	500	EUR	-	+1 year	Jun-22
	Syndicated loan	900	EUR		+1 year	Mar-20
IBERDROLA Financiación, S.A.U.	Bilateral loan	75	EUR	-	+1 year	Mar-20
	Bilateral green loan	500	EUR	-	+6 months	Feb-19

(1) Currency swaps to company currency.

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

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 46). The fair value of real property investments in operation fully amortised intangible assets at 31 December 2018 and 2017 amounted to Euros 483 and 436 millions, respectively. Moreover, 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 Euros 1,265 million and Euros 1,323 million at 31 December 2018 and 2017, respectively, which may have to be renegotiated or shored up with additional guarantees in the event of a significant rating downgrade.

Also, as of December 31, 2018 and 2017, the IBERDROLA Group maintains drawn loans and borrowings of 2,002 and 1,320 million euros, respectively, the cost of which has been modified as that of its credit rating; However, in both cases, the cost increase would not be significant.

In addition, at 31 December 2018 there are bonds issued, borrowings and other agreements between bank entities and IBERDROLA Group whose maturity dates could be impacted or may require additional guarantees to those already existing should there be a control change to be implemented in the manner and times set. The most significant changes are those described in the following paragraphs:

- Bond issues in the amount of Euros 13,314,229 thousand in the European market and USD 1.150.000 thousand (equivalent to Euros 1,010,811 thousand) in the US market.

- EIB loans totalling Euros 2,479,111 thousand.

- Borrowings amounting to Euros 617,308 thousand and USD 400,000 thousand (equivalent to Euros 351,587 thousand).

- Last, BRL 8,595,053 (equivalent to Euros 1,920,867 thousand) for issues and 11,994,129 thousand Brazilian reals (equivalent to Euros 2,680,510 thousand) from borrowings to the Brazilian subsidiary NEOENERGY and its subsidiaries.

At 31 December 2018 and 2017, 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 and there had been no circumstances affecting the change of control or adverse changes in the credit quality, and consequently it had not been necessary to meet the early maturity of the debt or modify the cost related to the loans of which it is the holder.

The average cost of debt of the IBERDROLA Group in 2018 and 2017 was 2.97% and 2.91%, respectively.

28. DERIVATIVE FINANCIAL INSTRUMENTS

The breakdown of items contributing to derivatives at 31 December 2018 and 2017, is as follows:

	2018				2017			
	Assets		Liabilities		Assets		Liabilities	
Thousands of Euros	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
INTEREST RATE HEDGES	**29,462**	**110,135**	**3,905**	**(109,077)**	**42,810**	**104,531**	**31,367**	**(69,300)**
Cash flow hedges	**(86)**	**689**	**(25,958)**	**(108,381)**	**7,264**	**1,436**	**(11,169)**	**(62,034)**
Interest rate swaps	(86)	689	(25,958)	(108,381)	7,264	1,436	(11,169)	(62,034)
fair value hedges	**29,548**	**109,446**	**29,863**	**(696)**	**35,546**	**103,095**	**42,536**	**(7,266)**
Interest rate swaps	29,002	103,959	30,211	–	34,354	96,959	42,536	–
Currency forwards	9	–	(1,041)	–	–	–	–	–
Others	537	5,487	693	(696)	1,192	6,136	–	(7,266)
EXCHANGE RATE HEDGES	**346,919**	**404,239**	**(242,663)**	**(121,484)**	**502,059**	**301,682**	**(168,028)**	**(141,488)**
Cash flow hedges	**93,454**	**139,873**	**(81,072)**	**(49,215)**	**180,447**	**56,721**	**(84,465)**	**(28,504)**
Interest rate swaps	(3,487)	117,178	(13,100)	(45,398)	(4,051)	43,627	(58,008)	(23,053)
Currency forwards	96,704	22,352	(67,972)	(3,812)	184,498	13,094	(26,457)	(5,451)
Collar	237	343	–	(5)	–	–	–	–
fair value hedges	**162,739**	**263,062**	**(18,185)**	**(73,464)**	**178,666**	**244,961**	**25,435**	**(112,984)**
Interest rate swaps	162,739	263,062	(18,185)	(73,464)	178,651	244,439	25,435	(112,984)
Others	–	–	–	–	15	522	–	–
Fair net investment abroad	**90,726**	**1,304**	**(143,406)**	**1,195**	**142,946**	**–**	**(108,998)**	**–**
Interest rate swaps	(1,295)	1,304	(1,399)	1,195	(3,346)	–	(28,156)	–
Currency forwards	92,021	–	(142,007)	–	146,292	–	(80,842)	–
RAW MATERIALS HEDGES	**173,244**	**123,957**	**(166,029)**	**(132,670)**	**120,806**	**35,111**	**(65,261)**	**(11,654)**
Cash flow hedges	**173,244**	**123,957**	**(166,029)**	**(132,670)**	**120,806**	**35,111**	**(65,261)**	**(11,654)**
Futures	173,244	120,685	(166,029)	(132,670)	120,806	35,111	(65,261)	(11,654)
Others	–	3,272	–	–	–	–	–	–
NO HEDGE DERIVATIVES	**414,178**	**105,191**	**(401,144)**	**(40,048)**	**356,773**	**107,418**	**(382,979)**	**(100,565)**
Treasury shares derivatives	**–**	**16,048**	**–**	**(16,048)**	**–**	**12,678**	**(2)**	**(12,678)**
Derivatives over treasury shares	–	16,048	–	(16,048)	–	12,678	(2)	(12,678)
Interest rate derivatives	**4,980**	**–**	**(100)**	**(34)**	**3,017**	**–**	**(12,255)**	**–**
Exchange insurances	4,980	–	(100)	(34)	3,017	–	(12,255)	–
Derivatives on commodities	**409,198**	**88,960**	**(400,667)**	**(23,391)**	**353,756**	**92,119**	**(370,126)**	**(83,467)**
Futures	409,188	88,960	(400,657)	(23,391)	353,751	90,050	(370,114)	(83,467)
Others	10	–	(10)	–	5	2,069	(12)	–
Interest rate derivatives	**–**	**183**	**(377)**	**(575)**	**–**	**2,621**	**(596)**	**(4,420)**
Interest rate swaps	–	183	1,275	–	–	1,831	1,525	–
Others	–	–	(1,652)	(575)	–	790	(2,121)	(4,420)
NETTED OPERATIONS (Note 15)	**(357,550)**	**(16,126)**	**357,550**	**16,126**	**(299,851)**	**(4,041)**	**299,851**	**4,041**
Total	**606,253**	**727,396**	**(448,381)**	**(387,153)**	**722,597**	**544,701**	**(285,050)**	**(318,966)**

The maturity schedule of the notional underlyings of derivative instruments contracted by IBERDROLA Group and outstanding at 31 December 2018, is as follows:

Thousands of Euros	2019	2020	2021	2022	2023 and following	Total
INTEREST RATE HEDGES	**1,723,735**	**1,850,088**	**713,324**	**859,901**	**5,218,341**	**10,365,389**
Cash flow hedges	**1,447,040**	**265,956**	**84,773**	**6,077**	**4,619,509**	**6,423,355**
Interest rate swaps	1,447,040	265,956	84,773	6,077	4,619,509	6,423,355
fair value hedges	**276,695**	**1,584,132**	**628,551**	**853,824**	**598,832**	**3,942,034**
Interest rate swaps	195,881	1,584,132	618,051	845,824	569,332	3,813,220
Currency forwards	24,764	–	–	–	–	24,764
Others	56,050	–	10,500	8,000	29,500	104,050
EXCHANGE RATE HEDGES	**10,786,854**	**1,587,345**	**1,188,394**	**623,215**	**1,897,598**	**16,083,406**
Cash flow hedges	**4,826,506**	**837,163**	**213,660**	**588,988**	**1,485,689**	**7,952,206**
Interest rate swaps	216,453	587,683	166,635	541,688	1,457,765	2,970,224
Currency forwards	4,608,313	246,994	47,025	47,300	28,124	4,977,756
Collar	1,740	2,486	–	–	–	4,226
fair value hedges	***1,413,036***	***750,182***	***974,734***	***34,227***	***244,950***	***3,417,129***
Interest rate swaps	1,413,036	750,182	974,734	34,227	244,950	3,417,129
Fair net investment abroad	**4,547,312**	**–**	**–**	**–**	**166,759**	**4,714,071**
Interest rate swaps	–	–	–	–	166,759	166,759
Currency forwards	4,547,312	–	–	–	–	4,547,312
RAW MATERIALS HEDGES	**9,039,189**	**1,202,004**	**395,293**	**180,564**	**305,025**	**11,122,075**
Cash flow hedges	**9,039,189**	**1,202,004**	**395,293**	**180,564**	**305,025**	**11,122,075**
Futures	9,039,189	1,185,186	395,293	180,564	305,025	11,105,257
Others	–	16,818	–	–	–	16,818
NO HEDGE DERIVATIVES	**3,804,159**	**625,247**	**210,111**	**1,043,336**	**28,016**	**5,710,869**
Treasury shares derivatives	**35**	**–**	**–**	**1,000,000**	**–**	**1,000,035**
Treasury shares derivatives	35	–	–	1,000,000	–	1,000,035
Interest rate derivatives	**166,957**	**27,280**	**–**	**–**	**–**	**194,237**
Currency forwards	166,957	27,280	–	–	–	194,237
Derivatives on commodities	**3,587,167**	**597,967**	**135,111**	**43,336**	**28,016**	**4,391,597**
Futures	3,553,532	597,967	135,111	43,336	28,016	4,357,962
Others	33,635	–	–	–	–	33,635
Interest rate derivatives	**50,000**	**–**	**75,000**	**–**	**–**	**125,000**
Interest rate swaps	50,000	–	–	–	–	50,000
Others	–	–	75,000	–	–	75,000
Total	**25,353,937**	**5,264,684**	**2,507,122**	**2,707,016**	**7,448,980**	**43,281,739**

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.

"Finance cost" in the 2018 and 2017 consolidated income statements includes Euros 161,174 thousand and Euros 127,358 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 3.l and 43 are partially ineffective. The "Finance income" heading in the consolidated income statements for the same years also includes Euros 114,736 thousand and Euros 122,244 thousand, respectively, for the abovementioned items (Note 42).

The nominal value of the liabilities for which foreign exchange hedges (Note 4) have been arranged is as follows:

	2018						
Hedge rate	Thousand US dollars	Thousand Japanese Yens	Thousand Norwegian Kroner	Thousand Mexican Pesos	Thousand Swiss Francs	Thousand Sterling Pound	Thousands of Euros
Cash flow	1,227,533	–	2,250,000	–	–	–	79,250
Fair value	2,995,082	13,000,000	–	–	–	700,000	173

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

The nominal value of the most significant financial liabilities for which interest rate hedges (Note 4) have been arranged is as follows:

	2018			
Hedge rate	Thousands of Euros	Thousand US dollars	Thousand Sterling Pound	Thousand Brazilian reals
Cash flow	2,610,258	–	225,000	–
Fair value	3,808,844	–	–	784,959

	2017			
Hedge rate	Thousands of Euros	Thousand US dollars	Thousand Sterling Pound	Thousand Brazilian reals
Cash flow	338,611	–	225,000	–
Fair value	4,891,844	–	–	348,574

Additionally, as of 31 December 2018, the IBERDROLA Group has used derivatives to cover the interest rate risk of future financing for a nominal amount of Euros 4,642 million, helping to offset the interest rate risk (Euros 3,620 million as of 31 December 2017).

29. STATEMENT OF CASH FLOWS

The 2018 and 2017 transactions of the financial liabilities classified as financing activities in the Cash flow statement excluded from the equity sub-headings, is the following:

			Cash flow			Other non-cash changes						
Thousands of Euros	Balance at 01.01.2018	First application of IFRS 9 (Note 2.a.)	Issues and disposals (1)	Redemptions/charge instalments paid	Interest paid	Accrual of interest	Foreign currency exchange (2)	Change in fair value and others	Accrual expenses subject to amortisation	Modification of the consolidation perimeter (Note 6)	New leases, transfers and other	Balance at 31.12.2018
Financial leases	127,430	–	–	(4,924)	(5,536)	2,310	2,946	–	–	–	20,082	142,308
Debentures and bonds	26,252,859	(150,674)	4,998,038	(3,979,452)	–	–	101,856	(19,380)	95,353	–	11,011	27,309,611
Other financing transactions	9,818,844	(5,760)	8,078,830	(8,593,582)	–	–	7,329	(27,015)	1,189	–	57,676	9,337,511
Unpaid accrued interest	409,160	–	–	–	(1,188,823)	1,189,802	(2,343)	–	–	–	39	407,835
Derivatives on the company's own shares with a physical settlement (Note 20)	82,205	–	–	(732,293)	–	–	–	–	–	–	779,295	129,207
Total Loans and borrowingss and other financial liabilities - Loans and others (Note 27)	**36,690,498**	**(156,434)**	**13,076,868**	**(13,310,251)**	**(1,194,359)**	**1,192,112**	**109,788**	**(46,395)**	**96,542**	**–**	**868,103**	**37,326,472**
Derivative financial instruments associated with financing	(557,688)	–	71,531	150,295	121,547	(111,255)	(294,749)	182,975	–	–	403	(436,941)
Total	36,132,810	(156,434)	13,148,399	(13,159,956)	(1,072,812)	1,080,857	(184,961)	136,580	96,542	–	868,506	36,889,531

			Cash flow			Other non-cash changes							
Thousands of Euros	Balance at 01.01.2017	First application of IFRS 9 (Note 2.a.)	Issues and disposals (1)	Redemptions/charge instalments paid	Interest paid	Accrual of interest	Foreign currency exchange (2)	Change in fair value and others	Accrual of expenses subject to amortisations	Modification of the consolidation perimeter (Note 7)	Liabilities held for sale (Note 34)	Transfers and other	Balance at 31.12.2017
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)	26,252,869
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	204,851	–	688,499	(539,400)	–	–	–	–	–	–	–	(271,745)	82,205
Total Loans and borrowingss	**31,220,682**	**–**	**14,275,950**	**(10,967,626)**	**(1,097,671)**	**1,075,155**	**(1,543,258)**	**(64,881)**	**64,452**	**3,858,978**	**(30,617)**	**(100,666)**	**36,690,498**
Derivative financial instruments	(706,674)	–	49,722	85,059	120,364	(144,320)	224,434	(37,912)	–	37,224	–	(185,585)	(557,688)
Total	30,514,008	–	14,325,672	(10,882,567)	(977,307)	930,835	(1,318,824)	(102,793)	64,452	3,896,202	(30,617)	(286,251)	36,132,810

(1) Net emissions of expenses.

(2) Includes differences in exchange rates.

30. OTHER CURRENT AND NON-CURRENT LIABILITIES

Details of "Other non-current liabilities" in the consolidated financial statement are as follows:

Thousands of Euros	31.12.2018	31.12.2017
Long term deposits and guarantees (Note 13.b.)	166,772	157,912
Concessional guarantee of the sufficiency tariff in Brazil (Note 11)	41,394	–
Other investments in equity-accounted investees	–	356
Contract liabilities (Note 2.a.)	373,258	408,193
Others	292,582	574,177
Total	**874,006**	**1,140,638**

The detail of "Other current liabilities" in the consolidated statements of financial position is as follows:

Thousands of Euros	31.12.2018	31.12.2017
Short-term deposits and guarantees (Note 13.b.)	147,927	167,507
Other investments in equity-accounted investees	93,681	111,994
Short-term intangible trade	573,820	869,597
Staff pending remuneration	232,291	231,044
Others	610,690	485,805
Total	**1,658,409**	**1,865,947**

31. DEFERRED TAXES AND CORPORATE INCOME TAX

Due to the multinational nature of the IBERDROLA Group, it is subject to the regulations in force in other tax jurisdictions.

Taxation in Spain

IBERDROLA S.A. is the parent company of two consolidated tax groups in Spain: the 2/86 group, in the so-called common tax system territory, and the 02415BSC group, in the Biscay tax system territory. IBERDROLA S.A. is currently fiscally incorporated into the former.

The 2/86 group is made up of 74 companies, while the 02415BSC group comprises 21.

The other entities that are fiscal residents in Spain and which are not incorporated into these two groups pay corporate income tax on an individual basis.

Companies taxed under the common tax system are subject to a 25% rate in 2018, while in the fiscally autonomous foral regions of Biscay, Gipuzkoa, Álava and Navarra it is 26%.

Taxation in other countries

Other Group companies whose fiscal residence is outside Spain are taxed based on their resident jurisdiction. In the United States, company taxation is based on a consolidated fiscal system, with the existence of a federal tax group, with a tax group also operating in other countries. In the United Kingdom, the group relief mechanism is used. In other tax jurisdictions, Group companies are taxed on an individual basis.

The nominal tax rates applicable in the main jurisdictions in which the IBERDROLA Group operates are as follows (OECD figures, including central and federal governments):

Country	2018	2017
Australia	30	30
Brazil	34	34
Bulgaria	10	10
Canada	26.8	26.7
Cyprus	12.5	12.5
France	34.4	34.4
Germany	29.8	29.8
Greece	29	29
Hungary	9	9
Ireland	12.5	12.5
Italy	27.8	27.8
Luxembourg	26	27.1
Mexico	30	30
Netherlands	25	25
Portugal	31.5	29.5
Qatar	10	10
Romania	16	16
South Africa	28	28
Spain	25-26	25-28
United Kingdom	19	19
United States	25.8	38.9

Income tax expenses proceeds

The accrued corporate income tax expense for 2018 and 2017 is as follows:

Thousands of Euros	31.12.2018	31.12.2017
Profit for the year from continuing activities before tax	**4,348,034**	**2,025,850**
Profit for the year from discontinued operations before tax	**(64,660)**	**(321,490)**
Consolidated profit of the year before tax	**4,283,374**	**1,704,360**
Non-deductible expenses and non-computable income:	–	–
- from individual companies	(40,425)	(145,236)
- from consolidation adjustments	(140,079)	417,238
Profit of companies accounted for using the equity method	(55,904)	28,405
Adjusted accounting profit	**4,046,966**	**2,004,767**
Gross tax calculated at the tax rate in force in each country (a)	**987,888**	**645,715**
Tax credits deductions due to reinvestment of extraordinary profits and other tax credits	(84,118)	(48,888)
Adjustment of prior years' income tax expense (b)	(22,865)	(47,757)
Net movement in provisions for litigation, compensation payments, similar costs and other provisions (c)	12,400	71,065
Adjustment of deferred tax assets and liabilities (d)	38,022	(2,065,500)
Taxes related to non-distributed earnings	15,519	(12,206)
Others	(841)	(8,034)
Income/Expense Tax from continuing operations	959,499	(1,397,126)
Income /Expense Tax from discontinuing operations	*(13,494)*	*(68,479)*
Income Tax	**946,005**	**(1,465,605)**

The breakdown between current and deferred income tax is as follows:

Thousands of Euros	31.12.2018	31.12.2017
Current taxes	663,373	799,441
Deferred taxes	282,632	(2,265,046)
Expense/(income) from continuing and discontinued activities	**946,005**	**(1,465,605)**

Deferred taxes

The detail of "Deferred tax assets" and "Deferred tax liabilities" in the consolidated statement of financial position is as follows:

Thousands of Euros	Balance at 01.01.2017	Modification of the consolidation perimeter (Note 6)	Translation differences	Credit (charge) to the income statement	Credit (charge) to Unrealised gains/(losses) reserve	Credit (charge) to "Other reserves"	Balance at 31.12.2017	Modification of the consolidation perimeter	IFRS 9 and IFRS 15 first application (Note 2.a)	Translation differences	Credit (charge) to the income statement	Credit (charge) to Unrealised gains/(losses) reserve	Credit (charge) to "Other reserves"	Other	Balance at 31.12.2018
Deferred tax assets:															
Measurement of financial instruments Derivatives	546,647	384	(43,754)	31,866	(231,531)	–	303,612	(1,356)	121	1,308	(49)	(30,468)	-	-	273,168
Balance sheet revaluation 16/2012	1,560,204	–	–	(120,181)	–	–	1,440,023	–	–	–	(106,560)	–	–	–	1,333,463
Pensions and similar commitments	747,380	102,884	(178,588)	(35,283)	–	(121,449)	514,944	–	–	(2,453)	68,974	–	8,605	–	590,070
Allocation of non-deductible negative goodwill arising on consolidation	66,881	–	–	(1,856)	–	–	65,025	–	–	–	(1,143)	–	–	–	63,882
Provision for facility closure costs	56,857	–	(1,767)	19,347	–	–	74,437	–	–	1,269	7,926	–	–	–	83,632
Tax credits for losses and deductions	2,499,398	–	(242,949)	(587,448)	–	–	1,669,001	926	–	41,971	181,752	–	–	58,449	1,952,099
Other deferred tax assets	1,480,787	73,217	13,970	(252,643)	–	–	1,315,331	(756)	82,267	15,625	(120,977)	–	–	(101,805)	1,189,685
Total	6,958,154	176,485	(453,088)	(946,198)	(231,631)	(121,449)	5,382,273	(1,186)	82,388	57,720	29,923	(30,468)	8,605	(43,356)	5,485,999

Thousands of Euros	Balance at 01.01.2017	Modification of the consolidation perimeter (Note 6)	Translation differences	Credit (charge) to the income statement	Credit (charge) to Unrealised gains/(losses) reserve	Balance at 31.12.2017	IFRS 9 and IFRS 15 first application (Note 2.a)	Modification of the consolidation perimeter	Translation differences	Credit (charge) to the income statement	Credit (charge) to Unrealised gains/(losses) reserve	Balance at 31.12.2018
Deferred tax liabilities												
Available for sale assets	–	–	–	–	306	306	–	–	–	(154)		152
Measurement of financial instruments Derivatives	555,549	–	(20,165)	(2,821)	(188,315)	344,248	–	(1,357)	1,449	(38,424)	(19,207)	286,709
Accelerated amortisation	6,728,748	–	(744,049)	(1,595,784)	–	4,388,915	10,468	(49,772)	139,698	29,608	–	4,518,917
Overprice in business combinations	4,829,544	432,330	(437,438)	(1,558,693)	–	3,265,743	–	(163)	21,119	3,708	–	3,290,407
Other deferred tax liabilities	626,820	20,586	(34,253)	(53,946)	–	559,207	52,623	(956)	17,691	317,817	–	946,382
Total	12,740,661	452,916	(1,235,905)	(3,211,244)	(188,009)	8,558,419	63,091	(52,248)	179,957	312,555	(19,207)	9,042,567

Administrative action

The inspections undertaken at the close of 2018 varied depending on the tax legislation in place in each country, although it is not expected that any of these will highlight significant impact that has not already been considered in financial statements.

In the case of Spain, there was no general inspection ongoing at the close of the year, although throughout the year a number of partial checks were carried out, with the reports duly signed off as accepted or contested. The accepted reports represent insubstantial payment sums for the Group, while the contested reports are zero rated.

In those other countries in which the Group has a significant presence, the main ongoing inspections are as follows:

- In America, the most important ongoing inspection relates to income tax in the New York State. Additionally, given its status as a major contributor at both a federal and state level, the AVANGRID Group has around 34 inspections ongoing, examining other tax figures.

- In the UK, Scottish Power the HRMC tax authority has classified the company as a low-risk contributor. The only relevant question for discussion relates to the deductibility of certain payments under the guidance of OFGEM, the electricity and gas market regulator.

- Finally, Brazil can be characterised as a jurisdiction that frequently resorts to litigation, with countless inspections ongoing. This is due to the country's fiscal and administrative structures and the habitual actions of its tax authorities. Nevertheless, NEOENERGIA's directors do not expect any significant impact. Generally speaking, these procedures are resolved in favour of the tax administration in a very limited number of cases.

Tax litigation

The IBERDROLA Group includes among its principles the strengthening of the relationship with the tax authorities, based on el respect for the law, loyalty, trust, professionalism, cooperation, la reciprocity and good faith, regardless of the legitimate discrepancies that may arise in relation to the interpretation fiscal law. Therefore, whenever such discrepancies occur, the Group works with the authorities in a spirit of cooperation, in line with its principles of transparency and mutual trust.

As in previous years, all the Group's work this year is analysed by its internal and external advisors, determining whether its activities comply with the law and are based on reasonable interpretations of tax regulations. The existence of contingent liabilities is also analysed – here the Group's general criterion consists of setting aside provisions for tax litigation when there is high risk that the outcome is unfavourable to the Group's interests, while this set-aside does not occur where the risk level is lower or remote.

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.

Tax litigation in Spain

In the case of Spain, the Group is currently awaiting ruling by the Central Economic Administrative Court on the appeals arising from the contested reports from 2008 to 2011.

The main adjustments that feature in the settlement agreements stemming from these contested reports refer to the assessment of the goodwill, susceptible to tax depreciation through the SCOTTISH POWER take-over, the elimination of SCOTTISH POWER's tax exemption for dividends based on the inspection's understanding that it is incompatible with an adjustment of the value of the portfolio due to net investment hedges, differences in fiscal consolidation criteria and a possible concurrence of a debtor change and certain bond issues, pursuant to Article 15.1 of the General Taxation Act.

Tax litigation in other countries

In general, there is no significant tax litigation in the other jurisdictions under which the group operates, except in the case of Brazil, where there are numerous administrative and judicial litigation and other processes, in which the Group expects to obtain a favourable final ruling.

32. TAX RECEIVABLES AND PAYABLES

The breakdown of the headings "Income tax receivables/payables" and "Public entities, other/payables" on the asset and liability sides, respectively, in the consolidated statements of financial position is as follows:

Thousands of Euros	31.12.2018	31.12.2017
Public Administrations receivables		
Public Treasury, Corporate income tax receivables	252,907	546,304
Public Treasury, VAT refundable	229,975	193,359
Tax withholdings and prepayments	158,319	76,136
Public Treasury, other Receivables	115,150	49,087
Total	**756,351**	**864,886**
Public Administrations Payables		
Public Treasury, Corporate income tax Payables	349,314	259,633
Public Treasury, VAT payable	105,942	182,294
Public Treasury, withholdings payable	69,980	60,698
Public Treasury, other payables	837,010	717,298
Social Security Agencies, payables	26,517	28,636
Total	**1,388,763**	**1,248,559**

33. TRADE PAYABLES

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

Thousands of Euros	31.12.2018	31.12.2017
Suppliers	3,313,610	3,244,267
Service payables	1,945,804	1,874,977
Contract liabilities (Note 2.a)	169,519	188,307
Total	**5,428,933**	**5,307,551**

The majority of these accounts payable do not accrue interest.

34. INFORMATION ON AVERAGE PAYMENT PERIOD TO SUPPLIERS. THIRD ADDITIONAL PROVISION. "REPORTING REQUIREMENT" OF LAW 15/2010, OF 5 JULY

The breakdown of the required information at 31 December 2018 and 2017 is the following:

	Number of days	
	2018	2017
Average payment period to suppliers.	15	16
Paid transactions ratio	14	16
Outstanding payment transactions ratio	26	29

Thousands of Euros	2018	2017
Total payments made	13,413,355	13,754,653
Total payments due	301,766	269,561

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 annual accounts 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 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 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 shows information corresponding to Spanish companies included in the consolidated group once the credits and debits between the subsidiary companies are eliminated.

35. REVENUE

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

Year 2018	Liberalised						Renewables							Networks						
Thousands of Euros	Spain and continental Europe	United Kingdom	Mexico	Brazil	Eliminations	Total	Spain	United Kingdom	United States	Mexico	Brazil	RoW	Total	Spain	United Kingdom	United States	Brazil	Total	Other business, Corporation and adjustments	Total
Supplies in regulated markets																				
Electricity	1,460,126	–	1,491,876	–	–	**2,952,002**	691,452	–	–	–	–	–	**691,452**	2,021,992	1,258,451	3,022,356	5,150,745	**11,453,544**	(164,393)	**14,932,605**
Gas	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,234,545	–	**1,234,545**	–	**1,234,545**
Supplies and other income in non-regulated markets																				
Electricity	9,417,384	3,491,537	752,128	792,889	(19,881)	**14,434,057**	1,004,662	366,590	926,285	90,326	243,801	289,685	**2,921,349**	–	–	15,978	–	**15,978**	(2,347,283)	**15,024,101**
Gas	1,650,534	1,510,850	–	–	(131,950)	**3,029,434**	–	–	–	–	–	–	–	–	–	–	–	–	30,723	**3,060,157**
Others	450,180	19,114	–	–	–	**469,294**	–	330,883	129,341	415	–	–	**460,639**	36,320	17,097	1,898	–	**55,315**	(369,208)	**616,040**
Income from construction agreements	–	–	–	–	–	–	–	–	–	–	–	–	–	66,732	–	–	34,634	**101,366**	–	**101,366**
Income for lease agreements	–	–	–	–	–	–	–	–	–	–	–	–	–	490	–	–	–	**490**	26,764	**27,254**
Derivatives on commodities	106,546	1,174	2,245	–	(2,575)	**107,390**	–	–	(28,701)	254	–	–	**(28,447)**	–	–	–	–	–	862	**79,805**
Total	13,084,770	5,022,675	2,246,249	792,889	(154,406)	20,992,177	1,696,114	697,473	1,026,925	90,995	243,801	289,685	4,044,993	2,125,534	1,275,548	4,274,777	5,185,379	12,861,238	(2,822,535)	35,075,873

Year 2017	Liberalised						Renewables							Networks							
Thousands of Euros	Spain and continental Europe	United Kingdom	Mexico	Brazil	Eliminations	Total	Spain	United Kingdom	United States	Mexico	Brazil	RoW	Total	Spain	United Kingdom	United States	Brazil	Total	Other business, Corporation and adjustments	Total
Supplies in regulated markets	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Electricity	1,590,553	–	1,384,937	–	–	**2,975,490**	655,769	–	–	–	–	–	**655,769**	1,894,253	1,201,373	2,883,994	3,371,691	**9,351,311**	(477,899)	**12,504,671**
Gas	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	1,184,831	–	**1,184,831**	–	**1,184,831**
Supplies and other income in non-regulated markets	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Electricity	8,791,296	3,571,298	930,080	399,615	(72,604)	**13,619,685**	637,529	316,340	862,802	73,590	90,895	125,962	**2,107,118**	–	–	13,829	–	**13,829**	(1,467,809)	**14,272,823**
Gas	1,260,597	1,257,415	–	–	(85,528)	**2,432,484**	–	–	–	–	–	–	–	–	–	–	–	–	18,275	**2,450,759**
Others	436,679	14,360	–	–	(255)	**450,784**	–	285,468	113,737	–	–	–	**399,205**	38,725	20,655	525	–	**59,905**	(254,466)	**655,428**
Income from construction agreements	–	–	–	–	–	–	–	–	–	–	–	–	–	83,713	–	–	–	**83,713**	–	**83,713**
Income from lease agreements	–	–	–	–	–	–	–	–	–	–	–	–	–	542	–	–	–	**542**	25,178	**25,720**
Derivatives on commodities	98,261	3,435	(50)	(81)	(11,810)	**89,755**	–	–	(5,433)	178	2,663	–	**(2,592)**	–	–	–	–	–	(1,846)	**85,317**
Total	12,177,386	4,846,508	2,314,967	399,534	(170,197)	19,568,198	1,293,298	601,808	971,106	73,768	93,558	125,962	3,159,500	2,017,233	1,222,028	4,083,179	3,371,691	10,694,131	(2,158,567)	31,263,262

36. PROVISIONS

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

Thousands of Euros	31.12.2018	31.12.2017 Restated (Note 2.d)
Liberalised business	**16,824,304**	**15,811,674**
Spain and Continental Europe	10,670,202	9,884,521
United Kingdom	4,159,851	4,103,766
Mexico	1,489,687	1,668,931
Brazil	658,960	324,363
Eliminations	(154,396)	(169,907)
Renewables business	**434,058**	**368,014**
Spain	116,342	119,119
United Kingdom	53,753	54,858
United States	191,828	188,263
Mexico	3,108	2,576
Brazil	65,606	1,818
RoW	3,421	1,380
Networks business	**5,219,469**	**3,907,433**
Spain	15,991	14,354
United Kingdom	53,101	48,385
United States	1,494,913	1,329,213
Brazil	3,655,464	2,515,481
Other business, Corporation and adjustments	**(2,837,095)**	**(2,187,667)**
Total	**19,640,736**	**17,899,454**

37. PERSONNEL EXPENSES

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

Thousands of Euros	31.12.2018	31.12.2017
Wages and salaries	1,973,562	1,926,519
Company social security costs	292,731	262,223
Additional provisions for pensions and similar obligations and defined contributions to the external pension plan (Notes 3.p and 25)	195,706	413,463
Remuneration stipulated in by-law 48.1 (Note 47)	17,000	17,000
Token payments Art. 48.4	5,588	3,398
Other social expenses	194,138	153,391
	2,678,725	**2,775,994**
Capitalised personnel expenses		
Intangible assets (Note 8)	(73,899)	(42,299)
Property, plant and equipment (Note 3.d)	(581,672)	(558,874)
Nuclear fuel	(3,148)	(3,225)
	(658,719)	**(604,398)**
Total	**2,020,006**	**2,171,596**

The average number of IBERDROLA Group employees in 2018 and 2017 has increased to 33,415 and 28,750 employees, of which 7,729 and 6,711 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 in accordance with the participation share in those ones.

38. OPERATING LEASES

The "External services" heading on the income statements includes operating lease payments of Euros 148,607 thousand and Euros 148,810 thousand for 2018 and 2017, respectively. Details of future minimum payments under non-cancellable operating leases outstanding at 31 December 2018 are as follows:

Thousands of Euros	
2019	126,656
2020	129,403
2021	124,231
2022	116,221
2023	104,473
From 2024 onwards	1,498,675
Total	**2,099,659**
Financial Cost	637,505
Present value of the payments	1,462,154
Total	**2,099,659**

The IBERDROLA Group's enters into lease agreements acting as lessee mainly for land, buildings and vehicles located at wind farms.

The amount differs from the effect of the application of IFRS 16 "Leases" for the first time as explained in Note 2.a.

On the other hand, the IBERDROLA Group acts as lessor in certain operating leases consisting basically on the rental of investment property (Note 9) and the lease of fibre optics. The heading "Net revenue" in the consolidated income statements in 2018 and 2017, includes Euros 50,607 thousand and Euros 47,885 thousand, respectively, related to this concept and the detail of the estimated future minimum proceeds under non-cancellable leases at 31 December 2018 is as follows:

Thousands of Euros	
2019	54,879
2020	35,307
2021	32,000
2022	29,706
2023	27,954
From 2024 onwards	124,084
Total	**303,930**
Financial Cost	54,842
Present value of the payments	249,088
Total	**303,930**

39. TAXES

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

Thousands of Euros	31.12.2018	31.12.2017 Restated (Note 2.d)
Liberalised business	**802,050**	**861,408**
Spain and continental Europe	*693,509*	*726,622*
United Kingdom	106,971	131,536
Brazil	44	39
Mexico	1,526	3,211
Renewable business	**468,006**	**351,676**
Spain	396,418	284,266
United Kingdom	23,624	21,817
United States	43,650	39,655
Mexico	357	319
Brazil	539	2,016
ROW	3,418	3,603
Networks business	**647,683**	**636,772**
Spain	90,106	89,384
United Kingdom	105,368	101,948
United States	448,421	444,319
Brazil	3,788	1,121
Other business, Corporation and adjustments	**13,264**	**24,647**
Total	**1,931,003**	**1,874,503**

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 2018 and 2017:

- 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 Euros 194,038 thousand and Euros 225,225 thousand in 2018 and 2017 respectively.

- A tax on spent nuclear fuel, the cost of which amounted to Euros 131,509 thousand and Euros 129.315 thousand in 2018 and 2017, respectively.

- A royalty on the use of inland water affecting production of electricity which, as a general rule, means the payment of a percentage of the economic value of the hydroelectric power produced. The corresponding expense in 2018 and 2017, amounting to Euros 165,135 thousand and Euros 82,365 thousand, respectively.

- A green cent tax levied against energy products used in electricity production, entailing a cost for the IBERDROLA Group of Euros 35,575 thousand and Euros 46,648 in 2018 and 2017, respectively. This payment was recognised under "Procurements" in the consolidated income statement.

Additionally, the sub-heading 'Taxes' of the 2018 and 2017 consolidated income statement includes Euros 168,310 and 165,264 thousands of Euros, respectively, as the best estimate available of the accrued expenses originated by Royal Decree-Law 6/2009 (Note 3.y).

40. AMORTISATIONS AND PROVISIONS

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

Thousands of Euros	31.12.2018	31.12.2017 (re-stated Note 2.d)
Tangible assets depreciation allowances:		
Property, plant and equipment (Note 10)	2,842,430	2,636,990
Acquisition of real property (note 9)	7,533	6,965
Intangible assets depreciation allowances (Note 8):	737,136	542,093
Allowances for impairments and write-offs of non-financial assets:		
Goodwill write off of Renewables in USA (Notes 8 and 12)	–	449,480
Reversal of impairment of intangible assets in Renewables in USA (Notes 8 and 12)	(52,688)	(42,959)
impairment of intangible assets in Gas in USA and Canada (Note 8)	–	68,715
impairment of PPE in Gas in USA and Canada (Note 10)	–	633,003
Other impairments in Gas in USA	–	41,853
Charge Reversal of impairment in PPE (Note 10)	13,565	(24,357)
Other impairment in PPE (Note 10)	81,049	37,499
Changes in provisions	26,849	59,388
Total	**3,655,874**	**4,408,670**

Prior to the sale of the gas business in the United States and Canada in 2018 (Note 41), the IBERDROLA Group 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 Euros 743,571 thousand. 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.

41. GAINS AND LOSSES ON DISPOSAL OF NON-CURRENT ASSETS

Details of "Gains and losses on disposal of non-current assets" in the consolidated statements of financial position is as follows:

Thousands of Euros	31.12.2018	31.12.2017
Gain on the disposal of intangible assets and PPE	10,419	3,420
Gain on the disposal of equity investments	38,049	295,673
Total	**48,468**	**299,093**

Details of "Losses due to disposal of non-current assets" in the consolidated statements of financial position is as follows:

Thousands of Euros	31.12.2018	31.12.2017
Loss on the disposal of intangible assets and PPE	2,331	2,611
Loss on the disposal of equity investments	37,286	17,428
Total	**39,617**	**20,039**

Year 2018

The gross losses recognised under "Losses on Disposal of Non-Current Assets" in the consolidated statement of income for 2018 relate mainly to the sale of the gas business in the United States for Euros 13,881 thousand and the 80% stake in the company Coyote Ridge Wind LLC to WEC Infrastructure for Euros 23,116 thousand (Notes 6 and13.a).

Gross capital gains recognised in "Earnings from sales of non-current assets" on the consolidated financial statement for 2018 corresponds to the sale of IBERDROLA Energía Solar de Puertollano, S.A. for Euros 12,470 thousand and of Scottish Power Generation Limited for Euros 25,579 thousand (Note 6).

Year 2017

- As a consequence of the merger of the wind energy businesses SIEMENS and GAMESA (Note 13), 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 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 Euros 8,000 thousand, which implied a gross capital loss of 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 6). The result obtained as a result of the aforementioned dilution of the operation reached 44,012 thousands of Euros, which were registered under sub-heading 'Gains on disposal of non-current assets' in the 2017 consolidated income statement.

42. FINANCIAL INCOME

Details of "Finance Income" in the consolidated statements of financial position is as follows:

Thousands of Euros	31.12.2018	31.12.2017
Income from equity investments	2,284	2,082
Finance income related to assets at amortised cost:		
Other financial interests and income	194,261	223,238
Other interest and finance income due to credits to associated companies	58	96
Non-hedge derivatives and inefficiencies(Note 28)	114,736	122,244
Exchange losses in foreign currency for financing activities	191,789	273,000
Other Exchange losses in foreign currency	143,360	164,808
Capitalised finance costs		
Intangible assets (Note 8)	35,735	21,506
Property, plant and equipment (Note 10)	156,896	112,536
Nuclear fuel (Note 16)	633	2,193
Inventories in real property (Note 17)	159	87
Total	839,911	921,790

The average capitalisation rates used in 2018 and 2017 for external financing of property, plant and equipment was 3.68% and 2.63%, respectively (Note 3.d).

43. FINANCIAL COSTS

Details of "Financial costs" in the consolidated statements of financial position is as follows:

Thousands of Euros	31.12.2018	31.12.2017
Finance cost related to liabilities at amortised cost:		
Finance cost and financing expenses	1,234,475	1,055,901
Other finance cost and similar expenses	94,503	71,171
Securities portfolio having the substance of a financial liability (Note 22)	12,026	6,230
Non-hedge derivatives and inefficiencies (Note 28)	161,174	127,358
Valuation adjustment to financial assets	2,798	9,015
Exchange losses in foreign currency for financing activities	198,604	279,193
Other Exchange losses in foreign currency	146,415	178,212
Financial update of other provisions (Note 26)	68,057	61,792
Financial update of provisions for pensions and similar obligations (Note 25)	77,953	70,020
Total	**1,996,005**	**1,858,892**

44. 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.

Regarding such disputes, the main contingent assets and liabilities of the IBERDROLA Group not recognised in these consolidated financial statements as the criteria established in accounting regulations is not met, are as follows:

Contingent liabilities

- 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 Euros 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.

- Claims filed with the Central Economic Administrative Court, arising from the disagreement statement signed by the Group in 2016, corresponding to the years 2008 to 2011. The main adjustments under dispute arise from the elimination of the exemption regime for dividends received, as the tax inspection considers that it is incompatible with an adjustment in the value of the portfolio for net investment coverage, differences in tax consolidation criteria and the possible concurrence in a debtor exchange transaction regarding some bond issues, due to the circumstances established in article 15.1 of the General Tax Law.

- Arbitration filed by Offshore Windforce (OWF) against IBERDROLA RENOVABLES OFFSHORE DEUTSCHLAND GmbH, due to the contracting of OWF (among others) for the installation of the wind turbine jackets for the Wikinger wind farm. During the construction process differences arose between the parties which resulted in a mutual contractual claim as regards deadline and cost, in the case of OWD, and delay penalties, in the case of IBERDROLA RENOVABLES OFFSHORE DEUTSCHLAND.

  On 14 July 2018 IBERDROLA RENOVABLES OFFSHORE DEUTSCHLAND GmbH received an arbitration claim amounting to Euros 71,548 thousand, which have been accrued in the probable. On 23 November 2018 IBERDROLA replied to the arbitration request and in turn filed a counter-claim.

- The subcontractor for one of BOP Eléctrico's contractors from IBERDROLA Energy Projects (IEP, a subsidiary of IBERDROLA INGENIERÍA) on a US project has taken court action against IEP and the BOP Eléctrico contractor, claiming payment for work undertake and unpaid wages. The case has been suspended pending the result of arbitration proceedings involving IEP and the BOP Eléctrico contractor before the American Arbitration Association's International Centre for Dispute Resolution.

  On 2 February 2019 the project's client expressed his intention of executing 100% of the guarantee value (USD 141 million)

- 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, in accordance with the opinions of the administration and external legal advisors, making the corresponding provisions in accordance with the likelihood of loss depending on the available evidence, legal hierarchy and most recent case-law.

  Labour complaints were filed by former NEONERGIA Group companies or by former subcontractor as regards additional working hours, equitable salaries and other employment rights. Civil proceedings refer to actions of a commercial and indemnifying nature brought in claims for material or moral damages, arbitrations discussing matters related to engineering and energy contracts, and environmental actions.

  Among these, the following infractions in place are due to:

  - The lack of income tax withholding and the incidence of PIS / COFINS corresponding to the payment of interest on own capital.

  - Tax assessment notice issued by the federal tax body (Receita Federal do Brasil) for the collection of capital gains tax originating from the acquisition of Neonergia Group companies (Celpe, Coelba, Cosern, Elektro, Itapebi and Termopernambuco).

  They are administrative and court proceedings involving the distribution companies and the retail company NC Energia and the state tax body as regards movement of goods.

  As regards regulatory actions, the distribution companies Coelba, Celpe, Cosern and Elektro are involved in similar proceedings, among which the following should be highlighted: (i) the procedures for calculating individual and collective technical continuity indicators of the service ; (ii) commercial issues; (iii) the implementation of the corresponding financial compensations and the recovery of global indicators; (iv) issues relating to the collection or legality of rate elements or items; and (v) issues regarding the legality of the administrative actions imposed by ANEEL.

- Claim by the California Public Utilities Commission: In 2002, 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 April 2016, following the reopening of the 2014 case, an initial ruling was issued 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.

  FERC recommended filing the case without sanction. Following these proceedings, FERC is expected to issue a final ruling in the last quarter of 2019 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

- AVANGRID initiated 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 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: (i) One arbitration is or non-compliance with the supply contracts, issuing a complaint for damages and (ii) 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.

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.

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.

In addition, within the ordinary business of IBERDROLA Group, the following contingent liabilities have arisen:

- The American gas companies are either the owners or former owners of the land on which they operate gas manufacturing plants. This land has been contaminated as a result of this activity. In some cases, the land has been decontaminated while in others it has been assessed and classified, although not cleaned. In a number of other cases, the level of contamination has yet to be determined. This latter group has not set aside any provision as of 31 December 2018, given that the cost cannot be reasonably estimated as it requires the participation and approval of the regulators. In the past, gas companies were given approval to recover the cost of decontamination from customers through tariffs, as well as hoping to similarly recuperate the cost of cleaning other land.

The contingent assets and liabilities at 31 December 2017 are described in the 2017 consolidated annual accounts of IBERDROLA.

45. INTERESTS IN JOINT VENTURES

The detail (at 100%) of the most significant economic aggregates in 2018 and 2017 relating to the main joint ventures involving the IBERDROLA Group is as follows:

Thousands of Euros	Joint property of nuclear and thermal plants									
Year 2018	Almaraz	Trillo	Vandellós	Ascó	Aceca	A.I.E. Almaraz-Trillo	A.I.E. Ascó-Valdellós	West of Duddon Sands	Wikinger OSS	Torre IBERDROLA
Segment	Liberalised							Renewables		Other businesses
Intangible assets.	–	–	–	–	–	5,290	–	–	–	21
Property, plant and equipment										
Technical installations	692,494	952,610	948,438	594,792	–	–	–	1,456,429	147,727	–
Other fixed assets	340	4,133	14,271	–	1,811	2,029	–	–	–	184,896
Non-Current financial Assets	22,533	11,291	43,090	9,864	2,430	1,919	144,532	–	–	–
Current assets	707,494	382,790	369,356	376,302	739	50,923	139,181	9,946	–	2,184
Total assets	**1,422,861**	**1,350,824**	**1,375,155**	**980,958**	**4,980**	**60,161**	**283,713**	**1,466,375**	**147,727**	**187,101**
Non-Current Liabilities	**365,529**	**463,666**	**515,544**	**245,947**	**–**	**39,799**	**156,007**	**–**	**–**	**1,515**
Current Liabilities	**893,204**	**856,820**	**960,220**	**613,141**	**5,746**	**20,362**	**108,473**	**39,096**	**–**	**1,699**
Income	**908,702**	**444,292**	**304,278**	**484,922**	**7**	**163,076**	**323,508**	**1,372**	**–**	**13,602**
Expenses	**744,267**	**413,950**	**402,382**	**363,052**	**772**	**163,076**	**302,518**	**30,132**	**–**	**11,032**

Year 2017	Almaraz	Trillo	Vandellós	Ascó	Aceca	A.I.E. Almaraz-Trillo	A.I.E. Ascó-Valdellós	West of Duddon Sands	Wikinger OSS	Torre IBERDROLA
Segment	Liberalised							Renewables		Other businesses
Intangible assets.	–	–	–	–	–	4,437	–	–	–	27
Property, plant and equipment										
Technical installations	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
Total assets	**1,477,699**	**1,444,601**	**1,505,724**	**1,043,565**	**4,973**	**61,768**	**277,964**	**1,483,668**	**155,274**	**194,122**
Non-Current Liabilities	**331,443**	**462,493**	**499,855**	**225,358**	**–**	**40,277**	**128,831**	**–**	**–**	**1,437**
Current Liabilities	**1,021,982**	**957,884**	**916,211**	**756,556**	**4,289**	**21,491**	**129,901**	**37,264**	**–**	**1,209**
Income	**867,501**	**427,055**	**477,885**	**409,159**	**328**	**156,918**	**270,279**	**1,293**	**–**	**13,034**
Expenses	**765,143**	**412,696**	**422,650**	**360,119**	**559**	**156,918**	**287,994**	**33,732**	**–**	**10,571**

46. 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, OMIE, 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.

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 31).

In addition, at 31 December 2018 and 2017, there were outstanding obligations resulting from bond issues in the United States amounting to Euros 1,787,818 and Euros 1,701,555 thousand that were secured by the items in the property, plant and equipment of the subgroup AVANGRID.

IBERDROLA considers that any additional liability other than those provisioned at 31 December 2018 and 2017, 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 2018 and 2017. The detail, by company, of the shares pledged is as follows:

Thousands of Euros	2018			2017		
Company	Carrying amount	Percentage of ownership IBERDROLA Group	Carrying amount by percentage of IBERDROLA Group's ownership (thousands of Euros	Carrying amount	Percentage of ownership IBERDROLA Group	Carrying amount by percentage of IBERDROLA Group's ownership (thousands of Euros
Renewables business - Spain						
Eólica 2000, S.L.	5,764	51.00%	2,940	5,268	51,00%	2,687
Eólica de Campollano, S.A. (1)	27,031	25,00%	6,758	27,090	25,00%	6,773
Molinos de La Rioja, S.A. (1)	14,887	42,37%	6,308	13,372	42,37%	5,666
Molinos del Cidacos, S.A. (1)	37,336	31,78%	11,865	38,305	31,78%	12,173
Renewables business - Brazil						
Arizona 1 Energia Renovável, S.A.	10,993	52,45%	5,766	12,795	52,45%	6,711
Caetité 1 Energia Renovável, S.A.	16,499	52,45%	8,654	21,512	52,45%	11,283
Caetité 2 Energia Renovável, S.A.	18,895	52,45%	9,910	26,374	52,45%	13,833
Caetité 3 Energia Renovável, S.A.	16,083	52,45%	8,436	20,015	52,45%	10,498
Calango 1 Energia Renovável, S.A.	13,166	52,45%	6,906	16,882	52,45%	8,855
Calango 2 Energia Renovável, S.A.	11,192	52,45%	5,870	13,611	52,45%	7,139
Calango 3 Energia Renovável, S.A.	11,884	52,45%	6,233	13,787	52,45%	7,231
Calango 4 Energia Renovável, S.A.	10,891	52,45%	5,712	14,878	52,45%	7,804
Calango 5 Energia Renovável, S.A.	11,419	52,45%	5,989	15,565	52,45%	8,164
Calango 6 Energia Renovável, S.A.	51,491	52,45%	27,007	43,590	52,45%	22,863
Canoas Energia Renovável, S.A.	43,767	52,45%	22,956	42,184	52,45%	22,126
Energias Renováveis do Brasil, S.A.	–	–	–	133,891	52,45%	70,226
Força Eolica Participaçoes, S.A.	58,563	52,45%	30,716	59,857	52,45%	31,395
Lagoa I, S.A.	52,827	52,45%	27,708	50,428	52,45%	26,449
Lagoa II, S.A.	42,521	52,45%	22,302	42,626	52,45%	22,357
Mel 2 Energia Renovável, S.A.	7,310	52,45%	3,834	7,536	52,45%	3,953
Santana 1, Energia Renovável, S.A.	40,791	52,45%	21,395	47,585	52,45%	24,958
Santana 2, Energia Renovável, S.A.	32,365	52,45%	16,975	37,796	52,45%	19,824
Liberalised business - Spain						
Tirme, S.A. (1) (Note 13.a)	–	–	–	24,860	20,00%	4,972
Liberalised business - Brazil						
Baguari Geraçao de Energia Elétrica, S.A.	37,571	52,45%	19,706	37,240	52,45%	19,532
Belo Monte Participaçoes, S.A.	306,082	52,45%	160,540	317,238	52,45%	166,391
Companhia Hidrelétrica Teles Pires, S.A. (1)	424,280	26,75%	113,504	511,804	26,75%	136,908
Energetica Aguas da Pedra, S.A. (1)	97,405	26,75%	26,055	112,378	26,75%	30,061
Energetica Corumba III (1)	37,391	13,11%	4,903	40,117	13,11%	5,259
Geraçao CIII, S.A.	57,589	52,45%	30,205	55,890	52,45%	29,314
Norte Energía, S.A. (1)	2,971,872	5,25%	155,875	2,939,875	5,25%	154,343
Teles Pires Participaçoes, S.A. (1)	326,387	26,52%	86,554	488,323	26,52%	129,503
Geraçao Ceu Azul, S.A.	255,988	52,45%	134,266	–	–	–
Liberalised business - Mexico						
Parque Industrial de Energías Renovables II Quecholac Felipe Angeles, S.A. de C.V.	15,556	51,00%	7,934	20,083	51,00%	10,242
Parque Industrial de Energia Renovable SA de CV	62,647	51,00%	31,950	–	–	–
Parque Industrial de Energías Renovables IV , S.A. de C.V.	403	51,00%	206	–	–	–
Networks business - Brazil						
Potiguar Sul Transmissao de Energia, S.A.	55,282	52,45%	28,995	67,966	52,45%	35,648
Total	**5,184,128**		**1,064,933**	**5,320,721**		**1,075,141**

(1) Companies recognised as equity-accounted investee.

47. REMUNERATION OF THE BOARD OF DIRECTORS

47.1 2018 by-law stipulated remuneration

Article 48 of IBERDROLA's by-laws provides that the Company shall assign, as a statutory expense, an amount equal to a maximum of 2% of the profit obtained in the year by the consolidated group for the following purposes:

On the proposal of the Appointments and Remuneration Committee, the board of directors has decided to propose to shareholders at their General Meeting to assign by-law stipulated remuneration of Euros 17,000 thousand in 2018 and the same amount as in the previous three years, this is in 2015, 2016 and 2017.

These amounts have been registered under the "Personnel expenses" heading in the consolidated income statements (Note 37).

a) Fixed remuneration and attendance premium

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 2018 and 2017. The details are as follows:

	Fixed remuneration		Attendance premium	
Thousands of Euros	**2018**	**2017**	**2018**	**2017**
Chairman of the Board	567	567	4	4
Vice-chairman of the board of directors and committees chairmen	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 has resolved to maintain the fixed remuneration for the chairman and chief executive officer in 2018 at Euros 2,250 thousand. It also decided to maintain the limit of variable annual remuneration, which may not exceed Euros 3,250 thousand and which will be paid as far as been agreed in 2019.

The board of directors decided on a fix remuneration in 2018 of Euros 1,000 thousand for the member of the board and Business CEO and set a limit of variable annual remuneration of Euros 1,000, to be paid, as may be agreed, in 2019.

c) Board member remunerations paid and accrued

The detailed fixed remuneration accrued by the members of the board of directors, individually, during 2018 and 2017, respectively, is detailed as follows:

Thousands of Euros	Salaries	Fixed remuneration (1)	Remuneration for sitting on Committees (1)	Attendance fee	Short-term variable remuneration (9)	Compensations	Retribution in kind	Total 2018	Total 2017
Chairman of the Board									
Mr José Ignacio Sánchez Galán	2,250	567	–	92	3,088	–	65	6,062	6,149
Vice-chairman of the board of directors and committees chairmen	–	–	–	–	–	–	–	–	–
Inés Macho Stadler (2)	–	165	275	68	–	–	3	511	517
Samantha Barber	–	165	275	74	–	–	2	516	514
María Helena Antolín Raybaud	–	165	275	40	–	–	6	486	487
Georgina Kessel Martínez	–	165	275	64	–	–	1	505	499
Juan Manuel González Serna(3)	–	165	187	34	–	–	1	387	210
Committee members	–	–	–	–	–	–	–	–	–
Iñigo Víctor de Oriol Ibarra	–	165	88	38	–	–	5	296	299
Angel Jesús Acebes Paniagua	–	165	88	58	–	–	3	314	313
Denise Mary Holt	–	165	88	40	–	–	1	294	292
José Walfredo Fernández	–	165	88	40	–	–	1	294	292
Manuel Moreu Munaiz	–	165	88	62	–	–	2	317	315
Xabier Sagredo Ormaza	–	165	88	40	–	–	2	295	293
Francisco Martínez Córcoles(4)	1,000	165	–	16	710	–	27	1,918	905
Anthony Luzzatto Gardner (5)	–	118	63	16	–	–	1	198	–
Ceased members	–	–	–	–	–	–	–	–	–
Santiago Martínez Lage (6)	–	–	–	–	–	–	–	–	77
José Luis San Pedro Guerenabarrena (7)	–	–	–	–	–	–	–	–	76
Braulio Medel Cámara (8)	–	47	25	14	–	–	3	89	288
Total	3,250	2,712	1,903	696	3,798	–	123	12,482	11,526

(1) Remuneration accrued in 2018. These amounts not satisfied until the approval of 2018 by-law stipulated remuneration by the General Shareholders Meeting 2019.

(2) Appointed vice-chairperson of the board of directors on 21 June 2018.

(3) Appointed member on 31 March 2017. On 21 June 2018 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.

(5) Appointed member on 13 April 2018. On that same date the board of directors approved the appointment as a member of the Corporate Social Responsibility Committee.

(6) Ceased as vice-chairman of Boards of Directors at their meeting on 31 March 2017.

(7) Ceased as vice-chairman of Boards of Directors at their meeting on 31 March 2017.

(8) Ceased as vice-chairman of Boards of Directors at their meeting on 13 April 2018.

(9) Amount relates to variable remuneration received in the year 2018, in accordance with attainment of targets and personal performance in 2017.

Currently, all members of the board of directors of IBERDROLA assume responsibility for any of the five committees of the board, except Francisco Martinez Córcoles.

d) Civil liability insurance

The premium paid to cover directors' Civil Liability Insurance amounts to Euros 72 thousand and Euros 71 thousand in 2018 and 2017, respectively.

e) Others

The expenses of the board of directors related to external services and other items during 2018 and 2017 amounted to Euros 2,131 thousand and Euros 1,855 thousand, respectively.

In 2018 and 2017 rebates were received amounting to Euros 106 thousand and Euros 53 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 2018 amounting to Euros 2,421 thousand can be externalized to cover the obligations incurred by the Company to ensure them, in the event they should be materialized.

47.2 Remuneration through the delivery of Company shares

The shareholders at their General Meeting held on 28 March 2014 approved the *2014-2016 Strategic Bonus* as a long-term incentive tied to the performance of the Company in accordance to certain parameters.

In the first half of 2018 the second of the three annual payments was made. The Chairman and CEO received 510,596 IBERDROLA shares. The member-Business CEO was granted 120,931 shared corresponding to his performance prior to his appointment as board member.

47.3 Remuneration for sitting on other committees

Remuneration received by executive directors who in 2018 performed director duties in companies controlled by IBERDROLA amounts to Euros 261 thousand

47.4 Law 11/2018: Non-financial information and diversity

Below the average remuneration received by members per type and sex in 2018 and 2017 is detailed as follows:

	2018		2017	
Thousands of Euros	Men	Women	Men	Women
Executive	4,121	–	4,023	–
Independent and other external	313	462	298	462

The fixed and variable compensation of the member-business CEO up to his appointment, on 31 March 2017 are described in Note 49.

Additionally, executive members have received 631,527 company shares in 2018 and 2017 (Note 47.2).

47.5 Indemnity clauses

The indemnity clauses for the directors are described in section C.1.39 of the Annual Corporate Governance Report included in the Directors' Report.

48. INFORMATION REGARDING COMPLIANCE WITH ARTICLE 229 OF THE SPANISH COMPANIES ACT

As established in article 229 of the Spanish Companies Act (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 Act 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.

49. 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 2018 and 2017, the Company had 5 and 5 senior executives respectively.

The personnel expenses relating to senior executives amounting to Euros 6,598 thousand and Euros 10,373 thousand in 2018 and 2017, respectively, are recognised under the "personnel expenses" heading in the income statements of the mentioned years.

The remuneration and other compensation received by senior executives in 2018 and 2017 are detailed below:

Thousands of Euros	31.12.2018	31.12.2017 (1)
Retribution in cash	3,050	4,227
Performance-based compensation	2,214	2,909
Retribution in kind	98	421
Payments to account not charged	33	36
Social Security	69	70
Promoter contribution pension plan	30	40
Complementary policy accrual	613	2,171
Complementary policy risk	491	499
Total	**6.598**	**10,373**

Number of shares	31.12.2018	31.12.2017
Share-based payment plan, strategic bonus	261,106	261,106
Charged taxes and payments in cash Strategic Bonus (thousands of Euros)	1,206	2,503

(1) Includes the proportional part of remuneration and other payments 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 2014-2016 Strategic Bonus 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 2014-2016 Strategic Bonus, were delivered to senior management, as described in Note 20; thus, the members of senior management received IBERDROLA shares in equal amounts in 2017, 2018 and 2019.

For comparative purposes, the total remuneration received by the Business CEO in 2018 amounted to Euros 1,710 thousand. The total top management remuneration amount in 2017 does not include the Euros 750 million the Business CEO was paid for his position as member of the board in 2018 (Note 47).

In the first half of 2018 the second of three annual payments has been made corresponding to the Strategic bonus 2014-2016 (Note 21), once the valid period of the grounds supporting this remuneration have been confirmed. Senior management members have received 261,106 shares for the second payment. At 31 December 2018, a provision of Euros 3,384 thousand had been recorded to guarantee the third and final payment.

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, Euros 5,090 thousand have been provided for these commitments.

Under the same conditions as the other directors of companies that are not wholly owned directly or indirectly by the Company and in accordance with the directors' Remuneration Policy approved by the General Shareholders' Meeting held on 13 April 2018, the members of senior management who have held the office of director have received from these companies the remuneration corresponding to the office in accordance with their corporate governance rules. In the year 2018the remuneration received amounted to Euros 970 thousand.

The indemnity clauses for senior management are described in section C.1.39 of the Annual Corporate Governance Report included in the Directors' Report.

On the other hand, during 2018 and 2017 there were no other transactions with the executives outside the normal course of the business.

The amount of fixed and variable remuneration to executives not included in IBERDROLA's top management (150 people) totalled Euros 47,310 thousand in 2018. In 2017, the amount was Euros 44,610 thousand (145 people). These amounts do not include shares delivered as part of the 2014-2016 Strategic bonus.

50. 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 2018 and 2017 are as follows:

	Significant shareholders(1)	
	2018	2017
Thousands of Euros	**Qatar Investment Authority**	**Qatar Investment Authority**
Dividends and other distributed profit (2)	2,766	18,948

(1) IBERDROLA treats as a major shareholder any shareholder who exerts a significant influence on the company's financial and operating decisions. Significant influence is defined as having at least one director on the Board.
This also applies to those significant shareholders whose ownership interest in the company enables them to exercise the proportional representation system.
At 31 December 2018 only Qatar Investments Authority meets this condition.

(2) Amounts recognised as dividends and other benefits distributed in the first half of 2018 and 2017 correspond to the scrip dividend scheme and the attendance fee received if applicable.

Transactions carried out by other companies with significant shareholders

The most noteworthy transactions in 2018 and 2017 are as follows:

	Significant shareholders [1]	
	2018	2017
Thousands of Euros	**Qatar Investment Authority**	**Qatar Investment Authority**
Finance income [2]	344	

2) Correspond to income for cash placing in Qatar National Bank by Scottish Power, Ltd. At 31 December there were no outstanding balances.

Other investments in equity-accounted investees

The breakdown of transactions with equity-accounted investees which are related parties that were not eliminated in consolidation (Note 2.b) is as follows:

	2018						2017					
Thousands of Euros	Asset acquisition	Trade payables	Trade receivables	Sales and services provide	Provisions	Received services	Asset acquisition	Trade payables	Trade receivables	Sales and services provide	Provisions	Received services
SIEMENS-GAMESA (1)	218,602	83,510	765	1,376	1,702	37,602	365,038	126,339	2,678	2,898	1,836	55,445
East Anglia Offshore Wind, Ltd.	4,418	3,905	706	–	–	–	–	–	–	226	–	–
NGET/SPT Upgrades Ltd. (2)	85,033	874	2,839	1,731	–	741	117,397	–	891	2,848	–	–
Morecambe Wind, Ltd.	–	1,207	–	2,022	13,469	–	–	–	–	1,041	13,284	–
Companhia Hidrelétrica Teles Pires, S.A. (3)	–	7,300	1,189	14,575	84,571	–	–	9,598	19	530	101,526	–
Norte Energia, S.A. (3)	–	21,854	–	–	188,769	–	–	15,809	–	–	125,112	–
Energetica Aguas da Pedra, S.A. (3)	–	1,683	2,683	1,906	14,474	–	–	1,853	1	–	–	–
Fudepor, S.L. (4)	–	–	38	4,233	–	–	–	0	2	5,623	–	–
Cogeneración Gequisa, S.A. (4)	–	1,709	1	6,607	–	–	–	337	1	2,691	–	–
Intermalta Energía, S.A. (4)	–	-	3	7,143	–	–	–	–	4	227	–	–
Vineyard Wind LLC (Note 13.a)	–	–	–	2,608	–	–	–	–	–	–	–	–
Other companies	1,762	76,902	15,100	6,128	4,195	2,121	338	86,333	16,808	11.053	8,389	5,214
Total	309,815	198,944	23,324	48,329	307,180	40,464	482,773	240,269	20,404	27,137	250,147	60,659

(1) The purchase of assets mainly correspond to sales to SIEMENS-GAMESA of repair equipment, wind turbines and towers for the wind farms: Kilgallioch, (United Kingdom), Pier y Bajío (Mexico), Twin Butt II (United States) and Chimiche II (Tenerife-Spain)

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.

(2) The purchase of assets mainly corresponds to investments made by Scottish Power Transmission, Ltd. to build the submarine interconnection line in the Irish Sea to increase the power transmission capacity between England and Scotland. For this purpose, Scottish Power Transmission, Ltd. participates together with the British operator National Grid in the joint venture NGET/SPT Upgrades, Ltd.

(3) Supplies relate mainly to purchases of electricity.

(4) The sales and services rendered mainly correspond to gas sales to co-generation companies.

Transactions with directors and senior executives

	Significant shareholders [1]			
	2018		2017	
Thousands of Euros	Directors	Executives	Directors	Executives
Dividends and other distributed profit (1)	482	11	765	179

(1) Recognised dividends and other benefits distributed in the first half of 2018 and 2017 corresponded to the scrip dividend and the attendance fee to the General Shareholder's Meeting, if applicable.

51. EVENTS AFTER 31 DECEMBER 2018

After 31 December 2017 the main events have been as follows:

IBERDROLA scrip dividend

On 04 January 2019, the facts in relation to the implementation of the second paid-up capital increase (*IBERDROLA* flexible dividend) approved at the IBERDROLA General Shareholders' Meeting on 13 April 2018, 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 142,169,533.
- The number of free allocation rights required to receive one new share is 45.
- The maximum nominal value of the capital increase amounts to Euros 106,627,150
- The acquisition price of the free allocation rights under the purchase commitment made by IBERDROLA is Euros 0.151.
- Gross interim dividend amount per share was Euros 0.151.

At the end of the trading period for free allocation rights:

- During the period established for this purpose, the holders of 870,368,973 shares of the Company decided to receive interim dividends. Thus, the gross total of distributed interim dividends was Euros 131.426 thousand. As a result, these shareholders have expressly forgone 870,368,973 free allotment rights and therefore 19,341,533 new shares.
- The final number of new ordinary shares with a nominal value of Euros 0.75 to be issued will be 122,828,000, giving a nominal capital increase from this implementation of Euros 92,121 thousand. This will add 1.920% to IBERDROLA's pre-issue share capital.
- As a result, the share capital of IBERDROLA following the capital increase amounts to Euros 4,890,342,750, represented by 6,520,457,000 ordinary shares of Euros 0.75 par value each, fully subscribed and paid.
- Following compliance with on legal requirements (and verification of compliance by the Spanish National Security Market Commission), the new shares have been admitted for trading on the continuous market of the Madrid, Barcelona, Bilbao and Valencia stock exchanges on 05 February 2019. The ordinary trading of new shares has started on 06 February 2019.

Transactions with treasury shares

At the reporting date of these annual accounts, accumulators have been liquidated on treasury shares (Note 20) and the result of its liquidation has resulted in the acquisition of 4,016,049 treasury shares for Euros 26,493 thousand (3,806,688 shares have been accumulated of a maximum potential shares of 7,613,376 at 31 December 2018).

Additionally, from the 2018 year-end until the date of formulation of these consolidated annual accounts 7,568,868 treasury shares have been acquired (of which 1,260,317 have been acquired through accumulators signed since the reporting date) amounting to Euros 51,411 thousand and 1,148,555 shares have been transferred for Euros 7,218 thousand. At the date of authorization for issue of these annual accounts, IBERDROLA, S.A. had 145,427,390 treasury shares.

Banking Market and issue of Euromarket bonds

Significant financing transactions carried out by IBERDROLA after 31 December 2018 are as follows:

2019						
Lessor	**Operation**	**Millions of euros**	**Currency**	**Coupon**	**Extension**	**Maturity**
Main new financing transactions						
IBERDROLA Financiación, S.A.U.	Bilateral loan	125	EUR	-	option to extend it for 1 +1 year	Feb-24
IBERDROLA Financiación, S.A.U.	EIB loan	150	EUR	-	-	Upon disposal
IBERDROLA Finanzas	Private issue	50	EUR	1.782%	-	Oct-30
IBERDROLA International B.V.	Hybrid green bonds	800	EUR	3.25%	-	Perpetual
Main transaction for extending existing financing						
IBERDROLA S.A. (1)	Syndicated loan	2,979	EUR	-	+1 year	Feb-24
	Syndicated loan	2,321	EUR	-	+1 year	Feb-24

(1) Extension of novated syndicated loans for 1 additional year in January 2018 in the amount of Euros 5,300 million.

52. FEES FOR SERVICES PROVIDED BY AUDITORS

The fees resulted from the services provided in 2018 and 2017 by the statutory auditor are detailed in the chart below:

Thousands of Euros	TO IBERDROLA			To the rest of the Group Companies			Total		
Year 2018	**Main Auditor**	**Other auditors**	**Total**	**Main Auditor**	**Other auditors**	**Total**	**Main Auditor**	**Other auditors**	**Total**
Audit services	3,223	–	**3,223**	22,116	–	**22,116**	25,339	–	**25,339**
Other audit related services	1,459	–	**1,459**	1,592	–	**1,592**	3,051	–	**3,051**
Total	**4,682**	**–**	**4,682**	**23,708**	**–**	**23,708**	**28,390**	**–**	**28,390**

Thousands of Euros	TO IBERDROLA			To the rest of the Group Companies			Total		
Year 2017	Main Auditor	Other auditors	Total	Main Auditor	Primary auditor	Total	Main Auditor	Other auditors	Total
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**
Total	**5,130**	**–**	**5,130**	**23,602**	**2,004**	**25,606**	**28,732**	**2,004**	**30,736**
Other professional services	–	–	**–**	**–**	481	**481**	–	481	**481**
Total	**5,130**	**–**	**5,130**	**23,602**	**2,485**	**26,087**	**28,732**	**2,485**	**31,217**

The details of "Other services related to auditing" are as follows:

	2018		2017	
Thousands of Euros	TO IBERDROLA	To the rest of the Group Companies	TO IBERDROLA	To the rest of the Group Companies
Limited revision interim information	1,194	144	1,162	443
Comfort letters debt issue	205	474	224	1,042
Agreed procedure reports (*)	60	974		101
Historical information and proforma verification services	-	-	-	750
Total	**1,459**	**1,592**	**1,386**	**2,336**

(*) Mainly agreed procedure reports required by the regulator in each country, as well as reports additional to the audit report required by current legislation in certain countries where the Group operates.

53. 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 2018 and 2017 (Note 3.z) is as follows:

	2018	2017 Restated (Note 2.d)
Average number of shares during the year	6,613,937.351	6,806,224,288
Average number of treasury shares held	(156,370,387)	(125,969,679)
Number of shares outstanding	**6,457,566,964**	**6,680,254,609**

The breakdown of the required information at 31 December 2018 and 2017 is the following:

	2018	2017 Restated (Note 2.d)
Net profit from the parent Company's continuing operations (*) (thousands of Euros)	3,065,220	3,057,005
Net profit from discontinuing operations (thousands of Euros)	(51,168)	(253,011)
Number of shares outstanding	6,457,566,964	6,680,254,609
Basic and diluted earnings per share (euros) from discontinued operations	**0.475**	**0.458**
Basic and diluted earnings per share (euros) from discontinued operations	**(0.008)**	**(0.038)**

(*) Net profit for the year from net continuing operations of subsidiary companies

In the consolidated annual accounts of the IBERDROLA Group for the years ended 31 December 2018 y 2017, 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 20 and 51 of these consolidated annual accounts, in July 2017 and January 2018 two free capital increases took place in the context of the "IBERDROLA flexible dividend" programme. According to IAS 33: "Earning per share" these scrip issues meant that earnings per share for 2017 included in the consolidated annual accounts for that year had to be corrected, and have been taken into account when calculating basic and diluted earnings per share for 2018.

54. PREPARATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

The consolidated annual accounts for the year ended on 31 December 2018 have been formally prepared by the directors of IBERDROLA on 19 February 2019.

55. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These Consolidated financial statements are presented on the basis of IFRS, as adopted by the European Union. Certain accounting practices applied by the Group that conform to IFRS may not conform to other generally accepted accounting principles in other countries.

YEAR 2018 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: Equity-accounted investee

Company	Registered office	Activity	Percentage of direct or indirect interest		Method (*)
			31.12.2018	31.12.2017	
Liberalised business					
Spain					
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
IBERDROLA Clientes, S.A.U.	Spain	Retailer	100.00	100.00	G
IBERDROLA Clientes Internacional, S.L.	Spain	Holding	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 Térmica, S.L.U.	Spain	Energy	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
Tarragona Power, S.L.U.	Spain	Energy	100.00	100.00	G
Tecnatom, S.A. [5]	Spain	Other	30.00	30.00	-
IBERDROLA Clientes Portugal, Unipessoal Ltda.	Portugal	Retailer	100.00	100.00	G
United Kingdom					
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

Company	Registered office	Activity	Percentage of direct or indirect interest 31.12.2018	31.12.2017	Method (*)
ScottishPower Generation (Assets), Ltd	United Kingdom	Energy	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	100.00	G
Rest of Europe					
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.	Italy	Services	100.00	100.00	G
IBERDROLA Ireland, Ltd	Ireland	Services	100.00	-	G
Mexico					
Hidrola 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
IBERDROLA Soporte a Proyectos Liberalizados, S.A. de C.V. (Before, Electricidad de Veracruz, S.A. de C.V.)	Mexico	Services	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
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	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	Services	51.12	51.12	G
Brazil					
Baguari Geraçao de Energia Elétrica, S.A.	Brazil	Energy	52.45	52.45	G
Bahia PCH II, S.A. Bahía Pequeña C. Hidroeléctrica	Brazil	Energy	52.45	52.45	G
Bahia PCH III, S.A. Bahía Geraçao de Energia	Brazil	Energy	52.45	52.45	-
Belo Monte Participaçoes, S.A.	Brazil	Holding	52.45	52.45	G
Companhia Hidrelétrica Teles Pires, S.A.	Brazil	Energy	26.75	26.75	E
Elektro Comercializadora de Energia Ltda.	Brazil	Retailer	52.45	52.45	G
Energetica Aguas da Pedra, S.A.	Brazil	Energy	26.75	26.75	E
Energética Corumba III, S.A. (4)	Brazil	Energy	13.11	13.11	E

Company	Registered office	Activity	Percentage of direct or indirect interest 31.12.2018	31.12.2017	Method (*)
Geraçao Ceu Azul, S.A.	Brazil	Energy	52.45	52.45	G
Geraçao CIII, S.A.	Brazil	Holding	52.45	52.45	G
Itapebi Geraçao de Energia, S.A.	Brazil	Energy	52.45	52.45	G
NC Energia, S.A.	Brazil	Retailer	52.45	52.45	G
Neoenergia Operaçao e Manuitençao, S.A.	Brazil	Services	52.45	52.45	G
Norte Energia, S.A. (4)	Brazil	Energy	5.25	5.25	E
PCH Alto do Rio Grande, S.A.	Brazil	Energy	52.45	52.45	G
Sever RJ Participacoes S.A. (5)	Brazil	Energy	52.45	52.45	-
Teles Pires Participaçoes, S.A.	Brazil	Holding	26.52	26.52	E
Termopernambuco, S.A.	Brazil	Energy	52.45	52.45	G
Canada					
IBERDROLA Canadá Energy Services, Ltd.	Canada	Gas	100.00	100.00	G
Renewable Business					
Spain					
Anselmo León Hidráulica, S.L. (1)	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	Energy	100.00	100.00	G
Desarrollo de Energías Renovables de La Rioja, S.A. (2)	Spain	Energy	40.51	40.51	E
Ecobarcial, S.A. (2)	Spain	Energy	43.78	43.78	E
Electra de Malvana, S.A. (2)	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. (3)	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. (2)	Spain	Energy	25.00	25.00	E
Eólica 2000, S.L.	Spain	Energy	51.00	51.00	G
Eólicas de Euskadi, S.A.U.	Spain	Energy	100.00	100.00	G
IBERDROLA Eólica Marina, S.A.U.	Spain	Energy	100.00	100.00	G
IBERDROLA Generación, S.A.U.	Spain	Energy	100.00	100.00	G
Fincalia Agropecuaria, S.L. (before, IBERDROLA Renewables Solutions, S.A.)	Spain	Energy	100.00	100.00	G
Fincalia Agropecuaria siglo XXI, S.A.	Spain	Energy	100.00	-	G
IBERDROLA Renovables Galicia, S.A.U.	Spain	Energy	100.00	100.00	G
IBERDROLA Renovables Andalucía, S.A.U.	Spain	Energy	100.00	100.00	G
IBERDROLA Renovables Aragón, S.A.U.	Spain	Energy	100.00	100.00	G
IBERDROLA Renovables Canarias, S.A.U.	Spain	Energy	100.00	100.00	G
IBERDROLA Renovables Castilla – La Mancha, S.A.U.	Spain	Energy	100.00	100.00	G
IBERDROLA Renovables Castilla y León, S.A.	Spain	Energy	95.00	95.00	G
IBERDROLA Renovables Energía, S.A.U.	Spain	Holding	100.00	100.00	G
IBERDROLA Renovables Internacional, S.L.	Spain	Holding	100.00	-	G
IBERDROLA Renovables La Rioja, S.A. (2)	Spain	Energy	63.55	63.55	E
Iberenova Promociones, S.A.U.	Spain	Energy	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. (2)	Spain	Energy	42.37	42.37	E
Molinos del Cidacos, S.A. (2)	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. (2)	Spain	Energy	85.50	85.50	E

Company	Registered office	Activity	Percentage of direct or indirect interest 31.12.2018	31.12.2017	Method (*)
Proyecto Nuñez de Balboa, S.L.	Spain	Energy	100.00	-	G
Renovables de la Ribera, S.L. [5]	Spain	Energy	50.00	50.00	-
Sistemas Energéticos Altamira, S.A.U.	Spain	Energy	100.00	100.00	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
Sistemes 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. [4]	Spain	Energy	8.00	8.00	E
Ibertâmega – Sistema Electroprodutor Do Tâmega, S.A.	Portugal	Energy	100.00	100.00	G
IBERDROLA Suporte Projecto Tâmega, Unipessoal Lda.	Portugal	Energy	100.00	100.00	G
United Kingdom					
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
East Anglia Three, Ltd.	United Kingdom	Energy	100.00	100.00	G
East Anglia One North Ltd.	United Kingdom	Energy	100.00	100.00	G
East Anglia Two Ltd.	United Kingdom	Energy	100.00	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
ScottishPower Renewables (UK Assets), Ltd	United Kingdom	Energy	100.00	-	G
United States					
Aeolus Wind Power II, LLC	USA	Holding	81.50	81.50	G
Aeolus Wind Power III, LLC	USA	Holding	81.50	81.50	G
Aeolus Wind Power IV, LLC	USA	Holding	81.50	81.50	G
Atlantic Renewable Energy Corporation	USA	Holding	81.50	81.50	G
Atlantic Renewable Projects II, LLC	USA	Holding	81.50	81.50	G
Atlantic Renewable Projects, LLC	USA	Energy	81.50	81.50	G
Atlantic Wind, LLC	USA	Holding	81.50	81.50	G
Aurora Solar, LLC	USA	Holding	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	81.50	G

Company	Registered office	Activity	Percentage of direct or indirect interest 31.12.2018	31.12.2017	Method (*)
Bakeoven Solar, LLC	USA	Energy	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	81.50	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	USA	Energy	81.50	81.50	G
Colorado Green Holdings, LLC	USA	Holding	81.50	40.75	G
Colorado Wind Ventures, LLC	USA	Holding	81.50	40.75	G
Coyote Ridge Wind, LLC	USA	Energy	16.30	81.50	E
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	81.50	80.69	G
El Cabo Wind Holdings	USA	Holding	81.50	80.69	G
El Cabo Partners, LLC	USA	Energy	81.50	81.50	G
Elk River Wind Farm, LLC	USA	Energy	81.50	81.50	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	40.75	E
Flat Rock Windpower, LLC	USA	Energy	40.75	40.75	E
Flying Cloud Power Partners, LLC	USA	Energy	81.50	81.50	G
Golden Hills Wind Farm, LLC	USA	Energy	81.50	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
Heartland Wind, LLC	USA	Energy	81.50	81.50	G
Helix Wind Power Facility, LLC	USA	Energy	81.50	81.50	G
Imperial Wind, LLC (Antes Bakeoven Wind, 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
Karankawa Wind, LLC	USA	Energy	81.50	-	G
Kitty Hawk Wind, LLC	USA	Energy	81.50	81.50	G
Klamath Energy, LLC	USA	Energy	81.50	81.50	G
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	USA	Energy	81.50	81.50	G
Klondike Wind Power, LLC	USA	Energy	81.50	81.50	G
La Joya Wind, LLC	USA	Energy	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 (3)	USA	Energy	37.74	37.74	G
Loma Vista, LLC	USA	Energy	81.50	81.50	G
Lund Hill Solar, LLC	USA	Energy	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	USA	Energy	81.50	81.50	G
Mohawk Solar, LLC	USA	Energy	81.50	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	USA	Energy	81.50	81.50	G

Company	Registered office	Activity	Percentage of direct or indirect interest 31.12.2018	31.12.2017	Method (*)
Otter Creek Wind Farm, LLC	USA	Energy	81.50	81.50	G
Pacific Harbor Capital, Inc.	USA	Other	81.50	81.50	G
Pacific Wind Development, LLC	USA	Holding	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	Other activities	81.50	81.50	G
ScottishPower Group Holdings Company	USA	Holding	81.50	81.50	G
Shiloh I Wind Project, LLC	USA	Energy	81.50	81.50	G
Solar Star Oregon II, LLC	USA	Energy	81.50	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
Tatanka Ridge Wind. LLC (antes Buffalo Ridge III, LLC)	USA	Energy	81.50	81.50	G
Trimont Wind I, LLC	USA	Energy	81.50	81.50	G
Tule Wind, LLC	USA	Energy	81.50	81.50	G
Twin Buttes Wind, LLC	USA	Energy	81.50	81.50	G
Twin Buttes Wind II, LLC	USA	Energy	81.50	81.50	G
Vineyard Wind, LLC	USA	Energy	40.75	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	81.50	G
Mexico					
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
IBERDROLA Soporte a Proyectos Renewables, S.A. DE C.V. (Before, IBERDROLA Energía Norte, S.A. de C.V.)	Mexico	Services	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
Parque de Generación Renovable, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Parque energías Renovables de México, S.A. de C.V.	Mexico	Energy	100.00	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

Company	Registered office	Activity	Percentage of direct or indirect interest 31.12.2018	31.12.2017	Method (*)
Brazil					
Arizona 1 Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Caetité 1 Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Caetité 2 Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Caetité 3 Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Calango 1 Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Calango 2 Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Calango 3 Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Calango 4 Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Calango 5 Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Calango 6 Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Canoas Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Canoas 2 Energia renovavel, S.A. (before, Tacca RJ Participacoes S.A.)	Brazil	Energy	52.45	52.45	G
Canoas 3 Energia renovavel, S.A.	Brazil	Energy	52.45	-	G
Canoas 4 Energia renovavel, S.A. (Before, Titanum RJ Participacoes S.A.)	Brazil	Energy	52.45	52.45	G
Chafariz 1 Energia renovavel, S.A. (before, Meridiano 1 Energia renovavel, S.A.)	Brazil	Energy	52.45	52.45	G
Chafariz 2 Energia renovavel, S.A. (before, Meridiano 2 Energia renovavel, S.A.)	Brazil	Energy	52.45	52.45	G
Chafariz 3 Energia renovavel, S.A. (before, Meridiano 3 Energia renovavel, S.A.)	Brazil	Energy	52.45	52.45	G
Chafariz 4 Energia renovavel, S.A.	Brazil	Energy	52.45	-	G
Chafariz 5 Energia renovavel, S.A.	Brazil	Energy	52.45	-	G
Chafariz 6 Energia renovavel, S.A. (before, Meridiano 4 Energia renovavel, S.A.)	Brazil	Energy	52.45	52.45	G
Chafariz 7 Energia renovavel, S.A. (before, Meridiano 5 Energia renovavel, S.A.)	Brazil	Energy	52.45	52.45	G
Elektro Renováveis do Brasil, S.A.	Brazil	Energy	52.45	52.45	G
Energias Renováveis do Brasil, S.A.	Brazil	Energy	52.45	52.45	G
FE Participaçoes, S.A.	Brazil	Energy	52.45	52.45	G
Força Eolica do Brasil 1, S.A.	Brazil	Energy	52.45	52.45	G
Força Eolica do Brasil 2, S.A.	Brazil	Energy	52.45	52.45	G
Força Eolica do Brasil, S.A.	Brazil	Energy	52.45	52.45	G
Lagoa 1 Energia renovavel , S.A.	Brazil	Energy	52.45	52.45	G
Lagoa 2 Energia renovavel , S.A.	Brazil	Energy	52.45	52.45	G
Lagoa 3 Energia renovavel, S.A. (before, Meridiano 6 Energia renovavel, S.A.)	Brazil	Energy	52.45	52.45	G
Lagoa 4 Energia renovavel, S.A. (before, Soumaya RJ Participacoes S.A.)	Brazil	Energy	52.45	52.45	G
Mel 2 Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Santana 1, Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Santana 2, Energia Renovável, S.A.	Brazil	Energy	52.45	52.45	G
Ventos de Arapuá 1 Energia renovavel, S.A.	Brazil	Energy	52.45	-	G
Ventos de Arapuá 2 Energia renovavel, S.A.	Brazil	Energy	52.45	-	G
Ventos de Arapuá 3 Energia renovavel, S.A.	Brazil	Energy	52.45	-	G
ROW					
Baltic Eagle, GmbH.	Germany	Energy	100.00	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
IBERDROLA Renewables Australia PTY, Ltd.	Australia	Energy	100.00	-	G
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 Thraki III, S.A.	Greece	Energy	99.61	99.61	G
Rokas Construction, S.A.	Greece	Energy	99.76	99.76	G
Rokas Hydroelectric, S.A.	Greece	Energy	99.76	99.76	G

Company	Registered office	Activity	Percentage of direct or indirect interest 31.12.2018	31.12.2017	Method (*)
IBERDROLA Renovables Magyarorszag, KFT.	Hungary	Energy	100.00	100.00	G
IBERDROLA Renovables Italia, S.p.A.	Italy	Holding	100.00	100.00	G
Societa Energie Rinnovabili 2, S.p.A. [2]	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	100.00	G
Innovation					
Algaenergy, S.A. [5]	Spain	Services	14.84	17.81	-
Arborea Intellbird, S.L. [2] [4]	Spain	Other activities	18.89	18.89	E
Atten2 Advanced Monitoring Technologies, S.L. [2]	Spain	Other activities	23.27	21.22	E
GDES Tecnology for services, S.L. [2]	Spain	Other activities	40.00	40.00	E
IBERDROLA Servicios de Innovación, S.L.	Spain	Other activities	100.00	100.00	G
Inversiones Financieras Perseo, S.L.	Spain	Holding	100.00	100.00	G
IBERDROLA QSTP, LLC	Qatar	Services	100.00	100.00	G
Network Business					
Spain					
Anselmo León Distribución, S.L. [1]	Spain	Energy	100.00	100.00	E
Anselmo León, S.A.U. [1]	Spain	Holding	100.00	100.00	E
Distribuidora de Energía Eléctrica Enrique García Serrano, S.L. [1]	Spain	Energy	100.00	100.00	E
Distribuidora Eléctrica Navasfrías, S.L. [1]	Spain	Energy	100.00	100.00	E
Eléctrica Conquense Distribución, 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. [1]	Spain	Energy	100.00	100.00	E
Empresa Eléctrica del Cabriel, S.L. [1]	Spain	Energy	100.00	100.00	E
Herederos María Alonso Calzada – Venta de Baños, S.L. [1]	Spain	Energy	100.00	100.00	E
San Cipriano de Rueda Distribución, S.L. [1]	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. [1]	Spain	Energy	97.95	97.95	E
United Kingdom					
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
SP Manweb, Plc.	United Kingdom	Energy	100.00	100.00	G

Company	Registered office	Activity	Percentage of direct or indirect interest 31.12.2018	31.12.2017	Method (*)
United States					
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	Other activities	81.50	81.50	G
Berkshire Energy Resources	USA	Holding	81.50	81.50	G
Cayuga Energy, Inc.	USA	Holding	81.50	81.50	G
Central Maine Power Company	USA	Electricity	81.50	81.50	G
Chester SVC Partnership [3]	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 [5]	USA	Other activities	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. [5]	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 [5]	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. [5]	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 [5]	USA	Inactive	81.50	81.50	-
Xcelcom Inc.	USA	Inactive	81.50	81.50	G
Xcel Services, Inc. [5]	USA	Inactive	81.50	81.50	-
Brazil					
Afluente Geraçao de Energia Elétrica, S.A.	Brazil	Energy	54.57	54.57	G
Companhia de Eletricidade do Estado do Bahia, S.A.	Brazil	Energy	50.69	50.53	G
Companhia Energética de Pernambuco, S.A.	Brazil	Energy	47.02	47.02	G
Companhia Energetica do Rio Grande do Norte, S.A.	Brazil	Energy	47.98	47.98	G
EKTT 1-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Energy	52.45	-	G
EKTT 2-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Energy	52.45	-	G
EKTT 12-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Energy	52.45	52.45	G
EKTT 13-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Energy	52.45	52.45	G

Company	Registered office	Activity	Percentage of direct or indirect interest 31.12.2018	31.12.2017	Method (*)
EKTT 14-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Energy	52.45	52.45	G
EKTT 15-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Energy	52.45	52.45	G
Elektro Operaçao e Manutençao, Ltda.	Brazil	Services	52.45	52.45	G
Elektro Redes, S.A.	Brazil	Energy	52.28	52.28	G
Lanmóvil Amara Celular da Bahia Ltd. (Lanmara) (1)	Brazil	Other activities	65.00	65.00	-
Neoenergia Investimentos, S.A.	Brazil	Holding	52.45	52.45	G
Neoenergia Servicios, Ltd.	Brazil	Services	52.45	52.45	G
Neoenergia, S.A.	Brazil	Holding	52.45	52.45	G
Potiguar Sul Transmissao de Energia, S.A.	Brazil	Energy	52.45	52.45	G
S.E. Narandiba, S.A.	Brazil	Energy	52.45	52.45	G
Other businesses					
Engineering					
Adicora Servicios de Intermediación de Ingeniería, S.L.U. (Before, Adicora Servicios de Ingeniería, S.L.U.)	Spain	Engineering	100.00	100.00	G
Empresarios Agrupados Internacional, S.A. (2)	Spain	Engineering	25.46	25.46	E
Empresarios Agrupados, A.I.E. (2)	Spain	Engineering	25.46	25.46	E
Ghesa Ingeniería y Tecnología, S.A. (2)	Spain	Engineering	42.15	42.15	E
IBERDROLA Ingeniería de Explotación, S.A.U.	Spain	Engineering	100.00	100.00	G
IBERDROLA Ingenieria y Construccion, S.A.U.	Spain	Engineering	100.00	100.00	G
Ingeniería, Estudios y Construcciones, S.A.	Spain	Engineering	100.00	100.00	G
IBERDROLA Construçao e Serviços, Ltd.	Brazil	Engineering	100.00	100.00	G
IBERDROLA Energy Proyects Canada Corporation	Canada	Engineering	100.00	100.00	G
IBERDROLA Ingenieria 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
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 Engineering and Construction South Africa	South Africa	Engineering	100.00	100.00	G
Real Property					
Arrendamiento de Viviendas Protegidas Siglo XXI, S.L.	Spain	Real Property	100.00	100.00	G
Camarate Golf, S.A. (2)	Spain	Real Property	26.00	26.00	E
IBERDROLA Inmobiliaria Patrimonio, S.A.U.	Spain	Real Property	100.00	100.00	G
IBERDROLA Inmobiliaria, S.A.	Spain	Real Property	100.00	100.00	G
IBERDROLA Inmobiliaria Real State Investment, EOOD	Bulgaria	Real Property	100.00	100.00	G
Desarrollos Inmobiliarias Laguna del Mar, S.A. de C.V.	Mexico	Real Property	100.00	100.00	G
Promociones La Malinche, S.A. de C.V.	Mexico	Real Property	50.00	50.00	E
Other businesses					

Company	Registered office	Activity	Percentage of direct or indirect interest 31.12.2018	31.12.2017	Method (*)
Subgrupo Corporación IBV Participaciones Empresariales	Spain	Holding	50.00	50.00	E
Siemens Gamesa Renewable Energy, S.A. (antes Gamesa Corporación Tecnológica, S.A.) (4)	Spain	Holding	8.07	8.07	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. (1)	Spain	Other activities	100.00	100.00	E
Corporation					
CarteraPark, S.A.U. (5)	Spain	Inactive	100.00	100.00	-
IBERDROLA Corporación, S.A. (5)	Spain	Inactive	100.00	100.00	-
IBERDROLA España, S.A.U.	Spain	Holding	100.00	100.00	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
IBERDROLA Energía Internacional, S.L.	Spain	Holding	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 2017 AND 2018

Company	Registered office	Activity	Percentage of direct or indirect stake	
			31.12.2018	31.12.2017
Liberalised business				
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
Renewable business				
Infraestructuras de Medinaceli, S.L.	Spain	Energy	39.69	39.69
Sistema Eléctrico de Conexión Hueneja, S.L.	Spain	Energy	47.36	47.36
Other businesses				
Torre IBERDROLA, A.I.E.	Spain	Real Property	68.10	68.10

Additionally, the IBERDROLA Group takes part in joint operations through joint ownership and other joint agreements described in Note 45.

GROUP COMPANIES AT 31 DECEMBER 2017 WHICH HAVE LEFT THE PERIMETER IN 2018 AS A RESULT OF DISPOSAL, MERGER OR LIQUIDATION

Company	Registered office	Activity	Percentage of direct or indirect stake	
			31.12.2018	31.12.2017
Liberalised Business				
Cobane, A.I.E.	Spain	Energy	-	100.00
Fuerzas Eléctricas de Navarra, S.A.	Spain	Energy	-	100.00
Hidroeléctrica Ibérica, S.L.U.	Spain	Energy	-	100.00
Tirme subgroup	Spain	Energy	-	20.00
Caledonia Energy Partners, LLC	USA	Energy	-	81.50
E.O. Resources, LLC	USA	Energy	-	81.50
Enstor Energy Services, LLC	USA	Energy	-	81.50
Enstor Gas, LLC	USA	Holding	-	81.50
Enstor Grama Ridge Storage and Transportation, LLC	USA	Energy	-	81.50
Enstor Houston Hub Storage and Transportation, Ltd.	USA	Energy	-	81.50
Enstor Inc.	USA	Holding	-	81.50
Enstor Katy Storage and Transportation, LLC	USA	Energy	-	81.50
Enstor Louisiana, LLC	USA	Energy	-	81.50
Enstor Operating Company, LLC	USA	Holding	-	81.50
Enstor Sundance Storage and Transportation, LLC	USA	Energy	-	81.50
Enstor Waha Storage and Transportation, LLC	USA	Energy	-	81.50
Freebird Assets Inc.	USA	Holding	-	81.50
Freebird Gas Storage, LLC	USA	Energy	-	81.50
Gemini Capital, LLC	USA	Energy	-	81.50
Manweb Energy Consultants, Ltd.	United Kingdom	Energy	-	100.00
ScottishPower Generation, Ltd.	United Kingdom	Energy	-	100.00
SMW, Ltd.	United Kingdom	Other	-	100.00
Renewable Business				
IBERDROLA Energía Solar de Puertollano, S.A.	Spain	Energy	-	90.00
Oceantec Energías Marinas, S.L.	Spain	Services	-	40.39
ScottishPower Hazelwood, Pty. Ltd.	Australia	Holding	-	100.00
Hazelwood Australia, Inc.	USA	Holding	-	81.50
Hazelwood Ventures, Inc.	USA	Holding	-	81.50
Pacific Solar Investments, Inc.	USA	Energy	-	81.50
ScottishPower International Group Holdings Company	USA	Holding		81.50
Streator Deer Run Wind Farmer, LLC	USA	Energy	-	81.50
Rokas Aeoliki Peloponnisos II, S.A.	Greece	Energy	-	99.76
IBERDROLA Renovables Norte, S.A. de C.V.	Mexico	Energy	-	100.00
Network Business				
Garter Properties, Inc.	Islas Virg.Britan.	Inactive	-	52.45
Other businesses				
IBERDROLA Engineering and Construction Saudi Arabia, LLC	Saudi Arabia	Engineering	-	100.00
Iberinco Hellas Techniki kai Kataskevastiki EPE	Greece	Engineering	-	100.00
IBERDROLA Ingegnieria e Costruzioni Italia, SRL.	Italy	Engineering	-	100.00
IBERDROLA Inzhiniring I Stroiteistvo, LLC	Russia	Engineering	-	100.00
IBERDROLA Ingenieria y Construccion. Venezuela, S.A.	Venezuela	Engineering	-	99.81
Fiuna, S.A.	Spain	Real Property	-	100.00
Promotora la Castellana de Burgos, S.A.	Spain	Real Property	-	100.00
Urbanizadora Marina de Cope, S.L.	Spain	Real Property	-	80.00

Company	Registered office	Activity	Percentage of direct or indirect stake	
			31.12.2018	31.12.2017
Corporation				
Demon Internet, Ltd.	United Kingdom	Inactive	-	100.00
Manweb Nominees, Ltd.	United Kingdom	Inactive	-	100.00
Manweb Share Scheme Trustees, Ltd.	United Kingdom	Inactive	-	100.00
Scottish Power UK Holdings, Ltd.	United Kingdom	Holding	-	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 2018, the total aggregate assets value and the profit for the year corresponding to these companies amounts to Euros 40,537 thousand and Euros 5,301 thousand, respectively. On 31 December 2017, the aggregate total assets and results of the corresponding period of such companies amounted to Euros 35,953 thousand and Euros 4,443 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.

APPENDIX II

INDUSTRY REGULATION AND FUNCTIONING OF THE ELECTRICITY AND GAS SYSTEM

The IBERDROLA Group companies engage in electricity business activities in Spain and abroad (see Appendix I) and are heavily affected by the respective regulatory frameworks. A description of the main regulations affecting the IBERDROLA Group is provided below.

1. European Union

Member states of the European Union in which IBERDROLA is present, 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 regard, there are two types of legislation: directives, which set out common criteria to be observed in domestic markets and which the member states should transpose into national legislation; and regulations, which establish standards for supranational issues, especially those related to the transit of gas and electricity, and are applicable directly.

Other legislation that indirectly affects the energy sector is that arising from the energy and climate policy. In 2007 the triple objective of reducing greenhouse gas emissions (GHGs) by 20%, setting a quota of renewable energy of 20% and a target for reducing consumption by 20%, all by 2020, was agreed. To meet these objectives by 2020, four documents have been drafted to complement the legislation: the reform of the EU Emissions Trading System (EU-ETS), the national targets for emissions from non-EU ETS, the national objectives on renewable energy and the capture and storage of carbon.

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 by 174 countries and the European Union took place in New York on 22 April 2016. This agreement came into force on 4 November 2016.

The legislation on infrastructures is also relevant. The European Union has powers with regards to trans-European networks, specifically those relating to energy. During the last few years and months, various regulations and programmes have been created to promote a greater connectivity between the Member States, such as the Trans-European Energy Networks (TEN-E), the European Energy Programme for Recovery (EEPR) and the Connecting Europe Facility (CEF). In December 2014, the European Council approved the creation of a Strategic Investment Plan for the European Union, to mobilize Euros 315,000 million in 2015 – 2017.

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 European 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 energy renewables package and a structural reform of EU-ETS, facilitating the compliance of 2030 Targets set by the European Council in October 2014.

The European Commission presents on annual basis the advances achieved and the steps to be undertaken in the following years

Directive 2003/87/EC on CO2 emission allowances makes it obligatory for the industry and the electricity sector to deliver an emission allowance for each ton of CO2 emitted by a plant. The goal for 2020 is that emissions from sectors covered by the EU ETS will be 21% lower than in 2005.

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 been entitled to receive any allocation free of charge.

With reference to emissions trading, on 14 March 2018 the Official Journal of the European Union (OJEU) published Directive 410/2018, with the objective of intensifying emission reductions. The reform's most significant features are:

- An increase in the reduction applied each year to the stock of auctioned allowances (known as the "linear factor") from 1.74% to 2.2% starting in 2021. This parameter is associated with the mechanism's "aim", upon expecting that a gradual reduction of allowances auctioned implies lower total emissions from the sectors involved in emissions trading.

- If the total number of allowances in circulation (TNAC) exceeds 833 million, 24% of the excess allowances will be withdrawn from the auctions each year and added to the Market Stability Reserve (MSR), from 2019 to 2023. The rate of withdrawal of allowances at 12% is maintained for the following years. If the total number of allowances in the market is less than 400 million, then the MSR releases 100 million into the market. Those allowances remaining in the reserve in 2023 shall be cancelled to prevent them from being returned to the market.

  This mechanism is intended to stabilize the EU ETS (EU Emissions Trading System) and strengthen the carbon price signal reducing gradually the surplus allowances.

- Conversely, the procedures for allocation of allowances to sectors subject to the risk of carbon leakage are amended.

- Lastly, support for modernizing the electricity sector in countries with lower GDP is planned, but exclude coal (a point of contention in the negotiations).

As regards non-ETS sectors, the following rules and standards have been published:

- Regulation (EU) 2018/841 on the inclusion of greenhouse gas emissions and removals from land use, land use change and forestry (LULUCF sector): It establishes accounting rules for measuring carbon emissions and removals from cropland, grassland, managed forests and wetlands in 2021-2030. Carbon removals in the LULUCF sector have to be at least equal to emissions.

- Regulation 2018/842, the "Effort Sharing Regulation" With a view to meeting the commitments made in the context of the Paris Agreement, it regulates the binding annual greenhouse gas emission reductions of Member States from 2021 to 2030. It establishes measures for non-ETS sectors to reduce their emissions by 30% by 2030 compared with 2005 by means of national objectives linked to GDP per capita, an emissions reduction path for Member States and a safety

reserve of 105 million metric tons of CO_2 equivalent to help less-favoured Member States with difficulties in achieving the 2030 objectives.

On 30 November 2016 the EC published the package Clean Energy for all Europeans, consisting of 70 documents, of which 8 are legislative proposals and sets the framework to complete the implementation of the energy internal market and to achieve the environmental 2030 targets. November 2016 package involves the wholesale and retail markets and the frameworks for renewable energy sources and energy efficiency.

Practical implementation to market operation is expected to take in place by 2020. At 31 December 2018 the OJEU has published 4 rules:

- Directive (EU) 2018/844 on the energy performance of buildings obliges Member States to establish long-term strategies for renovating buildings so as to shift investment in renovation into highly energy-efficient and decarbonised buildings by 2050. It also establishes minimum requirements for installing recharging points for electric vehicles in buildings with more than ten parking spaces.

- Directive 2018/2001 on the promotion of the use of energy from renewable sources establishes an *overall EU target of 32% of energy from renewable sources by 2030, as well as a target of 14% in* the transport sector (in each Member State) and an indicative average annual increase of 1.3 percentage points in the heating and cooling sector. It establishes stable (non-retroactive) support schemes for renewables with visibility over five years. It allows individual and group self-consumption, guaranteeing the contribution to the costs of using the grid. It prohibits charges to renewable energy self-consumers in general, but allows them for installations with a capacity of more than 30kW and where otherwise necessary to ensure the financial sustainability of the electricity system.

- Directive 2018/2002 on energy efficiency: This establishes an EU target of 32.5% for 2030, setting obligatory savings each year from 2021 to 2030, per Member State, of 0.8% of annual final energy consumption averaged over the period 2016-2018. It encourages the electrification of the heating and cooling and transport sectors and states explicitly that States may use contributions to Energy Efficiency National Funds as alternatives to obligation schemes.

- Regulation 2018/1999 on the Governance of the Energy Union and Climate Action establishes the rules for drawing up States' national energy and climate plans in accordance with EU targets for 2030 and their reporting to the EC. It imposes a calendar (draft by 31 December 2018, final plans by 31 December 2019) for States' presentation of and the Commission's comments in these Plans, which define the national strategy for attaining the targets and security of supply. It establishes a mechanism for supervising the 2030 targets, allowing the EC to impose measures if the overall targets are at risk of not being met.

In December 2018 agreement was reached among the European Commission, Parliament and Council on the rules for the Market Design, concluding negotiations on the rules of the *Clean Energy for all Europeans* package. The main features of the proposed Directive and Regulation on the internal market for electricity are:

- Capacity mechanisms: An emission limit of 550 g CO_2 kWh for new plants was agreed, applicable once the new Regulation comes into force. For existing plants, the limit of 550 g CO_2 kWh and 350 kg CO_2 on average per year will be applied from 1 July 2025. After 1 July 2025, no power plant with emissions exceeding these limits will be able to receive State aid in the form of capacity

mechanisms (except for those committed to in capacity contracts existing before 31 December 2019).

- Cross-border trade in electricity: At least 70% of interconnector capacity must be left available for cross-border trade in electricity. From January 2026, TSOs may use up to 30% of their interconnector capacity for reliability margins, loop flows and internal flows.

- Energy poverty and regulated prices: Member States may regulate prices temporarily in order to protect vulnerable households. However, preference has to be given to social security systems as the means to address energy poverty. Member States that maintain regulated prices for domestic consumers may continue to do so, but must present evaluation reports on progress towards abolishing regulated prices.

In the course of the first quarter of 2019 the Regulation on Risk-preparedness in the electricity sector will be published, as will the Regulation on the Agency for the Cooperation of Energy Regulators (attributes of the European Regulator) and the Regulation and Directive on the internal market (market design).

In November 2017, the EC published 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. Now being processed in the European Council and Parliament are the following matters:

- New emissions standard: vehicles sold between 2025 and 2030 must emit 15% less than those sold in 2021. For 2030 the emission reduction goal compared to 2021 is 37.5% for new vehicles and 31% for new vans. Annual goals will therefore be established for each manufacturer, and incentives will be granted to those with a lower percent than what is established for zero-emission and low-emission vehicles (<50gCO2/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 Euros 16,000 to 22,000 million in recharge and supply infrastructures) and proposes a strategy to adapt specific States' regulation. The EC will provide Euros 800 million to finance the projects.

Other significant rules published by the OJOU in the recent years:

- Regulation 2016/1952/EU on European statistics on natural gas and electricity prices (17 November 2016). 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". EC's Energy Costs and Prices Study included in the "Clean Energy Package" is in accordance with this statistic methodology.

- On 17 August 2017, the Commission Implementing Decision (EU) 2017/1442 was published establishing emission thresholds applicable to large combustion plants (>50MW) using best available techniques Member States must adapt to these new limits on acid gas emissions [nitrogen oxides (NOx), sulphur dioxide (SO2), fine particulate matter and, for the first time, mercury] by 2021.

- Regulation 2017/1938 concerning measures to safeguard the security of gas supply (28 October 2017). The Regulation's general purpose is to reinforce the European Union's energy security, reduce foreign dependence and enable it to confront possible. Main novelties:

    - 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: 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 yearly gas consumption in the Member State).

- On 26 June 2017, the EC published Directives regarding environmental and social information, complementary to Directive 95/2014 requirements regarding non-financial information. Applicable to more than 500 employees. They comprise a voluntary guide 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. They include best practices and among others, experience in monitoring Sustainable Development Objectives and the Paris Agreement.

- Electricity balance sheet: EC Regulation 2017/2195 was published on 28 November 2017, establishing a guideline on electricity balancing including the establishment of common principles for the procurement and the settlement of frequency containment reserves, frequency restoration reserves and replacement reserves and a common methodology for the activation of these reserves. This Regulation applies to all transmission systems and interconnections in the European Union except the transmission systems on islands that are not connected with other transmission systems

- EC Decision SA.40348 (2015/NN) was published, authorising the Spanish system for aid to renewables (December 2017). The EC has come to the conclusion that the Spanish system of support for electricity generation from renewable energy sources, cogeneration of high efficiency heat, electricity and waste is in accordance with the state aid rules of the European Union.

2. 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 subject to parliamentary scrutiny. Its functions include market regulation and supervision.

– Industry regulation and functioning of the electric system in Spain

The electricity sector is regulated by Electricity Industry Law 24/2013 of 26 December 2013, the principles of which are summarised as follows:

1. **Activity separation**

It establishes the legal and accounting separation of regulated activities (economic and technical management of the system, transmission and distribution) and liberalised activities (generation, wholesale and retail or other activities unrelated to electricity or activities abroad). However, a group of companies can carry out both kinds of activity provided that these are performed by different companies within it.

2. **Energy 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.

- Order ITC 3127/2011 regulating payments for capacity, which consist of an investment incentive, an environmental incentive and an availability service is established. This Order establishes an incentive to investment during the first 20 years of the useful life of a facility and an environmental incentive during 10 years to investments for improving air quality. On the other hand, it governs a yearly availability service to be extended at the end of each year. In 2018 this incentive was capped to the first half of the year, except for hydroelectrical plants for draught reasons. For 2019 Order TEC/1366/2018 on tolls has been repealed.

Renewable generation

Royal Decree 413/2014 regulating electricity generation by means of renewable energy sources, cogeneration and waste establishes the specific remuneration scheme for existing and new facilities. The remuneration will be on the basis of six-year periods and some of them may be revised every three years. For facilities prior to July 2013, the remuneration system consists of the sum of:

- Investment remuneration (EUR/MW) to cover, where applicable, the investment costs that cannot be recovered from the sale of electricity in the market, defined on the basis of the reasonable yield on 10 year government bonds plus a spread, initially fixed at 300 basis points for the first regulatory period ending on 31 December 2019 (i.e., 7.398% before taxes).

- Operation remuneration (EUR/MWh) to cover, where applicable, the difference between the operating costs and income obtained in the electricity market. The return on the 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 including an update of these operational costs is the Order ETU/1046/2017.

On the other hand, the Order IET/1045/2014 of June 2014 sets out a classification of standard installations 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 new renewable facilities, cogeneration and waste will be set by a competitive tendering process. In 2017 there were two competitive bidding processes, with 3,000 MW of wind power awarded in the first and 3,909 MW of solar power and 1,128 MW of wind power in the second. In neither case will any awardee receive additional remuneration if market prices remain at their current levels — only if they fall below a certain threshold.

For 2019, the first call for tenders for wind power in the Canary Islands has been issued for projects co-financed by the ESIFs for a maximum of 271 MW. No other bidding processes have been initiated, although the government has announced a possible one for 3,000 MW of new renewable power.

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 continuous balance demand and generation between energy.

- Market Operator (MO): The Iberian Market Operator (IMO) is responsible for the operation the Iberian electricity market (MIBEL) which 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 in accordance with ten year government bonds plus an appropriate spread for a low risk activity.

- It stipulates that the collection of the remuneration generated by new investments 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, as part of the regulatory and tax measures that started in the second half of 2013. The methodology set out in Royal Decree 1048/2013 is in accordance with new standard investment and operation costs and limits the annual volume of investment.

It also sets incentives in quality (it may fluctuate between +2% and -3% of the company's remuneration), in losses (it may fluctuate between +1% and -2%) and in anti-fraud measures, which may reach 1.5% of the company's remuneration.

Orders IET/2659/2015 and IET/2660/2015 published on 12 December 2015 determine the type of facilities and unit values to consider when calculating the remuneration for 2016 onwards.

Remuneration to transmission and distribution for 2016 was published on Order IET/980/2016 on 10 June 2016. However, in September 2017 proceedings were instigated aimed at having this order declared harmful to the public interest due to the treatment of fully depreciated assets still in use, and this has still not been resolved. An objection was also lodged in respect of the parameters used to calculate remuneration for 2016, on the basis that the final amount recognised should take account of the valuation of assets constructed by third parties and subsequently ceded to distributors.

Apart from this, the remuneration has still not been published for either 2017 or 2018, and an amount equivalent to that of 2016 is being paid provisionally, in accordance with Orders ETU/1976/2016 and ETU/1282/2017 which maintain the values published for 2016 for remuneration of distribution (Euros 5,175 million for the sector and Euros 1,655.5 million for IBERDROLA) and transmission (Euros 1,709 million for the sector).

The recent Royal Decree-Law 20/2018 of 7 December on urgent measures to boost economic competitiveness in the industrial and commercial sector in Spain, empowers the government to develop legislation covering Closed Distribution Networks, for supplying electricity only to industrial users which, basically for reasons of safety, are within geographically confined areas. The economic and financial sustainability of the electricity system must be taken into account, as must non-discrimination among consumers and non-redundancy in networks.

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 tolls are uniform across the country and are collected by the distributors and carriers, which act as the collector agents of the electricity 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 recently published Royal Decree-Law 1/2019 transfers the responsibility of establishing the methods of remuneration, the tariffs for use of the grid and the conditions of access to the electricity and gas transmission and distribution networks to the CNMC, starting with the next regulatory period (2020). The government retains the power to set the charges, which concern all other costs included in the bill that are not related to the use of the networks.

Royal Decree-law 14/2010 of 23 December, developed by Royal Decree 1544/2011 of 31 October, extended the application of access tolls to electricity producers and established a provisional access toll of Euros 0.5 per MWh fed into the grid.

The Order IET/1366/2018, of 20 December, establishes the access tolls for 2019. 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 2019 are published.

- It establishes the use of funds from the accumulated surplus in such amount as is strictly necessary to balance income and costs. As regards revenues from the General State Budget, it includes Euros 750 million for auctions of CO_2, although the Royal Decree-Law on mining published on the same day raises this amount to Euros 1 billion.

- It consolidates the derogation of availability payments, although it maintains the current capacity prices paid by customers.

- It establishes the provisional remuneration of the SO and MO,

6. Supply activity

From 1 July 2009 all consumers may freely contract their supply of electricity with a supplier 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 of less than 10 kW, 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.

25 November 2016 saw the publication of Royal Decree 469/2016, changing the commercial margin of the PVPC ("voluntary price for the small consumer") established in Royal Decree 216/2014. Now the commercial margin is in accordance with 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).

The recently published Royal Decree-Law 15/2018 on urgent measures for energy transition and consumer protection approved a number of measures that affect sales and marketing:

- Prohibition of "door-to-door" selling of electricity and gas, except by prior appointment.

- CORs (reference marketers) should include a simulation of the application of the variable time slot costs in their invoice.

- It makes it easier to have fraudulent sellers disqualified.

- It facilitates contracting of power in multiple tranches of 0.1 kW for supplies of less than 15 kW.

- Supplies of less than 15 kW are exempt from invoicing for reactivation. Revenues obtained by distributors from reactive energy charges cease to be considered as subject to the settlement procedures and will be applied to actions necessary to comply with the voltage control requirements.

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. The social tariff is financed by all parents of the Groups with supply activity, in accordance with the method for calculating the percentages for distribution and the procedure for settling the amounts to be financed, in accordance with prevailing legislation. In 2018 IBERDROLA is responsible for 35.05%.

On 24 December 2016, Royal Decree-law 7/2016, which regulates the mechanism for financing the cost of the 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 a vulnerable consumer, the social tariff and other protection measures for household electricity consumers, and by Order ETU/943/2017.

Three categories of vulnerable consumers are defined in accordance with criteria involving income, number of minors in the household and other conditions, and a VPSC discount is applied to their bill up to an annual consumption limits count applied to their bill up to an annual consumption limit.

- Vulnerable consumer: 25% discount on VPSC.
- Severe vulnerable consumer: 40% discount on VPSC.
- Consumer at social exclusion risk: 100% discount on VPSC. They must be helped by social services, who will cover at least 50% of their bill at VPSC.

The procedures to suspend supply in the event of non-payment are also reviewed in this legislation. Information requirements are added for all suppliers, payment terms and suspension of supply due to non-payment in the free and regulated market is equalised, with special consideration to consumers at risk of social exclusion, whose service is deemed essential and therefore cannot be suspended. Royal Decree-Law 12/2018 adds an extra level of protection for households in receipt of the bono social subsidy with minors under 16 or disabled or dependent members whose supply is also considered essential and as such not susceptible of being cut off in the event of non-payment.

8. Electric mobility

Royal Decree-Law 15/2018 eliminates the role of gestor de carga (charging agent), introduced by Royal Decree-Law 6/2010. Any consumer can now provide charging services, free of charge or for valuable consideration, on their own behalf or that of others.

It also allows distributors to install charging points where there is no private interest. If subsequently conditions become economically attractive, the installations will have to be transferred to other operators against appropriate compensation; enabling regulations have yet to be developed for this process.

9. Self-consumption

Self-consumption is regulated for the first time in the Electricity Industry Law 24/2013 and defined as the consumption of electricity power provided by generation facilities associated with a consumer. In accordance with the aforementioned Law, self-consumers must pay the same access toll for the consumed energy.

Subsequently, Royal Decree-law 9/2015 of 10 July 2015 modified Law 24/2013 to establish the possibility of setting exemptions for small power self-consumers (up to 10 kW). This measure is exceptional and it will be implemented provided that the safety and economic and financial sustainability of the system is guaranteed.

The administrative, technical and economic conditions of the self-consumption modes are regulated in Royal Decree 900/2015 of 10 October as amended by the recent Royal Decree-Law 15/2018 on urgent measures for energy transition and consumer protection, which establishes two modes of self-consumption:

- Without surplus: when the physical equipment installed prevent any injection of surplus energy into the grid, so that the consumer is only a consumer.

- With surplus: when the generating installations can inject surplus energy into the grid, so that the consumer is also a producer.

Furthermore, Royal Decree-Law 15/2018 eliminates the requirement for a meter for generation and the limitation whereby installed capacity had to be less than consumption. It also eliminates the charges and tolls on self-consumed energy from renewable sources, co-generation or waste and allows shared self-consumption and the setting of quantities for use of the grid. Lastly, it allows the remuneration of surpluses as the rest of production, and the simplified offsetting for self-consumers of shortfalls and surpluses in their production for facilities of up to 100 kW.

10. Interruptibility and assistance to electro-intensive consumers

The interruptibility service for a consumer consists of reducing its active capacity in response to a reduction order from the system operator, in line with the needs that arise in operating 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. In October 2017 its application was limited to the first five months of 2018, although subsequently Order ETU/362/2018 revised the mechanism, extending the period to 31 December 2018 and replacing the 90 MW interruptible product by one of 40 MW. Consumers wishing to provide the service must also show that they have no outstanding debts in connection with the provision of the demand-side interruptible load management service.

Lastly, Royal Decree-Law 20/2018 of 7 December, on urgent measures to boost competitiveness, provides for the creation, by means of royal decree, of a Statute of Electro-intensive Consumers, which will take account of objective variables linked to the guidelines and volume of capacity and energy required, as well as its potential contribution to improved technical and economic management of the electricity system.

This Statute will develop mechanisms designed to mitigate the effects of energy costs on competitiveness, in accordance with EU legislation, with obligations and commitments in terms of energy efficiency, substitution of emitting and polluting sources of energy and investment in R+D+i and employment, among other things. Beneficiaries of the subsidies will be obliged to maintain productive activity for a period of three years.

11. Cogeneration

Royal Decree 413/2014 on electricity generation by means of renewable, cogeneration and waste establishes the remuneration scheme for existing and new facilities.

Royal Decree-Law 20/2018 of 7 December introduced an extension to the economic regime of co-generation. High-efficiency co-generation facilities that use renewable fuels or natural gas and that exceed their regulatory useful life after 1 January 2018 may receive the payment term for the operation for a further two years from the entry into force of this royal decree-law, unless an new regime regulating this technology is developed.

Apart from this, the recently published Order TEC/1303/2018 recognises the right of certain manure treatment plants to the efficiency complement for the period 2007-2010, amounting to Euros 11 million, which the CNMC must pay from its accumulated surplus. Euros 1 million corresponds to IBERDROLA plants.

12. Tariffs balance

The difference between collection of tariffs and access tolls set by the Government and real costs related thereto, produced a revenue shortfall between 2000 and 2013, which was financed by the electricity 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 set out new tax measures and Royal Decree-law 9/2013, was approved, adopting urgent measures to guarantee the financial stability of the electricity system and modified the methodology for calculating the remuneration of the transmission and distribution activities, special regime and capacity payments, among other measures.

To consolidate tariff balancing in the sector, 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 include an equivalent reduction of other cost items or an equivalent increase in income that ensures the balancing of the system. Thus, the possibility of new deficits accumulating, as have occurred in the past, is ruled out.

The Electricity Sector Act also establishes a mechanism limiting the revision of charges, by establishing that as long as cost items of the electricity system reflect payments corresponding to debts from previous years, charges may not be revised downwards. This principle is reinforced with the obligation to automatically review, from 2014 onwards, the tolls and fees if the annual or accumulated imbalances exceed 2% or 5%, respectively, of the income estimated for 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 surplus income that could arise will be used to compensate imbalances from previous years and, in 2017, by virtue of the 2018 General State Budgets Act, to compensate companies for the litigation resulting from the electricity regulation. Hence part of the accumulated surplus has been used to pay to companies in reimbursement of the financing of the "social bonus", effectively a government-sponsored energy discount, for 2014, 2015 and 2016, including interest. The recently published Royal Decree-Law 15/2018 empowers the Ministry to use the accumulated surplus to cover possible deficits for the years 2018 and 2019, and increases the budgetary credit of revenues transferred from CO2 auctions.

Royal Decree 680/2014 of 1 August 2014, regulates the procedure of budgeting, recognition, settlement and control of the surcharges on the production of electricity power in the isolated electricity systems of the non-peninsular territories charged to the General State Budgets, thus developing the provisions of Law 24/2013, which stipulated that from 1 January 2014, 50% of these surcharges would be financed against the General State Budgets.

Final settlements for 2014, 2015, 2016 and 2017 were closed with a surplus of Euros 550 million, Euros 469 million, Euros 421 million and Euros 150 million, respectively. This accumulated surplus of Euros 1,074 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 urgent 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, in accordance with 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/257/2018 of 16 March, establishes the 2018 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, driven mainly by the liberalisation measures included in European directives concerning common rules for the internal market in natural gas (Directive 2009/73/EC is currently in force) aimed at opening up markets and creating a single European gas market.

1. Activity separation

The Hydrocarbon Industry Law of 1998 laid the foundations for the new gas system, particularly with regard to the separation of activities (regulated and liberalised), 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.

The Hydrocarbon Industry Law 34/1998 provided for the legal separation of liberalised and regulated activities and the segregation for accounting purposes of the various regulated activities. Law 12/2007 took a further step in establishing the functional separation between liberalised activities and the grid and between the latter and the technical management of the system. In 2012, Royal Decree-Law 13/2012 was approved, establishing further measures of separation in management of the transmission network.

In line with these principles, the gas system has been structured around two types of activities: regulated (regasification, basic storage, transmission and distribution) and liberalised (trading and supply).

2. Deregulation of the gas sector

The effective deregulation began with the publication of Royal Decree-Law 6/2000 on urgent measures to intensify competition in markets for goods and services, which created the Technical System Manager, and Royal Decree 949/2001.

Royal Decree 949/2001 established the specific terms and conditions for third-party network access and, for regulated activities, a cost-based system of remuneration, 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 annually by ministerial orders and resolutions.

The economic system also defined a settlement procedure to allow redistribution of revenues collected among the various regulated activities.

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 covered in Royal Decree 1434/2002.

The deregulation process in Spain was completed with Law 12/2007 transposing Directive 2003/55/EC. The two key changes enacted by this law were the elimination of regulated supply and the functional separation among activities.

As in the Spanish electricity sector, since 1 July 2008 all customers have been able to choose their gas supplier freely, although there is a regulated Last-Resort tariff that may be used by low-pressure customers with annual consumption of less than 50,000 kWh. The price is calculated automatically and cumulatively.

3. Technical operation of the system

Order ITC 3126/2005 develops the rules for the technical management of the gas system. Inter alia, these regulations establish 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. Royal Decree 1766/2007 establishes the obligation of sellers and direct consumers in the market to hold minimum safety stocks corresponding to 20 days of firm supplies, with a limit of 50% on the maximum percentage of supplies from any one country.

Additionally, the Winter Plan for Gas in force published in 2017 obliges gas retailers to hold a winter reserve (from November to March) in the form of stocks of liquefied natural gas (LNG) equivalent to 3.5 days of their contracted input capacity to the transmission and distribution network.

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 LNG regasification capacity necessary and core natural gas storage facilities). For all other infrastructures, the state's planning work is indicative only. In 2012, Royal Decree-Law 13/2012 enacted a series of measures to halt the construction of new infrastructure in a context of falling demand for gas.

Royal Decree 335/2018 of 25 May amends various royal decrees relating to the administrative handling of certain installations, the procedure to be followed in cases of disqualification of sellers and the setting of tolls and fees. This last point has been held in abeyance due to the transfer of responsibilities to the National Commission on Markets and Competition (CNMC).

4. Remuneration

Law 18/2014 approving urgent measures for growth, competitiveness and efficiency, and before that Royal Decree-Law 8/2014, establish the principle of economic and financial sustainability of the gas system. This principle is reinforced with the obligation of automatic revision of tolls and fees if the annual mismatch exceeds 10% of revenues subject to settlement for the financial year or 15% of the sum of the annual mismatch and annual amounts 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 installations during a period of 15 years.

On the other hand, the remuneration of the regulated activities will be in accordance with 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 in accordance with the previous year's system adjusted to market growth. The remuneration system for transmission, storage facilities and regasification is in accordance with the net value of the assets plus a complement associated with trends in demand. The cost of operation and maintenance is also taken into account.

5. The organised gas market

The Hydrocarbon Industry Law was modified by Law 8/2015 of 21 May, the main aspects of which regarding the gas system are:

- The creation of an organised wholesale gas market.
- The designation of the operator of the regulated gas market.
- Measures relating to minimum security stock levels.
- It empowers CORES (Corporación de Reservas Estratégicas de Productos Petrolíferos) to constitute, maintain and manage strategic gas and LNG stocks.
- 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. It establishes the bases for the development of the organised gas market, which will initially include the negotiation of short-term standardised products by an electronic platform managed by the Market Operator (MIBGAS - OMEL), together with a system of centralised management of guarantees. In addition, it centralises the contracting of capacity managed by the TSO (technical system operator) (ENAGAS), with standardised products and auction procedures.

At the end of 2017 the Resolution for the provisions of compulsory market service by dominant operators (Endesa y GNF) was published. They are therefore obliged to maintain a minimum volume of sales or purchases up to a maximum of 5.68% of their annual gas supplies in Spain. The price separation between the purchase and sale offers must be equal to or less than 0.50 euros per MWh. This measure is complementary to the periodic call of voluntary market makers.

3. Industry regulation in the UK

The principal laws that govern Scottish Power Ltd.'s (hereinafter, *SCOTTISH POWER*) activities are the Electricity Act 1989 and the Gas Act 1986, as substantially amended and supplemented by numerous subsequent amendments, 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).

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 backed 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 activities 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 for licence holders, 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 interest in reducing greenhouse gases and in the security of the supply of gas and electricity.

In furthering this objective GEMA must ensure that all reasonable demand for electricity and gas is met, ensure that licence holders are able to finance the activities they are obliged to undertake, and contribute to the achievement of sustainable development. It must also take into consideration vulnerable customers and GEMA must observe certain guides on social and environmental matters.

GEMA's functions include the granting of licences (and their revocation in certain limited circumstances), the proposal 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's regulatory activities must be transparent, responsible, proportionate, consistent and focused solely on those cases where action is needed in line with best regulatory practices.

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 activities including:

- The supply, generation and distribution of electricity;

- the shipping of gas (that is, arranging for the insertion, the transmission, and the removal of it from the public network) Gas; and

- the transmission of gas to certain specific sites (such as proposed new gas fired power stations).

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 household consumers: consumer protection provisions including rules on standards of conduct, provision of information, disconnection in view of debt, cost reflective pricing, supply information 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 licensing terms no longer require the holders' consent.

A gas and electricity market investigation was carried out by the CMA, which issued a report on 24 June 2016. The final report concluded that competition in the wholesale gas and electricity markets works well and that the presence of vertically integrated companies does not have a detrimental impact on competition.

However, a number of adverse effects on competition were identified in the supply 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 (those who have been on SVT for more than three years) which could be used by rival suppliers for marketing, and a programme of trials to develop more effective customer prompts. 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.

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. On 7 December 2017, OFGEM decided to extend the CMA's prepayment meter price cap to a further 1 million customers in receipt of Warm Home Discount (WHD) payments with effect from 2 February 2018.

On 19 July 2018, the Domestic Gas and Electricity (Tariff Cap) Act 2018 received Royal Assent. This legislation obliges OFGEM to cap energy tariffs temporarily (to the end of 2020) for all domestic customers on SVT and other default tariffs, with a view to protecting existing and future domestic consumers, and having regard to the need to create incentives for efficiency, enable effective competition, maintain incentives for switching and ensure licensed activities remain financeable.

OFGEM decided on 6 November 2018 that the cap would come into effect on 1 January 2019 and for the first period (1 January 2019 to 31 March 2019) would be set at £1,137 for dual fuel customers paying by Direct Debit (DD) and £1,221 for those paying by Standard Credit (SC). Customers currently covered by the WHD price cap would move to the default tariff cap for DD (whether they pay by DD or SC). Those covered by the CMA's prepayment price cap are unaffected (but the cap is subject to review by the CMA in 2019).

3. Price controls

A number of temporary price controls are currently in effect in the domestic energy supply market.

- As noted above, following its 2014-2016 Energy Market Investigation, the CMA introduced a transitional safeguard tariff cap for domestic consumers with prepayment meters (PPMs), which will apply from 1 April 2017 to 31 December 2020. and in December 2017 OFGEM extended to consumers in the WHD programWHD, which will apply from 2 February 2018 to 31 December 2019. Following enactment of the Domestic Gas and Electricity (Tariff Cap) Act 2018, prices for the sale of electricity and gas to the domestic consumers on SVT or other default tariffs will be subject to a temporary cap (the 'Default Tariff Cap') applying from 1 January 2019 to 31 December 2020 (extendable on an annual basis to 31 December 2023). The level of the cap is set by OFGEM.

- The provisions of the Competition Act 1998 and the Transmission Constraint Licence Condition (TCLC), may also provide a constraint 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 possible actions in balancing markets. OFGEM has published guidelines on the interpretation and application of the TCLC. The condition was renewed and made permanent on 16 July 2017 and some elements were removed to address potential overlap with REMIT.

- OFGEM has implemented electricity market liquidity obligations for large integrated retail and generation companies, including SCOTTISH POWER. These include obligations to facilitate trading with smaller suppliers 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. OFGEM will revise this obligation in 2019 in view of the drop in the number of companies subject to it.

- 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 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 in accordance with 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 into account 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 RIIO-T1 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.

OFGEM is reviewing the RIIO framework ahead of the second round of controls, which will start with RIIO-T2 in April 2021.

- a duration of RIIO-1 of 5 years instead of 8;
- *Retail Price Index* will be replaced by *Consumer Price Index* (CPI);
- The participation of stakeholders will improve through the creation of *Stakeholder Challenge and User Groups*;
- the existing depreciation policy for *Regulated Asset Value* (RAV) will still be in force;

OFGEM is considering options for the adjustment mechanisms of the Fair Returns to limit the companies having abnormally high returns.Ofgem has also signalled that large, new and separable transmission projects may be tendered or made subject to a bespoke (lower) rate of return. OFGEM is currently developing two models: a 'Special Purpose Vehicle' (SPV) model, in which projects would be delivered through a SPV that would bid competitively for the financing, construction and operation of the assets in an Ofgem supervised auction; and a 'Competitive Proxy Model' (CPM) in which the project would be developed by the transmission licensee and Ofgem would set the allowed revenue using 'competitive' benchmarks.

4. 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's aim has been to source at least 30% of electricity from renewable sources by 2020. To help meet this objective, 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 (in accordance with 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. If suppliers default on their obligations and the total shortfall is above a threshold amount, the shortfall is recovered from the remaining suppliers through a process of 'mutualisation'.

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 average costs.

The RO was closed for new projects after 31 March 2017 and the Government has implemented the Contracts for Difference (CFDs) mechanism that was part of the Electricity Market Reform (EMR) programme. The wind farms in ScottishPower's onshore renewables pipeline that received planning permission in time to qualify for the relevant grace period were be eligible to accredit under the RO. The RO remained in place for new facilities entering the scheme before the relevant closure date; payments will continue until 31 March 2027 for projects that started generating power before 1 April 2009 and for 20 years after entry into the RO for subsequently 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, in accordance with CFDs to boost low carbon generation; and
- a Capacity Market to enhance security of supply (market-wide auction - CM mechanism).

The first CFD 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). ScottishPower's 714 MW East Anglia ONE offshore Wind Farm achieved a contract in the auction at a price of GBP 119.89 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. The 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 prior to 2025.

Within this overall budget the Government has published the draft budget for Allocation Round 3, namely, £60 million (2011/12 prices) for delivery years 2023/24 and 2024/25. The Government expects this to support the delivery of around 4GW of new capacity, and the allocation round will be subject to an overall 6GW capacity cap (subject to State Aid approval). The CfD administrative strike prices for offshore wind are set at £56/MWh for projects delivering in 2023/24 and £53/MWh for those delivering in 2024/25 (in 2012 prices). A final Budget and parameters will be set ahead of the auction.

Annual Capacity Market auctions took place in December 2014, 2015 and 2016, for capacity delivery in winter 2018, 2019 and 2020, respectively.

On 15 November 2018, the European Court of Justice upheld Tempus Energy's challenge against the EU Commission, annulling its decision not to raise State Aid objections to the UK CM. BEIS announced a 'standstill period' until the scheme can be approved again by the Commission. On 6 December 2018, BEIS published its forward plan (agreed with the Commission) for obtaining State Aid re-approval for the CM. This envisages the Commission issuing an Opening Decision to open the formal investigation in early 2019. The Government intends to hold a 'top-up' T-1 auction during summer 2019, for delivery in winter 2019/20, making any agreements conditional on the outcome of the Commission's formal investigation. The Government has also published (subject to consultation) a "minded-to" plan to resume supplier charging arrangements to fund deferred payments to capacity providers (upon State Aid re-approval). The T-4 auction for 2022/23 is planned to be run as a T-3 auction upon State Aid re-approval.

EU-ETS and United Kingdom Carbon Price Support

The Climate Change Act 2008 set out a trajectory towards reducing UK greenhouse gas emissions from 1990 levels by at least 80% by 2050, with interim reduction targets.

A positive final State Aid decision would allow CM payments to be made to CM agreement holders that have met their obligations during the 'standstill period'. This EU ETS participation position for the UK remained the case for 2018, but the position for 2019 and subsequent years is not yet clear due to ongoing Brexit negotiations. In light of Brexit developments to date, as expected, the EU Commission has *suspended for the time being the UK-related processes in the Union Registry of the EU ETS with effect* from 1 January 2019.

The Carbon Price Support mechanism is a United Kingdom tax levied 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 of CO2. The Government announced in its 2018 budget that it will maintain this GBP 18 per tonne of CO2 rate for 2020/21. In the case of a Brexit without agreement the budgets of 2018 establish that the Government will introduce a new rate to the CO_2 emissions (Carbon Emission Tax) that in 2019 would be of 16 pounds sterling per ton.

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 need to be taken into account in any price caps.

The current ECO program began in April 2017 at a cost of 640 million pounds sterling per year. The new program (ECO3) began in October 2018 (and will continue until March 2022) focused on vulnerable customers. Under the ECO3, the exemption is reduced to the program of small suppliers in a staggered way, leaving exempt in 2019/2020 those suppliers with less than 200,000 clients and, in 2020/2021 those with less than 150,000 clients (instead of the current 250,000).**Closure of coal plants**

In November 2015 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). At the end of 2016 the Government published a request and in January 2018 confirmed its intention of eliminating coal generation from the system in 2025.

Pollution Control

European pollution control directives are: The Integrated Pollution Prevention and Control (IPPC), the Large Combustion Plant Directive (LCPD) and the Industrial Emissions Directive (IED) impose limits on various categories of emissions transposed into United Kingdom law through the Pollution Prevention and Control (Scotland) Regulations 2012 and amendments to the Environmental Permitting (England and Wales) Regulations 2010. These controls are enforced by the Environment Agency or, in Scotland, the Scottish Environmental Protection Agency.

The Medium Combustion Plants Directive places emission limits on smaller generating and other combustion plants. As part of the implementation of this, Defra (Department for Environment, Food and Rural Affairs) is expected to impose NOX limits on diesel generators, which could reduce the air quality implications of allowing such plants to participate in the capacity mechanism.

4. Industry regulation in the 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 main revenues of AVANGRID NETWORKS are essentially regulated, and are in accordance with 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 in accordance with the cost of providing service. Energy, financial and capital costs are included (capital costs show the Company's capital index and legitimate capital profitability).

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 (due to effects of extreme weather conditions, environmental factors, regulatory and accounting changes, treatment of vulnerable customers, etc.) that are offset in the tariff process.

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 presented in 2015:**

On 20 May 2015, NYSEG and RG&E filed electric and gas rate cases with the New York Public Service Commission (NYPSC). The companies requested, on the one hand, rate increases for NYSEG Electric, NYSEG Gas and RG&E Gas and, on the other hand, RG&E Electric requested 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 was submitted on April 7, 2016 and June 15, 2016, the adoption resolution of the NYPSC, with the retroactive application of May 1, 2016.

The delivery rate increase can be summarized as follows:

	01 May 2016		01 May 2017		01 May 2018	
Utility	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
RG&E 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 applicable Earnings Sharing Mechanism (ESM). 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 costs of approximately USD 262 million incurred by electric storms and borne by NYSEG, and also continues reserve accounting for qualifying Major Storms (USD 21.4 million annually at NYSEG and USD 2.5 million annually at RG&E). 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 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.

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 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.

- **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.

The REV has followed several paths simultaneously: 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 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, and storage.

REV is also intended to promote greater use of advanced energy management products to enhance demand elasticity and efficiencies. AVANGRID is currently participating in the initiative with other New York utilities The NYPSC issued a 2015 order in Track 1, which acknowledges the utilities' role as Distribution System Platform (DSP) providers, and requires the utilities to file an initial Distribution System Implementation Plan (DSIP) by 30 June 2016. The DSIP was filed on 30 June 2016 and included information regarding the proposed deployment of Automated Metering Infrastructure (AMI). Various REV-related proceedings have also been initiated by the NYPSC, 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 personnel 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. On 1 December 2016, NYSEG and RG&E filed their proposed Earnings Adjustment Mechanism (EAM), and despite 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 authorisation to implement full-scale AMI at NYSEG Electric, NYSEG Gas, RG&E Electric and RG&E Gas. Approximately 1.8 million AMI electricity meters and gas modules will be installed.

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.

On 14 September 2017, the NYPSC issued an order related to the Value of Distributed Energy Resources (VDER), which included filing requirements for (1) new tariffs, (2) a timeline and cost estimate for implementing automated consolidated billing, and (3) proposed changes to Standard Interconnection Requirements.

- **NY Transco**

AVANGRID NETWORKS owns approximately 20% of New York Transco. New York Transco was established by the New York transmission utilities to develop, own, and operate electric transmission in New York.

In December 2014, New York Transco filed for regulatory approval of its tariffs, terms, and conditions, with the FERC, including a base ROE of 10.6%, plus 150 basis points as incentives. The New York Transco will not make final decisions on transmission project development until a FERC decision.

On 2 April 2015, the FERC issued an order granting, inter alia, a 50 basis points adder for NY Transco's membership in the NYISO RTO. 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 (TOTS), Projects because it would allocate costs to the Long Island Power Authority (LIPA) and the New York Power Authority (NYPA) that they did not voluntarily agree to pay.

On 5 November 2015, New York Transco's owners filed the Settlement with the FERC to resolve all outstanding issues associated with the 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 by virtue of an Open Access Transmission Tariff (OATT) under the New York Independent System Operator, Inc. (NYISO) for the TOTS Projects. The FERC approved the Settlement on 17 March 2016.

- **Net Energy Metering**

On 16 October 2015, the NY Commission issued an order establishing interim ceilings on the interconnection of net metered generation (Floating Cap Order). 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 implemented the Value of Distributed Energy Resources (VDER) mechanism in response to the decision to leave the limit of net metering open and the promise to adopt a "new regulatory approach" for assessing Distributed Energy Resources (DER).

- **New York State Department of Public Service Investigation of the Preparation for and Response to the March 2017 Windstorm**

On 11 March 2017 the New York State Department of Public Service (the "Department") commenced an investigation into NYSEG's and RG&E's preparation for and response to the March 2017 windstorm, which affected more than 219,000 customers.

A Department Report on the investigation was issued in November 2017 which identified 29 recommendations for corrective action, as well as identifying four Emergency Response Plan (ERP) alleged violations for NYSEG and eight ERP alleged violations for RG&E.

On December 18, 2017, NYSEG and RG&E filed a response to the order in which it accepted the 29 recommendations and proposed implementation plans associated with each of the recommendations. These plans will be reviewed by the Department Staff and will be subject to approval by the NYPSC. On May 18, 2018, NYSEG and RG&E filed two settlement Joint Proposals with the NYPSC, both which have been executed by the Companies and the New York State Department of Public Service. The settlement Joint Proposals reflect agreement by the Companies to make resiliency and emergency response investments totalling $3.9 million, which will not be reflected in the Companies' rate base or operating expenses. The Joint Proposals are a settlement of potential penalties statedand should not be construed as an assessment of a fine or penalty.

The settlement Joint Proposals will be subject to a public comment period and we expect the NYPSC Commission to make a determination on the settlement agreements in 1Q19.

- **NY 2018 March Snowstorms**

NYSEG's lower Hudson Valley and United Illuminating's service territories were significantly impacted by three of four March Nor'easter snowstorms, resulting in tens of thousands of customer outages, primarily in NYSEG's Brewster division. For some customers, outages lasted up to a week, causing customers and local politicians to harshly criticize NYSEG's storm preparedness and response.

On March 6, 2018 NY Governor Cuomo called for an investigation on NYSEG's preparedness and restoration efforts related to Winter Storm Riley, the first of the four Nor'easters. The investigation includes an evaluation under the Public Service Commission's emergency response scorecard, a regulatory tool developed following Super storm Sandy to gather data and assess utility performance. Utility filings of scorecard data were submitted in April 2018.

3. Maine

- **CMP Distribution Rate Case**

On May 29, 2018 the MPUC received a ten person complaint requesting the MPUC open a rate case to determine if CMP and its parent Companies are making excessive returns on investment. The Complaint also request that CMP be denied recovery of its October 2017 storm costs. CMP responded stating the Complaint should be dismissed because it is without merit. On July 24, 2018, the MPUC issued Order dismissing the complaint as it relates to CMP's parent companies and the October 2017 Storm costs.

The MPUC performed a calculation of CMP's returns and found that its 2016 and 2017 returns exceeded the allowed reasonable range and therefore opened and investigation and ordered CMP to make a general rate case filing by October 15, 2018.

On October 15, 2018, CMP submitted its required rate case as directed by the Maine Public Utilities Commission (MPUC). In its filing, CMP is proposing to keep customer distribution rates the same as those rates currently in effect. The Company is proposing to use savings from changes in federal tax laws to keep its distribution prices stable while making its electric system more resilient. CMP plans on using savings from the *Tax Cut and Jobs Act*, passed in December 2017, to pay resiliency programmes costs and other investments.

The Commission has established a 10-month process to review CMP's filing and we expect a decision in August of 2019 with new rates taking effect in September of 2019.

- **MPUC Investigation into the Response by Public Utilities to the October 2017 Storm**

On December 19, 2017, the Commission issued a Notice of Investigation regarding utility response to the October 2017 Storm. The wind storm of October 2017 was unprecedented in the number of customers impacted and the magnitude of the damage across the entire Central Maine Power service territory. The vast majority of tree related damage was from trees that were located outside of the maintenance clearance zone. Damage occurred on nearly every CMP distribution circuit, resulting in more than 1,400 broken poles. CMP incurred the total incremental costs are approximately $68.6 million, of which $24.7 million are capital costs associated with the replacement of damaged infrastructure, including poles, cross arms, transformers and related equipment and after applying the agreed up capitalization method contained in the approved stipulation.

On June 29, 2018, the MPUC approved a Stipulation Agreement in Docket no. 2018-00069 which provides for the recovery of incremental storm restoration costs through CMP's distribution rates. The Stipulation agreement included a revised storm capitalization amount and the value of recovery was reduced by approximately $531 thousand of cumulative underspent funds on non-cycle vegetation management activities.

On October 4, 2018, the Commission issued an Order stating that in accordance with the weather forecast information and the availability of storm restoration crew resources, that both Central Maine Power Company (CMP) and Emera Maine acted reasonably in their preparation for and response to a major wind and rain storm in October 2017 (October Storm) and that no further investigation of this aspect of the utilities response is warranted. The Commission identifies there are potential for improvements for future storm performance of the utilities, and with respect to coordination and communication with other involved entities. CMP filed its report on December 1, 2018.

- **Net Energy Metering**

On 14 September 2016, the Maine Public Utilities Commission (MPUC) issued a Notice of Rulemaking regarding Amendments to the Net Energy Metering Rule.

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.

4. 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 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.

On 15 December 2016, the PURA issued its Final Decision authorising a cumulative three-year rate of USD 57 million (compared to the 98.3 million requested by UI during the process) for the years 2017, 2018 and 2019. The 2017 rate increase is USD 43.0 million, with an additional USD 11.5 million in 2018, and an additional USD 2.9 million in 2019. The PURA established 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.

- **SCG 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.

On 13 December 2017, PURA approved the amended settlement agreement and the new rates are effective as of 1 January 2018 the DIMP as proposed by SCG, the amortization of certain regulatory liabilities and rate increases in accordance with 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. The new rates are effective as of 1 January 2018.

- **CNG Rate Case Settlement Agreement**

On June 30, 2018, CNG filed an application with PURA for new tariffs to become effective January 1, 2019. CNG requested a three-year rate plan for calendar years 2019, 2020 and 2021 and a proposed ROE of 10.20%. On August 30, 2018, the parties reached a three year settlement agreement with PURA for approval, which includes tariff increases in accordance with an ROE of 9.30% and 54%, 54.5% and 55% equity levels during years 1, 2 and 3. The parties agreed on rate increases of $9.9 million, $4.6 million and $5.2 million in 2019, 2020, and 2021, respectively.

PURA approved the rate case settlement agreement on December 19, 2018 and new tariffs became effective on January 1, 2019.

- **Net Energy Metering**

On May 24, 2018, Connecticut Public Act 18-50 was passed. The act changes the current annual net energy metering in Connecticut to a customer choice between either (A) a tariff for the purchase of all energy and renewable energy certificates produced by the distributed generation on a cents-per-kilowatt-hour basis (no net energy metering), or (B) a tariff for the purchase of any net energy produced by a facility and not consumed for a period of no greater than one day, to be determined by PURA (daily net energy metering). There is currently an active docket to determine the net energy metering interval, and other tariff requirements.

- **Millstone nuclear plant**

On December 5, 2018 PURA issued a decision finding that the Millstone nuclear power plan is at-risk of retirement as soon as June, 2023 if it needs to rely on the ISO New England wholesale market for its revenues. The Connecticut Department of Energy and Environmental Protection (DEEP) is conducting a request for proposals (RFP) for zero-carbon generation, including nuclear energy, and this RFP provides a mechanism for Millstone to receive a bidding preference as an existing generating resource found to be at-risk of retirement.

The RFP allows DEEP to select bids totalling up to 12 million MWh per year. It is possible that UI will be directed by DEEP to enter into one of more long-term contracts as a result of this RFP, including a long-term contract to procure a share of the output from Millstone.

5. Massachusetts

On May 17, 2018 Berkshire Gas Company filed a petition with the Massachusetts Department of Public Utilities seeking approval of a distribution rate increase of approximately $3.3 million. The Company requested a 10.35% ROE and a 61.5% equity ratio and to implement a revenue decoupling mechanism.

On December 4, 2018, Berkshire Gas and the Attorney General's Office filed a Settlement Agreement with the MDPU. The Settlement Agreement provides for a $1.6M distribution base rate increase effective January 1, 2018 and an additional $0.7M based distribution increase effective November 1, 2019 if certain investments are made by Berkshire. The distribution rate increased is in accordance with a 9.70% ROE and 55% Equity. The Settlement Agreement, pending of approval by the MDPU, provides for the implementation of a Revenue Decoupling Mechanism and pension expense tracker and also provides that Berkshire Gas will not file to change base distribution to become effective before November 1, 2021.

6. FERC

Federal Tax Cuts and Jobs Act (Tax Act): On 22 December 2017, the US President approved the tax reform, Tax Act, which implied a cut of 1.5 billion 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.
- Enforcement of a Base Erosion Anti-Abuse Tax on the deductions for the costs paid or accrued to a foreign subsidiary.

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.

By January 2018, inquiries and/or proceedings were initiated in all Avangrid Networks jurisdictions to assess the impact of this new law and ensure resulting benefits are passed back to customers.

- The deferred liability associated with the tax rate change began to be returned to customers in July 2018 for CMP (deferred balance from Jan 2018 – Jun 2018) and May 2018 for MNG (deferred balance from Jan 2018 – Apr 2018). CMP purposed to keep rates stable by taking advantage of the tax cuts in their Rate Case filing.
- On 8/9/18 the NYPSC issued a Ruling requiring credits effective 1/10/18 for annual savings plus a three-year amortization of the existing deferred liability. Estimated impact to NYSEG and RG&E is $61M ($54M annual value + $6M amortization). Consistent with the ruling, Credits began to be reflected in tariffs on 1/10/18.

- In Massachusetts, the Company is proposing to return the tax rate reduction in the Berkshire Gas Rate Case presentation effective April 2019.

- In Connecticut, PURA reopened the most recent rate case decisions of each public utility to determine how the new tax law will impact rates. A Hearing was held on 7/5/18 establishing the appropriateness of an adjustment to rates.

- Utilities with formula rates will automatically have the tax benefits returned to customers through the formula. In May, NYSEG and RG&E submitted proposed revisions to its stated transmission rates which if approved would have an effective date of 1/1/19.

In all jurisdictions, the Company has created regulatory liabilities to capture the tax benefits of the Tax Act. Revisions to these balances are possible upon resolution of the proceedings. The final result of these cases will likely include the amortization of the liabilities.

FERC Rates

CMP's and UI's transmission rates are determined by a rate regulated by the FERC and administered by ISO New England (ISO-NE). Transmission rates are set annually pursuant to a FERC-authorised formula that allows for recovery of 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 a complaint was filed (Complaint I) seeking sought an order from the FERC reducing the 9.2% base return on equity (ROE) used in calculating formula rates for transmission service under the ISO-New England.

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.

In June 2015, the affected parties filed an appeal in the U.S. Court of Appeals for the District of Columbia, which overwrited FERC's decision on Complaint I and remanded it back to FERC. 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.

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, and established a 15-month refund effective date of 27 December 2012.

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%, and on 29 April 2016, a forth ROE complaint (Complaint IV) was filed for a subsequent rate period requesting the then effective ROE be reduced from 10.57% to 8.61% and that a ROE cap of 11.24% be established.

CMP and UI reserved refunds for Complaints I, II and III consistent with the FERC's final decision of 3 March 2015 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.

On 5 October 2017 the New England Transmission Owner's (NETO) companies filed a Motion for Dismissal asserting that all four complaints should be dismissed because the complainants have not proven 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 Federal Energy Legislation Section 206 complaints was statutorily improper. In the event FERC chooses not to dismiss the complaints, the NETOs request that FERC consolidate the complaints and issue a final order.

FERC issued an "Order Directing Briefs" on October 16, 2018 regarding the New England Transmission Owner's (NETO) ROE Complaints I - IV. The FERC Order addresses United States Court of Appeals (D.C. Circuit) Remand of FERC Opinion No. 531-A issued October 16, 2014 relating to ROE Complaint I. FERC proposes a methodology for addressing Remand; including New ROE Method resulting in a base ROE of 10.41% and maximum ROE at 13.08% for Complaint I. The FERC Order is not a Final Order or Opinion. "Order Directing Briefs" requires "Paper Hearing" on the new proposed ROE method.

Initial Briefs due January 2019 and responses are due March 2019. There is no decision due date. The FERC Order applies to Complaint I. If adopted, then new ROE method would need to be applied to Complaints II, III and IV periods.

CMP and UI have been reserving in accordance with FERC Opinion 531-A base ROEs of 10.57% and 11.74% Cap. Total reserve is $26.4 million as of September 2018. If New FERC Proposed ROE (Base ROE of 10.41% / Cap ROE of 13.08%) is adopted for all Complaint Periods, then preliminary impacts are: $24 M historical one-time benefit; $3.4 M annual prospective benefit.

FERC Formula Rate Proceeding: A settlement in principle was reached in February 2018 providing for regional and local transmission formula rates for calendar years periods consistent with the majority of transmission formula rates across the country.

The new formula rates will be effective January 1, 2020.

7. 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 (RPSs) that usually require utilities to generate or purchase a minimum amount of renewable electricity; and 2) tax incentives. To date, the Federal Government has primarily supported renewable energy development through tax credits for production and investment as well as accelerated tax depreciation.

State Law

Several States 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%. California in 2018 raised the bar further, to 60% by 2030 while Massachusetts and Connecticut also increased their requirements to 40%. New Jersey set a 50% standard by 2030 and Nevada approved a 50% by 2030.

Most states also offer a wide 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 power generation facilities through enterprise zones or similar designations, while Minnesota has substituted a property tax in lieu of fixed production tax. Other states, such as Texas, boost the construction of electricity infrastructure (Competitive Renewable Energy Zones) to ease the transmission of renewable electricity towards load points.

In 2018 California legislators approved and signed Senate Bill 100, raising the RPS to 60% by 2030 (with interim targets) and establishing a state policy of zero carbon emissions from electric generation by 2045. Both New Jersey and Massachusetts raised their RPS requirement and set objectives for procurement of offshore wind generation. Maryland enacted an RPS increase. Proposals to provide financial support to operating nuclear plants in New Jersey.

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, urban solid waste 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. The wind projects that are launched before 2017 will be eligible for full credit, while those that start construction between 2017 and 2019, will opt for a reduced credit. The plants that meet the requirements can also opt for an ITC of 30% instead of a PTC.

Congress also phased down the solar ITC. Projects to be commissioned before 2020 may opt for a 30% ITC, but those whose construction is to start after 2019 will opt for a lower ITC.

FERC

In regard to generation, FERC has focused on two areas. The first is the issue of resilience of the bulk power system. Following FERC's decision not to adopt the proposal submitted by the Department of Energy that would have directed payments to generation resources that maintain on-site fuel supplies, FERC initiated a new proceeding to collect information on the matter. Second, FERC in conjunction with certain of the Regional Transmission Organizations, has approved or is considering changes to capacity market eligibility requirements. Consideration of these matters will continue in 2019.

5. Industry regulation in Mexico

The Mexican Energy Reform, which began at the end of 2013 with the amendment of three articles of the Mexican Constitution, set in motion the in-depth transformation of the electricity and hydrocarbons sectors, 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, twenty-one new laws were enacted during 2014 and 2015 and twenty-five 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 to the private sector some activities previously reserved for the state in the electricity sector.

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.

One of the main goals of the industry restructuring is to improve the electricity 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 Energetica - 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.

1. Competences after the Energy Reform

The planning and control of the National Electrical System (SEN), as well as the electricity power distribution and public transmission service are the exclusive responsibility of the Government of Mexico. Power generation, excluding nuclear, is open to private investment, as are electricity supply sales to the end users. The Mexican Government may grant service contracts to private companies, creating opportunities to participate in the construction, operation and maintenance of T&D infrastructure.

Power generation, excluding nuclear, is open to private investment, as well as power sales to the end users.

The Electricity Industry Law (Ley de la Industria Eléctrica - LIE) regulates activities in the electricity sector in Mexico. In accordance with the LIE, 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 in the LIE.

From the regulatory side, three agencies will have primary responsibility for the sector. The Energy Secretariat (SENER) will have the function of applying public policies; the Energy Regulatory Commission (CRE) will have the regulatory function; and the National Energy Control Center (CENACE), a new decentralized and independent agency, will operate the power grid and the Wholesale Electric Market.

2. Energy Secretariat

As part of the Energy Reform, the Energy Secretariat (Secretaría de Energía - SENER) has been empowered to coordinate the centralised planning and direct the national energy policy, both for hydrocarbon and electricity subsectors. SENER is also in charge of guaranteeing the implementation of the laws derived from the reform, including the LTE enacted in December 2015 for the transition to clean energy and emission reduction.

In 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. In March 2017, the targets for CECs for 2020, 2012 and 2022 (7.4%, 10.9% and 13.9%, respectively) were defined. Penalties for non-compliance with the requirements of CECs have also been issued.

In 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 cost of the clean energy was 30% lower than in the first auction in 2015.In 2017 a long-term auction was held where the award prices were again decreased (-40% with respect to the previous auction) for 2 GW of new allocated renewable generation.

In February 2017, the first Medium-Term Auction was held for 1- to 3-year energy and power contracts, which resulted in less than 4% of the Power purchase bid and 0% of the Energy awarded. On 20 December 2018 CENACE convened the second Medium-Term Auction, while the publication of the final bidding specifications were pending.

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.In December 2017, SENER delivered this package of Manuals to the CRE, which will be responsible for carrying out modifications and updates in accordance with market behaviour.

In June 2018 SENER published the annual updated 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).

3. Regulatory bodies

As a key part of the energy reform in Mexico, the country enacted the Regulatory Body Law in August 2014, setting out the guidelines for operating and responsibilities of the new regulatory bodies in the energy field: 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 bodies have a similar governance authority of seven commissioners and an executive secretary.

Regarding electric power, the main faculties of CRE are to modify WEM's basis and define terms and conditions of auctions and bidding processes; to supervise the wholesale market operation; to issue rules for transactions between generators and suppliers; to authorise the contract and auction models; to regulate with regard to reliability issues; to define capacity requirements and operational costs; to regulate and define the regulated tariffs and contract models for services involving transmission, distribution and basic supply of electricity; to issue models and authorise technical specifications for interconnection of power stations and users, issue rules regarding smart grids;

Other roles of the CRE include granting permits for market participants, to issue CECs and other instruments to promote clean energy; to resolve controversies and enforce fines related to non-compliance of wholesale market participants.

Regarding the hydrocarbons, the CRE regulates and promotes the development of transmission, 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.

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 electricity 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 in a competitive environment; and summon and manage the long-term 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 2016, CENACE launched the first phase of the Wholesale Electricity 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 Clearing House that allows all Responsible Load Entities (Users and/or Suppliers) to buy products from the Wholesale Electricity Market through long-term auction. Additionally, it develops the Market Information System, a key piece of the WEM's operations.

As is the case every year, in February 2018 it issued the results of the Power Balance Market for 2017, which sets a price on the available capacity during the year 2017. This availability is recognised for the system's 100 critical hours. The resulting price was US$37.7 per kW year (709.6 pesos per kW year) for the National Interconnected System (NIS), US$31.4 per kW year for the Baja California system and US$146.3 per kW year for the Baja California Sur system. As of February 2019, the same is expected for 2018; likewise it is expected that CENACE will operate for the first time the CEL Market.

At the end of March 2018, CENACE convened a new Long Term Auction, in which Purchase Offers were registered by five entities in addition to the CFE Basic Service Supplier, which considerably increased purchase volumes. Sales offers were registered from 28 bidders. At the beginning of December 2018, before the execution of the economic model, the Auction was suspended for the revision of its objectives and scope by the new CENACE administration, introduced after the change in the Republic's Presidency.

On 12 July 2018 the CRE published the criteria that the CENACE must follow to purchase Power by means of Reliability Auctions (SEN). These auctions will be proposed by CENACE when it foresees a deficit of generation capacity within a horizon of three to twelve months, purchasing power for a maximum term of one year. Contracts will be paid at the price offered and their cost will be distributed among the entities responsible for the Charge according to the power not covered by electrical coverage contracts.

At the end of 2018, the second annual market report was published by an Independent Monitor to evaluate market operations, its evolution, performance, efficiency and level of competition with the intention of issuing a series of opinions and recommendations.

5. Federal Electricity Commission Law

The Federal Electricity Commission Law (Ley de la Comisión Federal de la Electricidad), issued in August 2014, stipulates that the Federal Electricity Commission (CFE) becomes a productive state-owned production company wholly owned by the Federal Government.

The new CFE has budgetary and governance autonomy, with a board of directors formed by members of the incumbent secretariats (SENER, Treasury, etc.) and independent board members.

The new CFE will operate through its subsidiaries and affiliates and will participate in electricity generation, transmission, distribution and supply, so that other parties will be able to participate in the private investment in the wholesale electricity market.

During 2016, SENER published the terms and conditions of the strict legal separation of CFE and carried out asset restructuring. The operation of its recently created subsidiaries and affiliates as separate entities in the wholesale electricity market was commenced. 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 perform electricity transmission and distribution (T&D) as a strategic regulated public service through state-owned production companies or their subsidiaries. CFE´s legal separation allows creating these entities as regulated open access companies.

The Reform introduces the possibility for the State to form associations or enter into contracts with individuals to carry out the activities relating to this public service, such as financing, installation, maintenance, management, operation, expansion, rehabilitation, surveillance and preservation of the required infrastructure for this service.

Therefore, in December 2017, the preliminary guidelines for the first bidding for transmission lines were published following the Reform's implementation. Called by SENER in February 2018, this bid invitation will award the High Voltage Direct Current (HVDC) project that connects the National Interconnected System with Baja California. This bid was cancelled on 16 January 2019.

One of the key elements in this matter is the implementation of a HVDC 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 (one of the areas with highest demand in the country); the preliminary bidding package was issued in the last quarter of 2016 and in February 2018, although the bidding date has still not been defined.

7. Generation and Supply

The LIE provides that generation and supply of electricity power can be performed by any private or public entities subject to the compliance of permits and market rules. Generation plants 0.5 MW or larger require a permit from the CRE.

These are three types of permits required for electricity power supply: 1- basic supply with regulated tariff (for those consumers with a demand of less than 1 MW) or 2- qualified supply through the wholesale electricity market under liberalised conditions for consumers with a demand of 1 MW or above and 3) supply of last resort, of temporary use when the qualified consumers have not chosen a supplier or the supplier has stopped supplying them.

SENER may revise and reduce the threshold of 1 MW to opt for qualified supply. However, becoming a qualified user is optional and is only mandatory for new customers.

Accordingly, several Qualified Services Supplier (QSS) licenses have been issued, which in a free access and not unduly discriminatory environment, have competed since 2016 with the CFE affiliate dedicated to this service is one of the keys to making the electricity market's liberalisation a success.

8. Wholesale electricity market

The wholesale electricity market (WEM) commenced operation at the beginning of 2016. It is a local marginal price market operated by CENACE, where generators, suppliers and qualified consumers of electricity power can carry out transactions involving energy, capacity, ancillary services, CECs and financial transmission rights in Day Ahead, Hour Ahead and Real Time markets.

All of the Market Rules have not yet been fully developed, although a high degree of progress has been reached and many aspects of this Market are already operational. The Market Guidelines were issued in the second half of 2015, and since then more than 20 WEM Operational Manuals have been published. The Manuals outlining all aspects of the WEM's management and operations were made public in 2018.

9. Sustaining of previous regime for permits, plants and existing electricity industry contracts

Private generators currently holding a generation permit granted under the former Public Electricity Power Service Law (Ley del Servicio Público de Energía Eléctrica - LSPEE) shall retain their permits and prevailing terms and conditions thereof, provided that they do not breach what is stipulated by the LIE.. Once the wholesale electricity 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 market system. Generators which, upon entry into force of the LIE, hold interconnection contracts known as Legacy Connection Contracts (Contratos de Interconexión Legados - CIL) issued under the former system should take into account that these contracts cannot be renewed upon 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 start operation before 31 December 2019.

10. Electricity tariffs

In November 2017, the CRE published the new calculation methodology for regulated tariffs that apply to basic supply. The principle of the new tariffs is to be in accordance with the recovery of all generation costs, connection services, transmission and distribution costs, clean energy certificates and other recoverable costs and collection targets.

During 2018, the performance of the rate showed high volatility due to the generation costs recognised by the CRE, partly because the performance of the generation mix was different from the forecast and partly because the fuel costs were not correctly reflected. At the end of 2018 it was felt that the revenue provided by the rate was able, in an aggregate way, to recover the necessary costs to an acceptable extent.

Throughout the second half of 2018, the CRE worked to fine-tune the rate methodology by designing improvements expected to apply as of 2019, contributing to a more predictable and less volatile rate.

As the main mechanism to promote the reduction of non-technical losses arising from customer fraud, the CRE has imposed collection targets on the transport and distribution companies.

11. Functioning of Natural Gas System

As part of the Energy Reform, the former owner of the Natural Gas Transportation System (SISTRANGAS), Pétroleos Mexicanos (PEMEX), has been split into the following affiliates and 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 with profitability goals. Concurrently with this transformation, the natural gas transportation system was transferred from PEMEX to Centro Nacional de Control de Gas Natural (CENAGAS), in order to promote an open market for gas transmission, distribution and supply.

As a result of liberalisation, provisions concerning open access and pipeline transport and natural gas storage services were published and amended at the end of 2018 as well as provisions for their marketing. In accordance with the principle of asymmetric regulation, PEMEX could not continue to integrate the transport and the marketing of gas within the same company so a programme to transfer the natural gas contracts to new marketers was established. This programme concluded in 2018.

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 transmission services through private companies.

The large majority of these pipelines will be operational by 2018, thus increasing the availability of natural gas to generate electricity and reducing the CO2 emissions from the industry.

The Legacy Transportation Permits (permits given before the energy reform) for self-supply and the long-term natural gas supply contracts with PEMEX required by the electricity plants will remain in effect and will not be adversely affected by these changes in the new regulatory framework.

During the second half of 2016 CENAGAS was empowered to conduct the future bidding processes for natural gas transmission auctions, (CFE or Pemex no longer have exclusivity). Additionally, all capacity rights of the SISTRANGAS were transferred to CENAGAS to control its management.

SENER issued a public policy to create a Natural Gas Open Market by 2018, in order to promote the entry of new players and to reduce the role of PEMEX in the supply.

As part of this public policy in 2017, CENAGAS issued an Open Season for Transportation Capacity in the SISTRANGAS, which granted 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.

6. 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 2018, hydraulic share has decreased from 83% to 64%, with reference to installed capacity. On the other hand, wind share has increased to 7%.In upcoming years, Brazil's government expects the system to expand mainly through wind, solar energy and firm complementation source possibly natural gas.

The Brazilian system is interconnected and the power plants are spread over four electricity regions: southeast, south, northeast and north. These regions have distinct hydrology and the synergies between them can be used.

Electricity (independent system operator) dispatch is based in power plant audited cost optimization done by ONS, the Brazilian independent system operator. ONS uses a series of computer programs to determine what generation assets (hydroelectric and thermoelectric plants) should be optimally dispatched considering hydrological uncertainty, reservoir storage capacity, thermal power plant fuel and O&M costs, non dispatchable (i.e.: wind and solar) generation forecast, interconnection restrictions and demand forecast. In addition to defining the power plants' dispatch, these programs calculate the marginal energy cost, used as the market's spot 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 assured energy, calculated by the Brazilian government, which represents the contribution in terms of the reliability of each power plant interconnected to the system. Thermoelectric and hydroelectric plants (dispatchable generation) have their assured energy calculated by the computer programs used to determined dispatch when they participates in the energy auction. Non-dispatchable sources have their assured energy calculated considering their generation expectations in the long term.

The regulation establishes that hydroelectric plants' assured energy must be reviewed every five years, but the first review was conducted in 2017 and only for those power plants with have been running for at least five years.

The following table contains details of the assured energy (in MW med) for those plants that have been reviewed. It shows the new values valid from 2018 onwards.

	Avg MW	
Utility	Former	New
Baguari	80.2	84.7
Corumbá III	50.9	49.3
Itapebi	214.3	209.1

Energy reallocation mechanism

A financial mechanism exists 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 it. 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 hydroelectric generation is allocated between each hydroelectric plant in proportion to its share in the system's total hydroelectric assured energy.

The total hydraulic generation of the group of ERM generators divided by their total assured energy is denominated Generation Scaling Factor (GSF) and its monthly calculation is used to implement the ERM. The energy allocated to each generator is, then, the GSF multiplied to its assured energy.

This mechanism worked well until 2012. Since then, hydrological conditions and other issues have reduced the GSF and this has caused a significant financial impact on hydroelectric power plants.

Recent hydrology and litigation

In recent years, total hydraulic generation has been systematically less than the total assured energy (GSF below 100%). Part of this can be explained due to the low level of hydrology, but there are other reasons that have reduce the hydraulic generation.

- Thermal power generation outside the order of merit: on several occasions the operator decided to replace the hydraulic generation determined by the computer programs by higher cost thermal generation, for the purposes of conserving hydro reservoir levels.

- Delays in the transmission line construction: some new hydraulic power plants were finished before the transmission lines necessary for their electricity evacuation were operational. However, these hydroelectric plants still participated in the ERM with their total assured energy even though they could not generate at full capacity. This scenario reduces the energy allocated for all participants of the mechanism.

- Assured energy timeline acceleration hydroelectric plants has their assured energy recognised in advance during project construction and commissioning. That is, they have participated in the ERM with more assured energy than they were able to generate. This has been a regular practice at large hydroelectric plant, such as Belo Monte, Santo Antonio and Jirau.

- Increase of intermittent sources, such as wind has reduced hydraulic generation.

All these reasons have resulted in energy allocated to each ERM generator below their assured energy.

Given that the assured energy has been used as the benchmarking level for long-term energy contracts resulting in the generators being short and the high spot market prices in those years, the ERM generators suffer huge financial losses. Because of this, since 2015 some companies have filed administrative and judicial claims with the government to review ERM rules and cease spot market charges.

At the end of 2015, the government offered an insurance to those generators with contracts with distributors in order to protect these generators against a GSFbelow a certain limit from 89% to 100%) in exchange of a premium to be paid by the generator.

This process, known as renegotiation of the hydrological risk, reallocated part of the hydrological risk to the customers in exchange for an insurance premium and abandonment of current and future hydrological risk litigation.

However, the majority of claims of generators with contracts in the free market are currently in force. At the end of October 2018, a preliminary decision which protected these generators was annulled. But the values from 2015 up to February 2018 are still under judicial dispute.

The total amount under dispute is 6.78 billion of Brazilian Reals and the final solution depends on the publication of a specific law to regulate the GSF. During 2019 is expected that this law will continue its parliamentary procedure (PL 10.985). This law tries to eliminate from the calculation of the GSF all the factors not related to the hydrological situation.

Generation assets

In the generation business, NEOENERGIA has 3.5 GW of installed capacity between hydroelectric, wind and natural gas projects.

The most relevant hydraulic projects are: Teles Pires with a participation of 50.1%; Belo Monte (10% participation) and Baixo Iguaçu (70% participation).

Regarding Baixo Iguaçu, the Ministry of Mines and Energy proposed in 2014 to reduce its assured energy from 172.8 MWmed to 171.1 MWmed. After submitting resources and several interactions, the assured energy has been set at 172.4 MWmed.

NEOENERGIA has 100% of its wind energy production contracted in PPA in the long term, in the free and regulated markets. In December 2017, NEOENERGÍA won 294 MW in auction A-6 with the award of nine wind farms. In accordance with the rules of the auction, these wind farms will begin commercial operation on January 1, 2023.

In June 2018, NEOENERGÍA started a process in ANEEL to obtain the construction authorization in Paraíba for six other free-market wind farms.

Regarding thermal generation, NEOENERGIA operates the gas power plant Termopernambuco that arose from the Priority Thermal Power Program (PPT in Portuguese), established by the Ministry of Mines and Energy in 2000. In accordance with the PPT the minister established that the gas supply guarantee should be provided by Petrobras. In recent years, Petrobras has tried to disregard the fuel supply contracts signed under the regulatory framework established by the PPT, alleging insufficient charges.

In this regard, Petrobras started arbitrage proceedings in August 2010, which have been completed in November 2018, with a decision 100% favourable for Termopernambuco.

Generation auctions

The government held two new auctions in 2018: A-4 in April and A-6 in August.

The A-4 auction hired 39 new generation projects, representing 1,024 MW of installed power and respective assured energy equivalent to 356 MW average. Solar energy had a highlighted participation with 29 plants (807 MW), almost 80% of the total energy sold. Also four wind farms (114 MW), four small hydropower plants (42 MW) and two biomass plants (62 MW) were awarded winners.

The average final price of the auction was BRL 124.75/MWh, with average discount of 59.07% from the ANEEL's auction cap-price.

The A-6 auction hired 62 new generation projects, representing 2.1 GW of installed power and respective assured energy equivalent to 1.23 GW average. The average final price of the auction was BRL 149.87/MWh, with average discount of 46.89%. The energy supply will start on January 1st, 2024.

On December, the Government held two auctions for electric power from existing plants to adjust the demand needs of distributors in the next two years.

- In auction A-1, an average of 4 MW was awarded at a price of 142.99 Brazilian reais per R $ / MWh (discount of 16% on the ceiling of 170 Brazilian reais for R $ / MWh). The resulting supply contracts will last from 1 January 2019 until 31 December 2020.

- In auction A-2, an average of 359 MW was awarded at a price of 161.35 Brazilian reais per R $ / MWh (discount of 4% on the exit price 162 Brazilian reais for R $ / MWh). The contracts will have a duration from 1 January 2020 until 31 December 2021. 53% of the contracted energy is natural gas thermal, sold under the modality of contract for availability.

Regulatory laws published in 2018

On 5 June, ANEEL published resolution nº 817 with the criterions to treat transmission congestion surplus and expositions of some specific generators. By this rule, in case of congestion, the transmission surplus is used to cover primarily financial expositions of ERM and, secondarily, to gift the system charges account.

On 26 June, ANEEL published the resolution nº 822 that change the resolution nº 697. This resolution establishes a new ancillary service for complementary frequency control services.

On 10 July, ANEEL published resolution nº 824 which allows distribution companies to sell contracts in the free market through multilateral auctions in case they are long (have more energy contracted then demand). Additionally, the resolution changes some rules of current mechanisms for other distribution companies' contract exchange mechanism known as surplus and deficits compensation mechanism (or MCSD, its Portuguese acronym) and bilateral agreements limiting the participation only to generators that aren't in commercial operations. Resolution 833/2018, of December 4, establishes the specific marketing rules and the sanctions procedure. The first round of this market took place on December 26, 2018 (for 3-month energy delivery).

2. Distribution

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 in accordance with a price cap system which designates a major revision and reparametrization, known as tariff review, every four or five years, depending on each company concession contract. COELBA and COSERN have a five-year term, whilst CELPE and ELEKTRO have a four-year term.

Moreover, tariffs are updated annually by 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 imbalances, which should be passed on to tariffs in the following tariff review process.

In 2018 COELBA and COSERN's rates **were revised**:

- On 17 April, ANEEL approved COELBA's annual tariff readjustment, which increased its tariffs by an average 16.95%, in effect as of 22 April 2018. There was an increase of 15.85% in Parcel A (due to transmission costs and industry charges) and of 25.20% in Parcel B, mainly due to remuneration to investment.

- On 17 April, ANEEL approved COELBA's annual tariff readjustment, which increased its tariffs by an average 15.61%, in effect as of 22 April 2018. There was an increase of 10.42% in Parcel A (due to transmission costs and industry charges) and of 11.69% in Parcel B, mainly due to remuneration to investment.

Additionally, ANEEL approved CELPE and ELEKTRO's **annual tariff adjustment**.

- On 24 April, ANEEL approved the annual tariff adjustment of CELPE's tariffs, which increased its tariffs by an average 8.89%, in effect as of 29 April 2018. The most striking thing was the 8.26% increase in Parcel A (responsible for the final rate increase of 5.67%) due to energy acquisition costs and networks. Parcel B increased some 1.42% as a result of the inflation adjustment index, IGP-M minus factor X, and was responsible for the 0.45% drop in the final rate.

- On 21 August, ANEEL approved ELEKTRO's annual tariff readjustment, which increased its tariffs by an average 22.42%, in effect as of 27 August 2018. The most significant adjustment was the 13.11% hike in Parcel A due to energy transmission networks costs. Parcel B rose by 5.85% in accordance with index IGP-M minus factor X.

2018 metering procedures	COELBA Change	ELEKTRO Change	CELPE Change	COSERN Change
Variation Parcel A	15.85%	13.11%	8.26%	10.42%
Variation Parcel B	25.20%	5.85%	(1.42%)	11.69%
Economic adjustment index	18.45%	11.28%	5.22%	10.81%
Package A monitoring account/Other financial components	2.73%	13.39%	5.36%	4.13%
Total	**21.18%**	**24.67%**	**10.58%**	**14.94%**
Removal of previous year's financial components	(4.21%)	(2.25%)	(1.69%)	0.67%
Consumer impact	**16.97 %**	**22.42%**	**8.89%**	**15.61%**

In accordance with 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 for the purchase of this energy is transferred to the final tariff, as long as it covers between 100% and 105% of the estimated consumption. . If the distributor purchases energy for less than 100% of its estimated demand it may be penalised; conversely, if it has contracts over 105% of its demand, it will be exposed to spot price risk.

In 2016, distributors had a surplus of energy contracts due to relocation [1] of hydroelectric energy participation (known as energy quotas), which increased the quantity of energy of PPAs of some distributors.

Other reasons for the surplus were the migration of consumers to the energy free market, (without the distributors being able to reduce the PPAs) and the 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:

- Acknowledgement that the additional energy received by the distributors by the quota system must be considered involuntary and transferred to the tariff (resolution 706/2016)
- Creation of a mechanism whereby the distributors and generators commonly agree to reduce their PPAs (resolution 711/2016)
- Determination of 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)
- Broadening of the new energy relocation (MCSD de Energia Nova), thus allowing generators to offer reduction of the PPA (resolution 727/2016)
- Reduction of the energy limit that must be acquired by distributors in A-1 auctions, for distributors with surplus energy (decree 8,828/2016)
- Reduction from 95% to 90% of the insured energy volume considered under the quota system (whereby the electric power is distributed among the distributors regardless of the demand forecast they have; by decreasing the volume of insured energy, less energy is distributed)
- Permission for distributors to sell energy surplus to generators, retailing companies and consumers (up to 3 MW).

[1] Energy from hydroelectric power plants renewing their concessions in accordance with Law 12.783/2013.

Since 2015, distributors' tariffs have been complemented with tariff flags, revised annually by ANEEL in accordance with marginal operation cost (energy cost).

In 2018 the flags were set in the following manner:

Flag	Thermal plants in operation (fuel cost)	BRL/MWh
Green	Up to 211.28 BRL/MWh	-
Yellow	211.28 - 422.56 BRL/MWh	10
Red - level 1	422.56 – 610.00 BRL/MWh	30
Red - level 2	More than 610.00 BRL/MWh	50

In 2018 the green flag was set for January, February, March, April and December, whereas the yellow flag was set for May and November and the Level 2 of red flag for from June to October.

WACC is used to define the remuneration of investments made by energy distributors. ANEEL decided during a Public Meeting of the Board of Directors held on March 6th,to maintain the weighted average cost of regulatory capital (WACC) of 8.09% for the distribution segment. According to the Agency's decision, the methodology used in 2015 has been maintained and the current percentage will be applied until December 2019. The idea is for a new system to be applied from January 2020 on.

ANEEL approved on 04 September 2018 the extraordinary review of the Energy Development Account (CDE) budget for 2018. On Dec. 28, 2018 Decree No. 9,642 was published on the reduction of subsidies in the sector account of the CDE. The decree establishes an annual reduction of the subsidy of the electricity tariff of rural consumers and irrigators of 20% until its elimination in 2023. It also eliminates the possibility that these rates accumulate more than one discount.

The Board of ANEEL decided on October 23, 2018 to approve a resolution authorizing the Electric Energy Trading Chamber (CCEE) to manage the restitution of the balance of the Reserve Energy Account (CONER), which generates a financial surplus when the Settlement Price (PLD) is higher than the average value of the reserve power contracts (renewables). Part of this surplus is retained at CONER's account to guarantee the payment of contracted generators. Under the rules previously in force, the reimbursement to consumers of reserve power would be equivalent to one third of that balance. With the new resolution, the expectation is that the reimbursement will increase bringing relief in the tariff of the distributors.

3. Transmission

In the electric transmission business, NEOENERGIA has five concession contracts between 2009 and 2013, which include transmission lines and substations, as well as reinforcements. Together, they generate an annual allowed profit (RAP) of approximately BRL 80 million.

Company	Annual profit allowed (BRL)
Afluente T	39,697,547
SE Narandiba	9,805,992
SE Extremoz II	3,111,373
SE Brumado II	1,953,742
Potiguar Sul	25,349,469
Total	**79,918,123**

These assets are subject to tariff reviews every five years, in addition to annual adjustments made for monetary reformulation. In 2018 SSE Brumado II was submitted to a tariff review process; and in 2019, SE Naradibay Potiguar Sul will submit to a tariff review process.

In 2018, two transport auctions were held:

- The first (Auction 002/2018) made available 20 projects, representing 2,562 km of transmission lines and substations with a transformation capacity of 12,226 MVA.

- The second (Auction 004/2018) took place on 20 December 2018. It awarded 16 lots totalling 7,152 km of transport lines and 14,819 MVA in transformation capacity, with works in 12 Brazilian states and with an average discount of 46%. The total investment planned amounts to 13,170 million Brazilian Reals. The term of execution of the works varies between 48 and 60 months and the duration of the concession is 30 years from the signing of the contract.

4. Other regulatory changes

Changes in the regulatory framework and liberalization of the electricity market.

Currently, consumers over 3 MW can migrate to the free market. Customer between 0.5 and 3 MW can also migrate if they are supplied only from incentivized sources (wind and solar).

The National Congress has been working on a proposal to launch two bills: PL 1917/2015 (Chamber of Deputies) and PL 232/2016 (Federal Senate) that contemplate the following schedule of liberalization of the market: 2 MW in 2020 regardless of the contracted voltage, 1 MW in 2021, 0.5 MW in 2022 and 0.3 MW from 2024. On December 28, Ministerial Decree No. 514/2018 was published, which anticipates the liberalization of the electricity market by establishing the intermediate milestone of 2.5 MW in July 2019.

Hourly Spot Price in short-term market

At the end of 2017, the Ministry of Mines and Energy opened the Public Consultation 42, about the adoption of hourly spot prices in short-term market to 2019 onwards.NEOENERGIA, and other companies and associations noticed that the process was not taking all the necessary steps required to guarantee a safe transition. In April 2018 it was started a parallel accounting of prices and dispatch known as shadow operation. But in June 2018, the Independent System Operator (ONS) and the Commercialization Chamber (CCEE) realized that the DESSEM computation model (used to optimize dispatch and compute prices hourly), needed some improvements. Then, they decided to postpone the implantation of hourly spot price to 2020.

New limits of the LDP (Resolution No. 2498/2018 published on December 18, 2018)

The resolution establishes that the minimum limit of the PLD for 2019 is 42.35 Brazilian reais per MWh and the maximum is 513.89 Brazilian reais per MWh. It also establishes the rate of auxiliary services for 2019.

Light for All Program extended until December 2022 (Decree No. 9.357 / 2018)

The "Luz para Todos" program was created in 2003 with the aim of electrifying rural, isolated and economically disadvantaged areas.The program is coordinated by the Ministry of Mines and Energy, operated by Eletrobrás and executed by energy concessionaires and rural electrification cooperatives.

This program is financed jointly with: 1) sectorial funds such as the Conta de Desenvolvimento Energético

(CDE) and the Reversão Global Reserve (RGR), 2) by the Governments of the States and 3) by the distribution companies (that recover later investments in the corresponding tariff reviews).

Privatisation of Eletrobras

During the second half of 2018, the privatization of the six distributors managed by Eletrobrás was carried out, with the following results:

Company	Auction winner	Discount
Companhia Energética do Piauí (CEPISA)	Equatorial Energia	119%
Companhia de Eletricidade do Acre (ELETROACRE)	Energisa	31%
Centrais Elétricas de Rondônia (CERON)	Energisa	21%
Boa Vista Energia S.A. (BOA VISTA)	Consórcio Oliveira Energia	-
Amazonas Energia	Consórcio Oliveira Energia	-
Companhia Energética de Alagoas (CEAL)	Equatorial Energia	-

CONSOLIDATED DIRECTORS' REPORT 2018

This directors' report has been prepared taking into consideration the "Guide of recommendations for the development of directors' reports of listed companies", published by the CNMV in July 2013.

1 COMPANY'S POSITION

The Company has undergone a major transformation over the last 15 years, staying clearly ahead of the energy transition in order to address the challenges posed by climate change and the need for clean electricity.

Boasting a track record that spans over 170 years, today IBERDROLA is an international energy leader producing and supplying electricity to more than 100 million people in the countries in which it operates.

As a result of our environmental commitment and our engagement in the decarbonisation of the economy, we stand out as the leading renewable energy company and have 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.

The IBERDROLA group is currently present in the following countries and geographical regions, where we occupy a leading position and are regarded as a benchmark thanks to our sustainable energy model.

- Euro zone: leading producer of wind power in Europe, leading energy company in Spain, with a presence in Portugal, France, Italy, Germany, Greece, Hungary, Romania, Cyprus, etc.
- United Kingdom: 100% renewable producer, transmission and distribution networks in England, Scotland and Wales.
- United States: Gas and electricity distributor in New York, Maine, Connecticut and Massachusetts and third biggest producer of wind power.
- Brazil: one of the leaders in the energy sector.
- Mexico: leading private sector producer of electricity.

As the electric utility of the future, IBERDROLA has placed its bets on clean energy, smart grids, efficient energy storage and the development of solutions tailored to its customers. At the centre of this strategy are the various stakeholders, with which it engages in ongoing dialogue. In order to confront the future energy scene with assurance of success, the Company places its trust in digital transformation, which is in accordance with 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. Business model

The current trends in the energy sector — the decarbonisation and electrification of the economy, technological advances and customers' increased connectivity — confirm the focus of our three global businesses: networks, renewables and generation and retail, and all of them centred on the customer.

The IBERDROLA Group accelerates value creation along five strategic pathways: profitable growth, operational excellence, a customer-focused approach, optimisation of capital, and finally digitisation and innovation.

To make its business model as competitive as possible, IBERDROLA has organised the management of its activities into three global businesses:

Renewable Business the renewables area is tasked with generating and marketing electricity from renewable sources: wind (onshore and offshore), mini-hydroelectric, solar thermal, photovoltaic, biomass, etc. Among the main objectives of the renewable business are:

- Safety in operations.
- Efficiency in operations to maximise the return on assets.
- Efficiency in construction costs, with special emphasis on offshore wind projects.
- Profitable growth in onshore and offshore wind power in strategic countries for the Group and new counties of interest.
- New long-term energy sale contracts at global level.

Network business: the networks area is responsible for the construction, operation and maintenance of power lines, substations, transformer centers and other facilities for delivering electric power from the production centres to the end user. Among the main targets are:

- Zero accidents.
- Offering an excellent service to customers, in accordance with 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.
- Integration of the electrical vehicle.
- 100% smart grids by 2030.

Generation and Supply business: the generation and supply area focuses 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 supplies energy and additional products and services to end customers.

- Competitive supply and excellence in customer service.
- Safety at work.
- Environmental management and respect for biodiversity.
- Identifying and minimising risks.
- Development of growth opportunities and new energy solutions.
- Growth in directs sales with private companies.
- Smart energy and mobility.
- Smart solar.

1.2 Mission, Vision and Values of the IBERDROLA Group

Our corporate governance system is inspired and takes form in our commitment to the Mission, Vision and Values of the IBERDROLA Group, which is our corporate ideology, channels our ordinary activity and guides our strategy and all our actions.

Mission

"Our mission is to create value in a sustainable way in carrying out our 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 local employment and wealth, and which considering its employees a strategic asset. With this in mind, we foster their development, training, and work-life balance, favouring a good working environment and equal opportunities. 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: citizens, customers and shareholders, whom we care for and involve in our corporate life, and for the communities in which we carry out our activities, generating employment and wealth, with whom we engage in constructive dialogue. We want to be known for our firm commitment to ethical principles, good corporate governance and transparency, the safety of people and security of supply, operational quality and excellence, innovation, protection of the environment, customer focus and the Sustainable Development Objectives approved by the UN. We will make this possible through the work of our employees and the people working at our suppliers and collaborators, whom we care for by offering all the training and work-life balance resources at our disposal for their development and to strengthen equality of opportunity."

Values

The mission and vision of the Group are in accordance with a firm commitment to 12 values to which all Corporate Policies, internal rules and other internal codes and procedures must adhere:

- Creation of sustainable 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' corporate governance model

Corporate governance system

IIBERDROLA constantly updates its corporate governance system, which consists of its 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 the compliance function. 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 external 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 leadership 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, available in full at 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.

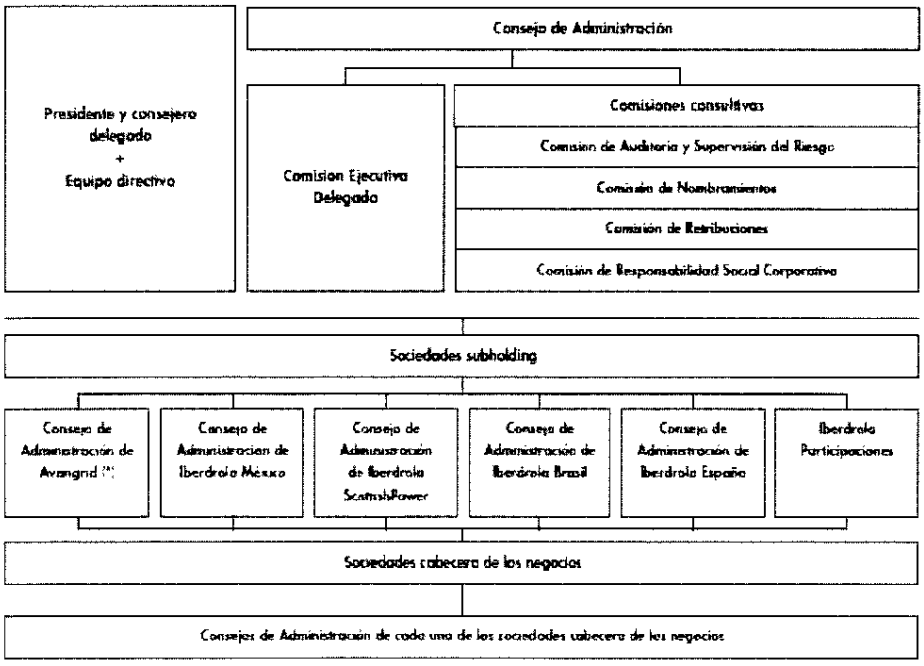
- In all countries in which the group operates, business is organised and strategically coordinated through subholding companies, which group investments in energy business operating in the country concerned and centralise the provision of common services to these companies. The group also has a subholding 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 7).

The IBERDROLA Group has a decentralised structure and management model to approximate the decision taking to places where they should have effect, through the subholding companies and parent companies of the businesses. In addition, the independence and listed subholding companies' reinforced autonomy are guaranteed.

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, and adopts strategic decisions.

  The chairman of the Board of Directors & chief executive officer of 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 subholding companies group together the equity investments in the energy business parent companies that conduct their activities in the various countries in which the Group operates. This structure also comprises a subholding company that groups together certain equity investments in other entities, including the parent companies of non-energy businesses, present in several countries.

  They contribute to organisation and strategic coordination in their respective countries, disseminating and implementing the Group's guidelines and management policies.

  Furthermore, they centralise the provision of shared services to the business parent 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.

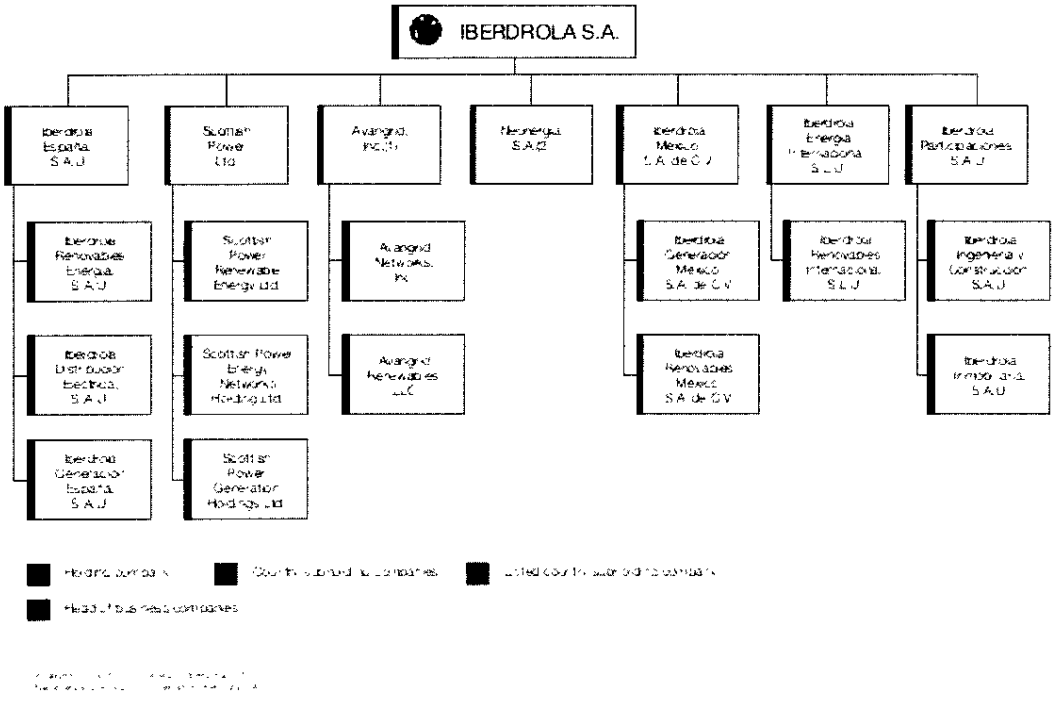
  Listed subholding companies enjoy greater autonomy, as provided for in legislation and with regard to related party transactions and management.

- Business parent companies

  The business subholding companies of the Group assume decentralised executive responsibilities. They have the necessary autonomy to 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 independent directors, and their own governing bodies; they may also have their own audit committees, internal audit areas, and compliance departments.

Outline of the Group's corporate structure



The Company's and the Group's governance conforms to the structure described above: it segregates the duties relating to strategy, oversight, and control of the Group as a whole, those of organisation and coordination of the businesses in each country and the multinational non-energy business, as well as those of day-to-day administration and effective management of each business.

It is established on the following bases:

a) The board of directors of the Company, which solely exercises holding company duties, has been 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 implementation of such policies, strategies and guidelines and of decisions on matters that are strategically significant at the Group level.

b) The chairman of the board of directors & chief executive officer of the Company, with the technical support of the Operating Committee, the Group's Business CEO and the rest of the management team, assumes the duty of organisation and strategic coordination of the Group through the dissemination, implementation and monitoring of the overall strategy and of the basic management guidelines established by the board of directors.

c) This organisation and coordination duty is strengthened through the boards of directors of the subholding companies, which includes independent directors, as well as their own audit committees, internal audit areas, and compliance units or departments.

d) The business parent companies of the Group assume decentralised executive responsibilities. They have the necessary autonomy to 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 parent companies are organised through their respective boards of directors and their own governing bodies.

The corporate and governance structure of the Group described above operates in parallel 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, while upholding their decision-making autonomy.

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 subholding companies ensure compliance with such legislation.

1.5. Organisation of the board, or the bodies to which its decision-making function is delegated, including control functions and the policy with respect to non-controlling interests.

A comprehensive description of the governance structure of the Company, and of the functions and internal regulations of the committees is provided in section C of the annual corporate governance report, which forms part of this directors' report.

1.6. Regulatory framework of the activities

A comprehensive description of sector regulation and operation of the electricity and gas system in the markets in which the Group operates is provided in Appendix 2 "Sector regulation and operation of the electricity and gas system" attached to the annual accounts.

1.7. Main products and services, and production processes

The main products that IBERDROLA offers to its customers are electricity and natural gas, in both the wholesale and retail markets serving the end consumer. The Company also offers a wide range of products, services and solutions in the fields of:

- Improving the quality of life, peace of mind and safety of the consumer.
- Efficiency and energetic services.
- Caring for the environment: renewable energy and sustainable mobility.
- Quality of power supply and safety of facilities.
- Installation of electrical infrastructure.

- Global management of facilities and energy supplies.

Through its subsidiaries, the Company also provides services for the engineering and construction of power generation, distribution and control facilities; operation and maintenance of power generation facilities, land management and development; and the sale and rental of housing, offices and commercial premises. More detailed information can be found at www.iberdrola.com, in the "customers" section.

As a general rule, companies directly manage the activities that make up their core business and outsource the activities they consider will be conducted more efficiently by other specialised companies, of which IBERDROLA requires certain quality standards and responsible behaviour as regards environmental, social and labour aspects.

This information can be extended with the corresponding indicators described in the sustainability report.

1.8. Strategic principles for the 2018-2022 period

The energy scenario in which IBERDROLA will be undertaking its activity in the coming years will be based on three pillars:

- The need for decarbonisation.
- Technological advances, continuing the trend toward increased efficiency in terms of the sources of renewable energy and electricity grids.
- New demands from consumers, who need new energy services, more connections. These will be possible thanks the possibilities offered by digitalisation.

All of this means an increase in demand for energy, especially for electricity, which will grow 60% in the years to 2040[2]. In order to attend to this growth in demand for electricity, associated investment will exceed 16.3 billion dollars[2] in power grid and renewables alone.

In accordance with this increase in electricity consumption, in the 2018-2022 period, the company will continue to develop its strategy in the different businesses and markets where 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 transmission and distribution companies in New York, Connecticut, Maine and Massachusetts, as well as being one of the country's thrid largest wind energy producer. The group will continue investing in transport and distribution network infrastructures and will continue with its strategy of growth of onshore wind energy and solar energy. The company is also working in the development of the offshore wind power sector, in which it has an extensive portfolio of projects, with Vineyard (800 MW[3])

[2] International Energy Agency: *World Energy Outlook 2018, New Policies Scenario (NPS)*

[3] *50% corresponding to Avangrid*

- In the UK, where IBERDROLA has become the first 100% renewable utility, its commitment to renewable energy will continue to be underlined, especially that of offshore wind power via an existing platform, with the company maintaining development of the "East Anglia One" offshore wind farms in the North Sea of 714 MW, which will be fully operational by 2020. Moreover, reading renewables projects in the UK it will continue developing networks infrastructures under regulatory frameworks already approved for transmission and distribution (RIIO-T1 and RIIO-ED1).
- In Iberian Peninsula it will strengthen its leadership in networks and renewable energies. Investments will focus on networks, and more in particular in distribution. The company will also continue to develop its renewable energy portfolio through wind and solar power projects, as well as the Tâmega hydroelectric complex in Portugal, which has a total generating capacity of 1,158 MW.
- In Mexico, where work on projects currently under construction is set to finish, investment will focus on contracted power generation and renewables, analysing the opportunities that may arise.
- NEOENERGIA, one of Brazil's main power generating groups with a presence in 18 states, offers growth opportunities in both the renewable and transmission and distribution network sectors.
- In other countries in Europe, where the company has already brought its first offshore wind farm in Germany on line. The company's commercial activities have expanded into new European markets, including Portugal, France and Italy.

Operating efficiency

IBERDROLA has always been one of Europe's most efficient electricity companies, and will continue to boost its operational efficiency on the strength of technical progress in terms of the digitisation of all its businesses and processes, as well as synergies arising from process standardisation through the Group's implementation of best practices in all its businesses.

Earnings performance

The strategy, consisting in the profitable growth in mature businesses, efficient operation of ongoing assets, and the aforementioned investment plan, will lead to sustainable growth in company profits.

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 present a solid financial position that is compatible with the investment plans and the forecasted shareholders remuneration.

This section of the directors' 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 expenditure, synergies, products and services, and statements regarding future performance or directors' estimates which are in accordance with assumptions they consider reasonable.

Although IBERDROLA believes that the expectations reflected in such forward-looking statements are reasonable, investors and shareholders of IBERDROLA are cautioned that forward-looking information and statements are subject to 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 significantly from those expressed in, or implied or projected by, the forward-looking information and statements.

The forward-looking statements are not guarantees of future performance and have not been reviewed by the auditors of IBERDROLA. It is recommended that no decisions be made on the basis of the forward-looking statements, which refer only to the date they were made. All of the forward-looking statements included in this report are expressly qualified by the cautionary statement above. All forward-looking statements included in this directors' report are in accordance with the information available on the date hereof. Except as required by the 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 PERFORMANCE AND RESULTS

2.1. Highlights for the period

From 1 January 2018 results of hydroelectrical generation is presented under the scope of the Renewables business (before, they were presented within the scope of the Liberalised business). Subsequently, information regarding 2017 has been re-stated bearing in mind this circumstance.

As for the average performance of IBERDROLA's main reference currencies regarding t the Euro in 2018, the main currencies depreciated: the Pound Sterling by 0.9%, the US Dollar by 4.7%, and the Brazilian Real by 19.5%.

Regarding the performance of electricity production in the period, the main areas of activity were:

- The energy balance on the Iberian Peninsula in 2018 can be characterised by a significant increase in hydroelectric production (up 74%) compared to the previous year. 2018 closed with the index of producible hydroelectric power reaching 1.3, with hydroelectric reserves at 44.1%, compared to an index of 0.5 and reserve levels at 26.3% at the close of 2017. Coal and combined cycle production fell 18% and 22% respectively in comparison to the previous year. The rest of energy production from renewable sources closed 2018 at levels that were similar to the previous year, the result of greater wind power production (up 3%), which offset the drop in solar power production (down 12%).

  In terms of demand, it increased by 0.4% with respect to the same period of 2017, while in terms adjusted for work and temperature, it grew by 0.3%.

- In the United Kingdom, electricity demand peaked by 0.3% compared to 2017, while customer gas demand (not including energy used in generation) is up 5.2% compared to 2017.

- In the AVANGRID area in the East Coast of the United States, electricity demand increased by 3.2%, while gas demand increased8.8% compared to 2017.

- In the IBERDROLA catchment area in Brazil, electricity demand rose by 2.8% compared to 2017.

2.2 Basic indicators

At the end of 2018, IBERDROLA had 44,104 MW of installed generation capacity, of which 68.2% emission-free energy while operating at a very low variable cost. The tables below show distribution by country and technology:

Power per countries (MW)	2018	2017	MW change
Spain	25,574	25,607	(33)
United Kingdom	2,086	4,616	(2,530)
United States	7,180	7,009	171
Mexico	6,663	6,242	421
Brazil	1,640	1,640	–
RoW	961	961	–
Total	**44,104**	**46,075**	**(1,971)**

Power per technology (MW)	2018	2017	MW change
Renewables	26,909	27,066	(157)
Onshore	15,251	15,032	219
Offshore	544	544	–
Hydroelectric	10,421	10,984	(563)
Mini Hydroelectric	301	301	–
Solar and other	392	205	187
Nuclear	3,166	3,166	–
Gas combined cycle	12,542	14,465	(1,923)
Cogeneration	613	504	109
Coal	874	874	–
Total	**44,104**	**46,075**	**(1,971)**

IBERDROLA Group's total production in this period grew by 8.4% to 136,737 GWh (126,198 GWh in 2017). Net production by geographical areas and technologies is the following:

Net production per country (GWh)	2018	2017	% change
Spain	56,636	50,358	12.5
United Kingdom	10,576	11,945	(11.5)
United States	19,462	17,612	10.5
Mexico	41,323	41,854	(1.3)
Brazil	6,560	3,047	115.3
RoW	2,180	1,382	57.7
Total	136,737	126,198	8.4

Power per technology (MW)	2018	2017	MW change
Renewables	53,684	42,216	27.2
Onshore	35,711	32,340	10.4
Offshore	1,642	820	100.2
Hydroelectric	15,711	8,659	81.4
Mini Hydroelectric	279	150	86.0
Solar and other	341	247	38.1
Nuclear	23,419	23,190	1.0
Gas combined cycle	55,910	55,964	(0.1)
Cogeneration	2,108	2,163	(2.5)
Coal	1,616	2,665	(39.4)
Total power (MW)	**136,737**	**126,198**	**8.4**

2.3. Business performance

2.3.1. Analysis of the profit and loss account

As indicated, the information for 2017 has been re-stated to show hydroelectric generation within the Renewables business (in 2017, it was shown within the Liberalised business).

The key figures for the financial year 2018 are as follows:

Millions of Euros	2018	2017	% change
Revenue	35,076	31,263	12.2
Gross margin [1]	15,435	13,364	15.5
EBITDA [2]	9,349	7,319	27.7
EBIT [3]	5,439	2,713	100.5
Net profit	3,014	2,804	7.5

(1) Gross margin: Revenue – Supplies
(2) EBITDA: Operating profit+ Depreciation/Amortisation and provisions
(3) EBIT: Operating profit

The profit for the year has exceeded the goals initially set for the performance in all countries and businesses. Operating profit (EBITDA) came to Euros 9,349 million and net profit exceeded Euros 3,000 million for the first time (Euros 3,014 million).

This improvement was underpinned by the Group's growth, particularly in Brazil, Mexico and the US and by the return to normal of margins and the small sales margins in the UK. All this in spite of currency devaluations (Pound Sterling by 0.9%, the US dollar by 4.7% the Brazilian real by 19.5%) which supposed a minor Euros 363 million off EBITDA.

The effect of the reorganisation in Brazil during the first eight months of the financial year (from September 2017 on, the bases for comparison are like-for-like) improved EBITDA by Euros 570 million, although it did not affect net profit significantly.

Net profit for the year increased by Euros 210 million or 7.5% relative to 2017, despite the recognition in 2017 of a gain of Euros 255 million on the Gamesa transaction the positive impact Euros 1,284 million of the US tax reform on net profit after restructuring and early retirement plan, as well as other positive non-recurring effects recognised in 2017, such as the exceptional positive result in the Gas business in Spain as a result of the exceptional price revision in supply contracts, which was not repeated in 2018 and therefore has a negative effect on the year-on-year comparison. On the negative side, we would point to the impact of the severe storms in the US.

From an operational point of view, outstanding positive points were the improvements in tariffs in the US and Brazil, the increase in onshore wind power production (thanks both to the greater operating capacity and the increased load factor) and in hydroelectric power, the normalisation of conditions in the liberalised business in the UK and the increased CFE tariff in Mexico.

2.3.1.1 Gross margin

The gross margin stood at Euros 15,435 million, with an increase of Euros 2,071 million, up 15,5% compared to that obtained in 2017, supported by the positive performance of all the countries and businesses and the incorporation of Neoenergía. The performance of reference currencies had a negative effect of Euros 406 million offsetting the Euros 1,505 million improvement in business performance, and the impact of the incorporation of Neonergia in the first eight months of the year 2018, which represents Euros 972 million,.

The gross margin by business is as follows:

Millions of Euros	2018	2017	% change
Networks business	7,641	6,786	12.6
Liberalised business	4,168	3,757	10.9
Renewable business	3,611	2,791	29.4
Other businesses	58	70	(17.1)
Corporation and adjustments	(43)	(40)	(7.5)
Gross margin	**15,435**	**13,364**	**15.5**

- **Networks business**

The Networks business improved its contribution by 12.6% to reach Euros 854 million up to 7,641 million euros (Euros 6,787 million in 2017) propelled by the improvement all geographic areas.

Without taking into consideration the integration in Brazil, of Euros 784 million, and the impact of exchange rate, a lower gross margin of Euros 287 million, gross margin would rise Euros 358 million, up by 5.3%.

Thousands of Euros	2018	2017	% change
Spain	2,109	2,003	5.3
United Kingdom	1,222	1,174	4.1
United States	2,780	2,754	0.9
Brazil	1,530	856	78.7
TOTAL	7,641	6,787	12.6

As significant facts in the performance of the Networks business' gross margin, the following stand out:

- In Spain, the gross margin amounted to Euros 2,109 million, Euros 106 million more than in the previous year, mainly due to a rise in recognised earnings in Euros 105 million.

- The United Kingdom contributes Euros 1,222 million (4,1%), up by Euros 48 million compared to 2017 and impacted by the depreciation of the Pound Sterling, Euros 11 million. The increase is explained by an improvement in transmission and distribution income due to larger assets.

- The contribution of the US in the period was Euros 2,780 million, Euros 26 million more than in the previous financial year (0.9%). Without the dollar's depreciation of Euros 130 million, the margin would have grown by Euros 156 million (+5.7%), thanks to new "rate cases" (formal process to determine charges to customers for utilities) and reduced costs of energy.

- Brazil's Gross Margin amounted to Euros 1,530 million (78.7%), Euros 674 million more than in 2017, of which 784 million was the result of the corporate reorganisation in the first eight months of the financial year and a negative 145 million due to the depreciation of the Brazilian real, the remaining positive 35 million being the result of the growth of the business itself. The tariff revisions of COELBA (Bahia state electricity company) and COSERN (Companhia Energética do Rio Grande do Norte) and increased demand compensate lower inflation and higher losses.

- **Renewables business**

The Renewable business increased its gross margin by 29.4% to Euros 3,611 million (Euros 2,791 million in 2017), up Euros 820 million more than in 2017.

Millions of euros	2018	2017	% charge
Spain	1,580	1,174	34.6
United Kingdom	644	547	17.7
United States	835	783	6.6
Brazil	178	92	93.5
Mexico	88	71	23.9
ROW	286	124	130.6
Total	**3,611**	**2,791**	**29.4**

The main causes of this trend are:

— Spain: gross margin reached Euros 1,580 thousand growing by 34.6% compared to the same period of 2017. This growth was due to the increase in production, of both hydroelectric (72%) and wind power production (3.9%).

— The gross margin in the United Kingdom increased by Euros 97 million to Euros 644 million (17.7%) with the impact of the depreciation of the Pound Sterling, which accounted for Euros 6 million. The details of the impact are:

  - Improvement of Euros 41 million as a result of larger onshore wind output (13.7%) to which contribute both wind factor and a better installed power for the new wind farms in 2017.

  - Reduction of Euros 9 million due to lower offshore wind output (7.9%);

  - The improvement in wind prices represents Euros 19 million and the peak in ROC prices increases margin in Euros 21 million and 2 other minor effects million ;

  - Hydroelectrical energy contributes Euros 29 million due to better prices despite output going down by 16.2%;

— The contribution of the United States for the period totalled Euros 835 million (6.6%), Euros 52 million more compared to the previous year. The depreciation of the US Dollar had a negative impact of Euros 39 million. The improvement compared to the previous year in production (10.7%) enhanced the gross margin by Euros 95 million and was offset by the Euros 4 million in the impact of lower prices and derivatives.

- Mexico improved its contribution to the gross margin by Euros 17 million due to price increases to reach Euros 88 million in 2018 due to a larger output of 13.8%, which overcomes the depreciation of the dollar, which in turn lowers margin in Euros 4.2 million.

- Brazil improved its contribution to the gross margin by Euros 86 million, affected by the appreciation of the Brazilian Real (Euros 35 million) due to the global integration of the plants of the Neoenergia subgroup since the second half of 2017.

- The rest of the world increased Euros 162 million, due to the commissioning of Wikinger, with an installed capacity of 350 MW and an output of 887 GWh in December 2018.

- **Liberalised business**

The Liberalised business (Generation and Supply) increased its contribution to gross margin in Euros 411 million, to Euros 4.168 million (Euros 3,757 million in 2017).

Thousands of Euros	2018	2017	% change
Spain	2,415	2,293	5.3
United Kingdom	863	743	16.2
Mexico	756	646	17.0
Brazil	134	75	78.7
Total	**4,168**	**3,757**	**10.9**

— In Spain and Portugal the gross margin was Euros 2,415 million, an improvement of Euros 122 million (5.3%), basically due to:

  - the Euros 111 million improvement in the generation business, the lower production being offset by better margins;

  - Improvement of Euros 88 million in the customer business, thanks to increased sales activity, with increased sales of electricity in volume terms, as well as a greater contribution from other products and services;

  - negative impact of Euros 77 million on the Gas business due to the comparison's being affected by the exceptional revision of prices in the supply contracts portfolio in 2017.

— The UK improved its gross margin by Euros 120 million (+16.2%) to Euros 863 million. The basic reasons for this improvement compared with 2017 are the recovery in sales margins from the compression experienced in the previous financial year, Euros 109 million, and the slight improvement in generation, Euros 11 million. This improvement was affected by the 0.9% depreciation of the pound (Euros 128 million). Without this effect the margin would have improved by 17.3%, as it did in local currency.

— Mexico contributed Euros 756 million to the gross margin (+17.0%), up by Euros 110 million on its contribution in 2017. Without taking account of the dollar's depreciation, which represented Euros 35 million, the business increased its contribution by Euros 145 million, underpinned by the good progress of the IPP projects with the CFE (Mexican state-owned electric utility), Euros 30 million, the recovery of the tariff with private customers in 2018, and other minor effects – Euros 108 million and 7 million respectively.

— Brazil's gross margin increased by Euros 59 million to Euros 134 million. The effect of the incorporation of Neoenergía in the first eight months of the 2018 financial year amounted to Euros 76 million and the depreciation of the real Euros 11 million, leading the gross margin to diminish by Euros 6 million, basically explained by poorer performance of the Termopernambuco power plant due to the stoppages of 2018.

- **Other businesses**

The contribution of other businesses amounted to Euros 58 million, a decrease of Euros 12 million compared to 2017 (Euros 70 million in 2017), although this is due to the discontinuation of the engineering business.

2.3.1.2 Gross Operating result – EBITDA

Consolidated EBITDA increased by Euros 2,030 million, 27.7%, to Euros 9,349 million (compared to Euros 7,319 million in 2017). The devaluation of currencies and the integration of Neonergia represent Euros 252 and 570 million, respectively. Notwithstanding these effects, EBITDA would improve in 23.4% amounting to Euros 1,713 million.

All business improve: Networks by 16.2%, Renewables by 39.3%, and Liberalised (Generation and Supply) by 39.2%.

Millions of euros	2018	2017	% charge
Network business	4,915	4,228	16.2
Liberalised business	2,038	1,464	39.2
Renewable business	2,445	1,755	39.3
Other businesses	29	13	123.1
Corporation and adjustments	(78)	(141)	44.7
EBITDA	**9,349**	**7,319**	**27.7**

The EBITDA performance variables are explained as follows:

- **Net operating expenses**

Net operating expenses go down Euros 16 million (−0.4%) to Euros 4,155 million (Euros 4,171 million in 2017). The impact of exchange rate resulted in Euros 128 million and the reorganisation in Brazil in Euros 399 million for the first 8 months of the year. If we excluded these impacts, the decrease would be Euros 287 million, down 6.9%.

This variation is explained by:

— An increase of Euros 20 million due to the storms in the United States;

— A decrease of Euros 175 million as a result of the application of IFRS "Revenues from contracts with customers" due to customer acquisition costs which improve compared to previous years;

— The implementation of personnel leaving plans in 2017 amounting to Euros 203 million less in personnel expenses.

— The net result of business growth and efficiency plans represent an increase of Euros 71 million.

Millions of euros	2018	2017	% charge
Networks business	2,079	1,922	8.2
Liberalised business	1,328	1,432	(7.3)
Renewables business	698	685	1.9
Other businesses	28	52	(46.2)
Corporation and adjustments	22	80	(72.5)
Net Operating Expenses	**4,155**	**4,171**	**(0.4)**

- **Taxes**

Taxes increased by Euros 57 million to Euros 1,931 million, up 3.0% compared to 2017, due to:

- the exchange rate impact improves in Euros 25 million whereas the incorporation of Neonergia has a negative impact of Euros 3 million;
- increase in US rates in contributing Euros 13 million to the Networks Business.
- Sustainability taxes increase in Euros 65 million due to a higher water fee and the price increase (on which a 7% is charged despite having been eliminated in the last months of 2018).
- The net of appropriations and reversions of provisions increase the headings in Euros 13 million.
- Increase in Enresa rate in the amount of Euros 3 million:
- Lower taxes in the United Kingdom in Euros 24 million of which Euros 13 million are a result of the implementation of the WHD (since the end of the previous plan in March until the implementation of the new one in October) and Euros 9 of ECO (the programme ended on 30 September 2018).
- Raise in public prices and other less relevant variations result in an increase of Euros 9 million.

2.3.1.3. Net Operating result – EBIT

EBIT totalled Euros 5,439 million, 100.5% higher in comparison with 2017 (Euros 2,713 million).

Millions of euros	2018	2017	% charge
Network business	3,034	2,660	14.1
Liberalised business	1,139	704	61.8
Renewable business	1,397	352	297.0
Other businesses	20	(798)	102.5
Corporation and adjustments	(151)	(205)	26.3
EBIT	**5,439**	**2,713**	**100.6**

- **Depreciation, amortisations and provisions**

Depreciation, amortisation and provisions rose by 17.1% to Euros 3,656 million:

- Amortisation increased in the amount of Euros 401 million (12.6%) to stand at 3,587 million.

— Effect of exchange rate changes of Brazil reduces amortisation in Euros 89 million and the impact of the integration in Brazil amount to Euros 212 million.

— Accelerated amortisation of thermal power plants whose closure is expected in 2021 increases provisions in Euros 15 million.

— The application of IFRS 15 results in Euros 81 million due to the amortisation of customer acquisition costs as described above;

— Larger investments in the Networks business in the United Kingdom represents an increase in amortisations of Euros 38 million.

— Larger investments in the Networks business result in higher amortisations of Euros 88 million for Wikinger and the rest of the business of Euros 37 million;

— The sale of the gas business in the United States reduces this item in Euros 31 million;

— The rest of the new investments, networks in Spain, the United States, Brazil and Mexico increase amortization by 49 million euros.

- The Provisions represent Euros 69 million decreasing Euros 1,154 million compared to 2017. Additionally, as well as the impact of exchange rates improves in Euros 89 million and the integration of Neonergy amounting to Euros 212 million, the main impacts explaining the variation are:

  - Provision derived from the classification of the gas business in the United States and Canada as held for sale in an amount of Euros 743 million;

  - Reorganisation of the goodwill of the renewables business in the United States as a result of the tax reform amounting to Euros 450 million;

  - The remaining Euros 39 million is the net effect of several less significant provisions and reversals.

2.3.1.4. Net finance cost

The net finance cost was Euros -1,156 million, Euros 219 million higher than in 2017, 23% lower compared to 2017 mainly due to the restructuring of our business in Brazil.

Average cost stands at 2.97% (2.91% in 2017).

Miles de euros	2018	2017	charge
Debt profit	(913)	(920)	7
Impact IFRS 9	(35)	-	(35)
Differences derivatives exchange rates and other	36	68	(32)
Restructuring Brazil	(245)	(86)	(159)
Total	**(1,156)**	**(937)**	**(219)**

The main items that explain the variation are:

- The reduction of financing costs, as a result or optimising and diversifying sources of financing, has contributed to better debt which has more than offset the raise in average balance of Euros 1,150 million (excluding Neoenergia) due to investment effort.

- The reinterpretation of IFRS 9, which reflects the highest interest rate of financial liabilities amended but not in a material manner compared to 2017, has resulted in a loss of Euros 35 million.

- The positive profit of derivatives and others is reduced in Euros 33 million mainly due to the performance of net revenue hedges on the main currencies. Its impact is offset in operating result.

- Last, the consolidation of Neonergia for a whole year, as a result of the restructuring in Brazil, compared to the four months in the previous year, has worsened profit in Euros 158 million.

2.3.1.5 Profit/loss of equity-accounted investees

Profit/loss of equity-accounted investees amounted to Euros 56 million, of which Euros 31 million correspond to the sale of Tirme.

2.3.1.6 Gains on disposal of non-current assets

Gains on disposal of non-current assets amounted to Euros 9 million, down Euros 270 million compared to 2017 (Euros 279 million). The Siemens-Gamesa merge and the company reorganisation in Brazil occurred in 2017 have an impact on the comparative information.

In 2018 the most significant transactions were as follows:

- The sale of the gas business in the United States and of 80% of the interest in Coyote Ridge Wind LLC resulted in gross losses of Euros 37 million.

- The sale of IBERDROLA Energía Solar de Puertollano, S.A. and of Scottish Power Generation Limited resulted in gross gains of Euros 38 million.

- The profit of intangible assets resulted in gross gains of Euros 8 million.

2.3.1.7 Net profit

Net income rose to Euros 3,014 million, Euros 210 million more than in the prior year, as a result of:

- Corporate tax costs stood at 959 million , an increase of Euros 2,357 million as a result of:

    - Reductions to nominal rates compared to the previous year in America and companies in the Bizkaia tax system in Spain, as well as greater contribution in terms of income from the United Kingdom, where the nominal rate is below average, reduced the Group's average effective ordinary tax rate (from 26.3% in 2017 to 23.6% in 2018). The overall effect of this was an increase in corporate tax expenditure for the year of 192 million.

    - The effect of the 2017 tax reforms in the US and the fiscal effect of the associated write-offs meant a tax revenue of 2.026 billion euros and 225 million respectively

- Other less significant effect improved corporate tax expenditure by Euros 87 million.

- Non-controlling interests stemming from the integration of NEOENERGIA, improved results in the US and increased funding through hybrid loans stood at 323 million.

- Discontinued operations saw a loss of Euros 51 million.

2.4 Operating performance of the period

2.4.1 Networks business

A. Spain

IBERDROLA has approximately 11 million managed supply points and total distributed energy 93,897 GWh, an increase of 0,7%% compared to the same period of the previous year (93,289 GWh in 2017).

The TIEPI (continuity of supply indicator) for 2018 was 44.6 minutes, an improvement of 15.37% on the previous year (52.70 minutes in 2017).

The table shows the values of the TIEPI (interruption time in minutes), the lowest in the last years, and NIEPI (number of interruptions in number) in relation to the previous year:

Year	Accumulated TIEPI	Accumulated NIEPI
2017	52.70	1.14
2018	44.6	0.91

The STAR project for the rollout of smart meters has been completed. IBERDROLA has installed more than 10.8 million digital meters and adapted the infrastructure that supports them to a smart grid, which represents a modernisation of the company's meter pool in Spain.

In July works for the first 2 MWh batteries storage system for the distribution grid in Caravaca de la Cruz commenced. This system will guarantee supply in the in case of breakdown, improve power control and facilitate the integration of distributed renewable generation.

B. United Kingdom

IBERDROLA has more than 3.5 million supply points in the United Kingdom. The volume of energy distributed during 2018 was 32,460 GWh (32,772 GWh in 2017), a decrease of 1% compared to 2017

All quality of service indicators, the average Customer Minutes Lost (CML) and the number of consumers affected by interruptions per every 100 customers (Customer Interruptions, CI) have been as follows:

	2018		2017	
	CML	CI	CML	CI
Scottish Power Distribution (SPD)	49.4	35.9	29.4	40.7
Scottish Power Manweb (SPM)	34.7	35.3	33.2	29.6

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 37,336 GWh, which represents an increase of 2.0% compared to 2017 (36.591 GWh).

The System Average Interruption Frequency Index (SAIFI) and the Customer Average Interruption Duration Index (CAIDI) are as follows:

	2018		2017	
	SAIFI	CAIDI	SAIFI	CAIDI
Central Maine Power (CMP)	* 1.24	* 2.14	* 1.61	* 1.83
NY State Electric & Gas (NYSEG)	* 0.84	* 2.07	* 1.20	–
Rochester Gas & Electric (RG&E)	* 0.54	* 1.85	* 0.55	* 1.77
United Illuminating Company (UI)	* 0.50	* 1.54	* 0.41	* 1.36

The whole area of energy distribution in US has suffered the impact from heavy storms in winter and spring that battered the east coast of North America, affecting quality indicators.

In Maine, a violent windstorm in April left tens of thousands of Central Maine Power customers without electricity, hitting supply indicators compared to 2017. CMP was praised for its extraordinary response to further heavy storms in October last year, receiving the Edison Electric Institute's EEI Emergency Recovery Award for the seventh consecutive occasion. This award recognises the great effort that companies make to restore the power supply as swiftly as possible in the face of inclement weather conditions and natural disaster.

In Connecticut, UIL's quality indicators for its distribution business were adversely affected by a grid incident which coincided with equipment renewal in the same area.

In March, the New England Clean Energy Connect project presented by Avangrid, CMP and Hydro-Québec, was chosen as the best way to supply clean energy to Massachusetts. With an investment of 950 million dollars, the project involves the construction of a 233-kilometre HVDC transmission line between Canada and New England, supplying 1,200 MW of 100% hydroelectric energy to customers in Massachusetts for twenty years. In 2018 the project sought to obtain the required permits in order to begin construction in 2019. The majority of these permits have been applied for, with only local and municipal approval still pending, meaning that construction work is expected to start on schedule.

- Gas

At the end of 2018 there are slightly more than 1 million gas users in the United States who have been supplied with 59,301 GWh, a 15.3% increase compared to the previous year (51,440 GWh).

D. Brazil

The demand of distributors in Brazil in 2018 increased by 2.3% to 56,760 GWh (55,510 GWh in 2017).

Energy distributed (GWh) 100% of business	2018	2017	% Change
COELBA	20,133	19,679	2.3
COSERN	5,704	5,623	1.4
CELPE	13,777	13,512	2.0
ELEKTRO	17,146	16,696	2.7
Total	**56,760**	**55,510**	**2.3**

The number of customers served by the distributors at the end of the year amounts to 13.8 million.

Number of customers (million) 100%	2018	2017
COELBA	6.0	5.9
COSERN	1.4	1.44
CELPE	3.7	3.6
ELEKTRO	2.7	2.6
Total	**13.8**	**13.5**

2.4.2 Liberalised business

A. Spain and Portugal

A.1. Generation

Installed capacity in Spain (not considering renewables) totals 10,032 MW, with no variations compared to 2017 (10.032 MW).

Power per technology (MW)	2018	2017	Change
Nuclear	3,166	3,166	–
Coal-fired thermal	5,694	5,694	–
Gas combined cycles	298	298	–
Cogeneration	874	874	–
Total	**10,032**	**10,032**	**–**

In 2018 net production decreased by 2.39% to 31,139 GWh. Trends in the year by technologies are as follows:

Net production (GWh)	2018	2017	% Change
Nuclear	23,419	23,190	1.0
Gas combined cycle	3,996	3,884	2.9
Cogeneration	2,108	2,163	(2.5)
Coal-fired thermal	1,616	2,665	(39.4)
Total	**31,139**	**31,902**	**(2.39)**

- Nuclear production stands at 23,419 GWh, up 1%.
- Thermal power stations produced 2,108 GWh, compared to 2,163 GWh in the previous year, representing a reduction of 2,5%.
- Production of combined cycles increased their production by 39.4%, to 1,616 GWh.

A.2 Supply

Supplied energy (electricity and gas) in Spain amounted to 66,836 GWh for electricity (63,083 GWh in 2017), 55,882 GWh of electricity and 10,954 GWh of gas.

Electricity sales on the free market in 2018 increased by 2.1% to GWh up to 48,448 GWh compared to 47,455 GWh supplied in the same period of 2017. Electricity supplied at the voluntary price for small consumers ("PVPC") amounted to 7,435 GWh.

Gas supplied in the free market in 2018 increased by 38.2% to GWh compared to 10,867 GWh supplied in 2017.

International retail (Portugal, Italy, France and Germany, mainly) IBERDROLA supplied 9,225 GWh during 2018, compared to the 7,587 GWh supplied in 2017, and was the second-ranking seller in the medium voltage industrial clients segment.

B. United Kingdom

B.1. Generation

Generation capacity has been sold to Drax. Therefore, at 31 December 2018 installed capacity in the UK is only renewable, although the year's output up until the moment of sale was managed by the Group. In 2018 output dropped by 23.2% to 5,453 GWh, compared to 7,100 GWh. The market share of the generation business in 2018 maintained similar levels to the previous years of 4%:

UK production (MW)	2018	2017	% change
Gas combined cycles	5,453	7,100	(23.2)
Total	**5,453**	**7,100**	**(23.2)**

B.2. Supply

Regarding sales, during 2018 customers were supplied with 20,008 GWh of electricity and 27,773 GWh of gas (21.591 GWh of electricity and 29.514 GWh of gas supplied during 2017). SCOTTISH POWER had 3 million electricity customers and 2 million gas customers at 31 December 2018.

C. Mexico

IBERDROLA is the leading private producer in the Mexico with installed capacity of 5,985 MW (5.832 MW in 2017). Highlights are the entry into commercial operation of Altamira (Dynasol) (57 MW) and Bajío (50 MW) cogeneration plants and the extensions of 23 MW to the California and to the MXL de Monterrey III, plants, contributing more than 21 MW extra to the plant for sale to private customers.

Currently the following cogeneration cycle plants are under construction and in the case of Topolobambo III is expected to be commissioned in 2019 and 2020:

Projects	MW
Escobedo	857
Topolobambo II	887
El Carmen	842
Topolobambo III	766
Combined cycle	**3,352**

The electricity supplied from the combined cycle and cogeneration plants amounted to 40,227 GWh (40,891 GWh in 2017), representing a load factor of 80%, as generation with natural gas is the basis of electricity generation in Mexico. Cumulative availability of the plants in Mexico has been 97%.

D. Brazil

Brazil's generation power corresponds to the gas combined cycles Termopernambuco is 533 MW, whose production peaked in 2018 to 3,986 GWh.

2.4.3. Renewable business

At the end of 2018, the Renewables business had an installed capacity of 26,794 MW (26,951 MW in 2017).

Renewable production increased by 8.4% to 136,737 GWh (126,198 GWh in 2017).

In the last 12 months, IBERDROLA has increased its power by 456 MW and sold the hydraulic plants in the United Kingdom (563 MW) in the transaction with Drax already commented, and the solar plant of Puertollano (50 MW).

MW installed	2018	2017	MW change
Onshore wind	**15,251**	**15,032**	**219**
Spain	5,526	5,508	18
UK	1,891	1,891	–
US	6,305	6,145	160
Mexico	408	367	41
Brazil	516	516	–
RoW	605	605	–
Offshore wind	**544**	**544**	**–**
UK	194	194	–
RoW	350	350	–
Hydroelectric	**10,607**	**11,170**	**(563)**
Spain	10,016	10,016	–
UK	–	563	(563)
Brazil	591	591	–
Other technologies	392	205	187
Total	**26,794**	**26,951**	**(157)**

A. Onshore wind energy

In the last 12 months, the performance, IBERDROLA's installed capacity by country is as follows:

- In Spain, the Chimiche II wind farm (18 MW)
- In the United States, 162 MW were added as a result of the purchase of 50% in Colorado Green, consolidated as global, and the retirement of 2MW of the Peñascal II wind farm.
- In Mexico the 39 MW of PIER II are added and 2 MW of the Santiago wind farm were commissioned.

Regarding ongoing and approved projects:

- In Mexico construction work continues on two wind farms – Santiago (105 MW in total) and Pier (220.5 MW), of which 39 MW has been handed over. In addition, approval has been granted to the building of a 105 MW onshore wind facility at Santiago, in the state of San Luis de Potosí. Work began in April 2018 and is expected to conclude sometime this year.

- In the United States, work has started on the Montague wind farm (201 MW) in Oregon, at Otter Creek (158.2 MW) in Illinois, at the Karankawa (288 MW) project in Texas, at the Tatanka (97 MW) and La Joya (166 MW) projects in South Dakota and New Mexico and at the Patriot facility in Texas (226 MW).

- In Brazil the construction of total de 15 wind-power projects totalling 472 MW has been green lighted in Paraiba state.

- Meanwhile, in Greece, approval has been given to the building of a 16 MW-onshore wind facility at Pyrgari.

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 attributable installed capacity of 194 MW and Wikinger in Germany with 350 MW.

Currently, offshore wind projects mainly in the United Kingdom, the United States, Germany and France are being developed.

- In the United Kingdom the East Anglia project in the North Sea. East Anglia 1 (714 MW) is under construction.

- In the United States with the acquisition of 50% of the company Vineyard Wind, owner of the rights to a wind farm off the coast of Massachusetts, with a generation potential of 3 GW. The wind farm will start its construction phase in 2019 and it is expected that 400 MW will come into operation by the end of 2021 and the remaining 400 MW by the second half of 2022. This way Vineyard Wind will become the first large scale US offshore wind farm.

- Also in the United States, with the award of the rights to develop another project under the name Kitty Hawk, off the coast of North Carolina, with a potential generation capacity of 2.5 GW.

- In Germany, in April 2018, IBERDROLA took part in the offshore wind tender and presented offers for its projects Baltic Eagle, Wikinger Süd and Windanker. IBERDROLA was awarded 476 MW in Baltic Eagle and 10 MW in Wikinger Süd, whose commissioning is expected in 2023.

- In France, the offshore wind farm Saint-Brieuc, of 496 MW of capacity. The project has stated its geotechnical studies which are currently under way as the first construction milestone.

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 cabling, 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.

C. Other technologies

The Renewables business has facilities of other renewable technologies in various countries whose breakdown is presented in the following table:

MW installed	2018	2017	change
Mini-hydroelectric special regime	130	130	0
Mini-hydroelectric ordinary regime	171	171	0
Solar thermal hybrid	–	50	-50
Photovoltaic	392	155	237
US	116	106	10
Mexico	270	43	227
Greece	6	6	0
Total	**693**	**506**	**187**

The evolution of installed capacity in the year is as follows:

- In the United States, the solar photovoltaic plant of W'y East (10 MWn) has been commissioned in Oregon and
- In Mexico 227 MWn were commissioned with the solar photovoltaic plants of Santiago (150 MWn) in San Luis de Potosí and Hermosillo (77 MWn) in Sonora.
- In Spain the hybrid solar thermal plant of Puertollano of 50 MWn has been sold.

Among photovoltaic projects the following should be highlighted:

- In Spain, the photovoltaic plant of Núñez de Balboa with a capacity of 391 MWn in Badajoz, and
- In Mexico the construction of Hermosillo of a total 100 MWc is under way, of which 77 MWn are already in operation. Moreover, the following two photovoltaic projects have been approved: Cuyoaco, of 200 MW in the State of Puebla, and Apaxco, of 190 MW in the State of México, whose construction works are expected to start in the first half of 2019.

3. LIQUIDITY AND CAPITAL

3.1. Leverage

Gross financial debt as of 31 December 2018 increased by 1.315 billion euros to 34.199 billion euros compared to Euros 32,884 million as of 31 December 2017, mainly as a result of the integration of Neoenergía, which accounts for an increase of Euros 2,817 million, and investments made over the year. As a result, financial leverage rose to 43.7% compared to 43.5% for the previous year (see Note 24).

IBERDROLA has a varied debt maturity profile, with an average maturity of six years, mainly as a result of the active management of liabilities carried out during this financial year.

3.2. Credit rating of IBERDROLA senior debt

Agency ratings are as follows:

Agency	Long-term [1]	Outlook	Date
Moody's	Baa1	Stable	14/03/2018
Fitch	BBB+	Stable	08/07/2016
Standard & Poors	*BBB+*	*Stable*	*22/04/2016*

(1) The above ratings may be revised, suspended or withdrawn by the rating agency at any time

3.3. Debt structure

At 31 December 2018 the Company's borrowings costs stood at 2.97% compared to 2.91% in the same period of the previous year (Note 27).

The debt structure by interest rate and currency is presented in notes 4 and 27 of the consolidated annual accounts.

In accordance with the policy of minimising the financial risks of the Company, foreign currency risk has continued to be mitigated through the financing of international businesses in local currencies (Pound Sterling, Brazilian Real, US Dollar, etc.) or in their functional currencies (US dollar, in the case of Mexico).

IBERDROLA has a strong liquidity position at the end of 2016 exceeding Euros 13.012 million (Note 4).

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 2018 can be seen in note 27 of the consolidated annual accounts.

3.4. Working capital

Working capital has increased by Euros 52 million since December 2017 as a result mainly due to several different effects which partially offset one another:

- An increase in working capital as a result of an increase in inventories.
- A decrease of Euros 428 million in working capital associated with assets held for sale, in the gas business in the United States and Canada.
- Other assets of lesser amounts

Millions of Euros	31.12.2018	31.12.2017	Change
Assets held for sale	62	356	(294)
Nuclear fuel	273	332	(59)
Inventories	2,174	1,870	304
Trade and other accounts receivables	6,855	6,721	134
Current investments	572	601	(29)
Asset derivative financial instruments [1]	225	175	50
CURRENT ASSETS	**10,160**	**10,055**	**106**
Liabilities linked to assets held for sale	1	135	(134)
Provisions	580	627	(47)
Liability derivative financial instruments [2]	209	136	73
Trade and other payables	8,476	8,422	54
Current liabilities	**9,266**	**9,320**	**(54)**
NETWORKING CAPITAL	**894**	**735**	**52**

(1) Not including cash and cash equivalents or debt derivative assets (note 20)

(2) Not including financial debt or debt derivative liabilities (note 20)

4 MAIN RISKS AND UNCERTAINTIES

4.1 Risk management system

The IBERDROLA Group is exposed to various inherent risks in the different countries, industries and markets in which it operates and through 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 undertaken to develop its capabilities to ensure 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 that enables it to:

- attain the strategic objectives defined by the Group while controlling volatility;
- provide the maximum level of assurance to the shareholders;
- protect the results and reputation of the Group:
- defend the interests of shareholders, customers, other groups interested in the progress of the Company, and society in general, and
- ensure corporate stability and financial strength in a sustained fashion over time.

For 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 on 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, by defining the strategy and risk appetite and incorporating this variable into strategic and operating decisions.

b) Segregate duties, at 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 legislation.

d) Inform regulatory agencies and the principal external players, in a transparent fashion, regarding the risks to which the Group is exposed and the operation of the systems developed to monitor such risks, maintaining suitable channels to 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 that system within the framework of the international best practices as regards 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 set forth in the Code of Ethics and the principles and best practices contained in the Corporate Fiscal Policy, under the principle of zero tolerance as regards the unlawful 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 the Group's Risk Committee and based upon an appropriate definition and allocation of duties and responsibilities at operating level and upon suitable procedures, methodologies and tools for the different stages and activities of the system, including the following:

a) The establishment of a structure of policies, guidelines, and limits, as well as of the corresponding mechanisms for the approval and implementation thereof, which effectively contribute to risk management being performed in accordance with the Company's risk appetite.

b) The ongoing identification of significant risks and threats in accordance with their possible impact on key management objectives and the annual accounts (including contingent liabilities and other off-balance risks).

c) The analysis of such risks, in each corporate business or function and taking into account their combined effect on the Group as a whole.

d) The measurement and control 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 risk/return.

f) The maintenance of an internal control system to monitor 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 risks that could have a significant impact on the income statement, in order to control the volatility of the Group's profit or loss for the year.

h) The ongoing evaluation of the suitability and efficiency of applying the system and the best practices and recommendations as regard risks for their possible inclusion in the model.

i) The audit by the Internal Audit 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 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 Technology Policy.
- Cybersecurity Risk Policy.

b) Specific risk policies and limits for the various businesses of the Group:

- Risk policy for the Generation and Supply business of the IBERDROLA Group.
- Risk policy for the Renewables business of the IBERDROLA Group.
- Risk policy for the Networks 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).

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 in the Corporate Risk Policies.

Subholding companies are responsible for adopting the Group's risk policies and specifying their application, approving the guidelines regarding specific risk limits, in accordance with the characteristics and unique features of the businesses in each country. They shall also implement, within their areas of activity, the control systems required for their compliance.

Listed subholding companies and those with significant minority interests, by virtue of their own special autonomy framework have their own risk policies approved by the competent bodies, aligned with those of IBERDROLA group.

The risk factors to which the Group is generally exposed are listed below:

a) Corporate governance risks: the Company assumes the need to safeguard corporate interests and *to maximise, on a sustained basis, 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 consideration the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders, 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 Code of Ethics, the Corporate Policies*, the corporate governance rules, and other internal functions and committees and compliance. Every rule has been approved by the competent decision-making bodies of the Company and is inspired by the good governance recommendations generally acknowledged 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, electricity and commodity prices (gas, CO2 emission allowances, other fuel, other mechanisms to promote renewables, etc.), prices of financial assets and others.

c) Credit risks: defined as the possibility of a counterparty failing to meet its contractual obligations, thus causing an economic or financial loss to the Group, including liquidity risks and replacement costs. Counterparties can be end customers, counterparties in financial or energy markets, partners, suppliers, or contractors.

d) Business risks: defined as the uncertainty regarding the performance of key variables inherent in the business, such as the characteristics of demand, weather conditions, the strategies of different players.

e) Political and regulatory risks: defined as those arising from regulatory changes made by the various regulators, such as changes in compensation for regulated activities or in the required conditions of supply, or environmental or tax regulations, including risks related to political changes that could affect legal certainty and the legal framework applicable to the Group's businesses in each jurisdiction, the nationalisation or expropriation of assets, the cancellation of operating licences and the early rescission of government contracts.

f) Operational technological, environmental, corporate and legal risks: defined as those related to direct or indirect economic losses resulting from external events, inadequate internal procedures, technical failures, human error and/or fraud, including those associated with climate change, information technology and cybersecurity, and the risk of technological obsolescence.

g) Reputational risks: the potential negative impact on the value of the Company resulting from conduct on the part of the Company that does not meet the expectations of the different stakeholders defined in the Stakeholder Relations Policy.

Owing to its universal and dynamic nature, the system allows for the consideration of new risks that may affect the Group as a result of changes in its operating environment or revise 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 trends in the Company's risks:

- It reviews the Group's quarterly risk 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 half-yearly, by the audit and compliance committees of the main subsidiaries of the Group, including the subholding companies of the main countries where the Group operates, which are used, together with the risk director's input, to prepare a risk report for the board of directors at least every half-year.

For further details, see section E "Risk management and control systems" of the Corporate Governance Report for 2018 and the Risks section included in the Integrated Report dated February 2019.

4.2. Credit risk

The IBERDROLA Group is exposed to credit risk arising from the possibility of counterparties (customers, suppliers, financial institutions, partners, etc.) failing to comply with contractual obligations. This exposure may arise with regard to unsettled amounts, the cost of replacing products that are not supplied, as well as, in the case of plants, that supply one customer, amounts on which depreciation is pending, for those 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 acceptance, approval systems, authorisation levels, scoring tools, exposure measurement methodologies, etc.

With regard to credit risk on trade receivables for electricity and gas sales, the cost of defaults has remained moderate and stable at close to 1% of total turnover of this activity, despite the difficult economic environment in recent years.

4.3. Financial risk

4.3.1. Interest rate risk

The IBERDROLA Group is exposed to the risk of fluctuations in market interest rates affecting cash flows and the market value of debt in respect of items in the balance sheet (debt and derivatives). In order to adequately manage and limit this risk, the IBERDROLA Group determines the required proportion of fixed and variable debt annually 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 floating rate borrowings are basically market rates: primarily Euribor, Libor-Pound Sterling, Libor-Dollar, and the CDI in the case of the Brazilian subsidiaries' debt.

Additionally, as of 31 December 2018 the IBERDROLA Group has arranged future funding derivatives for a notional amount of Euros 4,642,000 thousand, which help to mitigate the interest rate risk.

The Group's debt structure at 31 December 2018, after considering hedging derivatives, and sensitivity to an increase in interest rates are included in the note 4 to the consolidated annual accounts.

Bearing in mind the composition of the IBERDROLA Group's debt at the end of the financial year, between fixed and variable interest rates, and assuming it remains constant in the future, the impact on the income statement of a potential increase of 25 basis points (0.25%) in the reference rates referred to in the foregoing paragraph would be Euros 45 million (increased finance income).

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 arranged and transactions are carried out with respect to the Euro, mainly the Pound Sterling, 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 currency risk:

- Proceeds and payments for supplies, services or the acquisition of capital goods in currencies other than the local or functional currency.
- Income and expenses incurred by certain foreign subsidiaries indexed to currencies other than the local or functional currencies.
- Debt and finance cost denominated in currencies other than the local or functional currency.
- Profit or loss on consolidation of foreign subsidiaries.
- Consolidated net value of investments in foreign subsidiaries.
- Tax expense in Mexico owing to the functional currency (US Dollar) being different from the currency used to calculate corporate income tax (Mexican peso).

The IBERDROLA Group mitigates this risk by:

- Ensuring that all its economic flows are carried out in the functional currency of each Group company whenever possible and economically viable and efficient or using derivatives if not.

- Hedging the risk of transferring forecast earnings for the current year, insofar as possible, thereby limiting the ultimate impact on Group earnings

- Hedging the currency risk on corporate income tax in Mexico, insofar as possible, thereby 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 investments in foreign subsidiaries, by maintaining an appropriate percentage of debt in foreign currency and by arranging derivatives.

The sensitivity of the consolidated profit and equity of the IBERDROLA Group to fluctuations in the US Dollar/Euro, Pound Sterling/Euro and Brazilian Real/Euro exchange rates is as presented in note 4 to the consolidated annual accounts. Detailed information on debt by currency can be seen in note 27 to the consolidated annual accounts.

In accordance with the breakdown by currency of the finance costs in 2018 and assuming it remains constant in the future, a 5% appreciation of the main currencies would have a negative impact on the income statement of Euros 2.7 million (increased consolidated finance income in euros).

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 position may hinder or prevent the IBERDROLA Group from obtaining the financing required to properly carry on its business activities.

The IBERDROLA Group's liquidity policy is 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 for a 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.

The combined balances of cash, liquid assets and available committed credit facilities are sufficient to meet the Group's forecast liquidity needs in a risk scenario for more than 18 months, without the need to source new financing.

The figures relating to changes in the Company's debt are included in notes 27 and 51 to the Consolidated annual accounts and additional information is also provided in Note 4 of the Consolidated annual accounts.

4.4. Country risk

All international activities of the IBERDROLA Group are exposed to a greater or lesser extent and depending on their characteristics, to the risks inherent to the country in which they are conducted:

- Imposition of monetary limitations and other restrictions on the movement of capital.

- Changes in the trade environment and administrative policies.

- Economic crises, political instability and social unrest affecting operations.
- Nationalisation or expropriation of assets.
- Exchange rate fluctuations.
- Cancellation of operating licences.
- Early 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 concentrated in Spain, the United Kingdom, the United States, Brazil and Mexico, countries with low or moderate risk, whose credit ratings at 31 December 2018 are as follows:

Country	Moody's	S&P	Fitch
Spain	Baa1	A-	A-
United Kingdom	Aa2	AA	AA
United States	Aaa	AA+	AAA
Brazil	Ba2	BB-	BB-
Mexico	A3	BBB+	BBB+

Presence in countries other than those mentioned above is not significant at Group level from an economic point of view.

Note 5.c in these consolidated annual accounts include information regarding the potential impact of Brexit on IBERDROLA Group.

4.5. Activity risks

The Group has presence in the regulated businesses of electricity transmission and distribution sector in Spain, the United Kingdom, the United States (through Avangrid) and Brazil (through Neonergia). In the United States, the Group also has presence in the natural gas distribution sector.

IBERDROLA operates in the renewables industry sector carried out in Spain, the United States (through Avangrid), the United Kingdom, Mexico and Brazil (through Neonergia) and other European countries.

Last, IBERDROLA operates in the thermal generation sector in Spain, Mexico and Brazil (through Neonergia) and electricity and gas retail in Spain, the United Kingdom and to a lesser degree in Brazil (through Neoenergia) and other European countries.

The activities of the different businesses conducted by the IBERDROLA Group are exposed to various risks including market, credit, operational, business, regulatory and reputational risks arising from uncertainty in the main variables by which they are affected. Section 4.6 addresses the operational risks associated to the Group's three main businesses.

4.5.1.Regulatory and political risks

Regulated and liberalised businesses in the IBERDROLA Group are subject to laws and regulations concerning tariffs and other regulatory aspects of their activities in each of the countries in which they operate. The introduction of new laws and regulations or amendments to the existing ones may have an adverse effect on our operations, annual results and the economic value of our businesses.

The following sections summarise the regulatory frameworks in force in the main markets where the Group operates, as well as the array of new regulatory measures approved in 2019 or expected to be developed in 2019.

4.5.2. Networks business risk

The regulations of each country in which the IBERDROLA Group's networks businesses operate establish regularly revised frameworks to guarantee reasonable and predictable returns for these businesses. These frameworks include incentives and penalties for efficiency, service quality and, where applicable, for default management, which have a minor, immaterial impact overall. Any significant structural changes to the aforementioned regulations may represent a risk for these businesses.

In general, the profitability of the IBERDROLA Group's networks businesses is not exposed to demand risk, except for the Brazilian subsidiaries.

The IBERDROLA Group's networks businesses in Spain and in the United Kingdom do not sell energy and are not exposed to any market risks associated with energy prices.

The Group's networks businesses in Brazil and certain networks subsidiaries of Avangrid in the USA sell energy to regulated customers at previously determined tariffs. Assuming prudent procurement management in line with each regulator's specifications, the regulatory frameworks in both countries guarantee sums will be collected in subsequent tariff readjustment reviews in the event of deviations in purchase prices with respect to those previously stipulated in the tariff.

Given the above, in the case of extraordinary events (extreme drought in Brazil, catastrophic storms in the USA, etc.), occasional temporary imbalances between payments and collections may arise with an impact on the cash flows of some of these businesses and potentially on profits recognised under IFRS.

- ***Networks in Spain***

The present regulatory model is in accordance with Electricity Industry Law 24/2013 of 26 December, which stipulates six-year regulatory periods and profitability for the distribution activity calculated as the yield on government bonds plus 200 basis points.

Royal Decree 1048/2013 of 27 December establishing the methodology to calculate remuneration for electricity distribution activities defines a methodology in accordance with standard unit costs of investment and operation. Profitability was set at 6.5% for the first regulatory period, which runs until the end of 2019. Fluctuation in the financial remuneration rate used between two consecutive years may not exceed 50 basis points in absolute value.

This methodology is currently under revision:

- During November 2018 the CNMC, Spain's competition authority, published a proposed new methodology in accordance with WACC for calculating the rate of financial remuneration of transmission and distribution activities applicable to the following regulatory period (2020-2025), with a resulting rate of 5.58% at the date of its publication.

- On 11 January 2019 the Spanish government approved the new Royal Decree-law 1/2019 on urgent measures to adapt the powers of the CNMC to the requirements deriving from EU law and thus transferring to the CNMC the powers and responsibilities to determine the remuneration of the electricity and gas transmission and distribution networks to apply from the next regulatory period (2020).

- ***United Kingdom Networks***

The group operates in the United Kingdom through its subsidiary Scottish Power Ltd, which manages the following licences:

- SP Distribution PLC (SPD)

- SP Manweb PLC (SPM)

- SP Transmission PLC (SPT)

The framework of remuneration for the electricity transmission and distribution activities in the UK is in accordance with a price control model using a recognised cost of capital (WACC), depreciation of assets and operating and maintenance costs plus an incentive which is obtained if management is better than the regulatory standard, and which the companies retain (in part) in the following tariff revision.

The current regulatory model for SPD and SPM is in accordance with 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. Recognised ROE after tax (in real terms) is 6% for SPD and SPM, whereas for SPT it is 7%.

The regulator (OFGEM) also establishes incentives/penalties for safety, environmental impact, consumer satisfaction, social obligations, connections and quality, which could have an effect on the income statement.

In July 2018 the OFGEM published its preliminary report included some of the hypothesis proposed for the next regulatory revision. Companies are expected to present their investment plans in the second half of 2019 and the OFGEM is expected to publish its conclusions in 2020.

- ***United States Networks***

The IBERDROLA Group operates in the US through its listed subsidiary Avangrid, which in turn has the following subsidiary networks companies:

- New York State Electric & Gas (NYSEG), New York, with a 3-year rate case valid from 30 April 2016 (base ROE 9% for distribution Electricity).

- Rochester Gas and Electric (RG&E), New York, with a 3-year rate case valid from 30 April 2016 (base ROE 9% for distribution Electricity).

- Central Maine Power (CMP), Connecticut, whose annual rates are in force since 1 July 2014. They may extended for its electricity distribution businesses (base ROE 9.45%) and transmission business (base ROE 10.57%).

  Last October, CMP, following the instructions provided by Maine's utilities regulatory commission, started a rate case review.

- United Illuminating (UI), Connecticut, with rates in force since 1 January 2017 for its electricity distribution business (base ROE 9.1%) and transmission business (base ROE 10.57%).

- As well as the following natural gas distribution companies: Maine Natural Gas Corporation (MNG), Connecticut Natural Gas (CNG), Southern Connecticut Gas (SCG) and Berkshire Gas (BG).

Companies that carry out regulated business in the US are exposed to risks associated with the regulations of a number of federal regulatory bodies (FERC, CFTC, DEC) and the different state commissions, responsible for defining the regulatory frameworks of the companies regulated (tariffs and other conditions).

The distributors' tariff plans have been designed to reduce the level of risk to which the 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 Neoenergía, which in turn has the following subsidiary networks companies:

- Elektro Redes, S.A., operating in the states of Sao Paolo and Mato Grosso do Sul. Rates in force until August 2019 and WACC of 8.09%;

- Companhia de Eletricidade do Estado do Bahia (Coelba), operating in the state of Bahía. rates in force until April 2023 and WACC of 8.09%;

- Celpe Energetica de Pernambuco S.A. (Celpe), operating in the state of Pernambuco. rates in force until April 2021 and WACC of 8.09%; 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 2023 and WACC of 8.09%;

- Several transmission assets with their specific regulation.

The Brazilian regulatory framework is in accordance with a price cap system 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, transmission and other obligations and regulatory charges, which can be recovered through tariffs ("pass through") as part of the conditions and limits imposed by ANEEL, and ii) "Plot B", which includes remuneration for investment and the costs of operation and maintenance (calculated using a reference model that compares all distribution companies in the country and determines efficient cost levels, which generates either an incentive or a risk for the investor).

ANEEL also allows for other smaller incentives to minimise default and impairment of quality and customer satisfaction, which could affect the income statement.

Pursuant to current legislation, electricity distribution companies 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.

4.5.3. Renewables business

Since 2018 all Group's hydroelectric generation activity has been included in the Renewables business.

The regulations of each country in which the Group operates establish regulatory frameworks aimed at promoting the development of renewable energies in accordance with formulas which may include feed-in tariffs, green certificates, tax deductions or regulated tariffs, which allow investors to obtain a sufficient and reasonable return. Any significant structural changes to the aforementioned regulations could represent a risk for that business.

In addition to the aforementioned regulatory risk, the Group's renewable energy businesses may be exposed to a greater or lesser extent, to Hydraulic wind resource risk and market risk:

- In the medium to long term, years with lower than average water and/or wind resources are offset by years with above-average overall resources.

- The risk of water resources in a given year basically affects the Renewables business in Spain, and to a lesser extent Brazil.

- The risk of wind resources in any given year affects the Renewable Energy Businesses of all countries in which the Group operates. The Group considers that the wind resource risk is mitigated by the large number of wind farms available and their geographical diversification.

- Management of market risk of the Renewables Businesses in Spain, the UK, Brazil and Mexico is transferred to the Generation and Retail Businesses of those countries so that it can be integrated into a single risk position. Management of market risk of the Renewables Business in the US is integrated within the business itself.

- ***Renewables Spain***

  The Group currently has an installed capacity of renewable energy in Spain of: 5,570 MW through wind power, 9,715 MW through hydroelectric plants and 303 through mini hydroelectric plants. Additional, it is worth mentioning that the 391 MW photovoltaic plant Nuñez de Balboa in Caceres is under development and that in the north of Portugal the Alto Tamega hydraulic project, with a total capacity of 1,158 MW is being built and that its estimated commissioning date is 2021-2023 (depending on the stage).

Subsequent to the approval of the new regulatory framework (Royal Decree-Law 9/2013 of 12 July 2013, Law 24/2013 of 26 December 2013, Royal Decree 413/2014 of 6 June 2014, Ministerial Order IET/1045/2014 of 16 June 2014 and Ministerial Order ETU/130/2017 of 17 February 2017), all renewable energy generated since 2004 is remunerated at market price plus a feed-in tariff per MW. This guarantees a reasonable regulated return in accordance with a recognised standard investment.

- The reasonable rate of return is calculated on the basis of the yield on 10-year government bonds plus a differential, initially fixed at 300 basic points (equivalent to 7.4% for the initial period of 6 years that ends at the end of 2019);

- At the middle of each 3-year regulatory period different parameters are revised, among them price estimates, and the asset value pending of recovery in accordance with prices observed in the previous 3 years is updated following certain tranches:

- The facilities that began operating in 2003 or before have a null premium, and therefore are fully exposed to market risks.

- On 30 October last the CNMC published a proposed methodology for calculating the rate of financial remuneration for energy generated from renewable sources, co-generation and waste for the second regulatory period 2020-2025, in accordance with the commonly accepted WACC methodology, the resulting value with the information available at that time being 7.09%.

- At the end of December 2018 the Ministry for Ecological Transition published on its website a proposed draft bill which among other things proposed that for renewable installations prior to Royal Decree law 9/2013 the current remuneration of (7.4%) be maintained for the next two six-year regulatory periods.

Large hydroelectric plants generation is not subject to the above mentioned regulation and is exposed to market risk. The lesser or greater availability of hydro resources has an impact on the marginal hour prices of the Spanish electricity system.

Despite having a large water storage capacity Spain, IBERDROLA Group's annual results depend significantly on the rainfall contributions. The changes in output from a dry year to a wet year with respect to the average value can be up to -4,000 GWh in a dry year and +5,000 GWh respectively in Spain, and the variability would be between an estimated Euros -170 and Euros +210 million. In the mid and long-term dry years are offset by wet years.

Lastly, we should highlight Royal Decree law 15/2018, ratified in October by the Spanish Parliament, which includes a set of measures, prominent among which is, in addition to the promotion of renewable energy and greater protection for vulnerable customers, the temporary suspension of the 7% tax on generation. The package also included a reference to a possible future revision of the wholesale generation market.

- ***Renewables United Kingdom***

The Group currently has an installed capacity of renewable energy in the UK of 1,906 MW in onshore wind farms and 194 MW in offshore wind farms, operational under current "Renewables Obligation" legislation. Under such legislation, revenues are partially exposed to the risk of the market price for electricity in the UK, as the revenues obtained reflect the price of the energy produced and the sale of Renewables Obligation Certificates (ROCs).

UK regulations impose minimum ROC requirements per MWh sold on electricity suppliers, 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 equal to the price of the ROCs.

Renewable technology plants implemented from 1 April 2017 (those implemented as of 12 May 2016 in the case of onshore wind farms) may avail of the new "Contract for Difference" (CfD) remuneration scheme, which eliminates market risk for 15 years. Such is the case of the East Anglia 1,714 MW offshore plant, currently under construction. Its commissioning date is expected throughout 2019 and 2020 (depending on the stage).

The fixed prices for these projects are established under CfD on a project-by-project basis through public tenders. The counterparty guaranteeing this price, "The Low Carbon Contracts Company", finances its potential payments by imposing a levy on suppliers in accordance with their market share, and therefore credit risk vis-à-vis the counterparty is practically zero.

Additionally, the Group has a 15 MW onshore wind farm in the Republic of Ireland selling at market prices.

- ***Renewables United States***

The IBERDROLA Group conducts its renewables business in the US through its listed company Avangrid, which has an installed capacity of 6,466 MW in onshore wind farms, and 129 MW in operational photovoltaic plants and 115 MW in hydroelectric plants.

Approximately 70% of the energy produced is sold on fixed-price long-term contracts with third parties. If hedges of some type are considered, this percentage rises up to 80%. The remaining 20% 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 Euros ±6 million on operating results.

Avangrid is building 988 MW of wind power and is also developing the Vineyard offshore wind farm in the coasts of Massachusetts, in the United States, under a 50% joint venture with a financial partner. The facility will consist of 800 MW and it is expected to be brought into operation in 2021. MHI Vestas Offshore Wind has been selected as preferential supplier for the turbines.

- ***Renewables Mexico***

In Mexico the business currently has an installed capacity of 409 MW in wind farms and 270 MW in solar plants, with two sale schemes: a) fixed-price sale to the CFE under a long-term contract and b) sale to third parties with a discount on the official price published by the CFE. In addition, facilities for 326 MW of wind power and is developing several solar projects.

Mexican legislation requires electricity retailers in the free market to present Certificates of Clean Energy (CEL in the Spanish abbreviation) at the end of each year for a percentage which increases over time of their energy sales for the year. The Group's renewable production for the market in Mexico gives rise to these certificates.

- ***Renewables Brazil***

  In Brazil the business currently has an installed capacity of 516 MW in onshore wind farms, all operating under long-term contracts (PPAs) with a fixed price for the country's distributors. Surpluses and shortfalls in the production contracted with the distributors are settled over periods of four years, and surpluses must be offered and shortfalls purchased at market prices. In addition, 472 MW of wind power are being under development.

  Furthermore, in Brazil the Group has 2,419 MW in hydroelectric plants, of which 60% is sold to electricity distribution companies under long term contracts (PPA).

  In order to incentivise the execution of new renewable energy projects, Brazilian legislation establishes that free market energy retailers must supply those of their free market customers that consume less than 3 MW entirely with energy from renewable sources ("energia incentivada").

- ***Renewables in other countries***

  Germany: Wikinger offshore wind farm of 350 MW operating since the end of 2017. Pursuant to German regulations, 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 for East Anglia 1.

  Other European countries: the IBERDROLA Group currently has an onshore installed capacity of 605 MW in wind farms and 6 MW in photovoltaic facilities. 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).

  The Group has been selected, and is already taking part in them, for several significant offshore wind farm projects in Europe, which are expected to be brought into operation throughout 2023-2024.

  - Germany: Wikinger Süd and Baltic Eagle projects, with a combined capacity of 486 MW.
  - France: Saint Brieuc project, with an expected total capacity of 496 MR, in which the Group has a 70% stake in the promoting company.

4.5.4. Generation and Supply businesses

The IBERDROLA Group has a wide array of thermal generation plants in Spain and Mexico, a single thermal plant in Brazil and another in the US. A significant number of the plants in Mexico and the Brazilian plant have long-term PPAs (power purchase agreements) with the CFE (Mexican state electricity company) and the electricity distributors Coelba and Cosern in Brazil respectively.

Management of the risk of the energy produced for the market by the Group's thermal and renewable plants and surplus production of plants with PPAs is transferred to the Energy Management unit of each country where the Group operates, taking as a reference the wholesale market prices.

The various Energy Management units supply electricity and gas to the Retail Business at wholesale market prices (hourly or forward) in accordance with the usual practices of each of the countries in which the Group operates, and manage the sale and purchase of surpluses and shortfalls.

The Retail Businesses sell energy to end customers at fixed or indexed prices, together with other services, at such terms as may be customary in the retail markets of the countries in which they operate.

Main risks:

- Market prices for electricity, both wholesale and retail, are closely correlated with prices of fuel (oil and gas) and of the emission allowances needed to produce electricity.

- Spot prices in the wholesale electricity market exhibit marked volatility as a result of: 1) the volatility of spot prices of fuels and emission allowances, 2) fluctuating demand, 3) availability of wind or water and 4) possible operational problems in networks or power plants.

- Forward electricity prices are further influenced by projections of new generation plants coming on stream and of increases or decreases in future reserve capacity.

- In general terms: 1) margins of the generation business (thermal and renewable to market) are subject to the risk of the differential between the wholesale spot price and the cost of production, and 2) margins of the retail business are subject to i) the risk of the price differential between the wholesale spot market and forward retail prices, ii) the degree of competition among retailers and iii) the risk of possible regulatory intervention in the form of regulated tariffs, taxes or other obligations.

The offsetting of risk positions between the generation business (thermal and renewable) and the retail business largely reduces the Group's market risk. The sensitivities shown below cover the exposures of both activities.

- ***Generation and Supply businesses in Spain***

In Spain the Group has 10,099 MW of installed capacity in conventional generation, of which 3,177 MW nuclear, 5,695 MW combined cycle, 353 MW co-generation and 874 MW coal.

Sales of the free-market retail electricity business in Spain amounted to nearly 48 TWh in 2018. Additionally, the Last Resort Tariff retail subsidiary supplied just over 7 TWh in 2018.

We would highlight the various measures contemplated by Royal Decree law 15/2018, ratified by the Spanish Parliament in October, as noted in section 4.5.2.

Commodity price risk

Given current market conditions, the production price at 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 89 per tonne, a 5% change in prices could give rise to an impact of Euros ±9 million on operating results.

The price of CO2 influences the cost of production at coal-fired thermal power plants. With coal prices around Euros 23 per tonne, a 5% change in prices could give rise to an impact of more or less Euros ±6 million on operating results.

Payment of the majority of gas supplied in Spain is indexed to the price of oil by means of complex formulas. The IBERDROLA Group has another type of fixed-price supply agreement in place with prices not indexed to the market price of oil. These agreements are used for electricity generation, end customer consumption and for sales to other intermediaries. Inasmuch as the electricity generation margin is covered by the contracting schemes vis-à-vis the system operator, sales to end customers and third parties only entail residual risk. The risk assumed is minimal and depends on the correlation between the price of oil and European and international gas prices. According to the expected performance of said indexes, the maximum impact on the operating result would be approximately Euros ±5 million.

Demand risk

Given the current market condition, where price is primarily determined by the generation cost at coal-fired plants, which make up around 15% of the generation mix, demand fluctuations are not deemed to impact on marginal technology in the market. The impact on the market price of a 1% change in demand is therefore minimal, amounting to approximately Euros 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 supply sales and consequent narrowing of the margin. This is mitigated to some extent by increasing sales of own energy on the wholesale market. This same effect of loss of margin on retail sales is seen in demand for gas.

Taking both effects into account, it is estimated that a 1% fluctuation in demand would have an impact of around Euros ±11.5 million overall.

Operational risk and nuclear plants risk

From the perspective of its impact on business results, the main risk arises from unscheduled outages at nuclear power plants (partially covered by a loss of profits insurance policy over and above an excess).

Nuclear power plants are also exposed to specific risks derived from the operation, storage and manipulation of radioactive materials.

- Constitutional Spanish law caps the liability of nuclear power plant operators in the event of a nuclear accident at Euros 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 2011, 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 Euros 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.

- Last, there is a debate currently going in the Spanish society regarding when nuclear plants should be closed.

- ***Liberalised and Supply businesses in MEXICO***

The Group has 6,446 MW in combined cycles and 346 MW in cogeneration plants in Mexico. Additionally, 2,572 MW of combined cycles are being built.

Approval of the Energy Regulatory Commission's Agreement A/058/2017, which defines the methodology to determine the calculation and adjustment of the final tariff and the operations tariffs that will apply to the subsidiary production company CFE Suministrador de Servicios Básicos from 1 December 2017 to 31 December 2018.

Commodity price risk

Electricity generation at IBERDROLA Generación México is gas-intensive. Gas prices are therefore an essential component of this risk. In 2018, approximately 80% of the electricity generated in Mexico was sold under long-term sales agreements (to CFE and, to a lesser extent, other major industrial customers), whereby the risk associated with the price of gas used in generating this electricity is passed on.

The remaining energy is sold to customers (either under self-provision or the free market) at a price linked to the official tariffs published by CFE. The Group's competitiveness in this case relies on its obtaining a better input price for gas than the cost used to define the CFE's basic supply tariff. In the event of an adverse scenario (high cost of gas relative to other energy commodities), the impact would be below Euros 11.5 million in the 95 percentile.

Demand risk

The structure of the agreements IBERDROLA has entered into in Mexico shields business results from electricity demand fluctuations. Revenues come mainly from plant availability and only the sales indexed to the official Mexican tariff are exposed to a certain extent to fluctuations 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 (partially covered by a loss of profits insurance policy over and above an excess). In the case of the contracts with the CFE, non-availability leads to a penalty, whereas the contracts with private sector customers in Mexico would oblige the Group to acquire the missing energy in the market.

- ***Generation and Supply businesses in UK***

Sales of the IBERDROLA Group's retail business in 2018 amounted to 20 TWh of electricity and 29 TWh of gas.

In November 2018, following the entry into force of the Domestic Gas and Electricity Tariff Act 2018, OFGEM published the new maximum prices that suppliers may charge to end customers under the "Standard Variable Tariff" during the first quarter of 2019. From 1 April 2019 this figure will be updated every six months. The desirability of maintaining this system of price caps will be reviewed in 2020; it may be extended to 2023.

As noted previously, last October we announced the sale of the generation business in the UK.

- ***Generation and Supply businesses in Brazil***

The Generation Business had a 533 MW combined cycle plant in Brazil at the end of 2018, with long-term PPAs with Coelba and Cosern.

Renewable energy with no PPA and surpluses from thermal generation are sold through the Group's retail sales company in the free market. With market prices in the area of 175 R$/MWh, a price fluctuation of 30% would affect the results by some Euros 1 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 LNG).

In the case of Spain, gas supply is guaranteed through long-term agreements. This mix of agreements comprises 23% at a fixed price while the remainder is indexed to the prices of various fuels on international markets.

Gas supply in Mexico is either secured through i) long-term agreements with PEMEX and CFE at a price indexed to international natural gas prices in the US, or ii) is contracted in the United States, and therefore at a price that depends on the market price of gas 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, the aggregate sum of which may never exceed 2% of consolidated net profit forecast 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 2018, 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 Euros 63 million for commodity derivatives and Euros 8 million for equity derivatives. In both cases, these values are much lower than the Euros 3,000 million and Euros 1,000 million thresholds set for non-financial companies in the European regulation (EMIR).

4.6 Other operational risks

Any of the IBERDROLA Group's activities, may give rise to direct or indirect losses as a result of inadequate internal procedures, technical failures, human error or external factors.

The IBERDROLA Group is exposed to the following operational risks, inter alia:

- Risk of malfunctions, explosions, fire, toxic spillages or polluting emissions in gas and electricity distribution networks and in both traditional and renewable generation plants.

- Force majeure

- Risk of sabotage and/or terrorism.

- Cybersecurity risks

- Operational risk of operations in treasury and energy markets.

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 making 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 to cover both material damage and civil liability.

In relation to insurance cover, IBERDROLA has international insurance programmes to cover equity (insurance for material damage, machinery breakdowns, loss of profits, damage due to natural disasters and risks arising from construction work) and third-party liabilities (general public liability, liability for environmental risks, professional public liability, etc.).

However, this insurance does not completely eliminate operational risk, since it is not always possible or in the Group's economic interest to pass all such risk on to insurance companies. In addition, cover is always subject to certain limitations and/or excesses.

- ***Operational risk of market transactions***

In addition, market trading conducted by the Group's various energy trading desks and treasury dealers is also exposed to operational risk.

This risk is mitigated by following the operational risk policy when trading on the market in accordance with a robust risk control culture, an appropriate segregation of duties, the publication of clear processes and policies and availability of secure and flexible information systems. This policy sets specific thresholds and guidelines applicable to all trades performed in accordance with the principle of proportionality.

- ***Cybersecurity risks***

The 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 lays down the necessary measures to promote secure usage of information and communications systems and other cyber-assets, bolstering detection, prevention, defence and response capacities with respect to counter cyberattacks.

The IBERDROLA Group currently has specific insurance protection against cyber risks under the terms allowed by the insurance market, and which will be regularly reviewed in view of the rapid evolution and extensive variety of cyber risks.

4.7 Climate change risks

IBERDROLA has a Policy against climate change (available from www.iberdrola.com) and is clearly committed to the investor community's growing interest in the risks of climate change, which is why we are working to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) initiative of the Financial Stability Board.

Climate change compromises several long-term risks which, to a greater or lesser extent are not new to the sector. Risks may be grouped in the following categories:

- Physical risks due to potential material impact on facilities due to the effects resulting from climate change (raise in temperatures, rise of sea level, variations in rainfall, increase both in frequency and intensity of extreme meteorological phenomena, etc.).

- Transition risks, linked to risks arising from global decarbonisation, such as regulatory, market price, technological, reputational, and demand changes, penalties and variations in demand, inter alia).

- Other risks, i.e. Credit impairment of counterparties (suppliers, banks, etc.,), social phenomena (humanitarian crises, impact on crops and fishing, refugee crises, epidemics, etc.) and larger competition for financial resources.

It is worth mentioning that the impact of climate change, despite being perceivable already in the short-term (i.e. Higher intensity and frequency of climate events in certain geographical areas), are progressive and act over relatively long periods of time. This mainly implies that it will be the Group's future assets and not current assets the ones more severely impacted, since assets are progressively renewed when they reach the end of their useful life. The design and specification of new equipment will bear in mind more severe climate conditions and technological improvements to come will allow obtaining more financial value from projects.

Regulated business

Given the geographical spread of our networks assets in Spain, the United Kingdom, the United States and Brazil, and in accordance with already existing studies, the potential increase in sea level in coast areas will have a reduced impact on the regulatory conditions of our Group's assets.

Increases in temperature and greater frequency of extreme weather events will imply a very moderate gradual increase in O&M costs (associated with various phenomena such as bigger technical losses and reduced useful life of assets) and in annual capital expenditure, although in perfectly manageable amounts given the multi-annual tariff revisions of these regulated businesses. Additionally, the investment and response plans already in force, accumulated experience and the design of networks (meshed) would act as mitigating factors.

In terms of risks of transition we would highlight that of large-scale development of distributed generation, the impact of which would be partly offset by the growing electrification of the economy (electric vehicles for example) and investment in smart grids.

Renewables Business

The main risk is potential negative future performance of hydraulic and wind resources, the key elements having a financial impact on this activity at present. Added to the uncertainty associated with long-term global climate projections is the need to specify the impact on the geographical regions where our generating assets are located, whether hydroelectric or wind-based, the latter to a lesser extent since they are more widely spread. Nowadays there a no conclusive reports by third parties enabling reasonable predictions on the potential positive or negative variation of said resources either at global or regional level.

In the case of hydraulic resources, a potential decrease in annual rainfall average could lead to a negative impact on the output of hydraulic plants, especially visible in flow plants. Additionally, climate change could affect seasonal rainfall.

- In Spain, for illustrative purposes, a drop of 5% in production would have an estimated mid-term impact on gross margin (net of taxes and rights) of approximately Euros 20 million.

- In Spain, for example, a drop of 5% in production would have an estimated impact for the Group of Euros 10 million (as a result of its stake in Neonergia).

In terms of transition risks, potential cuts to remuneration to renewable energies and a drop in wholesale marginal market prices due to a higher renewable production should be noted. To face this risks, potential technology improvements which would predictably improve the performance of facilities in the future, the inclusion of climate change risks in the assessment of new investments and alternative ways to market sale (such as PPAs or tariff agreements) should be highlighted.

Generation and Supply businesses

The long-term impact of climate change on the thermal generation business is not expected to be material, since the Group's assets in this area will be substantially reduced in the next few decades as they reach the end of their useful life, and will essentially be concentrated in Mexico.

The impact on the pure retail business is considered minor, since any possible negative impacts deriving from efficiency measures and changes in temperature could be offset by the increased growth that the electrification of the economy is expected to produce.

By way of conclusion, and in accordance with the forecast effects alluded to and the mitigating factors to hand, we estimate that the physical risks of climate change will not have a disastrous or lasting impact on the Group's consolidated figures, the Group being resilient overall, and in any case the opportunities deriving from the decarbonisation of the global economy (growth in renewables, investment in integrating smart grids, electrification of transport, etc.) outweigh the risks. In terms of transitional risks, the Group's current positioning, as a result of its focus as an investor on energy from renewable sources and networks, places it in a position of leadership to face these risks.

Apart from this we should highlight the fact that the Group continues to make progress with in-depth climate analysis with a view to improving its forecasting and establishing the most appropriate measures in order to adapt.

For further information on this risk, please refer to the Integrated Report of February 2019, as well as the "Climate Change Risk Management" section and the TCFD of the Sustainability Report for 2018.

4.8 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 consider that the outcome of the aforementioned disputes will not have a significant effect.

Notes 5.b. and 44 of the consolidated annual accounts contains a more detailed description of the most significant matters.

4.9. Risks materialised during the year

For further details, see the section E "Control systems and risk management" of the Corporate Governance Report 2018.

5. SIGNIFICANT SUBSEQUENT EVENTS TO YEAR END

Events after the reporting period are described in note 51 to the annual accounts.

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. Through its constant commitment to innovation, IBERDROLA ranks as the most innovative utility in Spain and the third in Europe in the European Commission's classification.

In 2018, IBERDROLA spent more than Euros 266 million on R&D&i activities, 8% more than in the previous year. These resources were basically directed at our business areas: more renewables, more structured smart grids, and more solutions for customers and digital transformation. Plus, continuing the digital transformation, applying more intelligence to it, has been crucial.

Looking ahead, new technologies, innovation and people will be the pillars on which we will build our energy model:

- **Disruptive technologies** that are increasingly efficient, sustainable and respectful of the environment, enabling the functioning of facilities and processes to be optimised.

- **Digitisation and automation**: The IBERDROLA Group plans of investing Euros 4,800 million in digital transformation between 2018 and 2022 and will focus its investment efforts in improving operation and performance of assets and in increasing the availability of generation plants, thanks to 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 collaborators. Among these initiatives, the International startup programme stands out.

- **Culture of innovation and talent:** IBERDROLA promotes a culture of innovation by means of knowledge transfer, attracting talent and promoting the entrepreneurial spirit: Within the University Programme, IBERDROLA collaborates with five first-class universities: the University of Salamanca, Universidad Pontificia de Comillas, Massachusetts Institute of Technology (MIT), Instituto Tecnológico de Monterrey and the University of Strathclyde. Various initiatives are developed with them: chairs, R&D projects, training of students, in-house training and young entrepreneurs. This past year also saw the launch of the Renewables Accelerator Programme, Networks 2.0 and Accelerator for Customer initiatives and of the IBERDROLA Renewables, IBERDROLA Distribution and Liberalised Businesses, with the aim of meeting the new demands both of the market and of the business itself.

The following are some of the most notable innovative initiatives classified by broad area.

6.1 Renewable energies

In 2018, Innovation activities in Renewables, similarly to previous years, have focused primarily on:

- Efficiency improvement at wind farms, photovoltaic plants and hydroelectric power stations. In this area the *Doctor PV* project stood out. It seeks to reduce costs of photovoltaic plants by means of predictive maintenance strategies, as well as the possible use of drones. We also continued to work on the European *ROMEO* project, coordinated by IBERDROLA, and the *ASPA* project, which seek to develop models and tools for the early detection of problems in accordance with artificial intelligence/big data techniques. We would highlight the launch of the "Renewables Digital Evolution Plan (2018 – 2022)", and the "Renewables Accelerator" project for the promotion of new ideas that contribute to an increase in efficiency and overall competitiveness of Renewables. In Brazil, we are developing various projects for the installation of solar energy. In Mexico, IBERDROLA constructed the photovoltaic installations of Santiago in San Luis Potosí and Hermosillo in Sonora. In the area of hydroelectric power, we would highlight the *HIDRODEMAND* project aimed at implementing operational savings and *HIDROSMART* for the development of 2 new technologies to be operated by the Basin Operation Centres.

- As regards improving the integration of energy from renewable sources, several initiatives have been carried out in the area of energy storage. In 2018 Avangrid Renewables registered as an independent Balancing Authority (BA), taking on the responsibility for balancing production and demand in real time. To do so, it will incorporate a 10MW/20MWh lithium-ion battery. We are also studying projects in the US for hybrid energy storage in batteries with photovoltaic solar power.

- As regards innovation in offshore wind projects, during 2018 the Wikinger offshore wind farm was inaugurated, and a start was made on construction of the East Anglia One offshore wind farm in the UK, with an innovative foundations based on 3-leg jackets and connection cables between 66kV arrays. In addition, activities have continued to analyze the effect of undermining on offshore foundations: HasPRO and Sodercan-SPJ.

6.2. Clean generation technologies

During 2018, efforts in the area of generation focused on flexibility, operating efficiency and environmental protection, and the improvement of plant safety.

In the field of nuclear, notable projects include *OFF-GAS*, *RESHAND* and *FILTRABRIS*, which were developed collaboratively with *GDEST4S* in the context of IBERDROLA's Innovation Programme with Suppliers, and all of them are aimed at operational efficiency and nuclear safety.

In the area of thermal generation, and as a continuation of the *GT-CONTROLFLEX* project, the *OCTAVE* project pursues the development of diagnostic and control technologies for the combustion process to make our power stations more flexible. Both projects are key to ensuring the robustness and security of the Spanish electricity system, allowing the integration of renewables.

6.3. Retail 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 2018 IBERDROLA worked on the following:

- New initiatives to enhance the customer experience:

  Throughout 2018 we continued to launch innovative campaigns and projects focused on greater personalisation of content and offerings, a new customer app in Spain, France and Portugal and a new website. Furthermore, it is now possible to sign up for and buy products online, without first having to register.

- New products and functionalities: Energy Wallet, Smart Home, Smart Solar and Smart Mobility.

  By means of the *Energy Wallet* app in Spain and the *PowerUp* app in the UK, customers can buy power by the month at a set price, choose how to pay and share it among all their houses. All this is 100% digital (website and app), easy and quick.

  This past year we launched new *Smart Home* packs combining energy, products and services, and devices for improving energy management in the home free of charge. We also improved the functionalities of *Smart Solar*, so that an "online offer" can now be obtained on the public website thanks to an analysis of consumption curves, expected hours of sunshine and the location and orientation of the installation. The web tool allows the production of the installation to be monitored, with details of consumption, possible storage in batteries and demand from the grid.

  Within *Smart Mobility*, we would highlight the launch of the new IBERDROLA Public Charging app which allows users to book and use the charging points in IBERDROLA's network, and also the launch of the *Smart Mobility Home* app designed to control charging of domestic appliances.

  In Brazil, Neonergia has made a mobile app available to customers allowing them to check their consumption, access their bills and manage their payments; and in the US, Avangrid has launched *NYSEG Smart*, an online store where customers can seek out, compare and securely buy energy-efficient products (smart thermostats, LED lighting, EV chargers, etc.).

6.4. Smart grids

In 2018, IBERDROLA Distribution has continued dedicating efforts to several R+D+i initiatives both at Spanish and European level:

- In Europe, we continue to take part in the *ASSURED* project, the objective of which is to develop quick charge solutions for heavy electric vehicles, and in the *INTENSIS4EU* project, which seeks a new approach in the field of smart grids and energy storage. As for the *STAR+* project, it will enable us to continue to digitise the network so as to improve efficiency and prepare IBERDROLA Distribution as a future distribution system operator (DSO).

- In Spain, IBERDROLA will continue to drive the digital transformation of the electricity distribution network of the Basque Country thanks to the *Bidelek 4.0* project. Work continues on the *LAYCA* project, which seeks to develop a system for locating breakdowns and characterising faults in medium-voltage networks. Work has started on the *ALOIS* project to develop a control and protection system for stable and sustainable island operation of distribution feeders. The *mGRIDSTORAGE* project is developing an advanced micro-grid model with storage for distribution networks. The *Caravaca BESS* project has been launched, with the aim of achieving the integration of a working battery energy storage system (*BESS*). We also continue to work in new analytical models for detecting non-technical losses. Lastly, the *CARTOLIDAR* project has improved the power-line inventory and mapped a cartography of the vegetation around power lines.

- In the UK, work continues on the *Fusion* and *LV Engine* projects, both targeted at optimising low-voltage grids which represent some of the major opportunities and challenges in the drive towards a more flexible system.

- In Brazil, we highlight the *BID MONITOR* project which is pursuing the development of a support system for decision-making in electricity sales, and the *Smart City* project for implementing innovative solutions for the automation and operation of the electricity grid. Projects on isolated micro-grids are also being developed. The *TITAM-BT* project seeks to develop equipment to help reduce fraud and ensure correct billing of customers. Lastly, we would highlight the *Qliente* project, which seeks to improve customer service by increasing efficiency and flexibility in the call centre and reducing times for restoration of service and resolving complaints.

- In the US, the outstanding project is the *Woodbridge Microgrid* in Woodbridge, Connecticut, a microgrid with a fuel cell which will be operated in island mode in the event of critical loads with the aim of backing up the grid in extreme weather conditions. The initiatives included in the *Energy Smart Community* (ESC) programme have also continued, such as the *ADMS* (advanced distribution management system). Apart from this, use has been made of drones to carry out pilot inspections of Transmission and Substation assets, with excellent result.

- 2018 saw the inauguration of '*IBERDROLA Innovation Middle East*', a technological centre aimed at rescinding to the challenges involved in digitising the energy system, from which the company will develop new innovation and technological advisory services, centring on three key areas: smart grids, integration of renewables and energy efficiency. Located in the unique Qatar Science & Technology Park, it aims to create new products and services for digital utility companies, working at the point where information and communication technologies intersect with those of energy.

6.5 IBERDROLA Ventures – PERSEO

IBERDROLA Ventures – PERSEO is IBERDROLA's Euros 70 million start-up programme created ten years ago with the aim of promoting the creation and development of a dynamic ecosystem of start-ups and entrepreneurs in the electricity sector. The programme focuses on technologies and business models that improve the sustainability of the energy model by means of greater electrification and decarbonisation of the economy. Since its creation in 2008, more than Euros 50 million have been invested through the programme in start-ups in the energy sector worldwide:

The most notable achievements in 2018 included:

- Recognition by the European Commission in the framework of the Start-up Europe Partnership initiative, IBERDROLA being named for the second year in a row among the 12 European companies doing the best work with start-ups. IBERDROLA was the only Spanish energy company selected for its model of innovation with start-ups, also receiving the special "Start-up Procurement Award".

- More than ten pilot projects with start-ups in technological areas such as Artificial Intelligence, "Big Data", IoT and blockchain, with the aim of improving both planning and management of assets and optimising their operation and maintenance.

- In the area of investment, we would point to the investment in Atten2, a company dedicated to the development of solutions for the online monitoring of critical assets to improve their operation and maintenance. This investment represents a very significant contribution to the digitisation of assets with the aim of prolonging their useful life by means of predictive maintenance and improved operation.

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 companies, the object of which are Company shares, as well as financial instruments or agreements of any type, whether or not they are traded on the stock market or other organised secondary markets, which grant the right to acquire, 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 previously or any other acceptable purposes in accordance with applicable regulations. Under no circumstances shall the purpose of treasury share transactions be to interfere with the free establishment of prices. In particular, any conduct referred to in article 83.ter.1 of the Securities Market Law and article 2 of Royal Decree 1333/2005, of 11 November 2005, implementing the Securities Market Law related as regards matters of market abuse, must be avoided.

The Group's treasury share transactions shall under any circumstances be carried out on the basis of insider information.

Treasury shares are to be managed providing with absolute transparency as regards relationships with market supervisors and regulatory organisations.

Note 20 of the consolidated annual accounts presents the movements of IBERDROLA's shares in the Group companies' portfolios in recent years. Likewise, other information on transactions in 2018 and 2017 is presented in the following table:

Treasury shares	No. of shares	Thousands of Euros Nominal value (thousands of Euros)	Thousands of Euros Treasury shares	Average price (Euros)	Total shares	% Capital
Balance at 01.01.2017	**151,224,777**	**113,419**	**868,936**	5.75	**6,362,079,000**	**2.38**
Additions	154,508,438	115,881	1,002,731	6.49	–	–
Depreciation	(219,990,000)	(164,993)	(1,280,176)	5.82	–	–
IBERDROLA scrip dividend [1]	1,896,638	1,422	–	–	–	–
IBERDROLA scrip dividend [2]	–	–	(9,379)	–	–	–
Disposals	(11,929,704)	(8,947)	(74,937)	6.28	–	–
31.12.2017	**75,710,149**	**56,782**	**507,175**	6.70	**6,317,515,000**	**1.20**
Additions	266,442,793	199,832	1,672,087	6.28	–	–
Depreciation	(198,374,000)	(148,781)	(1,245,420)	6.28	–	–
IBERDROLA scrip dividend [1]	5,117	4	(11,044)	–	–	–
IBERDROLA scrip dividend [2]	-	-	(11,044)	–	–	–
Disposals	(7,798,715)	(5,849)	(49,733)	6.38	–	–
Balance at 31.12.2018	**135,985,344**	**101,988**	**873,065**	**6.42**	**6,397,629,000**	**2.13**

Treasury shares ScottishPower	No. of shares	Thousands of Euros Nominal value (thousands of Euros)	Thousands of Euros Treasury shares	Average price (Euros)	Total shares	% Capital
01.01.2017	**1,374,405**	**1,031**	**9,580**	6.97	**6,362,079,000**	**0.02**
Additions	318,172	239	2,159	6.79	–	–
IBERDROLA scrip dividend	95,524	72	–	–	–	–
Disposals	(631,238)	(473)	(3,322)	5.26	–	–
31.12.2017	**1,156,863**	**869**	**8,417**	7.28	**6,317,515,000**	**0.02**
Additions	362,108	272	2,393	6.61	–	–
IBERDROLA flexible remuneration	144,747	109	–	–	–	–
Disposals	(613,079)	(460)	(2,734)	4.46	–	–
31.12.2018	**1,050,639**	**790**	**8,076**	**7.69**	**6,397,629,000**	**0.02**

During 2018 and 2017, treasury shares held by the IBERDROLA Group were below the legal limit at all times.

Lastly, the conditions and deadlines for the current mandate of the board of directors to acquire or transfer treasury shares are detailed below.

- The General Shareholders' Meeting, at its meeting of April 13, 2018, agreed to expressly authorize the Board of Directors, with the power to substitute, in accordance with the provisions of article 146 of the Spanish Companies Act, for the derivative acquisition. of shares of Iberdrola, SA in the following conditions:Acquisitions may be made directly by Company or indirectly through its subsidiaries under the same terms and conditions as this agreement. The subsidiary companies which develop regulated activities as prescribed in Law 24/2013 of 26 December on the Electricity Sector and Law 34/1988 of 7 October on the Hydrocarbon Sector are excluded from this authorization.

- Acquisitions may be made by purchase transactions, swaps or any other form permitted by law.

- Acquisitions may be made up, at all times, to the maximum legal threshold.

- Such acquisitions may not be made at a price higher than the market price or lower than the par value of the shares.

- This authorization is granted for a maximum period of five years since the adoption of the agreement.

- As a result of the acquisition of shares, including those in which the Company or the person acted on its own name and behalf but on behalf of the Company it had previously required and already had in stock, resulting net equity could not be reduced under its share capital plus unavailable legal or statutory reserved, as provided in section 146.1.b) of the Spanish Companies Act.

The agreement expressly states that the shares acquired as a result of this authorization may be used for their disposal or amortization as well as for the application of the remuneration systems contemplated in the third paragraph of letter a) of article 146.1 of the Companies Law Capital, as well as the development of programs that encourage participation in the capital of the Company, such as, for example, dividend reinvestment plans, loyalty bonds or other similar instruments.

- **Stock market data**

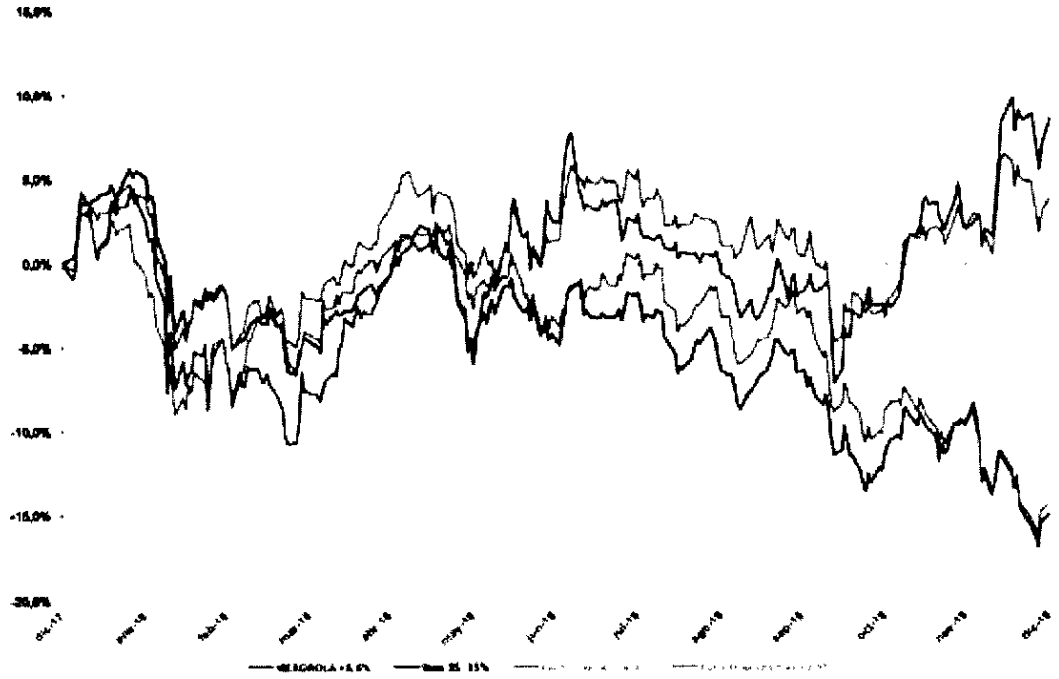
		2018	2017
Stock market capitalisation [1]	Millions of Euros	44,899	40,811
Earnings per share continuing operations	Euros	* 0.475	* 0.458
P.E.R. (share price at year end/profit per share)	Times	* 14.77	* 14.10
Price / Carrying amount (capitalisation on carrying amount at year end) [2]	Times	* 1.227	* 1.14

(1) 6,397,629,000 and 6,317,515,000 shares as of 31 December 2018 and 2017, respectively.

(2) Capitalisation at 31 December 2018 (44,899) / equity of parent company (36,582). Capitalisation at 31 December 2017 (40,811) / Equity of parent company (35,509).

- The IBERDROLA share

Stock market performance of IBERDROLA compared to the indexes:



	2018	2017
Number of shares outstanding	6,397,629,000	6,317,515,000
Share price at period end	* 7.02	* 6.46
Average share price for the period	* 6.43	* 6.62
Average daily volume	* 18,167,584	* 20,870,406
Maximum volume (19/01/2018 - 06/04/2017)	* 62,436,659	* 122,920,322
Minimum volume (24/12/2018 - 28/08/2017)	* 4,680,119	* 4,636,525
Remuneration to shareholders (Euros)	* 0.331	* 0.317
- Gross interim dividend (29/01/2018 - 23/01/2017) [1]	* 0.140	* 0.135
- Gross complementary dividend (24/07/2018 - 07/07 and 21/07/2017) [2]	* 0.186	* 0.177
Attendance bonus	* 0.005	* 0.005
Yield shareholder [3]	4.72%	4.91%

(1)Purchase price of rights guaranteed by IBERDROLA equivalent to interim dividend in accordance with "IBERDROLA scrip dividend".

(2) Complementary dividend in cash (24/07/2018 0.186; 07/07/2017 = Euros 0.03 and purchase price of rights guaranteed by IBERDROLA: = 21/07/2017 =0.147)

(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. Non financial information and diversity

The information required by Law 11/2018 on Non-financial information and diversity is described in the non-financial information and diversity section in this consolidated directors' report.

8.2. IBERDROLA Foundation

In 2018, the Group allocated Euros 10,277 thousand to financing the various Group foundations.

The main recipient of the funding was the IBERDROLA Foundation, which received Euros 6,604 thousand. Information on its goals and activities is available at: www.fundacioniberdrola.org. The 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 people in the regions and countries in which the Group operates, 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, the IBERDROLA Foundation coordinates and executes the Group's corporate social responsibility strategy, insofar as this is consistent with the purpose for which it was created and has been assigned there to it by the board of directors.

The IBERDROLA Foundation coordinates its welfare work in the United Kingdom through the Scottish Power Foundation, which was granted Euros 1,323 thousand. In the United States, this work is carried out through the Avangrid Foundation with a budget of Euros 2,211 thousand, and in Brazil through the Instituto IBERDROLA Brasil, which received Euros 140 thousand.

In 2016, the Group intends to follow a policy aimed at financing activities of interest to the general public in line with that followed in 2018 as regards amount and allocation.

ANNUAL CORPORATE GOVERNANCE REPORT 2018

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

ISSUER IDENTIFICATION

YEAR-END DATE: 31/12/2018

Tax Identification No. (C.I.F.) A-48010615

Company Name: IBERDROLA, S.A.

Registered Office: Plaza Euskadi número 5
48009 Bilbao - Biscay - Spain

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

A CAPITAL STRUCTURE

A.1 Complete the table below with details of the share capital of the company:

Date of last change	Share capital (Euros)	Number of shares	Number of voting rights
25/07/2018	4,798,221,750.00	6,397,629,000	6,397,629,000

Remarks
On 30 January 2019, the share capital was increased to 4,890,342,750 euros divided into 6,520,457,000 shares.

Please state whether there are different classes of shares with different associated rights:

Yes □ No X

Class	Number of shares	Par value	Number of votes	Associated rights

Remarks
All shares are of the same class and carry the same rights.

A.2 Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
QATAR INVESTMENT AUTHORITY	0.00	8.65	0.00	0.00	8.65
BLACKROCK, INC,	0.00	5.07	0.00	0.06	5.13
NORGES					

BANK	3.03	0.00	0.30	0.00	3.33

Remarks
Data at 31/12/2018

Breakdown of the indirect holding:

Name of indirect shareholder	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
QATAR INVESTMENT AUTHORITY	QATAR HOLDING LUXEMBURG II, S.A.R.L.	8.65	0.00	8.65
BLACKROCK INC	BLACKROCK GROUP	5.07	0.06	5.13

Remarks
According to available information, the approximate breakdown of the interests in the share capital by type of shareholder is as follows: - Foreign investors 66.27% - Domestic entities 10.25% - Domestic retail investors 23.48%

State the most significant shareholder structure changes during the year:

Name of shareholder	Date of transaction	Description of transaction
CAPITAL RESEARCH AND MANAGEMENT COMPANY	12/01/2018	Increase to above 5% of share capital
CAPITAL RESEARCH AND MANAGEMENT COMPANY	29/03/2018	Decrease to below 5% of share capital
CAPITAL RESEARCH AND MANAGEMENT COMPANY	21/05/2018	Decrease to below 3% of share capital
BLACKROCK, INC	08/02/2018	Increase to above 5% of share capital
BLACKROCK, INC	14/02/2018	Decrease to below 5% of share capital
BLACKROCK, INC	15/02/2018	Reached 5% of share capital
BLACKROCK, INC	21/02/2018	Decrease to below 5% of share capital
BLACKROCK, INC	27/02/2018	Increase to above 5% of

		share capital
BLACKROCK, INC	27/03/2018	Decrease to below 5% of share capital
BLACKROCK, INC	02/07/2018	Increase to above 5% of share capital
BLACKROCK, INC	09/07/2018	Decrease to below 5% of share capital
BLACKROCK, INC	18/07/2018	Increase to above 5% of share capital
BLACKROCK, INC	03/08/2018	Decrease to below 5% of share capital
BLACKROCK, INC	13/09/2018	Increase to above 5% of share capital
BLACKROCK, INC	14/09/2018	Decrease to below 5% of share capital
BLACKROCK, INC	15/10/2018	The percentage of total voting rights (shares plus financial instruments) has exceeded 5% of share capital
BLACKROCK, INC	22/10/2018	The percentage of voting rights attributed to the shares has exceeded 5% of share capital
NORGES BANK	10/01/2018	Decrease to below 3% of share capital
NORGES BANK	22/01/2018	Increase to above 3% of share capital
NORGES BANK	26/01/2018	Decrease to below 3% of share capital
NORGES BANK	06/02/2018	Increase to above 3% of share capital
NORGES BANK	05/04/2018	Decrease to below 3% of share capital
NORGES BANK	12/04/2018	Increase to above 3% of share capital
NORGES BANK	28/11/2018	Decrease to below 3% of share capital
NORGES BANK	03/12/2018	Increase to above 3% of share capital

Most significant movements
The sources of the information provided are the notices sent by the shareholders to the CNMV and to the Company itself, 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 10 January 2019, Norges Bank reported that its interest in the share capital of Iberdrola decreased to below 3%.

A.3 In the following tables, list the members of the Board of Directors (hereinafter "directors") with voting rights in the company:

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% of total voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	0.10	0.06	0.04	0.00	0.15	0.04	0.00
MS INÉS MACHO STADLER	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR IÑIGO VÍCTOR DE ORIOL IBARRA	0.02	0.00	0.00	0.00	0.02	0.00	0.00
MS SAMANTHA BARBER	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MS MARÍA HELENA ANTOLÍN RAYBAUD	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR ÁNGEL JESÚS ACEBES PANIAGUA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MS GEORGINA KESSEL	0.00	0.00	0.00	0.00	0.00	0.00	0.00

MARTÍNEZ							
MS DENISE HOLT	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR JOSÉ W. FERNÁNDEZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR MANUEL MOREU MUNAIZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR XABIER SAGREDO ORMAZA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR JUAN MANUEL GONZÁLEZ SERNA	0.00	0.01	0.00	0.00	0.00	0.00	0.00
MR FRANCISCO MARTÍNEZ CÓRCOLES	0.01	0.00	0.01	0.00	0.01	0.01	0.00
MR ANTHONY L. GARDNER	0.00	0.00	0.00	0.00	0.000	0.00	0.00

Total percentage of voting rights held by the Board of Directors	0.19

Remarks
The data reflected in this section is at 19/02/2019, the date of approval of this report. For the chairman & CEO, there is a deferral of the third delivery of shares from the 2014-2016 Strategic Bonus approved by the shareholders at the General Shareholders' Meeting in 2014 (510,596 shares). Each of the deliveries of shares is subject to confirmation by the Board of Directors, after a report from the Remuneration Committee, that the circumstances on which the performance evaluation was based remain in effect. 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 third delivery of shares from the 2014-2016 Strategic Bonus approved by the shareholders at the General Shareholders' Meeting in 2014 (120,931 shares). Each of the deliveries of shares is subject to confirmation by the Board of Directors, after a report from the Remuneration Committee, that the circumstances on which the performance evaluation was based remain in effect.

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.

Breakdown of the indirect holding:

Name of director	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% of total voting rights that can be transmitted through financial instruments
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	Royal Park 2000 SL	0.06	0.04	0.10	0.00
MR MANUEL MOREU MUNAIZ	María del Carmen Gamazo Trueba	0.00	0.00	0.00	0.00
MR JUAN MANUEL GONZÁLEZ SERNA	Grupo Sico Corporativo SL	0.01	0.00	0.01	0.00

Remarks

A.4 If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business, except those that are reported in Section A.6:

Name of related party	Nature of relationship	Brief description

A.5 If applicable, state any commercial, contractual or corporate relationships that exist between significant shareholders and the company and/or group, unless they are insignificant or arise in the ordinary course of business:

Name of related party	Nature of relationship	Brief description

A.6 Describe the relationships, unless insignificant for the two parties, that exist between significant shareholders or shareholders represented on the Board and directors, or their representatives in the case of legal-person directors.

Explain, as the case may be, how the significant shareholders are represented. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders.

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post

Remarks
There are no directors appointed on behalf of significant shareholders or directors connected thereto or proposed by them for appointment.

A.7 State whether the company has been notified of any shareholders' agreements that may affect it, in accordance with Articles 530 and 531 of the Ley de Sociedades de Capital ("Corporate Enterprises Act" or "LSC"). If so, describe these agreements and list the party shareholders:

Yes □ No X

Parties to the shareholders' agreement	Percentage of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable

Remarks

State whether the company is aware of any concerted actions among its shareholders. If so, provide a brief description:

Yes □ No X

Parties to the concerted action	Percentage of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable

Remarks

If any of the aforementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

A.8 State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Ley de Mercados de Valores ("Spanish Securities Market Act" or "LMV"). If so, please identify them:

Yes □ No X

Name

Remarks

A.9 Complete the following table with details of the company's treasury shares:

At the close of the year:

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
135,985,344		2.13

Remarks

(*) through:

Name of direct shareholder	Number of direct shares
Total:	

Remarks

Explain any significant changes during the year:

Explain significant changes
The Company sent to the CNMV three updates to its treasury share position in 2018 as a result of a change in the number of voting rights arising from corporate transactions: • Notices of direct acquisitions of a total of 3,391,573 shares (0.053%) were provided on 2 February, coinciding with the increase in capital resulting from the "Iberdrola Flexible Dividend" programme. • Notices of direct acquisitions of a total of 61,453,601 shares (0.985%) were provided on 3 July, coinciding with the reduction in capital; and • Notices of direct acquisitions of a total of 4,322,023 shares (0.068%) were provided on 1 August, coinciding with the increase in capital resulting from the "Iberdrola Flexible Remuneration" programme. During financial year 2018 the Company also provided three more notices arising from consecutive direct acquisitions of own shares due to said acquisitions exceeding 1% of voting rights since the preceding notice: • Notices of direct acquisitions of a total of 63,704,610 shares (1.008%) were provided on 12 January. • Notices of direct acquisitions of a total of 64,747,653 shares (1.006%) were provided on 26 March; and • Notices of direct acquisitions of a total of 132,533,252 shares (2.072%) were provided on 28 December.

A.10 Provide a detailed description of the conditions and terms of the authority given to the Board of Directors to issue, repurchase, or dispose of treasury shares.

The shareholders acting at the General Shareholders' Meeting held on 13 April 2018 resolved to expressly authorise the Board of Directors, with the power of substitution, pursuant to the Companies Act (*Ley de Sociedades de Capital*), to carry out the derivative acquisition of shares of Iberdrola on the following terms:

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 (*Ley del Sector Eléctrico*) and the Hydrocarbons Act (*Ley de Hidrocarburos*).
b) Purchases shall be made by means of a purchase and sale agreement, a swap arrangement, or any other transaction permitted by law.
c) Purchases may be made up to the maximum sum permitted by law (i.e. 10% of the share capital).
d) Purchases may not be made at a higher price than that quoted on the Stock Exchange or at a price lower than the share's nominal value.
e) The authorisation was granted for a period not to exceed five years as from the approval of the resolution.
f) The acquiring company shall establish a restricted reserve in shareholders' equity equal to the amount of the shares of the controlling company recorded under assets. Such reserve shall be maintained for so long as the shares are not transferred or retired, in compliance with the provisions of the Companies Act.

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 bonuses or similar instruments.

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.

A.11 Estimated working capital:

	%
Estimated working capital	88.88

Remarks

A.12 State whether there are any restrictions (article of associations, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

Yes X No □

Description of restrictions
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. 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. According to article 28, a shareholder may not exercise their right to vote at the General Shareholders' Meeting if the resolution to be approved is 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. Article 50 of the By-Laws provides that the by-law restrictions against the exercise of voting rights by shareholders affected by conflicts of interest 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. Furthermore, section 527 of the Companies Act provides that at listed companies (*sociedades anónimas cotizadas*), the by-law provisions that directly or indirectly set, as a general rule, the maximum number of votes that may be cast by a single 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. 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.

A.13 State if the shareholders have resolved at a meeting to adopt measures to neutralise a take-over bid pursuant to the provisions of Act 6/2007.

Yes □ No X

If so, please explain the measures approved and the terms under which such limitations would cease to apply:

Explain the measures approved and the terms under which such limitations would cease to apply:

A.14 State if the company has issued shares that are not traded on a regulated EU market.

Yes □ No X

If so, please list each type of share and the rights and obligations conferred on each.

List each type of share

B GENERAL SHAREHOLDERS' MEETING

B.1 State whether there are any differences between the quorum established by the LSC for General Shareholders' Meetings and those set by the company and if so, describe them in detail:

Yes X No □

	% quorum different from that contained in Article 193 LSC for general matters	% quorum different from that contained in Article 194 LSC for special resolutions
Quorum required at 1st call	0.00	66.67
Quorum required at 2nd call	0.00	60.00

Description of differences
As the only exception to the rules provided for in the Companies Act, article 21.2 of the By-Laws increases the quorum required to hold a valid meeting "in order to adopt resolutions regarding a change in the object of the Company, transformation, total split-off, dissolution of the Company, and the amendment of this section 2", in which case "shareholders representing two-thirds (2/3) of subscribed share capital with voting rights must be in attendance at the first call to the General Shareholders' Meeting, and shareholders representing sixty (60%) per cent of such share capital must be in attendance at the second call".

B.2 State whether there are any differences in the company's manner of adopting corporate resolutions and the manner for adopting corporate resolutions described by the LSC and, if so, explain:

Yes X No □

Describe how it is different from that contained in the LSC.

	Qualified majority different from that established in Article 201.2 LSC for Article 194.1 LSC matters	Other matters requiring a qualified majority
% established by the company for adoption of resolutions	75.00	75.00

Describe the differences
Article 52 of the By-Laws provides that all resolutions intended to eliminate or amend the provisions contained in title IV (breakthrough of restrictions in the event of takeover bids), in article 28 (conflicts of interest), and in sections 2 to 4 of article 29 (limitation upon the maximum number of votes that a shareholder may cast) shall require the affirmative vote of three-fourths (3/4) of the share capital present in person or by proxy at a General Shareholders' Meeting.

B.3. State the rules for amending the company's Articles of Association. In particular, state the majorities required for amendment of the Articles of Association and any provisions in place to protect shareholders' rights in the event of amendments to the Articles of Association.

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 Give details of attendance at General Shareholders' Meetings held during the year of this report and the two previous years:

	Attendance data				
	% physically present	% present by proxy	% distance voting		Total
Date of General Meeting			Electronic voting	Other	
13/04/2018	0.33	71.44	0.27	4.05	76 ,09
Of which, free float:	0.23	62.90	0.27	4.05	67.45
31/03/2017	0.39	71.92	0.17	4.71	77.19
Of which, free float:	0.32	60.43	0.17	4.71	65.63
08/04/2016	1.40	69.68	0.15	6.69	77.92
Of which, free float:	1.31	56.53	0.15	6.69	64.68

Remarks
Absentee votes cast by the shareholders through their depositaries (without direct communication from the shareholders to the Company), which in prior reports were included in the "in person" percentage, are now included in the "Other" column, which reflects the percentage of share capital of all absentee votes issued at each Meeting through depositaries and custodians, cards received at shareholder information desks, cards received by post and the telephone channel (started in 2018). Adding all votes and proxies received through the corporate website, electronic participation reached a percentage of share capital equal to 0.52% in 2016, 0.82% in 2017 and 1.03% in 2018. Free float percentages have been calculated by dividing the shares represented in person and by proxy less those belonging to significant shareholders and directors participating at each Meeting, according to the information available in the list of attendees, by the total shares outstanding as at the date of the Meeting. For these purposes, significant interests deposited in omnibus accounts (not opened in the name of the owners of such interests) are not subtracted from the shares present in person or by proxy, except in cases in which the significant shareholder notified the Company of the shareholder's participation in the Meeting.

B.5 State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason.

Yes □ No X

Points on agenda not approved	% votes against (*)

(*) If the non-approval of the point is for a reason other than the votes against, this will be explained in the text part and "N/A" will be placed in the "% votes against" column.

B.6 State if the Articles of Association contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

Yes □ No X

Number of shares required to attend General Meetings	
Number of shares required for distance voting	

Remarks

B.7 State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting.

Yes X No □

Explain the decisions that must be subject to the General Shareholders' Meeting, other than those established by law
Sections s), t) and u) of article 17 of the By-Laws provide that the shareholders acting at a General Shareholders' Meeting will decide the following issues, among others: s) The transfer to controlled entities of core activities that were previously carried out by the Company itself, while maintaining full control thereof. t) The acquisition, transfer, or contribution of key assets from or to another company. u) The approval of transactions having an effect equivalent to liquidation of the Company.

B.8 State the address and manner of access to the page on the company website where one may find information on corporate governance and other information regarding General Shareholders' Meetings that must be made available to shareholders through the company website.

www.iberdrola.com / corporate governance

C COMPANY ADMINISTRATIVE STRUCTURE

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors established in the Articles of Association and the number set by the general meeting:

Maximum number of directors	14
Minimum number of directors	9
Number of directors set by the general meeting	14

Remarks

C.1.2 Please complete the following table on directors:

Name of director	Representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to Board	Date of birth
Mr José Ignacio Sánchez Galán		Executive	Chairman & CEO	21/05/2001	27/03/2015	Resolution of General Shareholders' Meeting	
Ms Inés Macho Stadler		Other external	Vice Chair	07/06/2006	08/04/2016	Resolution of General Shareholders' Meeting	
Mr Iñigo Victor de Oriol Ibarra		Other external	Director	26/04/2006	08/04/2016	Resolution of General Shareholders' Meeting	
Ms Samantha Barber		Independent	Director	31/07/2008	08/04/2016	Resolution of General Shareholders' Meeting	
Ms María Helena Antolín Raybaud		Independent	Director	26/03/2010	27/03/2015	Resolution of General Shareholders' Meeting	
Mr Ángel Jesús Acebes Paniagua		Independent	Director	24/04/2012	27/03/2015	Resolution of General Shareholders' Meeting	
Ms Georgina Kessel Martínez		Independent	Director	23/04/2013	13/04/2018	Resolution of General Shareholders' Meeting	
Ms Denise Holt		Independent	Director	24/06/2014	27/03/2015	Resolution of General Shareholders' Meeting	
Mr José W. Fernández		Independent	Director	17/02/2015	27/03/2015	Resolution of General Shareholders' Meeting	
Mr Manuel Moreu Munaiz		Independent	Director	17/02/2015	27/03/2015	Resolution of General Shareholders' Meeting	
Mr Xabier Sagredo Ormaza		Other external	Director	08/04/2016	08/04/2016	Resolution of General Shareholders' Meeting	

Mr Juan Manuel González Serna		Independent	Lead Independent Director	31/03/2017	31/03/2017	Resolution of General Shareholders' Meeting	
Mr Francisco Martínez Corcoles		Executive	Director	31/03/2017	31/03/2017	Resolution of General Shareholders' Meeting	
Mr Anthony L. Gardner		Independent	Director	13/04/2018	13/04/2018	Resolution of General Shareholders' Meeting	

Total number of directors	14

State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name of director	*Director type at time of leaving*	Date of last appointment	Date director left	*Specialised committees of which he/she was a member*	*Indicate whether the director left before the end of the term*
Mr Braulio Medel Cámara	Independent	08/04/2016	13/04/2018	Corporate Social Responsibility Committee	Yes

Reason for leaving and other remarks
For personal reasons and in compliance with the provisions of the aforementioned succession plan set forth in Annex I to the General Corporate Governance Policy. (Self-organisation Rules of the Board of Directors).

C.1.3 Complete the following tables regarding the members of the Board and their categories:

EXECUTIVE DIRECTORS

Name of director	Post in organisational chart of the company	Profile
Mr José Ignacio Sánchez Galán	Chairman & CEO	Salamanca, Spain, 1950 He is the chairman of the boards of directors of the country subholding companies of the Iberdrola Group in the United Kingdom (Scottish Power Limited), the United States of America (Avangrid, Inc., a NYSE-listed company) and Brazil (Neoenergia, S.A.). He is a member of the group of top utility executives of the World Economic Forum (Davos), which he has chaired, and of the Steering Committee of the European Round Table of Industrialists. Personal profile and academic training He graduated as an Industrial Engineer from the Engineering School (ICAI) of Universidad Pontificia Comillas (Madrid). He has received honorary doctorate degrees from the universities of Salamanca, Edinburgh, and Strathclyde (Glasgow). He has been on the faculty of Escuela Técnica Superior de Ingeniería (ICAI), and is currently a visiting professor at the University of Strathclyde, chairman of the Social Council of the University of Salamanca and a member of the Dean's Advisory Council of the Massachusetts Institute of Technology (MIT). In 2017 he was named Best Chief Executive Officer (CEO) within the utilities category (for the eleventh time) according to the prestigious Institutional Investor Research Group; in 2011 he was named Best CEO of European utilities and of Spanish listed companies in investors relations, according to the Thomson Extel Survey; and he has received the Award for Best CEO in Investor Relations by IR Magazine on three successive occasions (2003-2005). Furthermore, in 2017 he received the Vocento Award for Business Leadership and in 2014 he received the international Responsible Capitalism award in London. He has recently been appointed as a

		member of the J.P. Morgan International Council. Noteworthy experience in the energy and industrial engineering sector In the industrial engineering sector, he has served as chief operating officer of Industria de Turbo Propulsores, S.A. (ITP) and as chairman of the European aerospace consortium Eurojet. He has also held various management positions at Sociedad Española del Acumulador Tudor, S.A. (now, Exide Group), engaged in the manufacture and sale of batteries. Noteworthy experience in other industries He has been chief executive officer of Airtel Móvil, S.A. (now, Vodafone España, S.A.U.) and a member of the Supervisory Board of Nutreco Holding N.V., a listed company in The Netherlands, active in the food industry. He was also founding partner and director of the Matarromera group, dedicated to viticulture and the production of wine and oil. Other information In addition to the awards mentioned, in 2018 he was named Universal Spaniard by Fundación Independiente, given the Silver Cross of Merit of the Guardia Civil (2018), and appointed as an Honorary Member of the Spanish Institute of Engineering; in 2016 he received the Medal of Honour of the Royal National Academy of Medicine; in 2014 he was distinguished by Queen Elizabeth II with the title Commander of the Most Excellent Order of the British Empire; in 2013 he was awarded the Gold Medal of the City of Salamanca; in 2011 he received the title of Lagun Onari (Friend of the Basques) bestowed by the Basque Government; in 2010 he was appointed as a member of GlobalScot, an international Scottish government network of business leaders who are most keenly committed to the economic development of Scotland; in 2009 he was awarded the Gold Medal of the Province of Salamanca and was named Consul of Bilbao by the Bilbao Chamber of Commerce, Industry and Shipping; and in 2007 he was awarded the

		Police Merit medal.
Mr Francisco Martínez Corcoles	Business CEO	Alicante, Spain, 1956 He is currently the Business CEO (*consejero-director general de los negocios*) of the Iberdrola group, chair of Iberdrola España, S.A. and a member of the board of the country subholding company in Mexico, Iberdrola México, S.A. de C.V. He is also a member of Merit of the National Association of Engineers of the Escuela Técnica Superior de Ingeniería (ICAI). Academic training Industrial Engineer specialising in Electricity from the ICAI (Universidad Pontificia Comillas, Madrid) and Master in Business Management from IESE Business School (Universidad de Navarra). Noteworthy experience in the energy and industrial engineering sector He worked at Compañía Sevillana de Electricidad, S.A. before joining Hidroeléctrica Española, S.A. and (after the merger with Iberduero, S.A.) Iberdrola, S.A., where he has been director of the Production Market, director of the Wholesale Energy Markets Business Unit, and general director of the Liberalised Energy Business of the Group, with overall responsibility for all of the Wholesale, Retail and Energy Management businesses of the Iberdrola group. In June 2014 he was appointed Business CEO of the Iberdrola group, with overall responsibility for all of the group's businesses throughout the world. He has also held the position of chair of Elektro Holding, S.A., of Iberdrola Generación, S.A., of Iberdrola Generación México, S.A. de C.V. and of Scottish Power Generation Holdings Ltd. and has been a member of the board of Compañía Operadora del Mercado Eléctrico Español, S.A., Elcogas, S.A. and Iberdrola Ingeniería y Construcción, S.A.

		He was also a member of the Board of Directors of the Spanish Electric Industry Association (*Asociación Española de la Industria Eléctrica*) (UNESA). Noteworthy experience in other industries He began his professional career at the Systems Division of Arthur Andersen. He has been a member of the advisory board of the International University of Bremen (Germany) and vice president of the Energy and Natural Resources Committee of the Spanish Institute of Engineering. Other information He was awarded the Javier Benjumea Prize of the Association of Engineers of ICAI in its XVII edition and the Gold Medal of the Spanish Nuclear Society.

Total number of executive directors	2
Percentage of the Board	14.29

Remarks

1.1.1.1 PROPRIETARY DIRECTORS

Name of director	**Name or company name of the significant shareholder represented or that has proposed their appointment**	**Profile**

Total number of proprietary directors	0
Percentage of the Board	0

Remarks

INDEPENDENT DIRECTORS

Name of director	Profile
Ms Samantha Barber	Dunfermline, Scotland, 1969 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. Academic training 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). Noteworthy experience in the energy and industrial engineering sector She has been a member of the Advisory Council of Scottish Power following the integration of the Scottish company into the Iberdrola Group. Noteworthy experience in other industries 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. 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. 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.
Ms María Helena Antolín Raybaud	Toulon, France, 1966 She is vice-chair of the Board of Directors and member of the Management Committee of Grupo Antolin Irausa, S.A. She is also the president of the Spanish Association of Automotive Equipment and Component Manufacturers (*Asociación Española de Fabricantes de Equipos y Componentes para Automoción*) (Sernauto), vice president of the Excellence in Management Club (*Club de Excelencia en la Gestión*), and a board member of France Foreign Trade (*Comercio Exterior de Francia*), Spain section. Academic training

	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). Noteworthy experience in the energy and industrial engineering sector She has served as an external independent director of Iberdrola Renovables, S.A. and a member of its Related-Party Transactions Committee. She has been in charge of the corporate Industrial and Strategy Divisions of Grupo Antolin Irausa, S.A., where she has also been a director of Human Resources and the head of Total Quality for the Group.
Mr Ángel Jesús Acebes Paniagua	Ávila, Spain, 1958 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 trustee of Fundación para el Análisis y Estudios Sociales (FAES) and of Fundación Universitaria de Ávila, UCAV. Academic training Degree in Law from Universidad de Salamanca. Noteworthy experience in the energy and industrial engineering sector 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. Noteworthy experience in other industries 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. In the institutional arena, he has been Minister for Public Administrations, Minister of Justice and Minister of the Interior of the Spanish Government.
Ms Georgina Kessel Martínez	Mexico City, Mexico, 1950 She is an independent director of Fresnillo plc and of Grupo Financiero Scotiabank Inverlat, as well as the chair of the latter's Audit Committee, a partner of Spectron E&I and a member of the Business Board of Universidad de las Américas Puebla (UDLAP). Academic training 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). Noteworthy experience in the energy and industrial engineering sector She has been chair of the Energy Regulatory Commission (*Comisión Reguladora de Energía*) and Energy Secretary of the Government of Mexico. 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 (*Comisión Federal de Electricidad*) (CFE). 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). Noteworthy experience in other industries She has been an adviser to the chair of the Federal Competition Commission (*Comisión Federal de Competencia*), head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit (*Unidad de Inversiones y Desincorporación de Entidades Paraestatales*) of the Office of the Secretary of Finance and Public Credit of Mexico, general manager of the National Mint of Mexico (*Casa de Moneda de México*), 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. 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 has also been holder of the Quintana Chair for Research in International Trade and is the author of many papers and specialised articles.
Ms Denise Holt	Vienna, Austria, 1949 She is an independent director and member of the Audit Committee of HSBC UK Bank plc, chair and independent director of M&S Financial Services Ltd., member of the Board of the University of Sussex and President of Cañada Blanch Centre for Contemporary Studies of the London School of Economics and Political Science (LSE). Academic training 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). Noteworthy experience in the energy and industrial engineering sector She has been a director of Scottish Power Renewable Energy Ltd. and of Scottish Power Energy Networks Holdings Ltd. Noteworthy experience in other industries

	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). She has also been a member of the Risk Committee of HSBC Bank plc, an independent director and member of the Quality and Safety and Remuneration Committees of the Board of Directors of Nuffield Health, 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.
Mr José W. Fernández	Cienfuegos, Cuba, 1955 He is a partner of Gibson, Dunn & Crutcher and a member of the board of directors of the Council of the Americas and the Center for American Progress. Academic training Degree in History from Dartmouth College (New Hampshire, United States of America), and Juris Doctor from Columbia University (New York, United States of America). Noteworthy experience in the energy and industrial engineering sector 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. Noteworthy experience in other industries He has served on the boards of Dartmouth College, NPR Station WBGO-FM, the Middle East Institute, and Ballet Hispanico of New York and of non-governmental institutions such as Acción Internacional. He has also been the State Department's representative on the Committee on Foreign Investment in the United States. In addition, he was named one of the "World's Leading Lawyers" by Chambers Global for his M&A work, an "Expert" by the International Financial Law Review, one of the "World's Leading Privatization Lawyers" by Euromoney, and "Embajador de la Marca España" (Ambassador of the Spain Brand).
Mr Manuel Moreu Munaiz	Pontevedra, Spain, 1953 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., a 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 at Universidad Politécnica de Madrid (ETSIM), of the Maritime Master's Programme of Instituto Marítimo Español and of Universidad Pontificia Comillas.

	Academic training 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). Noteworthy experience in the energy and industrial engineering sector He has been a member of the Corporate Social Responsibility Committee of Iberdrola, S.A., of the Board of Directors of Iberdrola Renovables, S.A., and a director and member of the Audit and Compliance Committee of Gamesa Corporación Tecnológica, S.A. Noteworthy experience in other industries 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, president of the Spanish Institute of Engineering, and a professor of the Escuela Técnica Superior de Ingenieros Navales of the Universidad Politécnica de Madrid and for the Repsol's Masters programme in oil.
Mr Juan Manuel González Serna	Madrid, Spain, 1955 He is the chairman of Cerealto SIRO Foods, a business group in the food sector, and a member of the Governing Board of the Spanish Commercial Coding Association (*Asociación Española de Codificación Comercial*) (AECOC). He is also a founding trustee and chairman of the Grupo SIRO Foundation. Academic training Degree in Law, Economics and Business Studies from the Instituto Católico de Administración y Dirección de Empresas (ICADE) of Universidad Pontificia Comillas (Madrid) and 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. Noteworthy experience in the energy and industrial engineering sector 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. Noteworthy experience in other industries 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 Hospitales Group.
Mr Anthony L. Gardner	Washington D.C., United States of America, 1963 He is a member of the board of directors of Brookfield Business Partners LP, senior adviser at the consulting firm Brunswick Group, LLP and senior counsel in the law firm Sidley Austin LLP, where he works in the International Trade and Privacy and Cybersecurity areas. He is also an adviser to the Bill and Melinda Gates Foundation and a member of the advisory boards of the Centre for European Reform, the German Marshall Fund and the European Policy Centre. Academic training He studied Government at Harvard University and International Relations at the University of Oxford. He holds a Juris Doctor degree from Columbia Law School and a Masters in Finance from London Business School. Noteworthy experience in the energy and industrial engineering sector He was an independent director of Scottish Power, Ltd and a member of that company's Audit and Compliance Committee. Noteworthy experience in other industries He was the US ambassador to the European Union from 2014 to 2017. Prior to that appointment, for six years he was the managing director at Palamon Capital Partners, a private equity firm based in London. He was also the director of one of the finance departments of Bank of America and of GE Capital, as well as director in the international acquisitions *group of GE International. He has also worked as an* attorney at international law firms in London, Paris, New York and Brussels. He has dedicated more than twenty years of his career to US-European affairs, as a government official, lawyer and investor. As Director for European Affairs on the National Security Council (1994-1995), he worked closely with the US Mission to the European Union to launch the Transatlantic Free Trade Agreement. He had previously worked with the Treuhandanstalt (German Privatisation Ministry) in Berlin, with the Stock Exchange Operations Committee in Paris and as secondee for the European Commission in Brussels. He is the author of "A New Era in US-EU Relations? The Clinton Administration and the New Transatlantic Agenda" and numerous articles on EU affairs.

Number of independent directors	9

Percentage of the Board	64.29

Remarks

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Name of director	Description of the relationship	Statement of the Board

1.1.1.2 OTHER EXTERNAL DIRECTORS

Name of director	Reason	Company, director or shareholder to whom the director is related	Profile
Ms Inés Macho Stadler	More than 12 years have passed since appointment.		Bilbao, Spain, 1959 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 an honorary member of the European Economic Association and of the Spanish Economic Association (*Asociación Española de Economía*) as well as a member-elect of The Academy of Europe. Academic training 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). Noteworthy experience in the energy and industrial engineering sector She has served as lead independent director (*consejera coordinadora*) of Iberdrola, S.A. and chair of its Remuneration Committee. Noteworthy experience in the energy and industrial economy sector 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 (*Asociación Española para la Economía Energética*). Noteworthy experience in other industries She has been president of the Spanish Economic Association, coordinator of the National Agency for Quality Evaluation and Accreditation (*Agencia Nacional de Evaluación y Prospectiva*), 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". She has taught at universities in Germany, Belgium, Brazil, Denmark, France, Portugal and Spain.
Mr Iñigo Victor de Oriol Ibarra	More than 12 years have passed since appointment.	IBERDROLA	Madrid, Spain, 1962 He is a member of the board of Empresa de Alumbrado Eléctrico de Ceuta, S.A. Academic training Bachelor of Arts in International Business from Schiller International University (Madrid), a graduate of the Executive Corporate Management Programme of IESE Business School, and Certified European Financial Analyst (CEFA) from Instituto Español de Analistas Financieros. Noteworthy experience in the energy

			and industrial engineering sector He has been chair of Electricidad de La Paz, S.A. (Bolivia), of Empresa de Luz y Fuerza Eléctrica de Oruro, S.A. (Bolivia), and of Iberoamericana de Energía Ibener, S.A. (Chile), as well as a member of the board of Neoenergia, S.A. (Brazil) and of Empresa Eléctrica de Guatemala, S.A. He has also been a member of the Remuneration Committee of Iberdrola, S.A., director of Corporate Governance for the Americas of Iberdrola, S.A., director of Management Control at Amara, S.A., and a financial analyst in the Financial Division and the International Division of Iberdrola, S.A. Noteworthy experience in other industries He has been chair of Empresa de Servicios Sanitarios de Los Lagos, S.A. (ESSAL) in Chile.
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.	KUTXABANK	Portugalete, Spain, 1972 He is chair of the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria-Bilbao Bizkaia Kutxa Banku Fundazioa, of BBK Fundazioa and of Fundación Eragintza. He is also a trustee of Biocruces Sanitary Research Institute, of the Bilbao Museum of Fines Arts and of the Guggenheim Foundation, at which he also serves as member of the Executive Committee. In addition, he is a member of the Orkestra Basque Institute of Competitiveness and of the Board of Directors of the Management Council of Universidad de Deusto, and is a visiting professor at various institutions. Academic training Degree in Economics and Business from Universidad del País Vasco, with a major in Finance, and holder of postgraduate degrees in various areas. Noteworthy experience in the energy and industrial engineering sector He has been a director of Iberdrola Generación, S.A. and a member of its Audit and Compliance Committee. He has also been a director of Iberdrola Distribución Eléctrica, S.A., at which he has held the position of chair of the Audit and Compliance Committee.

			Noteworthy experience in other industries He has been the director of the Expansion and Assets area of the credit institution Ipar Kutxa, managing director of the concessionaire Transitia, and a member of the Board of the Bilbao Port Authority. In addition, he has been chair and vice-chair of the Board of Directors of Caja de Ahorros Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea (BBK), and chair of its Audit Committee.

Total number of other external directors	3
Percentage of the Board	21.43

Remarks

State any changes in status that have occurred during the period for each director:

Name of director	Date of change	Previous Status	Current status
Ms Inés Macho Stadler	07/06/2018	Independent	Other external

Remarks
Twelve years have passed since appointment.

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each:

	Number of female directors				% of directors for each category			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	-	-	-	-	-	-	-	-
Proprietary	-	-	-	-	-	-	-	-
Independent	4	5	5	5	44	50	50	50
Other external	1				6			
Total:	5	5	5	5	35.71	35.71	35.71	35.71

Remarks
The Board of Directors has proposed to the shareholders at the General Shareholders' Meeting to be held on 29 March 2019 the appointment of Sara de la Rica Goiricelaya in order to fill the vacancy occurring due to the end of the term of Ángel Jesús Acebes Paniagua. If such proposal is approved, the percentage of women on the Board of Directors will increase to 50% of the external directors.

C.1.5 State whether the company has diversity policies in relation to the Board of Directors of the company on such questions as age, gender, disability and training and professional experience. Small and medium-sized enterprises, in accordance with the definition set out in the Accounts Audit Act, will have to report at least the policy they have implemented in relation to gender diversity.

(i) Yes X No □ Partial policies □

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also state the specific measures adopted by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, including results achieved
The Company's Corporate Governance System, and particularly the Board of Directors Diversity and Director Candidate Selection Policy, 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. Five of the fourteen members of the Board of Directors are currently women. One of them holds the position of vice chair of the Board of Directors and another three chair three of the four consultative committees. 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 (*consejera coordinadora*), in which position she was replaced by Mr Juan Manuel González Serna. On 21 June 2018 Ms Inés Macho Stadler was appointed vice chair of the Board of Directors.

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 Sustainable Development Committee since 24 April 2012.

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.

On 23 April 2013, Iberdrola's Board of Directors approved the interim appointment of Ms Georgina Kessel Martinez 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.

On 24 June 2014, the Board of Directors approved the interim appointment of Ms Denise Holt as an external independent director. This appointment was ratified by the shareholders at the General Shareholders' Meeting held on 27 March 2015.

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.

The Board of Directors has proposed to the shareholders at the General Shareholders' Meeting to be held on 29 March 2019 the appointment of Sara de la Rica Goiricelaya in order to fill the vacancy occurring due to the end of the term of Ángel Jesús Acebes Paniagua. If such proposal is approved, the percentage of women on the Board of Directors will increase to 50% of the external directors.

It should also be noted that the Board of Directors, at its meeting held on 19 December 2017, approved a 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) 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 Describe the means, if any, agreed upon by the appointments committee to ensure that selection procedures do not contain hidden biases which impede the selection of female directors and that the company deliberately seeks and includes women who meet the target professional profile among potential candidates and which makes it possible to achieve a balance between men and women:

Explanation of means
The *Board of Directors Diversity and Director Candidate Selection Policy* 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. 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 purview. 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 might hinder the selection of female directors.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

Explanation of reasons
Not applicable

C.1.7 Describe the conclusions of the appointments committee regarding verification of compliance with the selection policy for directors; in particular, as it relates to the goal of ensuring that the number of

female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.

The Remuneration Committee believes that IBERDROLA is developing the Diversity Policy in a fully consistent manner and that the objectives for 2020 were met significantly in advance, as shown in section C.1.4 of this Report.

C.1.8 If applicable, please explain the reasons for the appointment of any proprietary directors at the request of shareholders with less than a 3% equity interest:

Name of shareholder	Reason

State whether the Board has failed to meet any formal requests for membership from shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. If this is the case, please explain why the aforementioned requests were not met:

Yes □ No X

Name of shareholder	Explanation

C.1.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees:

Name of director or committee	Brief description
Mr José Ignacio Sánchez Galán	The chairman & CEO, as an individual decision-making body, has all the powers that may be delegated under the law and the By-Laws.
Executive Committee	All the powers inherent to the Board of Directors, except for those powers that may not be delegated pursuant to law or the Corporate Governance System.

C.1.10 Identify any members of the Board who are also directors, representatives of directors or officers in other companies in the group of which the listed company is a member:

Name of director	Name of group member	Position		Does the director have executive powers?
Mr José Ignacio Sánchez Galán	SCOTTISH POWER LTD.	Chair		No
Mr José Ignacio Sánchez Galán	AVANGRID, INC.	Chair		No
Mr José Ignacio Sánchez Galán	NEOENERGIA, S.A.	Chair		No
Mr Francisco Martínez Córcoles	IBERDROLA ESPAÑA, S.A.	Chair		No
Mr Francisco Martínez Córcoles	IBERDROLA MÉXICO, S.A. DE C.V.	Director		No

Remarks

C.1.11 List any directors or representatives of legal person-directors of your company who are members of the Board of Directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company:

Name of director	Name of listed company	Position
MS GEORGINA KESSEL MARTÍNEZ	GRUPO FINANCIERO SCOTIABANK INVERLAT, S.A. DE C.V.	Director
MS GEORGINA KESSEL MARTÍNEZ	FRESNILLO, PLC	Director
MR MANUEL MOREU MUNAIZ	TUBACEX, S.A.	Director

Remarks

C.1.12 State whether the company has established rules on the number of boards on which its directors may hold seats, providing details if applicable, identifying, where appropriate, where this is regulated:

Yes X No □

Explanation of the rules and identification of the document where this is regulated
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.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	16,987
Amount of vested pension interests for current members (thousand euros)	0
Amount of vested pension interests for former members (thousand euros)	0

Remarks
This amount includes the remuneration received (5,434 thousand euros) by all of their directors for their performance as such during financial year 2018 (fixed remuneration, attendance fees and other items) as well as salaries, annual variable remuneration and the shares received by the executive directors in payment of the second period of the 2014-2016 Strategic Bonus, all of which is duly described in the Annual Director Remuneration Report.

C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:

Name	Position
Mr José Sainz Armada	CFO
Mr Juan Carlos Rebollo Liceaga	Administration and Control Director
Mr Pedro Azagra Blázquez	Corporate Development Director
Mr Santiago Martínez Garrido	Director of Legal Services
Ms Sonsoles Rubio Reinoso	Director of Internal Audit

Total senior management remuneration (thousand euros)	10,344

Remarks
The amount of the fixed and variable remuneration of the directors of the Iberdrola group (150 people) is 47,310 thousand euros. This figure does not include the total of the shares delivered in payment of the long-term incentives.

C.1.15 State whether the Board rules were amended during the year:

Yes x **No** □

Description of changes
A new Title I has been introduced regarding the principles that should govern the conduct of the Board of Directors, in order to include within the guidelines for their conduct the effective engagement of shareholders and other stakeholders, satisfaction of the corporate interest, commitment to the social dividend and conformance of the work of the Board of Directors and all of its members to the Company's Code of Ethics. In particular, the Board of Directors' commitment to the Sustainable Development Goals (SDGs) approved by the United Nations and to the fight against climate change has been made explicit. There has also been an update of references to the Corporate Social Responsibility Committee, which in October 2018 became the Sustainable Development Committee, and other technical improvements have been made in order to clarify the powers of the Board of Directors and of the lead independent director, as well as to simplify and improve the consistency of the regulation of the committees.

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied in each procedure.

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 & 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 2018.

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.1.17 Explain how the annual evaluation of the Board has given rise to significant changes in its internal organisation and to procedures applicable to its activities:

Description of changes
The Iberdrola group has an on-going commitment to the development of its corporate governance. Along these lines, 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. More than 98% of the work areas defined in the evaluation process from the prior year were met during 2018. Specifically, significant advancements were made in the following areas: Composition of the governance bodies: - Appointment of Mr Juan Manuel González Serna as lead independent director (*consejero coordinador*). - Appointment of Ms Inés Macho Stadler as vice-chair of the Board of Directors. - Staggered renewal of the Board of Directors, with the appointment of Mr Anthony L. Gardner, who has a profile aligned with the

needs specified in the renewal planning matrix for the Board of Directors.
- Strengthening of the checks-and-balances system with the appointment of CEOs at the country subholding companies.

Operation:
- Preparation of an orientation programme for new directors.
- Implementation within the Audit and Risk Supervision Committee of the recommendations contained in Technical Guide 3/2017 on audit committees at public-interest entities.
- Allocation of new talent management and promotion powers to the Appointments Committee.
- Approval of a new *Director Remuneration Policy* at the 2018 General Shareholders' Meeting.
- Preparation of a comparative analysis of the remuneration of the executive directors with the support of an external adviser.
- Inclusion of the SDGs approved by the UN in more than 30 corporate policies and rules of the Corporate Governance System.

Stakeholder engagement:
- Contact by the lead independent director with shareholders of the Company.
- Continuous analysis of the main issues raised by the shareholders and other stakeholders.
- Expansion of the information published regarding shareholder engagement, describing the main issues discussed with the shareholders at the corporate governance roadshows.
- Iberdrola's joining the *Task force on Climate Related Financial Disclosure* initiative.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

Description of the evaluation process and evaluated areas
The Board of Directors evaluates its performance on an annual basis. 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 19 February 2019, which approved the results of the evaluation of financial year 2018 and the Continuous Improvement Plan for financial year 2019. 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 covering 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 compliance with the indicators relating to mandatory legal rules and regulations and an alignment of more than 95% with the comparative analysis, with the latest international trends and with the implementation of the areas for improvement identified during prior years.
The Continuous Improvement Plan 2019 deriving from the evaluation process focuses on continuing to advance in three areas, principally:

- Strengthening supervision in critical areas, like the monitoring of factors that could eventually involve major changes in strategy, performance or the environment in which the Company competes.
- Continuing to adopt best international practices on the operation of consultative committees.
- Reviewing new developments arising from the CNMV's draft Technical Guide on Nomination and Remuneration Committees and identifying actions for greater implementation thereof.

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

Iberdrola has been assisted by an outside consultant for the last 9 years. In 2017 and 2018, business relations with PwC came to an aggregate of 10.7 million euros and 11.2 million euros, respectively. The amount of billing by PwC for advising the Board of Directors and the Office of the Secretary thereof in 2018 was 500,000 euros.

C.1.19 State the situations in which directors are required to resign.

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.1.20 Are qualified majorities other than those established by law required for any specific decision?

Yes X No □

If so, please describe any differences.

Description of differences
The Regulations of the Board of Directors require a majority of at least two-thirds of the directors present at the meeting in person or by proxy to approve the amendment thereof. The serious reprimand of a director for having breached any of the duties entrusted thereto as director under the Regulations of the Board of Directors requires a majority of two-thirds of the directors.

C.1.21 Explain whether there are any specific requirements, other than those relating to directors, to be appointed as chairman of the Board of Directors.

Yes □ No X

Description of requirements

C.1.22 State whether the Articles of Association or the Board Rules establish any limit as to the age of directors:

Yes □ No X

	Age limit
Chairman	
CEO	
Directors	

Remarks
Each of the non-executive directors has undertaken to tender their resignation to the Board of Directors at the first meeting it holds after they reach seventy years of age or twelve years as a director of the Company.

C.1.23 State whether the Articles of Association or the Board Rules establish any term limits for independent directors or other more stringent requirements in addition to those established by law:

Yes □ No X

Additional requirements and/or maximum number of term limits	

C.1.24 State whether the Articles of Association or Board Rules establish specific rules for granting proxies to other directors at Board meetings, how they are to be delegated and, in particular, the maximum number of proxies that a director may have, as well as if there is any limit regarding the category of director to whom a proxy may be granted beyond the limitations imposed by law. If so, please briefly describe the 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.1.25 State the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the chairman present. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

Number of Board meetings	8
Number of Board meetings without the chairman	

Remarks

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	1

Remarks
Pursuant to the provisions of art. 45 of the By-Laws, the lead independent director coordinates, meets with and reflects the concerns of the non-executive directors, and also directs the periodic evaluation of the chairman of the Board of Directors and leads any process for the succession thereof. In the exercise of these powers, the lead independent director has had meetings with the non-executive directors and, in particular, contacted all of the independent directors, who unanimously resolved to propose the re-election of the chairman & CEO.

Please specify the number of meetings held by each committee of the Board during the year:

Number of meetings held by the Executive Committee	15
Number of meetings held by the Audit and Risk Supervision Committee	12
Number of meetings held by the Appointments Committee	6
Number of meetings held by the Remuneration Committee	6
Number of meetings held by the Sustainable Development Committee	7

Remarks
The Appointments Committee adopted resolutions in writing and without a meeting on three occasions. The Remuneration Committee adopted resolutions in writing and without a meeting on two occasions.

C.1.26 State the number of meetings held by the Board of Directors during the year and information regarding the attendance of its members:

Number of meetings with the attendance of at least 80% of the directors	8
% personal attendance of total votes during the year	100.00
Number of meetings with all directors attending in person or by proxy with specific instructions	8
% of votes cast in person and by proxy with specific instructions of all votes cast during the year	100.00

Remarks
The attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2018 is detailed in the Annex to this Report.

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

Yes X No □

Identify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for preparation by the Board:

Name	Position
Mr José Ignacio Sánchez Galán	Chairman & CEO
Mr Juan Carlos Rebollo Liceaga	Administration and Control Director

Remarks
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 & CEO 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.

C.1.28 Explain any measures established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the General Shareholders' Meeting with a qualified audit opinion.

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 statutory 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 statutory audit 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 statutory audit. - 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 statutory 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 statutory 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 statutory 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. In turn, the Regulations of the Board of Directors provide that: - The Board of Directors shall meet with the statutory 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 statutory auditors. However, if 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 rules, the Audit and Risk Supervision Committee reports on the economic/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 2018: - Report dated 23 April 2018 on the Interim Management Statement for the first quarter of 2018. - Report dated 23 July 2018 on the economic/financial information for the first half of 2018. - Report dated 22 October 2018 on the Interim Management Statement for the third quarter of 2018. - Report dated 18 February 2019 regarding the annual accounts of Iberdrola and its consolidated group for financial year 2018. As disclosed in the information about Iberdrola posted on the website of the National Securities Market Commission (www.cnmv.es), the audit reports on the individual and consolidated annual accounts prepared by the Board of Directors have historically been issued without qualifications.	

C.1.29 Is the secretary of the Board also a director?

Yes ☐ No x

If the secretary is not a director, please complete the following table:

Name of the secretary	Representative
Mr Julián Martínez-Simancas	

Remarks

C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

MECHANISMS TO PRESERVE THE INDEPENDENCE OF THE AUDITOR.

The Regulations of the Audit and Risk Supervision Committee and the Statutory 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 must discuss with the statutory auditor any circumstance that might give rise to a threat to the independence thereof and evaluate the effectiveness of the protective measures adopted, as well as understand and evaluate the set of relationships between the Iberdrola group and the statutory auditor and its network that entail the provision of non-audit services or any other type of relationship.
- The Committee shall ask the statutory auditor to provide an annual certification of independence of the firm as a whole and of the members of the team participating in the process of auditing the annual accounts of the Iberdrola group from the Company or entities directly or indirectly connected thereto, as well as a detailed breakdown of information regarding additional services (other than auditing) of any kind provided by the statutory auditor or by persons connected thereto, pursuant to the law on statutory audit. In addition, the statutory auditor shall include in such certification 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 statutory 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 immediately preceding financial year.
- On an annual basis and prior to the issuance of the audit report, the Committee shall issue a report setting forth an opinion on the independence of the statutory auditor. This report must contain an assessment of the possible impact on the independence of the statutory auditor of each and every one of the additional services (other than the legal

audit) of any kind provided by the statutory auditor or by persons connected thereto, considered individually and as a whole.

- The Committee shall monitor the quality assurance and independence safeguarding internal procedures implemented by the statutory auditor.
- The Committee shall not submit a proposal to the Board of Directors, and the Board of Directors shall not submit a proposal to the shareholders at the General Shareholders' Meeting, for appointment as statutory auditor of firms for which it has evidence that they are affected by any circumstance of lack of independence, prohibition or disqualification pursuant to the legal provisions governing the audit of accounts, and in any event if the fees that the Company intends to pay it for any and all services are greater than five percent of its total domestic income during the last financial year.
- The Committee shall receive information on the hiring by any of the companies of the Iberdrola group of professionals coming from the statutory auditor.

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 2018:

- Iberdrola's statutory auditor, "KPMG Auditores, S.L" ("KPMG") appeared on fifteen occasions before the Audit and Risk Supervision Committee and on one occasion before the Board of Directors to report on various matters relating to the audit process. During these appearances, the statutory auditor did not report issues that might put its independence at risk.
- On 19 February 2018 KPMG sent to the Committee written confirmation of its independence with regard to the audit of the economic/financial information for financial year 2017.
- On 19 July 2018 KPMG sent to the Committee written confirmation of its independence with regard to the limited review of the economic/financial information until 30 June 2018.
- On 18 February 2019 KPMG sent to the Committee written confirmation of its independence with regard to the audit of the economic/financial information for financial year 2018.
- In the letters described above, the statutory auditor represents that it has implemented internal policies and procedures designed to reasonably ensure that KPMG and its personnel maintain their independence when so required by applicable legal provisions.
- The hiring of the statutory auditor for services other than auditing is approved in advance by the Committee. Furthermore, prior to approval thereof, the director of the Audit Area, and if necessary the audit committee and internal audit division of the group company receiving the services, must state that the provision thereof does not generate threats to the independence of the statutory

auditor. In requests for services directed by the Committee, the statutory auditor must confirm that there are no restrictions on independence for the performance of the work in question.

- In its statement of independence of 18 February 2019, KPMG reported that it had no evidence that any member of the teams participating in the audit of the financial statements for financial year 2018 had joined as an employee of Iberdrola or of its related companies.
- On 18 February 2019 the Committee submitted its report to the Board of Directors regarding the independence of the Company's statutory auditor. The Committee concluded that the statutory auditor performed its audit work with independence from Iberdrola or entities related thereto.

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) 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.1.31 State whether the company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

(ii) Yes ☐
No x

Outgoing auditor	Incoming auditor

Remarks

If there were any disagreements with the outgoing auditor, please provide an explanation:

Yes ☐ No x

Explanation of disagreements

C.1.32 State whether the audit firm provides any non-audit services to the company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or Group:

Yes ☐ No X

	Company	Group Companies	Total
Amount invoiced for non-audit services (thousand euros)			
Amount invoiced for non-audit services/Amount for audit work (in %)			

Remarks

C.1.33 State whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given to the shareholders at the General Meeting by the chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

Yes □ No X

Explanation of reasons

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Individual	Consolidated
Number of consecutive years	2	2

	Individual	Consolidated
Number of years audited by the current audit firm/number of fiscal years the company or its group has been audited (by %)	7.69%	7.69%

Remarks

C.1.35 State whether there is a procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time and provide details if applicable:

Yes x No □

Explanation of procedure
Section 16 of the General Corporate Governance Policy provides that "the Company has a programme to provide directors with information and updates in response to the need for

professionalisation, diversification and qualification of the Board of Directors. In order to improve their knowledge of the group, presentations are made to the directors regarding the businesses 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. 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. 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". 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. 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".

C.1.36 State whether the company has established rules whereby directors must provide information regarding and, if applicable, resign, in circumstances that may damage the company's standing and reputation. If so, provide details:

Yes x **No ☐**

Explain the rules
The General Corporate Governance Policy sets out the obligations and duties of the directors, including, as a statement of the duty of loyalty, the duty to submit their resignation to the Board of Directors in the event of supervening disqualification, lack of competence, prohibition against holding office as a director, and other instances

provided for in the Company's Corporate Governance System.

As provided by 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 will be 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.
d) 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.
e) 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.
f) 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.
g) 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.

h) 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.1.37 State whether any member of the Board of Directors has notified the company that he or she has been tried or notified that legal proceedings have been filed against him or her, for any offences described in Article 213 of the LSC:

Yes X **No □**

Name of director	Criminal charge	Remarks
Mr 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 examined the case. If so, explain in detail the decision taken as to whether the director in question should continue in his or her post or, if applicable, describe any actions taken by the Board up to the date of this report, or which it intends to take.

(iii) Yes X
No □

Decision/Action taken	Explanation
It was considered that Mr Ángel Acebes met 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 (*Ministerio Fiscal*) and the Fund for the Orderly Restructuring of the Banking Sector (*Fondo de Reestructuración Ordenada Bancaria*) (FROB) requested dismissal of the case against him.

C.1.38 Detail any material agreements entered into by the company that come into force, are modified or are terminated in the event of a change in control of the company following a public takeover bid, and their effects.

Not applicable

C.1.39 Identify individually for directors, and generally in other cases, and provide detail of any agreements made between the company and its directors, officers or employees providing severance payments or golden parachutes in the event of resignation or unfair dismissal or termination of employment due to a takeover bid or any other type of transaction.

Number of beneficiaries	31
Type of beneficiary	Executive directors and officers
Description of agreement	1. EXECUTIVE DIRECTORS Pursuant to the provisions of his contract, the chairman & CEO 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. Furthermore, in consideration for the executive directors' non-compete commitment for a period of between one and two years, they shall be entitled to severance pay 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 entailed thereby. The amount of the severance pay 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 pay under new contracts with senior officers shall be two times their annual salary.

State if these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this:

	Board of Directors	General Shareholders' Meeting
Body authorising the severance clauses	X	

	YES	NO
Are these clauses notified to the General Shareholders' Meeting?	X	

Remarks

C.2 **Committees of the Board of Directors**

C.2.1 Provide details of all committees of the Board of Directors, their membership, and the proportion of executive, proprietary, independent and other external directors that comprise them:

EXECUTIVE COMMITTEE

Name	Position	Category
Mr José Ignacio Sánchez Galán	Chair	Executive
Ms Inés Macho Stadler	Member	Other external
Mr Ángel Jesús Acebes Paniagua	Member	Independent
Mr Manuel Moreu Munaiz	Member	Independent
Ms Samantha Barber	Member	Independent

% of executive directors	20
% of independent directors	60
% of other external directors	20
Remarks	

Explain the duties exercised by this committee, other than those that have already been described in Section C.1.10, and describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed thereto by law, the Articles of Association or other corporate resolutions.

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 most relevant activities performed during the financial year by this Committee are described in the Activities Report of the Board of Directors and of the Committees thereof, available at www.iberdrola.com.

AUDIT AND RISK SUPERVISION COMMITTEE

Name	Position	Category
Ms Georgina Kessel Martínez	Chair	Independent
Ms Denise Holt	Member	Independent
Mr José W. Fernández	Member	Independent
Mr Xabier Sagredo Ormaza	Member	Other external

% of independent directors	75.00
% of other external directors	25.00

Remarks

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The Audit and Risk Supervision Committee is an internal informational and consultative body.

A majority of its members shall be independent, and at least one of them shall be appointed taking into account the knowledge and experience thereof in the areas of accounting, audit, and risk management.

The Board of Directors shall appoint a chair of the Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The members of the Audit and Risk Supervision Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length. The chair shall hold office for a maximum period of four years, after which period the director who has held office as such may not be re-elected until the passage of at least one year from ceasing to act as such.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided and are further developed in the Regulations of the Board of Directors, as well as in the Regulations of the Audit and Risk Supervision Committee.

The most relevant activities performed during the financial year by this Committee are described in the Activities Report of the Board of Directors and of the Committees thereof, available at www.iberdrola.com.

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of directors with experience	Ms Georgina Kessel Martínez
Date of appointment of the chairperson	17/12/2015

Remarks

APPOINTMENTS COMMITTEE

Name	Position	Category
Ms María Helena Antolín Raybaud	Chair	Independent

Mr Iñigo Victor de Oriol Ibarra	Member	Other external
Mr Ángel Jesús Acebes Paniagua	Member	Independent

% of independent directors	66.67
% of other external directors	33.33

Remarks

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

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 further developed in the Regulations of the Board of Directors, as well as in the Regulations of the Appointments Committee.

The most relevant activities performed during the financial year by this Committee are described in the Activities Report of the Board of Directors and of the Committees thereof, available at www.iberdrola.com.

REMUNERATION COMMITTEE

Name	Position	Category

Mr Juan Manuel González Serna	Chair	Independent
Ms Inés Macho Stadler	Member	Other external
Mr Manuel Moreu Munaiz	Member	Independent

% of independent directors	66.67
% of other external directors	33.33

Remarks

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed thereto by law, the Articles of Association or other corporate resolutions.

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 further developed in the Regulations of the Board of Directors, as well as in the Regulations of the Remuneration Committee.

The most relevant activities performed during the financial year by this Committee are described in the Activities Report of the Board of Directors and of the Committees thereof, available at www.iberdrola.com.

SUSTAINABLE DEVELOPMENT COMMITTEE

Name	Position	Category
Ms Samantha Barber	Chair	Independent
Mr Anthony L. Gardner	Member	Independent
Mr Iñigo Victor de Oriol Ibarra	Member	Other external

% of independent directors	66.67
% of other external directors	33.33

Remarks

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed thereto by law, the Articles of Association or other corporate resolutions.

The Sustainable Development Committee is an internal informational and consultative body.

A majority of the members of the Sustainable Development 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 Sustainable Development 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 the Regulations of the Board of Directors, as well as in the Regulations of the Sustainable Development Committee.

The most relevant activities performed during the financial year by this Committee are described in the Activities Report of the Board of Directors and of the Committees thereof, available at www.iberdrola.com.

C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:

	Number of female directors			
	Year t Number %	Year t-1 Number %	Year t-2 Number %	Year t-3 Number %
Executive Committee	2/40	2/40	1/20	1/20
Audit and Risk Supervision Committee	2/50	2/50	2/50	2/50
Appointments Committee	1/33	1/33	1/33	1/33
Remuneration Committee	1/33	1/33	1/33	1/33
Sustainable Development Committee	1/33	1/33	1/33	1/33

Remarks

C.2.3 State, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments made to them during the year. Also state whether any annual reports on the activities of each committee have been voluntarily prepared.

Each of the Committees has its own regulations, available at www.iberdrola.com, where one can also find the Activities Report of the Board of Directors and of the Committees thereof. The main amendments to their regulations during the year were the following:

- At the meeting of the Board of Directors held on 23 October 2018, the name of the Corporate Social Responsibility Committee was changed to Sustainable Development Committee. The Regulations of the Corporate Social Responsibility Committee were therefore amended to be called Regulations of the Sustainable Development Committee. The change included the strengthening of the powers of the committee with respect to monitoring the Iberdrola group's contribution to the achievement of the Sustainable Development Goals (SDGs) approved by the United Nations.

- At the same meeting, there was an amendment of the Regulations of the Appointments Committee in order to expand the powers of the Appointments Committee regarding talent management and promotion, mainly in relation to the executive directors and senior management. This committee was also assigned the duty of informing itself regarding the implementation of measures adopted at the Group level to recruit, retain, manage and promote talent, and particularly regarding the programmes for training and monitoring officers.

- Finally, the Regulations of the Audit and Risk Supervision Committee have been successively amended to clarify the powers of the Audit and Risk Supervision Committee with respect to the monitoring of investigations regarding financial and accounting improprieties, as well as the approval of the Basic Internal Audit Regulations and the General Framework for Relations of Coordination and Information among the Audit Committees of Iberdrola, S.A. and its group.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Describe, if applicable, the procedure and competent bodies for approval of related-party and intragroup 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 limited 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 Management of the Internal Audit Area.

D.2 Describe any transactions which are significant, either because of the amount involved or subject matter, entered into between the company or entities within its group and the company's significant shareholders:

Name of significant shareholder	Name of company or entity within the group	Nature of the relationship	Type of transaction	Amount (thousand euros)
QATAR INVESTMENT AUTHORITY	IBERDROLA, S.A.	Corporate	Dividends and other distributed profits	2,766
QATAR INVESTMENT AUTHORITY	IBERDROLA Group	Corporate	Other	344

Remarks
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, are deemed to be related-party transactions. 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 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.

D.3. Describe any transactions which are significant, either because of the amount involved or subject matter, entered into between the company or entities within its group and the directors or officers of the company:

Name of director or manager	Name of the related party	Relationship	Type of transaction	Amount (thousand euros)

Remarks

D.4 Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the company's ordinary business activities in terms of their purpose and conditions.
In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens:

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)

Remarks
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.

D.5 Describe significant transactions conducted with other related parties that have not been reported in the previous sections.

Name of the related party	Brief description of the transaction	Amount (thousand euros)
GAMESA GROUP	ACQUISITION OF ASSETS	218,602
GAMESA GROUP	PROCUREMENT	1,702
GAMESA GROUP	RECEIPT OF SERVICES	37,602

GAMESA GROUP	SALES	1,376

Remarks

D.6 Describe the mechanisms in place to detect, determine and resolve potential conflicts of interest between the company and/or its group and its directors, senior management or significant shareholders.

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 include, 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 grounds for resignation, removal and cessation of the director.

Conflicts of interest with officers are subject to the same rules of communication, abstention and transparency.

Furthermore, 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.

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 there more than one company in the group listed in Spain?

Yes □ No X

Identify the other companies that are listed in Spain and their relationship to the company:

Identity and relationship with other listed group companies

State if the respective areas of activity and business relationships between the listed companies have been defined publicly and precisely, as well as between the subsidiary and other members of the group;

Yes □ No □

Describe the business relationship between the parent and subsidiary listed companies as well as between the subsidiary and other members of the group

Identify measures taken to resolve potential conflicts of interest between the listed subsidiary and the other group companies:

Measures taken to resolve potential conflicts of interest

E RISK MANAGEMENT AND CONTROL SYSTEMS

E.1. Explain the scope of the company's Risk Management and Control System, including tax compliance risk.

The *General Risk Control and Management Policy* and the *Risk Policies* in further development thereof apply to all companies over which the Company has effective control, within the limits established in the legal provisions applicable to the companies of the Group that carry out Regulated activities in the various countries in which it has a presence.

These policies 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, implementation and monitoring thereof, which effectively contributes to risks being managed in accordance with the Company's risk appetite.

b) The ongoing identification of significant risks and threats, taking into account their possible impact on key management objectives and the accounts (including contingent liabilities and other off-balance sheet risks).

c) 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.

d) The measurement and control of risks following homogeneous procedures and standards common to the entire group.

e) The analysis of risks associated with new facilities, as an essential element in risk/return-based decision-making.

f) The maintenance of a system for internal 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 of the system by the Internal Audit Division.

The foregoing is undertaken in accordance with the following main principles of conduct:

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 areas that assume risks and areas responsible for the analysis, control and monitoring of such risks, ensuring an appropriate level of independence between them.

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 of communication.

e) Ensure compliance with the Corporate Governance System and the update and continuous improvement thereof, in order to incorporate 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 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 Policy* and in the *Anti-Corruption and Anti-Fraud Policy*.

The listed country subholding companies (like Avangrid, Inc.) and those with significant interests held by other partners (like Neoenergia, S.A.) have their own risk policies approved by their competent bodies pursuant to their own special framework of strengthened autonomy, which are aligned with those of the group.

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.

Iberdrola believes that its comprehensive risk control and management system operates on a comprehensive and continuous basis, strengthening such management by business unit or activity, subsidiaries, geographic areas and corporate-level support areas.

E.2. Identify the bodies within the company responsible for creating and executing the Risk Management and Control System, including tax compliance risk.

1. BOARD OF DIRECTORS

In the area within its purview, and with the support of the Audit and Risk Supervision Committee, it must use 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 of the group and approves the *Risk Policies*.

2. EXECUTIVE COMMITTEE

In order to conform the impact of the risks to the established appetite, the Executive Committee of the Board of Directors, upon the proposal of affected business or corporate divisions and after a report from the group's Risk Committee, annually reviews and, if appropriate, approves the specific guidelines regarding the risk limits provided for in the *Corporate Risk Policies*. In the case of the *Treasury Share Policy*, the Executive Committee can also approve limits additional to those provided for in this policy.

3. AUDIT AND RISK SUPERVISION COMMITTEE.

As a consultative body of the Board of Directors, it has the following powers, among others, relating to the internal risk control and management systems:

- Directly supervise the Corporate 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 risk control and management systems, such that the principal risks are properly identified, managed and reported.
- Supervise the effectiveness of the internal risk control and management systems, formulating proposals for improvement.
- Obtain information regarding any significant deficiency in internal control that the statutory 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 that the Company faces;
  - the establishment and review of the risk map and levels that are deemed acceptable;
  - the means identified in order to mitigate the potential impact any of the identified risks in the event they transpire; and
  - the internal control and information systems to be used in order to control and manage such risks.
- Promote (within the limits of its purview) 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.
- Receive annual visits from the heads of the businesses of the group in order 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*.
- Receive information from the Company's tax director regarding the tax standards applied by the Company during the financial year, and particularly regarding the level of compliance with the *Corporate Tax Policy*.

4. BOARDS OF DIRECTORS AND AUDIT AND COMPLIANCE COMMITTEES OF COUNTRY SUBHOLDING AND HEAD OF BUSINESS COMPANIES

The country subholding companies adopt the risk policies of the group and define the application thereof, approving guidelines on specific risk limits based on the nature and particularities of the businesses in each country. The Audit and Compliance Committees of such companies shall report to the Board of Directors on the internal risk control and management systems.

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 necessary to ensure compliance therewith.

In the case of the head of real estate business company, Iberdrola Inmobiliaria, S.A. (Sociedad Unipersonal), the Audit and Compliance Committee thereof shall report to the Board of Directors regarding the internal risk control and management systems.

Pursuant to their special framework of strengthened autonomy, Avangrid, Inc. and Neoenergia, S.A. have

their own risk policies, which are aligned with those of the group.

5. GROUP RISK COMMITTEE

The Risk Committee of the Iberdrola group is a technical committee that is chaired by the CFO and that performs executive duties in the customary management of risks as well as provides advice to the governance bodies of the group.

The committee meets at least once a month, with the participation of the group's Risk Management Directors, the risk directors of the businesses and corporate areas that have such a figure, the Internal Audit Division and the Administration and Control Division.

The committee reviews the evolution of the various risks and issues the *Quarterly Risk Report of the group*, which includes the main risk positions, the report on compliance with the risk limits and indicators, and the update of the key risks map.

The group's Risk Committee is supplemented by the Credit Risk and Market Risk committees, which report to the former, and which meet on a monthly basis to discuss and decide on credit and market (financial and commodities) risks.

E.3. State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives

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.

In the section "Principal risks and uncertainties" of the Management Report of the *Annual Financial Report* for financial year 2018, there is a detailed description of the principal risks associated with the activities of the main businesses of the group, as well as the risks of the corporation.

Due to the universal and dynamic nature thereof, the comprehensive risk system allows for the consideration of new risks that could affect the group as a consequence of changes in the environment or revisions of objectives and strategies, as well as updates based on the monitoring, verification, review and supervision activities that are performed on a continuous basis.

Pursuant to the definitions established by the *General Risk Control and Management Policy*, risks at the group level 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 communities and regions in which the Company and its employees act.

b) **Market Risks**: understood as the exposure of the group's results and net worth to changes in prices and other market variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO_2 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 various 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 termination of government contracts.

f) **Operational, Technological, Environmental and Social 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 associated with climate change, information technologies, 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*.

Iberdrola has a Compliance System made up of a set of substantive rules, formal procedures and significant actions intended to ensure that conduct is in accordance with ethical principles and applicable law, preventing, avoiding and mitigating the risk of conduct that is improper or contrary to ethics or the law by professionals of Iberdrola within the organisation. The bodies and divisions directly entrusted with the implementation and further development thereof also form part of this system.

Elements of the system include the *Code of Ethics* (which is applicable to all professionals of the group, board members and suppliers) and the Compliance Unit, a collective permanent and internal body linked to the Sustainable Development Committee of the Board of Directors of Iberdrola, which, among other things, spreads a preventive culture based on the principle of "zero tolerance" towards the commission of illegal acts or improper conduct. The system has been designed following the best domestic and international practices in the area of compliance, fraud prevention and the fight against corruption. For more details on these risks, please see the section "Risk Evaluation" (205-1) of the *2018 Sustainability Report*, as well as the *Integrated Report* and other sections of this *Annual Corporate Governance Report*.

E.4. State whether the entity has a risk tolerance level, including tolerance for tax compliance risk.

The Company's Board of Directors reviews and approves the risk tolerance level that is acceptable for the group on an annual basis. The *General Risk Control and Management Policy*, together with the policies that further develop and supplement it, qualitatively and quantitatively establish the annually accepted risk appetite, in a sufficiently detailed manner, both at the group level and at the level of each of its principal businesses and corporate functions.

By way of complement, the Administration and Control Division, after considering such limits and guidelines, in order to verify the risk globally assumed in the annual profit and loss account, engages in a comprehensive probability analysis of the global risk remaining for the financial year at the time of approving the annual budget.

In addition, all new multi-annual plans are accompanied by their corresponding analysis of associated risk.

The *General Risk Control and Management Policy* is further developed and supplemented through the following policies, which are also subject to approval by the Company's Board of Directors, and which include the following risk limits and indicators:

Corporate Risk Policies:

- *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*
- *Information Technologies Policy*
- *Cybersecurity Risk Policy*
- *Reputational Risk Framework Policy*
- *Procurement 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 *General Risk Control and Management Policy*, as well a summary of the risk policies in further implementation thereof, are available on the corporate website.

The limits and indicators of the risk policies should be consistent with the annual budget and the objectives set forth in the multi-annual investment plans. The numeric values of the limits and indicators set forth in the various policies are probabilistic in nature (like VaR and EBITDA at risk) or deterministic in nature, and are expressed in monetary units, indices or benchmarks based on which volumetric risks and/or values are generated, including:

- limits on the maximum overall credit risk exposure by type of counterparty;
- limitations on market risk proportional to the volume of activity of each business;
- strict overall limit on the discretional trading of energy;
- limitations on operational risk through preventative maintenance programmes and assurance programmes; and
- strict limitations on activities not associated with the main energy business.

The *Corporate Tax Policy* establishes the limits on tax risk by setting the tax strategy, the principles of conduct and the good tax practices assumed by the Company.

As described above, the Iberdrola group has a risk tolerance level (acceptable risk level) established at the corporate level, which is annually approved by the Board of Directors and its Executive Committee. The group's Risk Committee, the Operating Committee, the Audit and Risk Supervision Committee, the businesses, the corporate functions, the Administration and Control Division and the Risk Management Division also participate in the process.

E.5. State which risks, including tax compliance risks, have materialised during the year.

The activities of the Iberdrola Group during 2018 have been subject to various risk factors occurring in the countries and markets in which it operates, and on a global basis have not had a significant impact on the results for the financial year, thanks to the diversification of activities, markets and geographic areas in which the group is present, which has allowed for the negative effects of some businesses to be offset with favourable behaviour in others.

During the financial year, the group was negative affected by events described below, although they have been offset by the following positive events:

- The recovery in 2018 of average prices in the international markets for coal (+14%), natural gas (+32%), CO_2 trading rights (+171%) and oil (+37%), with the resulting positive impact on final electricity prices.

- The recovery of hydroelectric production in Spain in 2018 to levels close to those of an average year, with a 70% increase in production over 2017.
- The publication in November by the National Markets and Competition Commission (*Comisión Nacional de los Mercados y la Competencia*) (the "**CNMC**") of a proposed methodology for calculating the financial remuneration rate for transmission and distribution and renewable generation for the upcoming regulatory period (2020-2025), with rates as at the date of publication of 5.58% and 7.09%, respectively.
- The approval of Royal Decree-Law 1/2019, of 11 January, on urgent measures to adapt the powers of the CNMC to the requirements of EU law, which transfers to this body powers to determine remuneration for the transmission and distribution of electricity and gas beginning with the upcoming regulatory period (2020).
- The publication by the Ministry for Ecological Transition at the end of the year of a draft law that, among other things, proposes that renewables facilities before Royal Decree-law 9/2013 maintain their current remuneration (7.389%) for the next two regulatory periods, of 6 years each.
- The approval in April 2018, on terms favourable to the group, of 5-year remuneration frameworks for the Brazilian distributors Companhia de Electricidade do Estado do Bahía, S.A. (Coelba) and Companhia Energética do Rio Grande do Norte, S.A. (Cosern), with a WACC of 8.09%. The remuneration frameworks will neutralise the main uncertainties associated with network subsidiaries of the group in the coming years;

The risks that have materialised include:

- The adverse regulatory and market environment faced by the retail electricity and gas business in the United Kingdom, with the entry into force of a system for setting maximum prices for customers under the "Standard Variable Tariff" mode.
- During financial year 2018 updates were made to the provisions recorded in relation to pending arbitrations commenced at the end of certain of the projects of Iberdrola Ingeniería y Construcción S.A (Sociedad Unipersonal).

Finally, it should be noted that activities during financial year 2019 and later will be affected by the following risk factors:

- The potential impact of a progressive withdrawal of the monetary stimulus programme of the European Central Bank, with the resulting risk of interest rate increases.
- Uncertainty regarding the final outcome of the exit of the United Kingdom from the European Union, and its impact on the macroeconomic conditions of the country and on the pound/euro exchange rate.
- Uncertainties arising from potential trade wars resulting from the protectionist policies introduced by the new government administration of the United States of America.
- The evolution of commodities and electricity prices in the various countries in which the group operates.
- The annual change in hydraulic or wind resources for the production of electricity at the renewable generation plants of the group.
- Increased competition in the unrestricted market in Spain as a result of the entry of significant new players.
- The final review of the parameters to establish remuneration in Spain for the regulated networks and renewable generation businesses, which will enter into force on 1 January 2020.
- The effects of potential changes that may be implemented in the Spanish electricity market and the potential establishment of a scheduled closing of the nuclear plants and coal plants.
- The capacity for implementation of major current investment plans, especially new offshore wind projects, in terms of cost and timing.

- The opportunities/risks that might arise as a result of changes in government in Mexico and Brazil after the general elections held in 2018.
- The risks associated with cybersecurity.

The risks associated with the conventional generation business in the United Kingdom have ceased after the divestment by the group of its assets in this segment through the sale of "Scottish Power Generation, Ltd." to the Drax group.

E.6. Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise.

The Comprehensive Risk System, together with the control and management policies of the Company that implement them, including the group's Risk Committee and the Company's Operating Committee, have allowed for the identification of risks and new threats sufficiently in advance, as well as for establishing appropriate mitigation plans.

The Company's Operating Committee meets on an approximately weekly basis.

The group's Risk Committee, which reviews the evolution of the various risks, meets on a monthly basis, and on a quarterly basis issues the *Quarterly Risk Report of the Group*, which includes the main risk positions, the report on compliance with policies and limits approved, and the update of the key risks map.

On at least a quarterly basis, the Audit and Risk Supervision Committee of the Board of Directors supervises the evolution of the Company's risks:

- It reviews the group's Quarterly Risk Report submitted by the group's Risk director.
- It coordinates and reviews the Risk Report submitted on a regular basis (at least half-yearly) by the audit and compliance committees of the country subholding and head of business companies of the group.
- On at least a half-yearly basis, it prepares a Risk Report for the Board of Directors.

F. INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS RELATED TO THE PROCESS OF PUBLISHING FINANCIAL INFORMATION (ICFR)

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

F.1. Control environment

Report on at least the following, describing their principal features:

F.1.1. The bodies and/or departments that are responsible for (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation; and (iii) their supervision.

Iberdrola's Board of Directors is ultimately responsible for implementing and maintaining a proper and effective internal control over financial information ("**ICFR**") system. The Boards of Directors of the country subholding companies and head of business companies also have this responsibility within their various purviews.

The heads of the country subholding companies and of the head of business companies, together with their respective heads of control, as well as the directors of the global corporate areas, are in turn responsible for the design and implementation of the ICFR system. This responsibility is explicitly set forth

in the certifications that said persons sign on a half-yearly basis in relation to the financial information for their respective areas of responsibility.

Pursuant to article 31.6.d of the *Regulations of the Board of Directors*, the Audit and Risk Supervision Committee (hereinafter, "**ARSC**") is responsible for supervising the effectiveness of the internal control of the Company and of its group, as well as the risk management systems thereof. Article 31.6.f also provides that the duties of the ARSC include that of supervising the process of preparing and presenting mandatory financial information and submitting recommendations or proposals to the Board of Directors to protect the integrity of this information. The ARSC relies on the Internal Audit Area to carry out these responsibilities. Any audit committees at the country subholding and head of business companies have these powers within their respective purviews.

F.1.2. State whether the following are present, especially if they relate to the creation of financial information:

- **Departments and/or mechanisms in charge of: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout the entity.**

The Board of Directors of Iberdrola defines the organisational structure at the first level. The heads of these top-level organisations, together with the Human Resources and General Services Division, implement the deployment within their respective purviews.

Each top-level division prepares a proposed organisational structure, including a description of the mission, duties and responsibilities of the various organisations deployed, which must subsequently be validated by the Human Resources and General Services Division, as well as by the Finance and Resources Division.

The main responsibility for preparing financial information lies with the corporate Administration and Control Division. This division proposes the structure of heads of Control of the country subholding and head of business companies and deals with coordinating and supervising the conduct thereof.

- **Code of conduct, the body approving this, degree of dissemination and instruction, including principles and values, (state if there is specific mention of transaction recording and creation of financial information), a body charged with analysing breaches and proposing corrective actions and sanctions.**

The Iberdrola group has a *Code of Ethics* that was first approved by the Board of Directors in financial year 2002, and that is regularly reviewed and updated. In its latest revision, in October 2018, the *Code of Ethics* included within its scope of application the directors of Iberdrola, who until then had been governed by the now-repealed *Directors' Code of Ethics*, which contemplated principles and rules analogous to those of the *Code of Ethics*.

According to article A.2.1 thereof, "*the principles and guidelines for conduct contained in the Code of Ethics apply to all directors, including natural persons who appoint corporate directors to represent them in the performance of their duties, to professionals and to suppliers of the companies of the Group, regardless of their rank, their geographical location or functional reporting, or the Group company to which they provide their services*".

The *Code of Ethics* is communicated and disseminated among the professionals of the Iberdrola group in accordance with the plan approved annually for this purpose by the Compliance Unit, which provides for various initiatives in the area of training (both on-line and in-person) and communication, addressed to the various groups of employees based on their exposure to Compliance risks.

The *Code of Ethics*, which includes informational transparency among its general ethical principles and principles on relations with Iberdrola's Stakeholders, expressly states the following in article B.6.:

"1. *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 conduct of all directors, professionals and suppliers of the Group.

2. 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 directors, professional or supplier shall conceal or distort the information set forth in the accounting records and reports of the Group, which shall be complete, accurate and truthful.

3. A lack of honesty in the communication of information, whether internally within the Group (to professionals, 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".

The Compliance Unit, which is a collective permanent and internal body linked to the Sustainable Development Committee (previously called the Corporate Social Responsibility Committee) of Iberdrola, controls the effective operation of the Company's Compliance System, with powers in the area of regulatory compliance. The duties of the Unit include ensuring the application of the *Code of Ethics* and of the other rules of the group in the compliance area, and the spread of a preventive culture based on the principle of "zero tolerance" towards the commission of unlawful acts. It also 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 Sustainable Development Committee, which issues its opinion and forwards it to the Board of Directors.

The Compliance Unit is also in charge of determining whether a professional of Iberdrola, S.A. has engaged in activities that violate the provisions of law or the *Code of Ethics*, and if applicable, for tasking the Human Resources and General Services Division to apply disciplinary measures in accordance with the offences and penalties system set forth in the collective bargaining agreement to which the professional belongs or in applicable labour law. The Compliance divisions of the other companies of the group perform this same function at each of them.

Pursuant to article F.6.1 thereof, directors, professionals of the companies of the group and the suppliers thereof expressly accept the rules of conduct established in the *Code of Ethics* that are applicable thereto.

Pursuant to article F.6.2, professionals who hereafter join or become part of the group and suppliers contracting with companies of the group shall also expressly accept the rules of conduct to which they are subject as set forth in sections D (for professionals of the group) and E (for suppliers), respectively, of the *Code of Ethics*. For this purpose, a literal extract of the corresponding section in each case is attached to their respective contracts.

Likewise, directors shall receive a complete copy of the *Code of Ethics*, for which they shall deliver a signed receipt.

- **Whistleblower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature.**

Iberdrola has various reporting mailboxes based on the sender: (i) ethics mailboxes for the professionals of the group; (ii) the mailbox available to shareholders and investors; and (iii) the suppliers' mailbox, accessible from the Employee Portal, from the OLS "On Line Shareholders" system or their mobile app, and from the Supplier Portal, respectively. These channels allow for communicating and complaining of any conduct that may involve the commission of an improper act or an act in violation of legal provisions or of the rules of conduct laid down in the *Code of Ethics* or to ask questions regarding any issue with respect to Compliance.

One need not identify oneself in order to send a complaint through these mailboxes (complaints may be anonymous), and if one does so Iberdrola guarantees absolute confidentiality with respect to both the information provided and the personal data of the reporting party. The group naturally states its commitment to not retaliate against any employee making a complaint, unless there is bad faith on the party of the complaining party.

No complaints regarding financial information were received during financial year 2018.

- **Training and periodic refresher programmes for staff involved in the preparation and revision of financial information, as well as assessment of the ICFR (Internal Control System for Financial Information), that covers at least accounting rules, audits, internal control and risk management.**

Training is key in the Iberdrola's human resources policy and is an essential element form adjusting new employees to Iberdrola and the proper performance of their jobs, as well as to keep the group's employees updated regarding any changes that occur within the group itself as well as the environment within which it does business.

Therefore, the group has local training centres in each of the countries in which it is present, and since 2016 has had an international corporate campus in San Agustín del Guadalix (Madrid), where training of all kinds is provided, by both internal professionals and by agencies, universities, companies and external experts.

Specifically, the personnel directly or indirectly involved in the preparation and review of financial information and in the evaluation of the ICFR system, based on their different responsibilities, receive regular training on accounting standards, internal control and risk management, which is intended to give them the knowledge needed for the optimal performance of their duties as well as to anticipate, to the extent possible, the proper conformance of the group to future rules and to best practices. Most of these courses are provided by outside entities: business schools, universities and consultants specialising in economic/financial matters.

In addition, and on a general basis, these professionals regularly take coursework to improve their qualifications in the use of the computer-based tools required to perform their duties, mainly excel and database management.

They also attend various conferences, symposia and seminars in the areas of accounting, tax and internal audit, at both the domestic and international level.

Furthermore, in order to pool best practices and analyse the challenges facing the group in these areas, various meetings between the professionals of these areas from the different countries and subholding companies are organised on an annual basis. Specifically, in 2018 there were the "XI Global Internal Audit Days", the "VI-Global Tax Meeting", the "II Finance & Treasury Global Meeting" and the annual "XI Global Control Committee", which analyses the most significant issues affecting the function, like new accounting rules, with special attention on reviewing and evaluating the group's ICFR system.

In addition, although not considered specific training activities, the Accounting Practices Division, which reports directly to the director of Administration and Control, which is responsible for defining and updating the accounting policies, publishes a quarterly bulletin that is broadly distributed among the group regarding new accounting developments with respect to International Financial Reporting Standards ("IFRS"), which includes updates on standards (standards entering into effect, drafts issued, standards issued, standards approved by the European Union and pending approval, as well as expected future standards) and accounting questions asked internally, together with the conclusions with respect thereto.

F.2. Assessment of financial information risks

Report on at least the following:

F.2.1. The main characteristics of the risk identification process, including error and fraud risk, as regards:

- **Whether the process exists and is documented.**

The process of identifying risks of error in financial information is one of the most important steps within the methodology for performing the internal control over financial information at Iberdrola, documenting

both the objectives and performance thereof as well as its results.

The methodology starts with an analysis of the consolidated financial information of the Iberdrola group and of the various country subholding companies, in order to select the most significant accounting headings and notes, pursuant to quantitative (materiality) and qualitative (business risk and third-party visibility) standards. The headings and notes selected area grouped into management cycles or large processes in which the selected information is generated. The cycles are analysed and a description of each of them is prepared as a means for identifying the potential risks of error in the financial information in relation to attributes like integrity, presentation, valuation, cut-off, recording and validity. The risks identified are subject to a process of prioritisation, selecting the most significant ones applying professional judgement regarding a number of indicators (existence of documented processes and controls, existence of systems that automate the process, whether there have been any incidents in the past, whether the process is known and mature or if judgement must be used to make estimates). The risks of fraud are not subject to explicit identification, although they are taken into account to the extent that they can generate material errors in the financial information.

Once the most significant risks have been selected, the controls required for the mitigation or management thereof are selected and designed, with these controls being subject to monitoring and documentation, as well as systematic review by the Internal Audit Area.

The selected risks are reviewed at least annually within the framework of the assessment of the effectiveness of the internal control system performed by those responsible for it. This review is intended to update the risks to the changing circumstances in which the Company operates, especially given changes in the organisation, computer systems, regulation, products or the status of the markets.

- **If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.**

As mentioned above, the cycles or large processes in which financial information is generated are reviewed at least on an annual basis to identify potential risks of error in relation to attributes like validity (existence and approval), integrity, valuation, presentation, cut-off and recording.

- **The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities.**

The scope of consolidation is identified on a monthly basis, and is obtained as a product of an updated map of companies, with express identification of the changes that have occurred each period.

The scope of this review is the totality of all companies in which Iberdrola or any of its subsidiaries has an interest, regardless of the significance thereof.

Furthermore, following the provisions of section 529 of the *Companies Act*, the *Regulations of the Board of Directors* provides the purview of the Board of Directors includes, among other things, approving the creation or acquisition of equity interests in special purpose entities or entities registered in countries or territories that are considered to be tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the group. In any event, the making of such decision requires a prior report of the ARSC, as provided in Iberdrola's *Regulations of the Audit and Risk Supervision Committee.*

Pursuant to specific internal procedures in effect (conforming to the current corporate governance model), the initiative relating to the creation or acquisition of an interest in a special purpose entity or an entity domiciled in a tax haven is within the purview of the Management of the group or of the country subholding company or head of business company or subsidiary thereof that intends to create or acquire a company of this nature. In the event that such transactions are carried out by listed country subholding companies of the group or by subsidiaries thereof, the audit and compliance committee or similar body of such listed country subholding company shall be responsible for issuing the relevant report.

- **If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.**

The process of identifying risks of error in financial information takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements, which risks are evaluated and managed by various corporate units like the Risk Division or the Legal Division, among others. However, there is no express identification of such other types for the identification of financial information risks.

- **The governing body within the company that supervises the process.**

The governing body that supervises the process is the ARSC, which is supported by the Management of the Internal Audit Area in the performance of this duty.

F.3. Control activities

State whether the company has at least the following, describing their main characteristics:

F.3.1. Review and authorisation procedures for financial information published by the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgements, estimates, valuations and relevant forecasts.

On 24 July 2018, Iberdrola's Board of Directors approved a *Group Financial Information Preparation Policy* that applies to all companies of the group, and which further develops the process for preparing the consolidated financial information and clearly defines the powers vested in the ARSC and the audit and compliance committees of the other companies of the group.

"*Consolidated financial information*" means the information appearing in the consolidated annual accounts, in the *Interim Management Statements* corresponding to the results of Iberdrola and its consolidated group for the first and third quarter, and in the *Half-Yearly Financial Report*.

The policy provides that the financial information required for the preparation of the "*consolidated financial information*" must be prepared in accordance with the accounting standards established in the *Accounting Policies Handbook* and the models approved by Iberdrola's Administration and Control Division.

The policy provides which management decision-making body of each company shall be responsible for preparing the financial information relating to its respective company that may be required to prepare the "*consolidated financial information*". By analogy, the management decision-making bodies of the country subholding companies shall be responsible for approving the "*financial information for consolidation*" within which the information regarding the company itself and that of the subsidiaries forming part of its subgroup are included.

Thus, the management decision-making bodies of the country subholding companies, following a report from their respective audit and compliance committees, and based on the information received from their subsidiaries, shall prepare and approve the financial information for consolidation corresponding to each subgroup, and once such information has been verified by their external auditor within the context of its review of the consolidated financial information, shall send it to Iberdrola's Administration and Control Division prior to the date indicated thereby, in order to prepare the consolidated financial information and submit it for formulation or approval by Iberdrola's Board of Directors, as appropriate, after a report from its ARSC.

Furthermore, the process or structure of certification of the financial information, which is formally carried out on a half-yearly basis, coinciding with the interim and annual close, reflects the form in which the financial information is generated within the group.

In this structure, the heads of the country subholding companies and the heads of the head of business companies, together with their respective heads of control, as well as the heads of the global corporate areas, certify both the reliability of the financial information regarding their areas of responsibility (which is the information they provide for consolidation at the group level) and the effectiveness of the internal control system established to reasonably guarantee such reliability. Finally, the chairman & CEO, as the top responsible executive, and the Corporate Administration and Control Director, who is responsible for the preparation of the financial information, certify to the Board of Directors the reliability of the consolidated annual accounts and the *Half-Yearly Financial Report.*

The ARSC, with the support of the Management of the Internal Audit Area, supervises the entire process of certification, submitting to the Board of Directors the conclusions obtained from this analysis at the meetings during which the accounts are formally prepared.

As regards the description of the ICFR system to be published in the securities markets, the procedure for the review and approval thereof is the same as the one used for all disclosures of an economic and financial nature in the *Annual Corporate Governance Report.*

The documentation of the internal control over financial information system includes high-level descriptions of the cycles for generating the selected relevant financial information, as well as detailed descriptions of the prioritised risks of error and of the controls designed for the mitigation or management thereof. The description of the controls includes the evidence obtained for the implementation thereof, which is necessary for their review.

Each of the accounting close processes at the businesses is considered a cycle, and the same occurs with the group of accounting close activities at the corporate level, with the process of global consolidation and with the process of preparing the notes. This means that all of these activities are subject to the methodological process described in the section relating to risks.

Furthermore, the specific review of critical accounting opinions, estimates, valuations and relevant projections is subject to specific controls within the model, as these types of issues involve the identification of risks of error in the various cycles in which they are made. The evidence of the specific controls is the support for such reviews in many cases.

Independently of the process of certification followed in the countries, businesses and corporate areas, the ARSC, once again with the support of the Internal Audit Division, performs a quarterly global review of the financial information, ensuring that the half-yearly financial reports and quarterly management statements are prepared using the same accounting standards as the annual financial reports, and verifying the proper definition of the scope of consolidation, as well as the correct application of generally accepted accounting principles and international financial reporting standards.

F.3.2. Internal IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the company and relate to the creation and publication of financial information.

The controls considered to mitigate or manage the risks of error in financial reporting include some relating to the most significant software applications, like the controls relating to user access permissions or those relating to the integrity of the transfer of information between applications, of the transaction, and of change management.

In addition, the Iberdrola group has internal control guidelines or regulations and procedures regarding IT systems in relation to the acquisition and development of software, the acquisition of systems infrastructure, the installation and testing of software, change management, management of service levels, management of third-party services, security of the systems and access thereto, incident management, transaction management, continuity of operations and the segregation of functions.

These guidelines and procedures (which in some cases are different based on geographic area or type of solution, and are in a process of progressive homogenisation) are applied to all IT systems that support the relevant process of generation of financial information, and to 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 or the processes for the management and control thereof.

Thus, there is a model of general controls integrated within the risk management model that allows for a global evaluation of the risks related to information technology.

Both the risk model and the IT controls are based on and aligned with good market practices, like COBIT5 and COSO. The evolution thereof over the long term is maintained by including the new needs arising from the changing regulatory compliance framework that applies to the IT systems and services, as well as the recommendations and guidelines of auditors and relevant third parties.

As part of the general IT controls model, there is a regular evaluation of the effectiveness of the information technology controls in the area of financial systems, adopting the appropriate measures if any incident is detected.

On an annual basis, the heads of the IT systems of the Iberdrola group certify the effectiveness of the internal controls established regarding financial information. This certification covers all systems declared to be within the scope of the external financial auditing, as well as others deemed to be relevant, by the corresponding business organisations within the group.

For financial year 2018, the total number of systems covered by the IT controls system was 58, on which there was homogeneous application of 20 controls, most of which are evaluated and applied by the Systems Division, and in some cases by other business organisations. The frequency of the evaluation is annual or biannual, depending on the nature of the control; and it is performed using a principle of sampling of all of the relevant evidence in each case. The entire process of evaluating the IT controls is supported by a GRC system and is supervised annually by the Internal Audit Division.

F.3.3. Internal control policies and procedures intended to guide the management of activities subcontracted to third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, which may materially affect financial statements.

In general terms, the Iberdrola group does not have significant functions subcontracted to third parties with a direct impact on financial information. The evaluations, calculations or assessments entrusted to third parties that could materially affect the financial statements are considered to be activities relevant to the generation of financial information leading to the identification of any priority risks of error, which involves the design of associated internal controls. These controls cover the internal analysis and approval of fundamental assumptions to be used, as well as the review of the evaluations, calculations or assessments made by outside parties, by comparing them to the calculations made internally.

F.4. Information and communication

State whether the company has at least the following, describing their main characteristics:

F.4.1. A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well as an up-to-date accounting policy manual distributed to the business units through which the company operates.

The Accounting Practice Division, which reports directly to the Administration and Control director, is responsible for defining and updating the accounting policies, as well as for resolving questions or conflicts arising from the interpretation thereof. It maintains fluid communication with the heads of operation of the organisation, and particularly with the heads of the accounting functions.

It publishes a quarterly bulletin that is broadly distributed within the group regarding new accounting developments deriving from the IFRS, which includes updates on standards (standards entering into effect, drafts issued, standards issued, standards approved by the European Union and pending approval, as well as expected future standards) and accounting questions asked internally, together with the conclusions with respect thereto.

The Accounting Practice Division is also responsible for keeping the accounting practices handbook of the group continuously updated and ensuring the appropriate dissemination thereof.

The accounting handbook is continuously updated. For this purpose, the Accounting Practice Division analyses whether the new developments or changes in the accounting area have an effect on the group's

accounting policies, as well as the date of entry into force of each of the standards. When a new provision, or new interpretations thereof, are identified having an effect on the accounting policies of the group, it is included in the handbook, and also communicated to the parties responsible for preparing the financial information of the group through the quarterly bulletins mentioned above, and the application supporting the handbook is also updated.

The updated version of the handbook is available in an application on the internal network of the group. This application is also accessible by users via remote access and can be connected to e-mail. Any change or upload of a document of the handbook generates an e-mail notice to all users.

F.4.2. Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

The mechanism for capturing and preparing the information supporting the main financial statements of the Iberdrola group is mainly based on the use of a unified management consolidation tool (called BPC), which is accessible from all geographic areas, that is currently deployed through the group.

A large part of the information supporting the breakdowns and notes is included in the consolidation tool, with the rest being captured by homogeneously formatted spreadsheets, called reporting packets, that are prepared for the half-yearly and yearly close.

F.5. Supervision of system performance

Describe at least the following:

F.5.1. The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

The activities for supervising the ICFR by the ARSC mainly include: (i) monitoring of compliance with the process of certification by the various parties responsible for the financial information; (ii) the review, with the support of the Management of the Internal Audit Area, of the design and operation of the internal control system, to evaluate the effectiveness thereof; and (iii) regular meetings with the external auditors, internal auditors and senior management to review, analyse and comment on the financial information, the boundary of companies that it covers and the accounting criteria applied, as well as any significant weaknesses in internal control that have been identified.

It should be mentioned that the parties responsible for preparing the financial information of each country subholding company, each head of business company and each corporate area must engage in an annual process, coordinated by the Internal Control Division, of reviewing the design and operation of the internal control system within their area of responsibility in order to evaluate the effectiveness thereof.

There is thus an analysis of whether changes in the risks identified and prioritised should be included based on the changing circumstances in which the group acts (changes in organisation, systems, processes, products, regulation, etc.). There is also an analysis of whether the design of the controls to mitigate or manage the risks that may have changed is appropriate, as well as whether they have operated satisfactorily in accordance with their design.

The conclusions from this annual review process, with respect to both the deficiencies identified (which are classified as serious, medium or mild, based precisely on their potential impact on the financial information) and the action plans to fix them, are presented at an annual specialised meeting chaired by the Administration and Control director, and at which the Management of the Internal Audit Area is also present. Conclusions are made at this meeting regarding the effectiveness of the internal control system within each of the different areas of responsibility, and globally for the entire group.

Thereafter, the most significant conclusions regarding the review are submitted to the ARSC within the framework of the regular meetings it holds with the Administration and Control director.

Apart from what is described in the preceding paragraphs, the Internal Audit Area, in support of the ARSC, undertakes an independent review of the design and operation of the internal control system, identifying deficiencies and preparing recommendations for improvement. The Internal Audit Area reports hierarchically to the chairman of Iberdrola's Board of Directors, and functionally to the ARSC, and pursuant to the Basic Internal Audit Regulations has the main duties of assisting this committee in the exercise of its powers and objectively and independently supervising the effectiveness of the group's internal control system, which is made up of a set of risk management and control mechanisms and systems.

Based thereon, the Management of the Internal Audit Area engages in ongoing monitoring of the action plans agreed to with the various organisations to correct the deficiencies detected and to implement the suggestions for improvement agreed to with the organisations.

The period that the Management of the Internal Audit Area plans for in-depth review of the entire internal control system is five years.

Specifically, 34 cycles were reviewed during financial year 2018. These are cycles corresponding to the companies Avangrid, Inc., Scottish Power Ltd., Iberdrola España, S.A. (Sociedad Unipersonal) and Neoenergia, S.A., as well as corporate cycles.

In addition, on a half-yearly basis, coinciding with the half-yearly and yearly close, the Management of the Internal Audit Area performs a review of the operation of the internal controls that are considered to be most critical.

The combination of regular reviews, together with the half-yearly reviews of the most critical controls, allows the Management of the Internal Audit Area to perform an evaluation of the internal control system (both design and operation) and issue an opinion regarding the effectiveness of the internal controls established to ensure the reliability of the financial information, which it submits to the ARSC within the framework of their regular meetings.

F.5.2. If there is a procedure by which the account auditor (in accordance with the contents of the Normas Técnicas de Auditoría (NTA) - "Auditing Standards"), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weaknesses in internal control identified during the review of the annual accounts or any others they have been assigned. Additionally, state whether an action plan is available for correcting or mitigating any weaknesses found.

In general terms, the procedure for discussion regarding significant internal control weaknesses that have been identified is based on regular meetings by the various agents.

Thus, the ARSC holds meetings, both at the half-year and yearly close, with the external auditors, with the internal auditors, and with the management responsible for preparing the financial information, in order to discuss any relevant aspect of the preparation process and of the resulting financial information.

Specifically, as established in its Regulations (scope of powers), Iberdrola's ARSC has, among other powers, that of obtaining information regarding any significant deficiency in internal control that the statutory auditor detects while carrying out its audit work. For these purposes, the statutory auditor appears before such Committee on an annual basis to present recommendations in connection with the internal control weaknesses identified during the review of the annual accounts. Any weaknesses noted by the statutory auditor are continuously monitored by the Committee with the support of the Management of the Internal Audit Area. Management responsible for preparing the consolidated accounts also holds meetings with the external auditors and with the internal auditors, at both the half-yearly and yearly close, in order to discuss any significant issues relating to the financial information.

F.6. Other relevant information.

Iberdrola has a financial information internal control system or model that is intended to reasonably guarantee the reliability of the financial information. The development of the model, which began in 2006,

was not the result of a legal requirement but rather the conviction, by both the Board of Directors and the Company's senior management, that within a context of growth and internationalisation as was already forecast for the group, an explicit and auditable internal control system would contribute to maintaining and improving its control environment and the quality of the financial information, while at the same time increasing the confidence of investors due to its effects on the transparency, reputation and good governance of Iberdrola and of the companies making up the group.

The ICFR system has two main sides: certification, and internal control itself.

Certification is a 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 of the Company within their area of responsibility, and (ii) they are responsible for establishing the ICFR system 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 & CEO and the Administration and Control director submit to the Board of Directors for purposes of approval of the Half-Yearly Financial Report or the formulation of the annual accounts.

The other side of the model, that of internal control itself, is inspired by the leading framework described in the "Internal Control Integrated Framework" report of the "Committee of Sponsoring Organizations of the Treadway Commission (COSO)", and is mainly focused on providing a reasonable level of security in achieving the goal of reliability of financial information.

The methodology used by Iberdrola for the development and continuous update of internal control has the following stages or steps: (i) analysis and selection of significant financial information; (ii) the grouping thereof within cycles or large processes in which it is generated; (iii) the identification, evaluation and prioritisation of the risks of error in financial information within the selected cycles; (iv) the design and operation of controls to mitigate or manage the selected risks; and (v) the monitoring and update of the foregoing steps to continuously adapt the model to the circumstances of the business activity.

One of the main characteristics of the design of the model is that it attempts to ensure the quality of the financial information during each month of the year, and is not only limited to the periods corresponding to the annual or half-yearly close.

This characteristic is strengthened with the use of a specific software application internally developed by the group, which allows for the monitoring of the status of the controls at all times.

Another important characteristic 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 the generation of financial information, by personally assigning responsibility in the implementation and documentation of controls.

All significant documentation regarding Iberdrola's ICFR system, including both the process of certification and the internal control itself, is stored in this software application.

The people responsible for implementing the controls input into the software application evidence showing the performance thereof, and evaluate the results obtained, classifying them as satisfactory or unsatisfactory. This allows for monitoring of the internal control situation in real time, permitting quick action regarding any deficiencies detected.

Additionally, on an annual basis, the various heads of control at the country subholding and head of business companies, as well as the heads of the corporate areas, review the design and operation of the ICFR system, as a systematic process for adjustment thereof to the changing circumstances of the business activity.

The annual review is coordinated by the Internal Control Division, which is also tasked with administering the software application and with coordinating the development of the ICFR system within the various businesses and corporate areas of the group.

Furthermore, the Management of the Internal Audit Area, which is responsible for supervising internal control in support of the ARSC, undertakes an independent review of the design and operation of the ICFR system, identifying deficiencies and preparing recommendations for improvement. This review is performed applying a mixed model of selecting cycles based on risk and a minimum rotation of five years.

In addition, on a half-yearly basis, the Management of the Internal Audit Area undertakes an independent review of the effectiveness of the internal controls established to ensure the reliability of the financial information. It also reviews the process of certification of the financial information on a half-yearly basis. The conclusions from these reviews are submitted to the ARSC, which, if applicable, makes them its own

and forwards them to the Board of Directors.

Based on materiality standards, the current scope of the ICFR system covers the entire Iberdrola group. More than 1,600 people from the group use the software application, both to document the evidence showing the implementation of more than 2,950 controls —which mitigate or manage more than 1,150 risks of error in the financial information deemed priority— and to monitor, analyse, adjust and evaluate the ICFR system.

In addition, the approximately 80 department heads who participate in the process of certifying the correctness of the information for which they are responsible do so using an electronic signature directly within the software application.

All of the above allows for the final result of the certification process, which is supported by the situation of internal control itself, to be reviewed by Iberdrola's Board of Directors as one of the major guarantees of reliability in connection with the formulation of the annual and interim financial information of the group.

F.7. External auditor's report

Report on:

F.7.1. If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

The information on the ICFR system sent to the markets has not been subject to review by the external auditor consistent with the fact that the other information contained in the Annual Corporate Governance Report is only subject to review by the external auditor in relation to the accounting information contained in said Report. Furthermore, it is believed that externally reviewing the information on the ICFR system sent to the markets would in a certain way be redundant, taking into account the review of internal control that the external auditor must perform in accordance with technical auditing standards within the context of the statutory audit of accounts.

G EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the company's level of compliance with recommendations from the Good Governance Code of Listed Companies.
In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company's actions. General explanations are not acceptable.

1. **That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.**

Complies | Explanation | X

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 retail 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 consolidated 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. **That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:**

   a) **The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.**

   b) **The mechanisms in place to resolve any conflicts of interest that may arise.**

   Complies | X Complies Partially | Explanation | Not Applicable |

3. **That, during the course of the ordinary General Shareholders' Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:**

a) **Changes that have occurred since the last General Shareholders' Meeting.**

b) **Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.**

Complies | X Complies Partially | Explanation |

4. **That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.**

   And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

Complies | X Complies Partially | Explanation |

5. **That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.**

   And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

Complies | X Complies Partially | Explanation |

6. **That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:**

   a) **Report regarding the auditor's independence.**

   b) **Reports regarding the workings of the audit committee and the appointments and remuneration committee.**

   c) **Report by the audit committee regarding related-party transactions.**

   d) **Report on the corporate social responsibility policy.**

Complies | X Complies Partially | Explanation |

7. **That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.**

Complies | X Explanation |

8. **That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.**

Complies | X Complies Partially | Explanation |

9. **That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.**

   And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies | X Complies Partially | Explanation |

10. **That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:**

    a) **Immediately distributes the additions and new proposals.**

    b) **Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.**

    c) **Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.**

    d) **That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.**

Complies | X Complies Partially | Explanation | Not Applicable |

11. **That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establishes in advance a general policy of long-term effect regarding such payments.**

Complies | X Complies Partially | Explanation | Not Applicable |

12. **That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.**

    And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

    Complies | X Complies Partially | Explanation |

13. **That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.**

    Complies | X Explanation |

14. **That the Board of Directors approves a selection policy for directors that:**

    a) **Is concrete and verifiable.**

    b) **Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.**

    c) **Favours diversity in knowledge, experience and gender.**

    That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call to the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

    And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

    The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

    Complies | X Complies Partially | Explanation |

15. **That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive**

directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

Complies | X Complies Partially | Explanation |

16. **That the percentage of proprietary directors divided by the number of non- executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.**

    This criterion may be relaxed:

    a) **In companies with a high market capitalisation in which interests that are legally considered significant are minimal.**

    b) **In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.**

Complies | X Explanation |

17. **That the number of independent directors represents at least half of the total number of directors.**

    Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.

Complies | X Explanation |

18. **That companies publish and update the following information regarding directors on the company website:**

    a) **Professional profile and biography.**

    b) **Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.**

    c) **Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.**

    d) **The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.**

    e) **The shares and options they own.**

Complies | X Complies Partially | Explanation |

19. **That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the**

appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies | Complies Partially | Explanation | Not Applicable | X

20. **That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.**

Complies | Complies Partially | Explanation | Not Applicable | X

21. **That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.**

The dismissal of independent directors may also be proposed as a result of a public takeover bid, merger or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies | X Explanation |

22. **That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.**

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must

investigate the case as soon as possible and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies | X Complies Partially | Explanation |

23. **That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.**

    Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

    This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

    Complies | Complies Partially | Explanation | Not Applicable | X

24. **That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.**

    Complies X Complies Partially | Explanation | Not Applicable |

25. **That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.**

    And that the Board rules establish the maximum number of company Boards on which directors may sit.

    Complies | X Complies Partially | Explanation |

26. **That the Board of Directors meets frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items that do not originally appear on the agenda.**

Complies | X Complies Partially | Explanation |

27. **That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.**

Complies | X Complies Partially | Explanation |

28. **That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.**

Complies | Complies Partially | Explanation | Not Applicable | X

29. **That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.**

Complies | X Complies Partially | Explanation |

30. **That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require.**

Complies | X Explanation | Not Applicable |

31. **That the agenda for meetings clearly states those matters about which the Board of Directors is to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.**

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall by duly recorded in the minutes.

Complies | X Complies Partially | Explanation |

32. **That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.**

Complies | X Complies Partially | Explanation |

33. **That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic**

evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies | X Complies Partially | Explanation |

34. **That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chair of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of non- executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.**

Complies | X Complies Partially | Explanation | Not Applicable |

35. **That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.**

Complies | X Explanation |

36. **That the Board of Directors meets in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:**

a) **The quality and efficiency of the Board of Directors' work.**

b) **The workings and composition of its committees.**

c) **Diversity of membership and competence of the Board of Directors.**

d) **Performance of the chairman of the Board of Directors and the chief executive officer of the company.**

e) **Performance and input of each director, paying special attention to those in charge of the various Board committees.**

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies | X Complies Partially | Explanation |

37. **That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.**

Complies | X Complies Partially | Explanation | Not Applicable |

38. **That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.**

Complies | X Complies Partially | Explanation | Not Applicable |

39. **That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.**

Complies | X Complies Partially | Explanation |

40. **That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.**

Complies | X Complies Partially | Explanation |

41. **That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.**

Complies | X Complies Partially | Explanation | Not Applicable |

42. **That in addition to the provisions of applicable law, the audit committee should be responsible for the following:**

1. With regard to information systems and internal control:

a) **Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.**

b) **Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re- election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.**

c) **Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.**

2. With regard to the external auditor:

a) **In the event that the external auditor resigns, examine the circumstances which caused said resignation.**

b) **Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.**

c) **Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.**

d) **Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.**

e) **Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's**

billing, and all other rules regarding the auditor's independence.

Complies | X Complies Partially | Explanation |

43. **That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.**

Complies | X Complies Partially | Explanation |

44. **That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.**

Complies | X Complies Partially | Explanation | Not Applicable |

45. **That the risk management and control policy identify, at a minimum:**

a) **The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off-balance sheet risks.**

b) **Fixing of the level of risk the company considers acceptable.**

c) **Means identified in order to minimise identified risks in the event they transpire.**

d) **Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.**

Complies | X Complies Partially | Explanation |

46. **That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:**

a) **Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.**

b) **Actively participate in the creation of the risk strategy and in important decisions regarding risk management.**

c) **Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.**

Complies | X Complies Partially | Explanation |

47. **That members of the appointment and remuneration committee – or of the appointments committee and the remuneration committee if they are separate – are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.**

Complies | X Complies Partially | Explanation |

48. **That high market capitalisation companies have formed separate appointments and remuneration committees.**

Complies | X Explanation | Not Applicable |

49. **That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.**

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies | X Complies Partially | Explanation |

50. **That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:**

a) **Propose basic conditions of employment for senior management.**

b) **Verify compliance with company remuneration policy.**

c) **Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.**

d) **Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.**

e) **Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.**

Complies | X Complies Partially | Explanation |

51. **That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.**

Complies | X Complies Partially | Explanation |

52. **That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:**

a) **That they are comprised exclusively of non-executive directors, with a majority of them independent.**

b) **That their chairmen be independent directors.**

c) **That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.**

d) **That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.**

e) **That their meetings be recorded and the minutes be made available to all directors.**

Complies | X Complies Partially | Explanation | Not Applicable |

53. **That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to its powers of self-organisation, to which at least the following responsibilities shall be specifically assigned:**

a) **Verification of compliance with internal codes of conduct and the company's corporate governance rules.**

b) **Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.**

c) **The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company**

promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.

d) **Review of the company's corporate social responsibility policy, ensuring that itis orientated towards value creation.**

e) **Follow-up of corporate social responsibility strategy and practice, and evaluation of degree of compliance.**

f) **Supervision and evaluation of the way relations with various stakeholders are handled.**

g) **Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational risks.**

h) **Coordination of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.**

Complies | X Complies Partially | Explanation |

54. **That the corporate social responsibility policy includes principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, at a minimum:**

a) **The objectives of the corporate social responsibility policy and the development of tools to support it.**

b) **Corporate strategy related to sustainability, the natural environment and social issues.**

c) **Concrete practices in matters related to shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.**

d) **Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.**

e) **Means of supervising non-financial risk, ethics, and business conduct.**

f) **Communication channels, participation and dialogue with stakeholders.**

g) **Responsible communication practices that impede the manipulation of data and protect integrity and honour.**

Complies | X Complies Partially | Explanation |

55. **That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.**

Complies | X Complies Partially | Explanation |

56. **That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.**

Complies | X Explanation |

57. **That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.**

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The foregoing shall not apply to shares that the director may be obliged to sell in order to meet the costs related to their acquisition.

Complies | X Complies Partially | Explanation |

58. **That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and is not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.**

And, in particular, that variable remuneration components:

a) **Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.**

b) **Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.**

c) **Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable**

value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

Complies | X Complies Partially | Explanation | Not Applicable |

59. **That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.**

Complies | X Complies Partially | Explanation | Not Applicable |

60. **That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.**

Complies | X Complies Partially | Explanation | Not Applicable |

61. **That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.**

Complies | X Complies Partially | Explanation | Not Applicable |

62. **That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.**

The foregoing shall not apply to shares that the director may be obliged to sell in order to meet the costs related to their acquisition.

Complies | X Complies Partially | Explanation | Not Applicable |

63. **That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.**

Complies | X Complies Partially | Explanation | Not Applicable |

64. **That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.**

Complies | Complies Partially | X Explanation | Not Applicable |

Contracts with executive directors and senior officers signed as from 2011 provide severance pay 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 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. At year-end 2018, the number has decreased again to 29, without the enforcement of any guarantee clause.

H FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that has not been included in other sections of this report, but which is necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe it briefly below.

2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

   Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July 2010.

The annex contains a description of the attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2018. Proxies granted with specific voting instructions are considered to be attendances.

This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on ___19/02/2019____.

State whether any directors voted against or abstained from voting on this report.

Yes □ No X

Name of director who has not voted for the approval of this report	Reasons (against, abstention, non-attendance)	Explain the reasons
Remarks		

Annex to IAGC 2018:

SECTION C.1.26

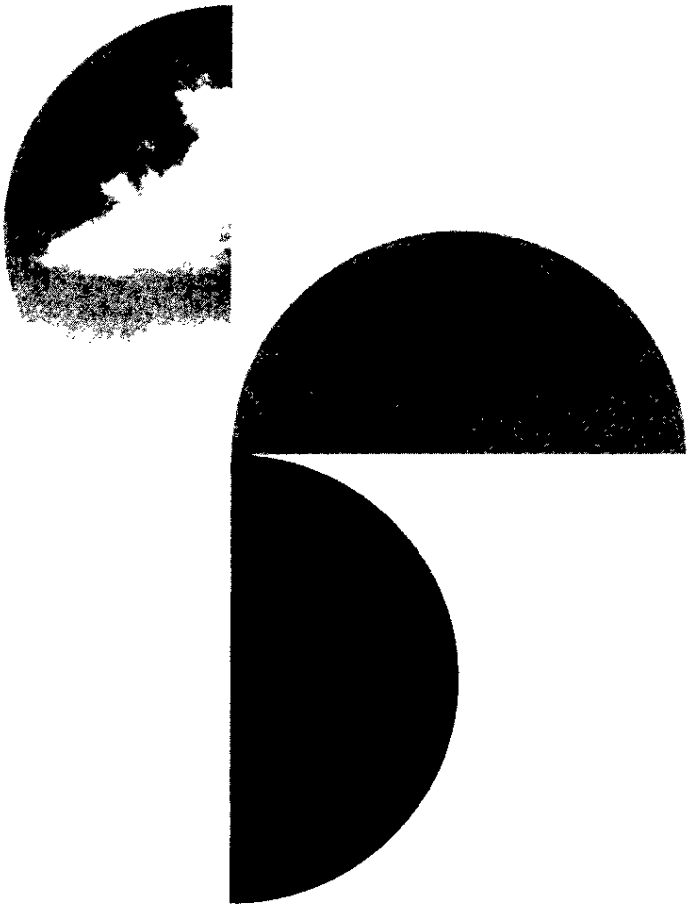
Below is the data on attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2018. Proxies granted with specific voting instructions are considered to be attendances.

Directors	Board	Committees				
		EC	ARSC	AC	RC	SDC
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	8/8	15/15	--	--	--	--
MR IÑIGO VÍCTOR DE ORIOL IBARRA	8/8	--	--	6/6	3/3	2/2
MS INÉS MACHO STADLER	8/8	15/15	--	--	6/6	--
MR BRAULIO MEDEL CÁMARA	3/3	--	--	--	--	4/4
MS SAMANTHA BARBER	8/8	15/15	--	--	--	7/7
MS MARÍA HELENA ANTOLÍN RAYBAUD	8/8	--	--	6/6	--	--
MR ÁNGEL JESÚS ACEBES PANIAGUA	8/8	15/15	--	6/6	--	--
MS GEORGINA KESSEL MARTÍNEZ	8/8	--	12/12	--	--	--
MS DENISE HOLT	8/8	--	12/12	--	--	--
MR JOSÉ W. FERNÁNDEZ	8/8	--	12/12	--	--	--
MR MANUEL MOREU MUNAIZ	8/8	15/15	--	--	3/3	5/5
MR XABIER SAGREDO ORMAZA	8/8	--	12/12	--	--	--
MR JUAN MANUEL GONZÁLEZ SERNA	8/8	--	--	--	6/6	--
MR FRANCISCO MARTÍNEZ CÓRCOLES	8/8	--	--	--	--	--
MR ANTHONY LUZZATO GARDNER	5/5	--	--	--	--	3/3

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.
- SDC: Sustainable Development Committee (previously the Corporate Social Responsibility Committee).

NON-FINANCIAL INFORMATION AND DIVERSITY 2018



Iberdrola, S.A. and subsidiaries

Financial year 2018

Statement of Non-Financial Information

Sustainability Report 2018

IBERDROLA

Introduction 7

Letter from the Chairman 9

I. About Iberdrola 18

I.1. Profile of the Company 19

Purpose and values 20

Presence and areas of activity 22

Main products and services: the Iberdrola brand 23

Key operating figures 25

Corporate and governance structure, ownership and legal form 30

I.2. Iberdrola's Contribution to the Sustainable Development Goals 38

Introduction 39

Commitment to the SDGs 40

Activities to raise awareness of the SDGs 41

Our main focus: SDGs 7 and 13 42

Main objectives and actions in 2018 that contribute to the SDGs 45

I.3. Business Model and Strategy 54

Business model 55

Corporate Governance System 56

Code of Ethics 57

Policies and commitments 58

Sustainable development policies 58

Responsibilities 60

Responsibility in the sustainable development strategy 61

Goals, resources and results 62

Key impacts on sustainability 64

Long-term risks and opportunities. Comprehensive Risk System 66

Climate change risk management. Iberdrola and the TCFD 68

II. "Responsible Energy for People": Our Priorities 73

II.1. Sustainable Economic Growth 76
Economic/financial impact 78
Green financing 81
Energy transition and supply costs 83
Creation of employment and salaries 92
Stable labour environment. Commitment to quality employment 101

II.2. Workplace Health & Safety and Personal Development 104
A safe work environment 106
Professional training and development 115
Diversity and equal opportunity 120

II.3. Fight against Climate Change and Protection of Biodiversity 130
Iberdrola and sustainable management 132
Efficiency in the use of natural resources 139
Use of materials 140
Efficiency in energy consumption 141
Reduction of emissions 147
Rational use of water 159
Waste management 164
Protection of biodiversity 167
Environmental safety 177

II.4. Innovation, Digitalization and Quality for our Customers 180
Products and services 182
Access to adequate information 190
Innovation and digital transformation projects 194

II.5. Contribution to the Well-being of our Communities 197
Introduction 199
Access to energy 201
Protection of human rights 205

Support to local communities 216
Contributions to society (LBG) 221
Corporate volunteering programme 226
Foundations 229
Iberdrola and the Global Compact 240

II.6. Promotion of Socially Responsible Practices in the Supply Chain 241
Description of the supply chain 243
Sustainable management of the supply chain 245

II.7. Good Governance, Transparency and Stakeholder Engagement 252
Corporate governance 254
Stakeholder engagement 265
Ethics and integrity 270
Fiscal responsibility 283
Competition 286
Public policy 288
Cybersecurity and information privacy 295
Socioeconomic compliance 297

III. About this Report 299

Scope of Information 300

Defining Report Content. Materiality Analysis 305

Statement of Non-Financial Information 309

GRI Content Index 313

Content Index in Relation to the Principles of the Global Compact 321

Independent External Assurance 323

IV. Annexes 324

Annex 1: Information Supplementary to the Sustainability Report 2018 325

Key figures 326
Economic dimension 333
Environmental dimension 339
Social dimension 346

Annex 2: Iberdrola's Contribution to the SDGs and Targets of the 2030 Agenda 387

Annex 3: Report on Green Financing Returns 404

Annex 4: External Independent Assurance Report on the Sustainability Report 424

Contact point for questions regarding the report 429

Introduction

Iberdrola prepared its first *Sustainability Report* in 2004, thus adopting the best reporting and transparency practices. Since then, the company has become a world leader in defending a model of sustainable and environmentally-friendly growth. Continuing with its commitment, Iberdrola once again submits its ***Statement of Non-Financial Information. Sustainability Report 2018***, approved by its Board of Directors at the meeting thereof held on 19 February 2019, after a report from the Sustainable Development Committee of said Board of Directors.

Iberdrola publishes this report in order to give its Stakeholders a true and accurate view of its non-financial performance during financial year 2018, and in order for them to also understand both the group's social dividend and its contribution to the Sustainable Development Goals of the 2030 Agenda of the United Nations, in compliance with the commitments assumed in the By-Laws and in the *General Sustainable Development Policy*.

Iberdrola thus satisfies the growing demand by society in general, and shareholders and investors in particular, for companies to also explain their non-financial performance in the environmental, social and corporate governance (ESG) fields, with the understanding that good performance in these areas is an essential factor for the success of companies.

After the entry into force in 2014 of *Directive 2014/95/EU*, the Directive was transposed into the Spanish legal system in 2017 by means of *Royal Decree-law 18/2017, of 24 November.* In 2018, *Law 11/2018, of 28 December, on non-financial information and diversity* was approved. This new law expands the obligations to publish non-financial information, which includes environmental and social aspects, 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 document covers the requirements arising from the entry into force of the new legal provision, forming an integral part of the company's management report.

This report has been prepared in accordance with the reporting requirements and recommendations of the *Consolidated Set of GRI Sustainability Reporting Standards 2016* (Comprehensive option) and the *Electric Utilities Sector Supplement*, both of the *Global Reporting Initiative* (GRI). As a new development, and to make the report easier to read, the report has been structured into topics instead of following the order of GRI indicators. References to the GRI indicators covered in each section have been added in the texts (e.g.: **102-7**).

Readers of the *Statement of Non-Financial Information. Sustainability Report 2018* can also refer to the *Annual Financial Report 2018* and the *Annual Corporate Governance Report 2018*, as well as the *Integrated Report. February 2019*, all of which are accessible in the "Annual Reports" section, and which contain additional useful information for a better understanding of Iberdrola's performance during the financial year and of its future prospects, based on the principles of transparency and disclosure set out in the *Stakeholder Relations Policy*.

Finally, to facilitate access to all available information, direct links are included throughout this report to both the corporate website (www.iberdrola.com) and to other pages of the group, as well as to official documents published thereon in PDF format. To open these links, click with the left button of your mouse directly on texts identified with the following format: link example.

Notes:

- The report boundary is described in chapter III. About the report in this document.
- The figures included in this translation follow the customary English convention, with figures in thousands separated by a comma (,) and decimals indicated by a full stop (.).

Letter from the Chairman

102-14

The Sustainability Report I have the pleasure of presenting to you is intended to summarise the most important information on the company's last 12 months. As you will find, over the course of this financial year Iberdrola has achieved major milestones that represent great progress in our plans across all countries and all areas of the group's activity, combining financial results with the sustainable creation of value for the company.

As is customary, this report is structured following the Global Reporting Initiative (GRI) guidelines, providing a detailed and transparent presentation of our performance in the financial, social and environmental spheres.

In 2018, we made significant progress in meeting our investment plan to 2022. Over 5,300 million euros of gross investment represents one of the highest levels of investment by the group in a single financial year, which has enabled us to shorten the term for achieving our goals by almost a year.

Iberdrola's activities in 2018 show that our group has the people, the technology, the resources, the experience and the knowledge required to lead state-of-the-art energy projects worldwide. A clear example of this is the Wikinger offshore wind farm, which we have inaugurated in the German Baltic Sea and to which there will soon be added the Baltic Eagle and Wikinger Süd offshore wind farms, also in German waters.

In this technological area, we have started construction in the British North Sea of what will be one of the largest wind farms in the world, East Anglia One, capable of supplying entirely emission-free energy to approximately one-and-a-half million people. And we are developing other projects in the United States (Vineyard, Kitty Hawk and Massachusetts Zone III) and in France (Saint Brieuc), which strengthen our strong commitment to offshore wind power.

We also completed other highly significant projects in 2018, such as the Western Link high-voltage direct current cable connecting Scotland and Wales, which transports energy via the longest undersea electric cable in the world, and the Santiago and Hermosillo photovoltaic power stations in Mexico, which will avoid the atmospheric emission of around 550,000 tons of CO_2 per year. In Spain, we have achieved the full digitalization of our distribution network via the STAR project, which also involved the installation of 11 million smart meters allowing for improved service and network efficiency and the integration of more renewable energies and of new electric mobility solutions.

At the same time, we have made headway in the development of major initiatives that we hope to complete in the coming years, such as the NECEC project (the new transmission line between Quebec and Massachusetts, which will supply 100% renewable energy to 1.2 million homes), the Támega hydroelectric pumping complex (one of the most significant energy projects in Portuguese history), and increased commercial activity in countries like France and Italy.

All these advances strengthen the wager that we have been making at Iberdrola for almost two decades, a commitment to make the investment in renewable energies, storage, smart grids and new customer services required to lead the sustainable and efficient energy transition that our sector requires.

Record of results

The information included in this Report also shows that our firm commitment to a cleaner and more sustainable world is fully compatible with growing the company's operating and financial parameters and profitability.

Stimulated by the strong performance of all our businesses across all countries and by the progress of our plans, our revenue rose by 12.2% to overcome 35,000 million euros, EBITDA increased by 27.7% to 9,349 million euros and net profit grew by 7.5% in comparison with the previous year, to 3,014 million euros.

The positive performance turned in by the company during the year allowed for a proposal to the shareholders of an increase in shareholder remuneration of almost 7.7%, to 0.351 euro per share. If we add to this the performance of the share price on the financial markets, the total return on our shares in 2018 stands at 14%, compared to -11.5% for the Ibex-35 index and -11.3% for the Eurostoxx 50. This placed Iberdrola among the four largest electricity companies worldwide by market capitalisation at year-end.

Strengthening future growth

We will continue to progress in the achievement of our plans over the coming years, with the development of more renewable energies (onshore and offshore wind, photovoltaic and hydroelectric), more smart grids and new products and services for our customers.

Specifically, in Spain and within the framework of the opportunities offered by the energy transition, we are already substantially increasing and will continue to increase our renewable capacity, with the installation of new photovoltaic plants and wind farms: in Brazil, we will continue to extend our transmission and distribution grid infrastructure and to invest in clean energy; in the United Kingdom and the United States, we will move forward with our plans for transmission and distribution grids and the installation of new onshore and offshore wind farms; and in Mexico we are building plants to increase our installed combined cycle and renewables capacity, which will help to provide a more stable and secure system. We will also make a major commitment to the sale of electricity, gas and products and services in these five countries, as well as in other European countries in which we already operate.

The aim is to continue growing and to do so in the most profitable, but at the same time sustainable, manner. If anything distinguishes us at Iberdrola, it is our close link to sustainability in the broadest sense of the word, because we are convinced that it is essential to harmonise our commitment to state-of-the-art technology with improving people's daily lives and protecting the environment.

Increase in social dividend

In 2018, we reformed our corporate governance system in order to formalise and develop Iberdrola's commitment to compliance with the United Nations Sustainable Development Goals (SDGs), which have been fully integrated into the company's sustainability policies and By-Laws as part of our Social Dividend.

Of note in this regard is the fundamental contribution that our work as an electricity company makes to SDGs 7 (affordable and clean energy) and 13 (climate action), among others. In 2018, we continued to increase our emission-free installed capacity up to approximately 33,000 MW, 68% of our total capacity, and we recorded a CO_2 emission intensity of 82 grams per kilowatt-

hour in Spain, well below that of other Spanish companies and approximately 75% less than the average for European companies.

As a socially responsible company, we also contribute actively to the other SDGs, including those relating to decent work and economic growth (SDG 8), gender equality (SDG 5), industry, innovation and infrastructure (SDG 9), sustainable cities and communities (SDG 11) and partnerships for the goals (SDG 17).

We continued to promote the creation of high-quality employment in 2018, with around 3,500 new hires and more than 1,400 recruitments of young trainees. Our workforce today amounts to 34,000 people, to whom we can add the other 390,000[1] people that Iberdrola provides with employment through its worldwide activities. And we have continued to encourage the professional development and training of our team, with more than one-and-a-half-million hours of training given (47 hours per employee, four times more than the European average) and 2,700 internal promotions.

At the same time, we have kept firm in our commitment to equality between men and women in all areas. For example, there is no gender-based salary gap at the Iberdrola group, and we are also the Ibex-35 company with the largest number of women on its Board of Directors, with 50% of the external directors being women.

We have also reinforced our commitment to the economic development of all the countries in which we operate, through our purchases from local suppliers (close to 8,000 million euros in 2018) as well as our tax contribution (7,939 million euros). Overall, for every euro of profit that Iberdrola makes, the company has generated more than 10.3 euros in the GDP of these countries[1].

Iberdrola has likewise continued to strengthen investment in innovation (with around 270 million euros invested during the financial year) for the development of new energy transition-related technologies. This has cemented our position in the main indices in this area.

2018 has also seen strong development in the work of our Foundations worldwide, which have increased their activities in areas such as social action and solidarity, art and culture, biodiversity and training, research and development of young talent in order to provide help to those who most need it, conserve and value our heritage and respond to the main challenges that society is facing. We are proud that our growth takes place within a framework of solidarity, collaboration and dialogue with disadvantaged groups.

At Iberdrola we aim to be ever closer to people. Contributing to their wellbeing and progress and preserving the planet on which we all live are the main hallmarks of our identity.

It is precisely for this reason that we have defined our purpose –a statement that summarises our main raison d'être, the motivation for our activities and the value that Iberdrola contributes to society–, which has been established as follows: "to continue building together each day a healthier, more accessible energy model, based on electricity".

This purpose is based on three fundamental pillars that constitute the updated values of the Iberdrola group: "Sustainable Energy, Integrating Force and Driving Force", which are underpinned by essential elements such as ethics, transparency, diversity, dialogue, innovation, diligence and foresight.

[1] Data from PwC report (January 2019) based on figures from 2017.

Iberdrola is thereby deepening its commitment to achieving the Sustainable Development Goals and to the creation of value for all Stakeholders, the basis of our Social Dividend.

From this corporate perspective and naturally through our daily management, we will continue working together, with conviction and commitment, to contribute to a world that is better, more equitable and with more and better opportunities for all.

Ignacio S. Galán,
Chairman & CEO of Iberdrola

Corporate Reputation: Recognitions, Presence in External Indexes and External Evaluations

	Indexes or organisations	Rating or status[2]
Member of Dow Jones Sustainability Indices In Collaboration with RobecoSAM	Dow Jones Sustainability World Index 2018	Selected in utilities sector. Member in all editions
GLOBAL 100	Global 100	Iberdrola selected
FTSE4Good	FTSE4Good	First utility with nuclear assets selected for the index for 8 years in a row
CDP	CDP Climate Change Index 2018	A-
CDP A LIST	CDP Supply-Chain	A-List, the highest category
MSCI	MSCI Global Sustainability Index Series	Iberdrola selected AAA
EURONEXT vigeo eiris	Euronext Vigeo Eiris index: World 120, Eurozone 120 & Europe 120	Iberdrola selected
ROBECOSAM Sustainability Award Gold Class 2017	Sustainability Yearbook 2018	Classified as "Silver Class" in the electricity sector

[2] As at the date of approval of this report by the Board of Directors.

	Indexes or organisations	Rating or status[2]
merco	MERCO 2018	mercoEmpresas: Leader among Spanish utilities: *energy, gas and water.*
ET ENGAGED TRACKING	ET Global 800 ET Europe 300	Iberdrola selected
2018 WORLD'S MOST ETHICAL COMPANIES WWW.ETHISPHERE.COM	2018 World's Most Ethical Companies, ranking prepared by the Ethisphere Institute	Only Spanish utility present in the ranking. Selected for the fifth consecutive year as one of the most ethical companies in the world
FORTUNE GLOBAL 500	Fortune Global 500	Iberdrola selected
STOXX	Stoxx Global ESG Leaders/Eurostoxx Sustainability 40/Eurostoxx ESG Leaders 50	Iberdrola selected
IM InfluenceMap	InfluenceMap	Iberdrola among top 25 scoring companies
2019 Bloomberg Gender-Equality Index	Bloomberg Gender-Equality Index 2019	Only Spanish electrical utility included in the 2019 ranking. Selected in recognition for its equal opportunity and gender equality policies

	Indexes or organisations	Rating or status[2]
Corporate Responsibility Prime rated by ISS-oekom	ISS-Oekom	Iberdrola classified as Prime
ecoact	EcoAct	Iberdrola classified as top utility and top 10 in the world in the 2018 sustainability reporting performance report
Forbes 2018 GLOBAL WORLD'S LARGEST PUBLIC COMPANIES 2000	Forbes	Iberdrola selected in Forbes 2018: GLOBAL World's Largest Public Companies 2000
ECPI Sense in sustainability	ECPI	Iberdrola selected in various sustainability indices
Energy Intelligence **EI NEW ENERGY** GREEN UTILITIES REPORT	Energy Intelligence	Iberdrola among the top three utilities in the EI New Green Utilities Report 2018

I. About Iberdrola

I.1. Profile of the Company

- Purpose and values
- Presence by areas of activity
- Main products and services: the Iberdrola brand
- Key operating figures
- Corporate and governance structure, ownership and legal form

Purpose and values

In 2018 Iberdrola began a process of articulating a unique and relevant Corporate Purpose going beyond the traditional concept of mission and vision to describe its long-term raison d'être and contribute to the cohesion, differentiation and generation of trust among all the Stakeholders.

The proposal reflects and confronts the main social trends, the major economic, social and environmental challenges and expectations of the Stakeholders, and also defines Iberdrola's role in society as an agent for change and transformation of the electricity sector.

Iberdrola's Corporate Purpose has thus been defined as follows:

"To continue building together each day a healthier, more accessible energy model, based on electricity".

This Purpose conveys:

- The Iberdrola group's commitment to what today constitutes an urgent social need: the transformation of the current energy model towards a new model that prioritises the well-being of people and the preservation of the planet.

- The Iberdrola group's commitment to a real and global energy transition based on decarbonisation and electrification of the energy sector and of the economy as a whole decidedly contributes to the fight against climate change, and at the same time favours the creation of new opportunities for economic, social and environmental development.

- The foresight of the Iberdrola group, spending more than a decade working to make this transformation a reality, driving the development of clean energy throughout the world, and continuing to invest its resources to reach the objectives of the Paris Agreement.

- The Iberdrola group's determination to continue building a more electricity-based energy model, which reduces dependency on the use of fossil fuels and generalises the use of renewable energy sources, the efficient storage of energy, smart grids and digital transformation.

- The conviction that a more electricity-based energy model is also healthier for people, whose health and well-being in the short term depend on the environmental quality of their surroundings (air, water, food, biodiversity, etc.) and, in the long term, to the success of the fight against climate change.

- The aspiration for the new energy model to also be more accessible to all, thus favouring inclusiveness, equality, equity and social development.

- The desire to continue building this new model in collaboration with all involved players: governments, institutions, companies, tertiary sector, citizens, etc., because this is a tremendous shared challenge to ensure the present and future of the societies in which we live.

This Corporate Purpose is aligned with the social dividend strategy, the principles of Sustainable Development, Corporate Social Responsibility, and thus the 2030 Agenda - Sustainable Development Goals of the United Nations.

To attain said Purpose, the Iberdrola group condensed its corporate values into the following three concepts:

- **Sustainable energy:** because the Iberdrola group seeks to always be a model of inspiration, creating economic, social and environmental value in all of its surroundings, and with the future in mind.

  This value expresses the commitment to:

  - Responsibility
  - Ethics
  - Safety
  - Transparency

- **Integrating force:** because the Iberdrola group works with force and responsibility, combining talents, for a Purpose that is to be achieved by all and for all.

  This value expresses the commitment to:

  - Diversity
  - Dialogue
  - Empathy
  - Solidarity

- **Driving force:** the Iberdrola group makes small and large changes into reality in order to ease the life of people. And it performs this work while always seeking to continually improve, efficiently and with high self-imposed standards.

  This value expresses the commitment to:

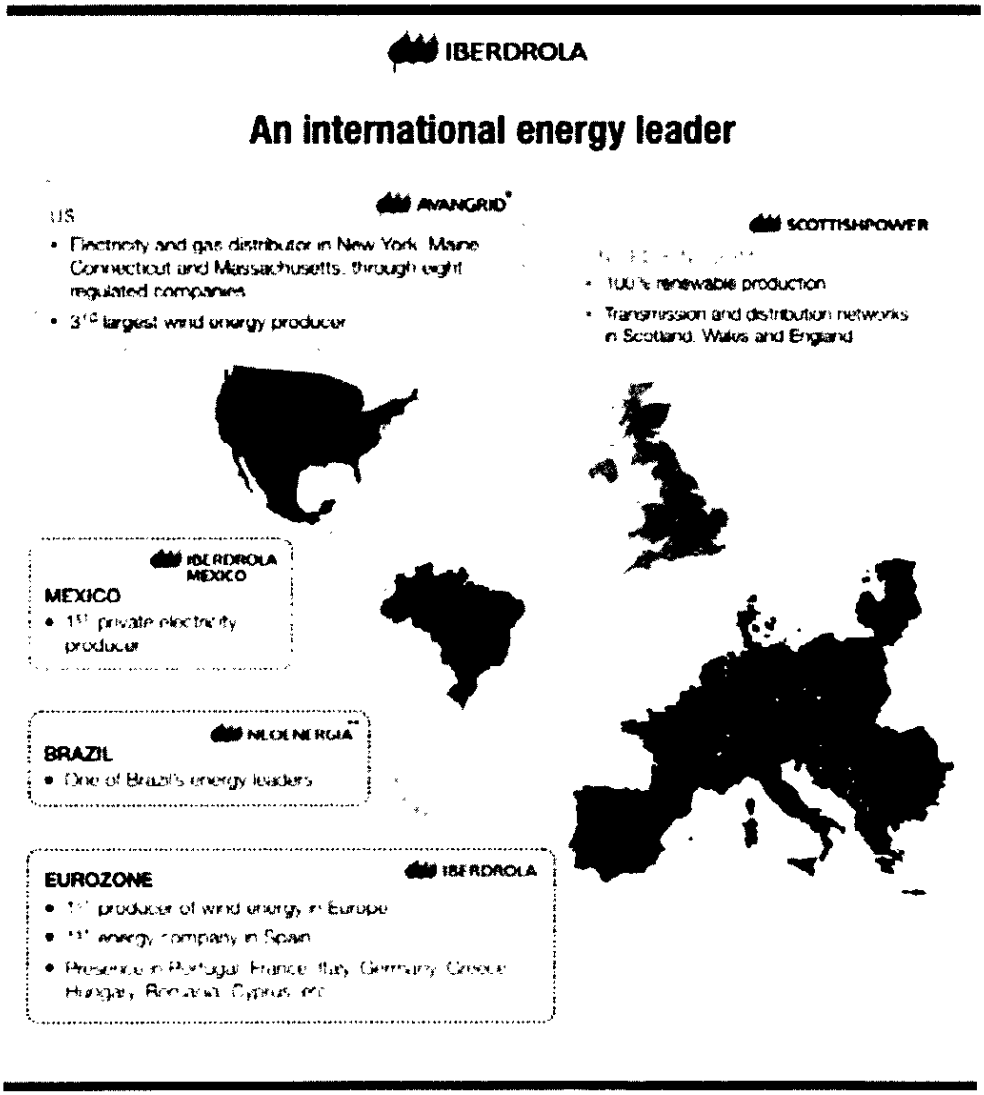
  - Innovation
  - Simplicity
  - Agility
  - Foresight

Presence and areas of activity

GRI 102-6

Iberdrola and its subsidiaries and affiliates carry out their activities in almost thirty countries. However, for operational and economic/financial purposes, Iberdrola concentrates a large portion of its business activities in five principal countries: Spain, the United Kingdom, the United States, Brazil and Mexico. It also engages in activities in Germany, Portugal, Italy and France, among other countries.

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 the "Scope of Information" section of this report.



Main products and services: the Iberdrola brand

The main product that Iberdrola makes available to its customers is electricity, but the group also offers a broad array of products, services and solutions in the areas of:

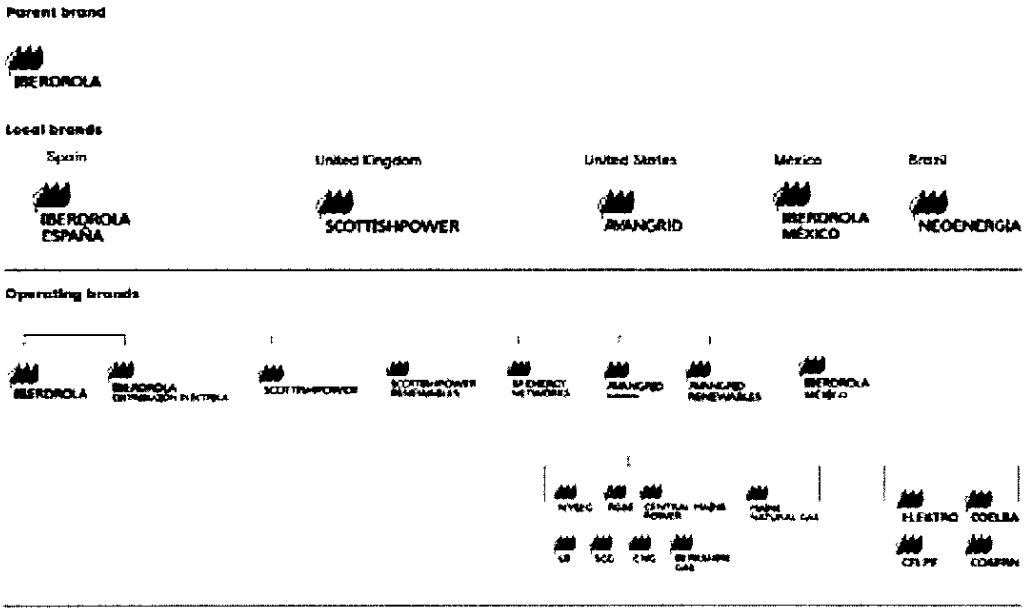
- Protection of the environment: renewable energy and sustainable mobility.
- Quality of electricity supply and safety of facilities.
- Distribution and sale of gas.
- Improvement in the consumer's quality of life, peace of mind and safety.
- Efficiency, digitalization and energy services.
- Assembly of electricity infrastructure.
- Comprehensive management of energy facilities and supplies.

More detailed information in this regard can be found in the "Group Structure" section of the website.

The "Iberdrola" brand

The "Iberdrola" brand is a reflection of its corporate Purpose and Values (see the Purpose section of this chapter I.1), 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 of the countries 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 2018:



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.

Key operating figures[3]

Installed capacity, output, networks and users

At year-end 2018, Iberdrola had 47,448 MW of installed capacity, 68.2% of the total corresponding to emission-free technologies.

Installed capacity by energy source (MW)	2018	2017	2016
Renewables	29,177	29,113	27,813
Onshore wind	*15,671*	*15,533*	*14,820*
Offshore wind	*544*	*544*	*194*
Hydroelectric	*12,252*	*12,513*	*12,378*
Mini-hydro	*303*	*303*	*302*
Photovoltaic solar and other	*406*	*219*	*120*
Nuclear	3,177	3,177	3,410
Combined cycle	12,885	13,985	13,637
Cogeneration	1,335	1,299	1,315
Coal	874	874	874
Total	**47,448**	**48,447**	**47,049**

Production for the year was 145,597GWh, showing growth of 5.9%:

Net energy output by source of energy (GWh)	2018	2017	2016
Renewables	61,754	50,747	56,443
Onshore wind	*36,605*	*33,878*	*32,162*
Offshore wind	*1,642*	*821*	*728*
Hydroelectric	*22,416*	*15,321*	*22,597*
Mini-hydro	*670*	*394*	*686*
Photovoltaic solar and other	*421*	*333*	*270*
Nuclear	23,536	23,254	24,381
Combined cycle	50,654	54,053	50,892
Cogeneration	8,016	6,853	6,947
Coal	1,637	2,642	3,803
Total	**145,597**	**137,549**	**142,466**

[3] Operating figures include figures corresponding to partially owned and uncontrolled companies, applying the percentage interest.

The following table shows the net output for 2018 broken down by country and technology type. 42.4% of generation was from renewable sources, an increase during the financial year of 5 percentage points over the prior year.

2018 net output by technology and country (GWh)	Spain	United Kingdom	United States	Brazil	Mexico	Other countries
Renewables	25,973	5,146	17,261	10,099	1,095	2,180
Nuclear	23,536	0	0	0	0	0
Combined cycle	4,092	5,530	8	3,553	37,470	0
Cogeneration	2,472	0	2,713	0	2,831	0
Coal	1,637	0	0	0	0	0
Total	**57,711**	**10,675**	**19,983**	**13,652**	**41,396**	**2.180**

In 2018, 93% of production was achieved using local sources of energy[4], as shown in the following table:

2018 production with local sources of energy	(%)
Spain	86
United Kingdom	100
United States	86
Brazil	100
Mexico	100
Other countries	100
Iberdrola group average	**93**

At the end of financial year 2018, the companies of the group, as a whole, handled 30.6 million electricity supply points (30.3 in 2017). More than 90% are residential customers.

EU3 102-6

Electricity users (%)	2018	2017	2016
Residential	90.2	90.1	90.2
Industrial	0.9	1.0	1.0
Institutional	0.9	1.0	0.9
Commercial	5.9	5.8	5.8
Other	2.1	2.1	2.1
Total	**100**	**100**	**100**

Users who are producers (no.)	2018	2017	2016
Users that are also producers of electricity	87,081	72,073	83,626

[4] All renewable and non-renewable sources available in the country, as well as nuclear fuel acquired from the Spanish company Enusa, are considered local sources of energy.

The group operates more than 1.1 million kilometres of transmission and electricity distribution lines.

The following table shows the detail by type of line. Due to the nature of the electricity systems in each country, the voltage levels used to classify lines as transmission or distribution are different. In Brazil, the United States and in the United Kingdom, transmission lines are deemed to be those with a nominal voltage equal to or greater than 30 kV; and in Spain, by law, Iberdrola does not have transmission.

Power lines[5] (Km)	2018	2017	2016
Transmission			
Overhead	17,765	48,088	48,032
Underground	1,244	1,999	987
Total	**19,009**[6]	**50,087**	**49,019**
Distribution			
Overhead	962,940	911,474	875,140
Underground	191,723	195,050	193,285
Total	**1,154,663**	**1,106,524**	**1,068,425**

During financial year 2018, the companies of the group produced electricity with a volume of 145,970 GWh, distributed 233,435 GWh of electricity, and supplied 126,341 GWh of gas.

Products or services provided	2018	2017	2016
Net electricity production (GWh)	145,970	137,549	142,466
Electric power distributed (GWh)	233,435	230,151	229,920
Gas supplies to users (GWh)	126,341	122,010	127,425

Operations (locations)

The Iberdrola group has identified more than 1,200 sites at which the company operates. In order to properly report on such a large number of them from the viewpoint of the disclosures required by the GRI Standards, rationalisation criteria have been used to address them; accordingly, the number of Iberdrola's locations of operation at year-end 2018 is deemed to be 150 for purposes of this report.

Detailed information on these locations and on the criteria used to define them can be found in Annex 1 Supplementary Information.

[5] 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.

[6] Since 2018 subtransmission in the United States and Brazil is recorded as distribution network. Until then it was recorded as transmission network.

Employees

The group had 34,078 employees at year-end 2018, with the following breakdown by country.

Employees[7]	2018	2017	2016
Spain	9,822	10,296	10,395
United Kingdom	5,611	6,067	6,373
United States	6,449	6,561	6,849
Brazil	10,749	10,096	9,429
Mexico	1,112	944	874
Other countries	335	291	162
Total	**34,078**	**34,255**	**34,082**

The distribution by types of employment and contract is reflected in the following table

Employees[8]	2018			2017			2016		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
By employment type									
Full-time	25,015	7,339	32,354	26,050	7,182	33,232	25,720	7,252	32,972
Part-time	1,102	622	1,724	179	844	1,023	205	905	1,110
By type of contract									
Permanent	25,840	7,890	33,730	26,073	7,965	34,038	25,531	8,018	33,549
Temporary	277	71	348	156	61	217	394	139	533
Total	**26,117**	**7,961**	**34,078**	**26,229**	**8,026**	**34,255**	**25,925**	**8,157**	**34,082**

Policies regarding subcontracted personnel are set out in the Creation of Employment and Salaries section of Chapter II-1 Sustainable Economic Growth.

[7] The figures in the table reflect the number of employees at year-end 2018, 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, 33,772 in financial year 2017 and 33,747 in financial year 2018.

[8] The boundary is defined in Chapter IV. About the Report in this document. Information by geographic area can be found in Annex 1 Supplementary Information.

Revenue, equity and assets

The main figures relating to turnover, value of assets and liabilities and composition of consolidated property, plant and equipment are the following:

Net sales (Net revenue) (€ millions)	2018	2017	2016
Iberdrola consolidated total	**35,076**	**31,263**	**29,216**

Capital structure, broken down in terms of debt and equity (€ millions)	2018	2017	2016
Equity of controlling company	36,582	35,509	36,691
Bank borrowings, gross	37,990	37,115	32,025

Assets (€ millions)	2018	2017	2016
Iberdrola consolidated total assets	**113,038**	**110,689**	**106,706**
Gross property, plant and equipment in operation	97,911	94,928	96,585
Accumulated amortisation and provisions	(39,394)	(37,627)	(39,242)
Property, plant and equipment in operation	**58,517**	**57,301**	**57,343**
Gross property, plant and equipment in progress	7,651	6,837	6,727
Provisions	(59)	(56)	(235)
Property, plant and equipment in progress	**7,592**	**6,781**	**6,492**

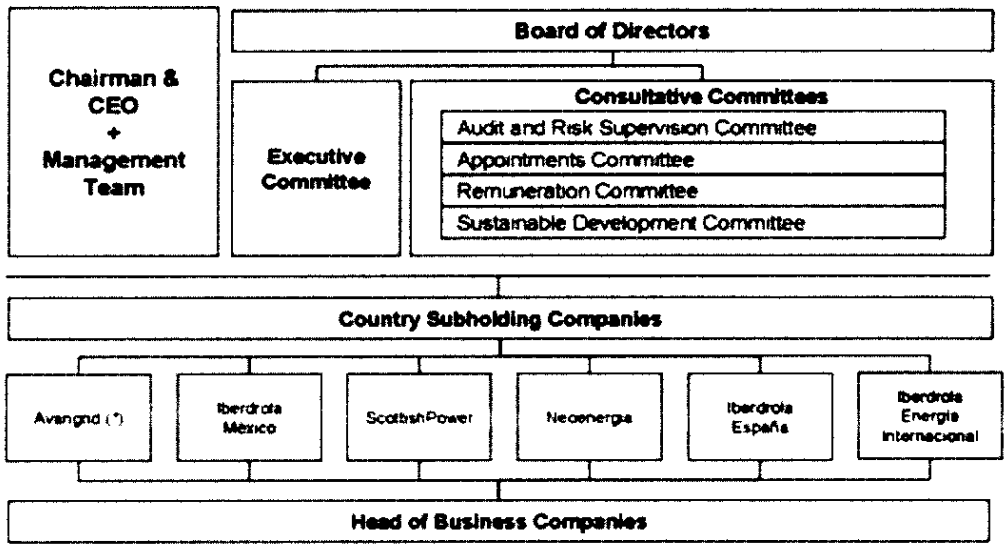
Information on the key figures by geographic area can be found in Annex 1 Supplementary Information.

Corporate and governance structure, 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

Such corporate and governance structure of the company and of the group is defined on the grounds described below, which 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, 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 strategic organisation and coordination is also strengthened through country subholding companies in those countries in which the Board of Directors of the company has so decided. These entities group together equity stakes in the energy head of business companies carrying out their activities within the various countries in which the group does business. 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, with a presence in various countries. One of the main functions of the country subholding companies is to centralise the provision of services common to the 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.

d) The group's listed country subholding companies (currently Avangrid, Inc.) have a special framework of strengthened autonomy that covers regulatory matters, related-party transactions and management.

In particular, all transactions between the listed country subholding company and the subsidiaries thereof with the other companies of the group require approval by a committee of the Board of Directors of said country subholding company made up solely of directors not linked to Iberdrola.

The special framework of strengthened autonomy is implemented in the respective contracts signed by the company with each listed country subholding company.

e) The head of business companies of the group assume decentralised executive responsibilities, enjoy the independence necessary to 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 head of business companies are organised through their respective boards of directors, which include independent directors where appropriate, and their own management decision-making 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 (see Chapter I.3. Business Model and Strategy), which entails the global integration of the businesses and aims to maximise the operational efficiency of the various business units. It also ensures 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, 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 "Group Structure" section of the corporate website.

Governance structure

Board of Directors

Iberdrola's Board of Directors is made up of 14 members:

Board of Directors[9]					
Position	Director	Status	Nationality	Date of last appointment	Ending date
Chairman & CEO	José Ignacio Sánchez Galán	Executive	Spain	21-05-2001	27-03-2019
Vice Chair	Inés Macho Stadler	Other external	Spain	07-06-2006	08-04-2020
Director	Íñigo Víctor de Oriol Ibarra	Other external	Spain	26-04-2006	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	13-04-2022
Director	Denise 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	Independent	Spain	08-04-2016	08-04-2020
Director	Juan Manuel González Serna [(1)]	Independent	Spain	31-03-2017	31-03-2021
Director	Francisco Martínez Córcoles	Executive	Spain	31-03-2017	31-03-2021
Director	Anthony L. Gardner	Independent	United States	13-04-2018	13-04-2022

Secretary (non-member): Julián Martínez-Simancas Sánchez.
Deputy Secretary (non-member): Santiago Martínez Garrido.
Legal Counsel (non-member): Rafael Mateu de Ros Cerezo.
[(1)] Juan Manuel González Serna is the lead independent director.

The composition of the Board of Directors is shown below:

405-1 102-22

Composition of the Board of Directors	2018		2017		2016	
	no.	%	no.	%	no.	%
By gender						
Men	9	64	9	64	9	64
Women	5	36	5	36	5	36
By age group						
Up to 30 years old	0	0	0	0	0	0
Between 31 and 50 years old	2	14	2	14	3	21
Over 50 years old	12	86	12	86	11	79
Number of members	**14**	**100**	**14**	**100**	**14**	**100**

[9] As at the date of approval of this report by the Board of Directors.

Executive Committee

[redacted]

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, compliance with objectives and the governance model and submitting proposals to the Board of Directors or making decisions in urgent cases regarding all strategic issues, 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**
Chairman	José Ignacio Sánchez Galán	Executive
Member	Inés Macho Stadler	Other External
Member	Ángel Jesús Acebes Paniagua	Independent
Member	Manuel Moreu Munaiz	Independent
Member	Samantha Barber	Independent

Secretary (non-member): Julián Martínez-Simancas Sánchez.

Chairman & CEO

The chairman of the Board of Directors is also the chief executive of Iberdrola. At the General Shareholders' Meeting held on 27 March 2015, the shareholders approved the re-election of the chairman & CEO by a large majority. Such proposal was supported by two reports: one prepared by a prestigious independent expert (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 at the time, 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.

The agenda for the General Shareholders' Meeting to be held on 29 March 2019 once again contains a proposal for the re-election thereof. The procedure followed for said proposal is similar to the one followed in 2015. The rationales for the proposal are set out in reports (PwC and Board of Directors) and are the following:

- Iberdrola, S.A. has performed better than comparable companies and the EURO STOXX UTILITIES index during the 2001-2017 period. In other words, from this viewpoint, there are no reasons justifying a change in the model and leadership.
- The group's model of governance and organisation was approved by the shareholders at a General Meeting and is based on the separation of the duties of strategy and supervision (essentially entrusted to Iberdrola, S.A., to its Board, to its management team and to its organisation) from the duties of management (entrusted to each of the head of business companies heading up the various businesses).
- The By-Laws of Iberdrola, S.A. provide checks-and-balances that avoid the risk of accumulation of powers:
    a) There is a majority of independent directors, and the By-Laws do not allow the Board of Directors to make or propose appointments that break such majority. This commitment also covers the committees.
    b) The Board of Directors has a diverse composition of professional profiles, gender, seniority and nationalities. All non-executive directors are required to have a high level of dedication and to be a member of one of the committees.
    c) The Board of Directors has a lead independent director (*consejero coordinador*) with broad powers.
        - Call to and planning of the agenda for the meeting of the Board of Directors.
        - Coordination of non-executive directors.
        - Management of the re-election, evaluation and succession of the chairman & CEO.
        - Contacts with shareholders.
- At the time of preparation of this report, Iberdrola is in the second year of implementation of its 2018-2022 Strategic Plan, presented in February 2018 to the international financial community, and which has been broadly supported by the market. The company's evolution to date reflects an extremely high level of compliance with the defined objectives.

The company also has a Business CEO (*consejero director-general de negocios*), who has been specially appointed by the Board of Directors, with responsibility for all the businesses of the group in order to support the chairman & CEO (together with the management team) in the function of strategic organisation and coordination of the group. 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 solidarity, 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 several 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.

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 Holt	Independent
Member	José W. Fernández	Independent
Member	Xabier Sagredo Ormaza	Independent

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		
	Director	**Status**
Chair	Juan Manuel González Serna	Independent
Member	Inés Macho Stadler	Other external
Member	Manuel Moreu Munaiz	Independent

Secretary (non-member): Rafael Mateu de Ros Cerezo.

- **Sustainable Development Committee.** Performs duties relating to the revision and update of the Corporate Governance System and supervision of the sustainable development policies: human resources, equal opportunities, occupational health and safety, stakeholder relations, respect for human rights, sustainability, etc., upon the terms established in its Regulations.

Sustainable Development Committee		
Position	**Director**	**Status**
Chair	Samantha Barber	Independent
Member	Iñigo Víctor de Oriol Ibarra	Other external
Member	Anthony L. Gardner	Independent

Secretary (non-member): Fernando Bautista Sagüés.

For more detailed information regarding the composition, operation and activities carried out by the governance bodies of the company, see the *Activities Report of the Board of Directors and of the Committees thereof* for financial year 2018.

Beneficial ownership

102-5

At 31 December 2018, the company's share capital totalled 4,798,221,750 euros, represented by 6,397,629,000 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 institutional investors 66.27%
- Domestic institutional investors 10.25%
- Retail shareholders 23.48%

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[10] in the share capital of, or voting rights in, Iberdrola as of 31 December 2016, 2017 and 2018.

Significant shareholders and percentage of direct and indirect voting rights (%)	31/12/2018	31/12/2017	31/12/2016
Qatar Investment Authority	8.65	8.57	8.51
Norges Bank	3.33	3.21	3.20
Capital Research and Management Company	N/A	3.10	N/A
BlackRock, Inc.	5.13	3.03	3.01
Kutxabank, S.A.	N/A	N/A	3.00

As at the date of approval of this report, the share capital of Iberdrola, S.A. totals 4,890,342,750 euros and is made up of 6,520,457,000 shares, each having a nominal value of 0.75 euro, which are fully subscribed and paid up.

[10] Defined according to Royal Decree 1362/2007 and Circular 2/2007, of 19 December, of the National Securities Market Commission.

I.2. Iberdrola's Contribution to the Sustainable Development Goals

- Introduction
- Commitment to the SDGs
- Our main focus: SDGs 7 and 13
- Main objectives and actions in 2018 that contribute to the SDGs

Introduction

In September 2015, the Member States of the United Nations adopted 17 Sustainable Development Goals (hereinafter, SDGs) as part of the 2030 Agenda for Sustainable Development. These goals are designed to, among other things, end all forms of poverty, fight inequalities and injustice and tackle climate change.

The success of the Agenda will be the result of the collaborative efforts of all of society, with companies being included in this process for the first time in their role as promoters of innovation and engines for economic development and employment. Strong and visionary business leadership is essential for achieving the necessary transformation that the SDGs require.

Iberdrola recognises that the SDGs offer a new vision that allows us to translate global needs and desires into solutions. They propose a new viable model for long-term growth and will contribute to companies developing more solid strategies. The integration of the SDGs into business plans strengthens the identification and management of material risks and opportunities and costs, the creation of and access to new markets, and innovation in the business models - making them more efficient and thus aligning the strategy and expectations of the company with its employees, customers, suppliers and investors and the communities in which it operates.

References to SDGs in this Report

This report is a compendium of the annual performance of the company in the area of sustainable development, of its strategy in this regard, and of the principal activities and projects undertaken.

To facilitate an analysis from the viewpoint of its contribution to the 2030 Agenda, it is important to establish a relationship between the activities that Iberdrola describes throughout this report and the various SDGs that are furthered by the activities performed. Therefore, the SDGs to which the company contributes are identified in each section, based on the mapping made by the tool *SDG Compass. The guide for business action on the SDGs*, as well as the recent document published by GRI and the UN Global Compact "*GRI-UNGC Business Reporting on SDGs. An Analysis of Goals and Targets*", but only including those SDGs to which the company believes it makes a significant contribution.

Annex 2 provides more detailed information regarding Iberdrola's contribution to the SDGs and related goals, as well as the related GRI disclosures and the pages on which the corresponding performance information can be found.

Commitment to the SDGs

Based on ongoing dialogue with its Stakeholders, and aware of the clear economic, social and environmental impact of all of its activities, Iberdrola frames all of its business activities within a commitment to a Purpose and certain values, and within the context of respect for Human Rights. It thus promotes initiatives that contribute to achieving a more just, egalitarian and healthy society, and particularly the achievement of the SDGs, especially those relating to universal access to electricity (goal 7) and the fight against climate change (goal 13), but also others like the promotion of innovation, the development of education, the protection of biodiversity, gender equality, and particularly the empowerment of women, as well as the protection of disadvantaged groups.

Therefore, Iberdrola has linked the SDGs to its business strategy since 2015, and in 2018 revised its Corporate Governance System to include the company's contribution to the SDGs as part of the company's corporate philosophy.

The SDGs thus inspire or are included as a fundamental element in the following areas:

- By-Laws
- *Purpose and Values of the Iberdrola group* and *Code of Ethics*
- Corporate governance and regulatory compliance policies
- Sustainable development policies
- Governance rules of corporate decision-making bodies and of other functions and internal committees

Ultimately, it is an attempt to cause all Stakeholders to participate in the social dividend generated by its activities, or shared value, which is the sum of all the economic, social and environmental impacts that a company generates through its activity, within the environment in which it does business.

It should be noted that, among the various corporate policies that have been approved, those relating to sustainable development are intended to ensure the alignment of all conduct of the group with the bylaw-mandated commitment of the company to the social dividend and to the SDGs, as provided in the *General Sustainable Development Policy*.

This policy sets out the general principles and provides the basis for governing the group's sustainable development strategy. The goal is to ensure that all its corporate activities and businesses are carried out while fostering the sustainable creation of value for society, citizens, customers, shareholders and the communities in which the group is present, equitably compensating all groups that contribute to the success of its business enterprise, with a long-term vision that achieves a better future without compromising present results, favouring the achievement of the SDGs and rejecting actions that contravene or hinder them.

The company's commitment to contribute to the SDGs is supervised by the governance bodies. Thus, the Sustainable Development Committee of the Board (the composition and duties of which are described in the "Corporate Governance" section of Chapter II.7) is vested with the power to, among other things, "*Monitor the group's contribution to the achievement of the SDGs*".

The SDGs are cross-sectional within the group. For this reason, Iberdrola has an SDG Advisory Committee, a multidisciplinary team that meets on a quarterly basis in order to review the actions taken by Iberdrola and analyse the alignment thereof with the SDGs, in addition to proposing new challenges and encouraging actions that help to achieve the fixed goals. The SDG Advisory Committee held 4 meetings during 2018.

Activities to raise awareness of the SDGs

As a company committed to the achievement of the SDGs, Iberdrola also wants to disseminate and raise the awareness of its employees regarding the importance thereof, and the capacity of the actions of each of them as a company and as individuals. The activities include:

- Making available to all employees a training course on the SDGs, prepared in collaboration with Unesco. This course will serve as the basis for a new online orientation course made available to all new hires.
- Preparation of a campaign called "The SDGs and Me", which defines each of these Goals, Iberdrola's position and the activities that each person can perform in their daily life to improve them.
- At the internal communication level, the various notices included in the intranet have a graphical link to the SDGs.
- Various social campaigns defining their link to the SDGs have been launched.
- All volunteering campaigns, as well as the social contributions made by the group and its foundations, have been linked to the SDGs they seek to improve.

Our main focus: SDGs 7 and 13

Iberdrola focuses its efforts on the SDGs where its contribution is most significant: the supply of accessible and non-polluting energy (goal 7) and climate action (goal 13). This commitment forms part of its governance model and of the company's management, and is formalised in goals that are tied to the remuneration of the management team: the shareholders at the Shareholders' Meeting 2017 approved the linkage of the long-term incentive plan to contribution to achievement of these two Goals.

The following tables show the disclosures in this report where it can be seen how the company contributes to the achievement of these two goals and their related aspirations. The mapping comes from *SDG Compass. The guide for business action on the SDGs*, available at www.sdgcompass.org, developed by the Global Reporting Initiative (GRI), the United Nations Global Compact and the World Business Council for Sustainability Development.

Goal 7: Affordable and sustainable energy

Ensure access to affordable, reliable, sustainable and modern energy for all

Our goal for the "Electricity for All" programme: bring electricity to 16,000,000 million people by 2030 who today lack access to this energy source.

The *Electricity for All* programme is Iberdrola's response to the call of the international community to extend universal access to modern forms of energy, with environmentally sustainable, financially affordable and socially inclusive models. It is intended to ensure access to electricity in emerging and developing countries.

Since the launch of the *Electricity for All* programme in January 2014, we have contributed to 5.4 million people benefiting from access to electricity through projects carried out in Latin America and Africa, meeting our 2020 commitment two years in advance. We have also participated in the 2018 SE4ALL (Sustainable Energy for All) forum held in Lisbon, sharing our targets and commitments at this programme.

Commitment to renewables. Iberdrola, a world leader in renewable energy, commits to the decarbonisation of the economy, which means electrification and the encouragement of renewable technologies, increasing renewable installed capacity by 9% between 2018 and 2019, with the start-up of an additional 2,600 MW.

Goal of the 2030 Agenda (SDGs)	*GRI Indicator*	*Description*	*Pag.*
7.1.- By the year 2030, **guarantee universal access to** affordable, reliable and modern **energy services**.	Own indicator	Number of beneficiaries of the *Electricity for All* programme	202
	Shift indicator C070101 from SDG EU26	Proportion of population of distribution zones with access to electricity	201
	EU28	Power outage frequency	184
	EU29	Average power outage duration	185
7.2.- By 2030, increase substantially the share of renewable energy in the global energy mix.	Own indicator	Installed capacity from renewable sources (MW or %)	25
	Own indicator	Power produced from renewable sources (MWh or %)	25
7.3.- By 2030, double the global rate of improvement in energy efficiency.	302-1	Energy consumption within the organization	142
	302-4	Reduction of energy consumption	143
	302-5	Reductions in energy requirements of products and services	146
	EU30	Average plant availability	345
7.a.- By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology.			
7.b.- By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States and landlocked developing countries, in accordance with their respective programmes of support.	Own indicator	Amount allocated to R&D+i (€M)	194

Goal 13: Climate action

Take urgent action to combat climate change and its impacts

The group recognizes the seriousness of the threat that global warming entails, which must be faced in a coordinated manner with governments, multilateral agencies, the private sector and society. The company thus undertakes to assume a position of leadership in the fight against climate change and to assume the following principles of conduct: i) prevent pollution by reducing the intensity of greenhouse gas emissions, ii) promote electrification, efficiency and smart grids, iii) support international negotiations and the participation of the private sector, iv) advocate for an emissions market that generates a strong and sustainable price signal, and v) support a tax system that includes the "polluting party pays" principle.

Iberdrola has set itself a goal to reduce the intensity of its CO_2 emissions to 50% below those of 2007 by 2030, and to be carbon-neutral by 2050.

It has committed to maintaining its position as one of the leading European companies with the lowest CO_2 emissions per kWh produced, and to achieve this by focusing its efforts on reducing the intensity of greenhouse gases, promoting renewable technology and increasing efficiency.

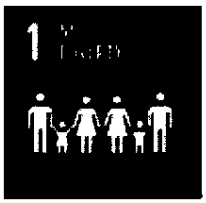
Policy, memberships, awareness-raising and reporting

The company has a *Policy against Climate Change*, in which there is a commitment to supporting the necessary international conventions, encourage the development of technology, and promote efficient energy use and responsible consumption. It has also endorsed 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 has a section of its website called Against Climate Change to show the actions taken in this area. In 2016 Iberdrola included a *Plan for Raising Social Awareness on Climate Change* as an additional focal point for its climate change actions, with initiatives aimed at different audiences. And an *Introduction to climate change* course has been launched for all employees as a virtual training initiative.

Goal of the 2030 Agenda (SDGs)	*GRI Indicator*	*Description*	*Pag.*
	302-1	Proportion of energy consumption derived from renewable energy.	142
	302-4	Reduction of energy consumption (efficiency).	143
	302-5	Energy savings of green products and services.	146
13.a Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change	305-1	Direct GHG emissions. Scope 1 (per GHG Protocol)	152
	305-2	Indirect GHG emissions. Scope 2 (per GHG Protocol)	153
	305-3	Other indirect GHG emissions. Scope 3 (per GHG Protocol)	154
13.1.- **Strengthen resilience** and adaptive capacity to climate-related hazards and natural disasters in all countries.	EU30	Average plant availability	345
	Own indicator	Installed capacity from renewable sources (MW or %)	326
	Own indicator	Power produced from renewable sources (MWh or %)	328
	201-2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	68
13.3.- Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.	Own indicator	Awareness-raising activities regarding climate change and renewable energy	149

Main objectives and actions in 2018 that contribute to the SDGs

The following table lists some of the more significant goals relating to the SDGs as well as Iberdrola's main activities during 2018 and indicators measuring the Iberdrola group's contribution:

SDGs and related targets	Iberdrola s main actions and achievements 2018
 **1.4** Ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance **1.5** Reduce exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters	**Actions and achievements:** • Procedures to protect customers in situations of vulnerability: covers 100% of vulnerable customers in Spain. • Procedures for protecting vulnerable customers in the United Kingdom with the *Warm Home Discount* programme. • Work with *Operation Fuel* in Connecticut (United States) to ensure that 1,200 people in vulnerable situations have access to energy throughout the year. • Contribution of more than 11 million euros at the group level to initiatives intended to improve the quality of life of vulnerable groups.
2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round	**Goal:** Voluntary contributions by the group's employees of consumer staples, thus contributing to alleviating the situation of social exclusion and poverty of many people. **Actions and achievements:** • Iberdrola has gathered more than 6,000 kilos of food at its work centres thanks to '*Operation Kilo*', a programme launched in 2012. The more than 6 tons of food contributed by the employees have been distributed to various families through social organisations in Portugal, Spain and Mexico. • Encouragement of volunteering activities to distribute food to families in situations of vulnerability, soup-kitchens, etc.

3.4 Reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being

3.6 Halve the number of global deaths and injuries from road traffic accidents

3.9 Substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination

Goal: Reduce the accident rate (accidents involving own staff) by 10% over the average of the last 5 years.

Actions and achievements:

- Improve the Global Occupational Safety and Health System, which is aligned with the *Occupational Safety and Health Policy* and the strictest international standards.
- Health and safety measures for contractors through training programmes and in-sourcing of work and personnel.
- 0-accident plan in Brazil in order to reduce the accident rate among employees.

4.4 Substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship

4.7 Ensure that all learners acquire the knowledge and skills needed to promote sustainable development

Goal: Exceed ratio of training hours received per employee over that of comparable companies.

Actions and achievements:

- Develop continuous training plans for employees, monitoring compliance therewith.
- **45 hours of training per employee in 2018** (42 hours in 2017, 4.4 times greater than the annual training hours of companies in the energy sector of the country. 2018 data not yet published to establish the comparison.).
- 2.2 million euros of investment in the scholarship and research grant programme for the 2018-2019 academic year.
- *Iberdrola U*: Universities programme. The group has contributed to the training of almost 4,000 university students in just the past five years.

5.1 End all forms of discrimination against all women and girls everywhere

5.4 Promote shared responsibility within the household and the family

5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life

5.c. Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels

Goal: Increase the number of women in management positions.

Actions and achievements:

- **Only continental European electric utility included in the Bloomberg Gender-Equality Index (GEI).**
- The Iberdrola group has an *Equal Opportunity and Reconciliation Policy* that includes measures to solidify the reconciliation of work and personal life: ScottishPower offers training with up to 6 months of leave to improve opportunities. Avangrid offers flex time with tele-work. Neoenergia has 6 months of maternity leave and legal, financial and psychological support for employees. Iberdrola Mexico has flexible work hours and improved vacation days. Spain was the first Ibex-35 company to apply the intensive workday, in 2008, and has more than 70 measures to facilitate reconciliation.
- 36% of Iberdrola's Board of Directors are women, double that of the other Ibex-35 companies.
- **Support for female sports. Women's Universe (*Universo Mujer*) programme in partnership with the Higher Council for Sport (*Consejo Superior de Deportes*), promoting female sports within 16 Spanish federations.**

6.3 Improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally

6.4 Substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity

6.5 Implement integrated water resources management at all levels

6.6 By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes

Goal: In its position as one of the utilities with the best water productivity (water utilised/revenue), Iberdrola commits to maintaining this indicator 50% below the European average for the sector in the coming 5 years.

Actions and achievements:

- Join the United Nations' CEO Water Mandate to encourage sustainable practices in the use of water.
- **It has been part of CDP Water since its first edition.**
- Improve the management of the hydraulic sub-footprint and of the environmental management systems.

7.1 Ensure universal access to affordable, reliable and modern energy services

7.2 Increase substantially the share of renewable energy in the global energy mix

7.3 Double the global rate of improvement in energy efficiency

7.a Enhance international cooperation to facilitate access to clean energy research and technology and promote investment in energy infrastructure and clean energy technology

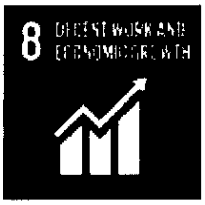
7.b Expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries

Goal: By 2030, achieve access to energy for 16,000,000 people who previously lacked it, within the framework of the *Electricity for All* Programme.

Goal: increase renewable installed capacity by 9% during 2018 and 2019, with the start-up of 2,600 MW.

Actions and achievements:

- **A leader in renewable energy: 38,247 GWh of wind (onshore and offshore) output, 23,086 GWh of hydroelectric and 421 GWh of solar and others in 2018.**
- Offer of 100% renewable energy: "Custom Plans".
- **ScottishPower, only 100% renewable electric company in the United Kingdom.**
- Energy efficiency: 59 million tons of CO_2 emissions avoided during the last 3 years.
- Fernando de Noronha Zero Carbon Project in Brazil to develop a sustainable energy model.



8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation

8.4 Improve progressively global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation

8.5 Achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value

8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment

Goal: Maximise issues in the green finance market.

Actions and achievements:

- 34,078 direct jobs.
- 425,000 direct, indirect and induced job positions throughout the world[11].
- Almost €8,000 million in tax contributions in 2018.
- €32,300 million in impact on the GDP of the countries in which the group does business.
- €7,753 million procurement volume in 2018.
- Largest corporate issuer of green bonds in the world: 13 issues with a value of almost 9,000 million euros, which will be invested mainly in renewable projects.
- Digital transformation applied to the businesses: big data, virtual reality and artificial intelligence.

[11] PwC study "Economic, social and environmental impact of Iberdrola worldwide" (based on 2017 data).

9.c Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries

9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all

9.4 Upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes

9.5 Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including by encouraging innovation and substantially increasing the number of research and development workers

Goal: Development of the Innovation and Digitalization Programme.

Actions and achievements:

- **267 million euros in R&D+i in 2018 (most innovative Spanish utility and third most innovative in Europe).**
- 75 innovation projects between 2018 and 2019.
- Digitalization to 2020 Plan: more than 4,800 million euros of investment.
- World leaders in smart grids. The STAR project culminated in Spain in 2018 and the SMART UK project continued in the United Kingdom.
- Development of the smart grid projects *Smart City* (Atibaia) in Brazil and *Smart Community* (Ithaca) in the United States.
- Development of new products for customers based on Data Analytics (Energy Wallet, Custom Plans) and development of new apps.
- Develop projects to improve management of the grids in distributed generation scenarios, like the *Alois* project in Spain and *Fusion* project in the United Kingdom.

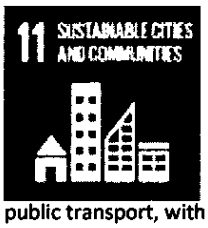
10.2 Empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard

Goal: Foster diversity and the social inclusion of vulnerable groups through the corporate volunteer programme and the social welfare projects of the foundations.

Actions and achievements:

- More than 7,000 proposed volunteer activities at the global level were offered to employees in 2018.
- Ensure equality of opportunities within the workforce through talent management.
- Human Rights Management Model at the global level and training for suppliers.
- II Edition of the Iberdrola Awards for solidarity, given to entities that fight for the equality and integration of the most vulnerable people.
- Iberdrola's Social Programme, focused on social support, psychological treatment, lodging for women, labour integration and equal opportunities, among others. More than 160,000 beneficiaries and approximately 100 social entities during the 2018-19 period in Spain.



11.2 Provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons

11.4 Strengthen efforts to protect and safeguard the world's cultural and natural heritage

11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

Goal: Installation of 25,000 recharging stations for electric vehicles by 2021 through the Sustainable Mobility Plan, with initiatives aimed at employees, companies, customers and suppliers.

Actions and achievements:

- **Incentives to buy electric vehicles and availability to employees of electric vehicles from the corporate fleet.**
- Electric vehicle fleet available to employees.
- Join the *x Aire Limpio* platform, in which public, private and tertiary sector organisations coordinate the viewpoints needed to design air quality plans in cities, in order for the sustainability of transport, buildings and industry, together with efficiency in waste management, result in a cleaner atmosphere.
- Illumination Programme of the Foundations, the goal of which is promote the recovery of artistic heritage and improve the interior and/or exterior illumination of unique buildings through collaborations with entities and institutions.

12.2 Achieve the sustainable management and efficient use of natural resources

12.5 Substantially reduce waste generation through prevention, reduction, recycling and reuse

12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle

12.8 Ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature

12.6 Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

Goal: Improve the *CSR Scoring* model for suppliers and increase the percentage awarded to them with analysis based on social responsibility.

Actions and achievements:

- Energy efficiency plan at the corporate buildings.
- 90% of energy production is carried out using local sources of energy available in the country where the electricity is generated.
- 88% of procurement from local suppliers.
- **First Ibex-35 company to certify its General Shareholders' Meeting as a sustainable event in 2016, in accordance with international ISO 20121 standard.**
- Publication of Sustainability Report since 2004 and specific sustainability website.

13.a Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change

13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning

Goal: achieve a 50% reduction in the intensity of CO_2 emissions by 2030, as compared with the emissions of 2007; and be carbon-neutral by 2050.

Actions and achievements:

- Development of a unique model preparing scenarios of mitigation and adaptation to assess the environmental impacts of climate change on the company over the long term, conforming to the requirements of the Task Force on Climate-related Financial Disclosures (TCFD).
- CO_2 emissions 70% less than the average for the European electricity sector (continental Europe, 2015).
- Request to close the last two coal plants.
- Participation in the Katowice Climate Change Conference (COP 24), the events associated with the United Nations General Assembly and the various phases of the Tanaloa Dialogue.
- *Plan for Raising Social Awareness on Climate Change*, with initiatives aimed at different audiences.

14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans

Goal: Preserve marine ecosystems through innovative measures in the construction and operation of offshore wind farms.

Actions and achievements:

- Installation of noise mitigation systems for mammals in the construction and relocation phase and/or respect biotopes for the preservation of marine life.
- Regular studies of environmental impact on the area to monitor and conserve the habitat.
- Dolphin Watch Aberdeen: project to protect dolphins in Sussex (United Kingdom) focused on the protection of fauna and the conservation of marine habitats with disclosure and awareness-raising activities.
- Insulation of subsea cables to avoid increasing temperature in the Baltic sea.

15.1 Ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands

15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and protect and prevent the extinction of threatened species

Goal: adjustment of 25,000 supports at distribution lines to avoid the electrocution of birds over the next two years (Flapping Wings (*Aleteo*) project).

Actions and achievements:

- Biodiversity protection programmes.
- Member of the *Biodiversity Pact*, sponsored by the Biodiversity Foundation.
- **AENOR Corporate Environmental Footprint certificate.**

16.5 Substantially reduce corruption and bribery in all their forms

Goal: Renewal of ISO 37001 certifications regarding the anti-bribery management system and UNE 19601 certification on the criminal compliance management system.

Actions and achievements:

- **Inclusion for the fifth consecutive year on the list of the World's Most Ethical Companies of the Ethisphere Institute (United States).**
- Iberdrola's Board of Directors has approved the group's *Code of Ethics*, the *Crime Prevention Policy* and the *Anti-Corruption and Anti-Fraud Policy*, which are regularly reviewed and updated.
- Compliance System that includes rules to mitigate the risk arising from relations with third parties. Includes the *Protocol for Management of the Risk of Third-Party Fraud and Corruption*, the *Protocol for Corporate Transactions* and the *Protocol for Social Contributions, Donations and Sponsorships.*
- Award from *Expansión* to the company with best compliance practices 2018-2019.
- Receipt of "*Compliance Leader Verification*" certification provided by the Ethisphere Institute as evidence of the effectiveness of the Compliance System.
- The group has anonymous ethics inboxes to allow for the reporting of improper actions or acts contrary to law or the *Code of Ethics.*
- Sponsorship of the Iberdrola Chair on Economic and Business Ethics of the Universidad Pontificia Comillas (ICADE).

17.17 Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships

17.19 Build on existing initiatives to develop measurements of progress on sustainable development

Goal: Promote alliances with institutions that contribute to action against climate change.

Actions and achievements:

- Collaboration with the *Spanish Office of Climate Change* and the *Spanish Green Growth Group.*
- Alliances with the academic world: *Chair for the Sustainable Development Goals* and *Chair on Climate Change* (Polytechnic University of Madrid).
- Support for the youth initiative of the Spanish Network for Sustainable Development of the UN's Sustainable Development Solutions Network – SDSN Youth.
- Alliance with *High Level Political Forum* 2018 in New York.
- Shire Alliance to supply electric power and improve facilities at refugee camps. 2nd phase approved with the help of the EU.
- Iberoamerican conference on the SDGs in Salamanca.

Iberoamerican Conference on Sustainable Development Goals in Salamanca

From 27 to 29 June 2018, the University of Salamanca, the Polytechnic University of Madrid and Iberdrola organised the Iberoamerican Conference on Sustainable Development Goals, among the acts commemorating the VIII Centenary of the University of Salamanca, a meeting that turned this city into the Iberoamerican capital of the SDGs during these days.

Ibero-american Conference on Sustainable Development Goals

The Conference was conceived with the goal of achieving a collective commitment driving the transformation necessary for achieving the Sustainable Development Goals of the 2030 Agenda of the United Nations in the Iberoamerican region.

Given that such profound and complex transformations can only be approached collectively, this commitment took the form of a large multiactor platform, with the participation of public and private institutions, organisations from the tertiary sector, universities and citizenry, the true catalysts for change.
The Conference, with the participation of more than 50 leading international speakers and more than 600 attendees, was structured around four major themes:

- Education for transformation
- Environment and energy
- Innovation for development
- Multiactor partnerships

And more than 50 leading international speakers participated, with more than 600 attendees.

Iberdrola collaborated both in the organisation of the conference and on different presentations, within its commitment to disseminate the SDGs to society, and support for Goal 17. Iberdrola's Chairman participated in the inaugural table, where he emphasised the company's interest in working with a conference that serves to *promote the sustainable development goals in Iberoamerica,* a task that must be handled "*among all players*", including government authorities, companies and civil society as a whole. Within the framework of the Conference, Iberdrola launched its new goal for the Electricity for All Programme, with which it wants to reach 16 million beneficiaries by 2030.

I.3. Business Model and Strategy

- Business model
- Corporate Governance System
- *Code of Ethics*
- Policies and commitments
- Sustainable development policies
- Responsibilities
- Responsibility in the sustainable development strategy
- Goals, resources and results
- Key impacts on sustainability
- Risks and opportunities Comprehensive risk system
- Climate change risk management Iberdrola and the TCFD

Business model

Iberdrola focuses its activities on:

- Production of electricity from renewable and conventional sources.
- Transmission and distribution of electricity and gas.
- Purchase/sale of electricity and gas on wholesale markets.
- Supply of electricity, gas and related energy services.
- Other activities mainly linked to the energy sector.

As explained in Chapter I.1, Iberdrola carries out its activities mainly in the Atlantic area: Spain, the United Kingdom, the United States, Brazil and Mexico.

The business model developed by the group is based on Iberdrola's purpose (see "Purpose and Values" section of Chapter I.1) through a long-term sustainable industrial enterprise. Under this consideration, and taking into account the long-term consensus energy scenarios, Iberdrola is pursuing a strategy with the following main characteristics:

- The organic growth of the company is focused on major investments in the countries referred to above, plus continental Europe. 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, in addition to being regulated businesses or 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 published its commitment to decarbonisation, setting stringent objectives: to reduce the intensity of its CO_2 emissions to 50% below those of 2007 by 2030, and to be carbon-neutral by 2050. These goals have been recognised as being based on science in accordance with the Science Based Targets initiative (SBTi).
- One characteristic of Iberdrola is its focus on innovation and on the rapid adoption of available technology.
- Financial stability is considered key for balanced growth. The company 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 in the company's strategy of the concept of the "social dividend", defined as the sustainable creation of value for its Stakeholders by engaging in all of its activities.

Corporate Governance System

The company's Corporate Governance System is made up of the *By-Laws*, the *Purpose and Values of the Iberdrola group*, the corporate policies, the governance rules of the corporate decision-making bodies and internal committees and Compliance.

A COMPANY
COMMITTED
TO ETHICAL PRINCIPLES,
GOOD GOVERNANCE
AND TRANSPARENCY

Leadership in corporate governance and transparency is one of the hallmarks of Iberdrola's identity: The Board of Directors therefore regularly reviews the Corporate Governance System, keeping it updated and including therein the good governance recommendations and best practices generally accepted in international markets.

In October 2018 there was a revision of the Corporate Governance System to include, among other changes, the company's contribution to the SDGs as part of the company's corporate philosophy. In February 2019 there was a new revision to include the Corporate Purpose of the Iberdrola group and its new values. For more information about the *Corporate Purpose and Values of the Iberdrola group*, see the "Purpose and Values" section of Chapter I.1.

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, sustainable development 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 SDGs, especially the goals relating to universal access to electricity and the fight against climate change.

Sustainable Development Goals

Climate Change and Environment

Shareholder Engagement

Gender Diversity

Decentralised Structure

Compliance

Ultimately, it is to seek Shared Value and to maximise Iberdrola's contribution to society through an energy model that is healthier, more accessible and based on electricity, and in the definition and construction of which all involved players should collaborate.

Along these lines, one should note the inclusion of Article 7. Social Dividend in the company's By-Laws: "*The Company conceives of the social dividend as the sustainable creation of value for all Stakeholders affected by the activities of the group in carrying out its businesses, the advancement of business communities which the Company participates in and leads, both from*

the economic viewpoint and from the perspective of business ethics, the promotion of equality and justice, the encouragement of innovation and protection of the environment, as well as through the generation of quality employment, its strategy of social responsibility, and its effort in the fight against climate change".

Iberdrola is conscious of the importance of the social dividend for all of the communities in which the group is present. Maximisation of the social dividend and the company's commitment to the sustainable creation of value are key values that the Board of Directors takes into account in order to define the strategy of the group.

Code of Ethics

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)

[redacted]

The company's *Code of Ethics* establishes a set of principles and guidelines for conduct (applicable to all directors, including natural persons appointed by corporate directors to represent them in the performance of their duties, to professionals and to suppliers of the companies of the group, regardless of their rank, their geographical location or functional reporting, or the group company to which they provide their services), intended to ensure the ethical and responsible behaviour of all directors, professionals and suppliers of the group.

The *Code of Ethics*, which forms part of the Corporate Governance System, was approved by the Board of Directors in 2002 and last amended in October 2018. This last revision includes the unification of the three ethical codes existing until that time: *Directors' Code of Ethics, Professionals' Code of Ethics* and *Suppliers' Code of Ethics,* into a single code applicable to all directors, professionals and suppliers of the group (excluding from its scope country subholding companies that are listed or not wholly owned by the group and that have their own code of ethics, as well as the subsidiaries thereof).

The body charged with ensuring that the *Code of Ethics* is applied is the Compliance Unit (hereinafter, the "Unit"), a collective, internal and permanent body connected to the Sustainable Development Committee of the Board and with powers in the regulatory compliance area. The Unit's main duties include ensuring the application of the *Code of Ethics* 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.

For more detailed information regarding the group's Compliance System, see the Ethics and Integrity section of Chapter II.7.

Policies and commitments

The Iberdrola group has a set of corporate policies 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 *Purpose and Values of the Iberdrola group*.

The companies of the group assume a set of principles and values that express their commitment to corporate governance, business ethics and sustainable development. 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.
- Sustainable Development 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.
- Through its membership in certain business and social organisations, which are identified by their objectives and purposes.

Both the initiatives and the partnerships are available in the "Public Policies" section of Chapter II.7 of this report.

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.

Sustainable development policies

102-16

Iberdrola has a *General Sustainable Development Policy* which sets out the general principles and provides the basis for governing the group's sustainable development strategy. The goal is to ensure that all its corporate activities and businesses are carried out while fostering the sustainable creation of value for society, citizens, customers, shareholders and the communities in which the group is present, equitably compensating all groups that contribute to the success of its business enterprise.

This sustainable development strategy is based on a long-term vision that achieves a better future without compromising present results, favouring the achievement of the SDGs and rejecting actions that contravene or hinder them.

The actual and effective implementation of this strategy is to form part, along with the Corporate Governance System that supports it, of the virtual soul of the group, one of the key elements that differentiates it from its competitors and which is a deciding factor for its establishment as the preferred company for its Stakeholders.

The policy contains 5 cross-cutting principles of conduct in relation to:

- the sustainable creation of value
- transparency
- development and protection of intellectual capital
- innovation
- responsible taxation

And 6 principles of conduct in relation to the principal Stakeholders:

- shareholders and investors
- communities in which the group does business
- environment
- human team and talent
- customers
- suppliers

The *General Sustainable Development Policy* is further developed and supplemented by various sustainable development policies addressing specific needs and expectations of the Stakeholders:

- *Stakeholder Relations Policy*
- *Innovation Policy*
- *Policy on Respect for Human Rights*
- *Quality Policy*
- *Corporate Security Policy*
- *Human Resources Framework Policy*
- *Knowledge Management Policy*
- *Recruitment and Selection Policy*
- *Equal Opportunity and Reconciliation Policy*
- *Occupational Safety and Health Policy*
- *Sustainable Management Policy*
- *Environmental Policy*
- *Policy against Climate Change*
- *Biodiversity Policy*

The principles of conduct included in these sustainable development policies are described throughout this report.

Responsibilities

The "Corporate and governance structure, ownership and legal form" section of Chapter I.1 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:

- 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.
- Issues 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. And specifically, those aspects relating to the fight against climate change are the responsibility of the Energy Policies and Climate Change Division. Both divisions report directly to the chairman & CEO.
- Issues 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.
- Those relating to regulation and public policies are the responsibility of the Planning, Management and Regulatory Positioning Division in coordination with the country subholding companies of each of the countries in which Iberdrola operates.
- 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.
- Those 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 Sustainable Development Committee of the company's Board of Directors, is 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 for preventing 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.
- The Internal Audit Division ensures 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.

Responsibility in the sustainable development strategy

The implementation, monitoring and supervision of the sustainable development strategy is the responsibility of the various companies of the group in accordance with the corporate and governance structure of the group described in Chapter I.1, in all cases respecting the principles of subsidiarity and decentralised management through the various committees that assume duties in the area of sustainable development and reputation.

Specifically, the Corporate Sustainable Development and Reputation Committee has the duties of:

- defining the basic corporate lines of evolution of practices focused on the sustainable growth of the social dividend and improvement of the group's reputation,
- approving and monitoring development plans in both areas,
- acknowledging the most significant advances, and
- collaborating in the preparation of public information regarding these areas disclosed by the company.

[redacted]

For its part, the Sustainable Development Committee of the Board (the composition and duties of which are described in the "Corporate governance" section of Chapter II.7) is vested with the power to, among other things:

- *Assess and review the Company's plans implementing the sustainable development policies and monitor the level of compliance therewith.*
- *Supervise the Company's actions relating to sustainable development and report thereon to the Board of Directors and to the Executive Committee, as appropriate.*
- *Supervise and evaluate the processes of relations with the various Stakeholders.*

The *Activities Report of the Board of Directors and of the Committees thereof* for financial year 2018, available on the corporate website, identifies the reports prepared by this Committee and the appearances that took place during the year.

Goals, resources and results

Iberdrola regularly publishes its medium- and long-term goals using various formats: *Capital Markets Day*, the materials for which are available on the corporate website, is one of the most important events for communication of the company's future outlook. As additional information, Iberdrola annually publishes its *Integrated Report*, which is also available on the corporate website, using the methodology of the *International Integrated Reporting Council (IIRC)*.

To reach its financial and operational 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.

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. The listed country subholding companies have their own process for establishing objectives and remuneration of their officers pursuant to their own special framework of strengthened autonomy, although they will be consistent with those of the Iberdrola group.

The sustainable development objectives are set by the different businesses and corporate divisions. Many of them are set out in the Social Responsibility Plan that the company prepares on a bi-annual basis. The table below shows the main objectives of the Social Responsibility Plan 2018-2019, which consists of more than 300 activities.

For more detailed information regarding the Social Responsibility Plan, see the introduction of Chapter II "Responsible Energy for People": Our Priorities.

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.

Principal sustainable development objectives 2018 2019	
Our priorities	**Objectives**
Fight against climate change and protection of biodiversity	5% reduction in specific direct emissions during the 2017-2019 period compared to the 2014-2016 period.
	Increase renewable installed capacity by 9% during 2018 and 2019, with the start-up of 2,600 MW.
Contribution to the well-being of our communities	Continue providing access to energy for people who lack it, in line with the 2020 goal of reaching 16 million beneficiaries.
	Work with *Operation Fuel* in Connecticut (United States) to ensure that 1,200 people in vulnerable situations have access to energy throughout the year.
Sustainable economic growth	Maximisation of the volume of issues in the green financing market and update of the *Green Financing Issue Framework* to ensure consistency with the *Green Bond Principles* and available best practices.
	Develop new global Cybersecurity campaigns.
Innovation, digitalization and quality for our customers	Development of the *Innovation and Digital Transformation Programme*, applied to all the businesses.
	Development of new products for customers based on Data Analytics (Energy Wallet, Customised Plans) and development of new apps.
	Increase in subscriptions to electronic invoicing to 26% of the entire Continental Europe portfolio by year-end 2018.
	Development of projects to improve management of the grids in distributed generation scenarios: *Alois* in Spain and *Fusion* in the United Kingdom.
	Development of the smart grid projects *Smart City* (Atibaia) in Brazil and *Smart Community* (Ithaca) in the United States.
Good governance, transparency and Stakeholder engagement	Approval by the Board of Directors of a new *Digital Presence and Action Policy.*
	Development of a unique model preparing scenarios to assess the environmental impacts of climate change on the company over the long term, conforming to the requirements of the Task Force on Climate-related Financial Disclosures (TCFD).
	Maintenance of ISO 37001 certification regarding the anti-bribery management system and UNE 19601 certification on the criminal compliance management system, as well as the Pro-ethics stamp at Neoenergia.
	Creation of an energy policy chair at the European level.
	Development of the Human Rights Management Model at the global level.
Promote Socially responsible practices in the supply chain	Improvement in the supplier sustainability evaluation model (now *RSC Scoring*) and actions to increase the percentage volume of procurement awarded to suppliers that have been evaluated in the area of sustainability.
	Review of the methodology for measuring the carbon footprint of suppliers to evaluate Scope 3.
	Preparation of a protocol for performing social audits at the first level of contracting.
Workforce health & safety and personal development	Reduction of accident ratios, highlighting the *0 Accident Plan* in Brazil.
	Continuous increase of female presence in significant positions.
	Development of continuous training plans for employees, monitoring compliance therewith.

Key impacts on sustainability

The objective of Iberdrola's sustainable development strategy is to favour the "sustainable creation of value by engaging in the activities included in its corporate object, taking into account the Stakeholders related to its business activity and its institutional reality, in accordance with the *Purpose and Values of the Iberdrola group*", as set out in the *General Sustainable Development Policy* approved by the Board of Directors.

This sustainable development strategy is aligned with the implementation by the Iberdrola group of a business enterprise focused on the sustainable creation of value for all of its Stakeholders, providing a quality service through the use of environmentally-friendly energy sources, staying alert to the opportunities offered by the knowledge economy, and committed to the SDGs, especially in relation with goals 7 and 13 regarding universal access to energy and the fight against climate change.

For this purpose, the group innovates, makes new investments and promotes more efficient, sustainable and clean technologies, fosters the growth and develops the talent and the technical and human capacities of its professionals, works for the safety of people and supply, and labours to build a successful business enterprise together with all of the participants in its value chain, sharing the achievements with its Stakeholders.

The sustainable development strategy will endeavour to ensure the achievement of the following objectives, based on the principles set out in the SDGs:

- Cause all Stakeholders to participate in the success of Iberdrola's business enterprise through the social dividend generated by the group.
- Favour the achievement of the strategic goals of the group in order to offer a safe, reliable and high-quality supply of energy that is respectful of the environment.
- Improve the competitiveness of the group through the assumption of management practices based on innovation, equal opportunities, productivity, profitability and sustainability.
- Responsibly manage the risks and opportunities deriving from changes in the surroundings, and maximise the positive impacts of its activities in the various territories in which it operates and minimise the negative impacts, to the extent possible, avoiding short-term approaches or those that do not sufficiently take into account the interests of all Stakeholders.
- Encourage a culture of ethical behaviour that increases business transparency in order to generate creditability and trust within the Stakeholders, which includes society as a whole.
- Promote relationships based on trust and the creation of value for all of its Stakeholders, providing a balanced and inclusive response to all of them, particularly emphasising the involvement of local communities to glean their expectations regarding significant potential issues, and thus be able to take them into consideration.
- Contribute to the recognition of the group and the improvement of its reputation.

Furthermore, the group's commitment to sustainability specifically takes shape in five basic principles of conduct pursuant to its *Sustainable Management 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.

Iberdrola responsibly manages the main risks relating to the impacts where the group engages in its principal activities, along with the potential risks arising from the environment, thus maximising the positive impacts and minimising the negative ones, addressing the expectations of the Stakeholders. For this reason, Iberdrola has a Comprehensive Risk Control and Management System that identifies, analyses and measures significant threats following common procedures for the entire group, which include ongoing assessment as well as the application of best practices and recommendations, as described in the following section "Long term risks and opportunities. Comprehensive Risk System.

Measurement of the social dividend

The measurement of the social dividend encompasses the principal direct, indirect and induced impacts, both present and future, generated by the group's activities, consistently with Iberdrola's commitment to the long-term sustainable creation of value.

Due to the diversity of sustainable development goals and commitments, the group uses a broad set of indicators that allows for an evaluation of the contribution from various viewpoints. Even though the indicators do not capture all of the impacts generated, the results obtained constitute an efficient assessment tool to verify the achievement of the bylaw-mandated commitment to the social dividend in the communities in which the group does business.

This assessment is taken into consideration by the Board of Directors when defining the group's strategy, and is shared transparently with all Stakeholders.

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 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 Policy* and in the *Anti-Corruption and Anti-Fraud Policy*.

Comprehensive Risk Control and Management System

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

Effectiveness of risk management processes

[redacted]

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 group's Risk Committee does so on a monthly basis. This committee is supplemented with the Credit Risk and Market Risk Committees, 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.
- On at least a half-yearly basis, it prepares a risk report for the Board of Directors.

A more detailed description regarding risk management at Iberdrola can be found in the following public documents, available on the website:

- Section "E" of the *Annual Corporate Governance Report* for financial year 2018.
- The "Principal risks and uncertainties" section of the *Consolidated Management Report* for financial year 2018.
- Note 5 to the consolidated financial statements for financial year 2018
- The Integrated Report. February 2019.

Climate change risk management. Iberdrola and the TCFD

In 2015 the Financial Stability Board (FSB) established a Task Force to encourage investors to have sufficient information regarding the risks relating to climate change and the manner in which each company is managing it: the Task Force on Climate-related Financial Disclosures (TCFD). Climate change could entail various risks in the medium term, both transitional and physical (according to the types defined by the TCFD). In June 2017 the Task Force published recommendations to include an analysis of risks and opportunities relating to climate change in annual financial reports, as well as the adjustment of the company's strategy and governance thereto. The eleven recommendations of the TCFD are structured around four thematic areas:

- Governance
- Strategy
- Risk management
- Metrics and targets

Iberdrola was one of the first companies to publicly commit to implement these recommendations in its public reports by 2020. To this end, Iberdrola already published in its February 2018 Integrated Report a description of the level of development of the four aforementioned areas. It has deepened this analysis during 2018, and has prepared a publication analysing climate scenarios, as required by the recommendations.

Governance

Iberdrola's Board of Directors considers climate change to be a priority element for the company. In 2018 it undertook a profound reform of Iberdrola's Corporate Governance System strengthening the group's commitment to all of the SDGs, especially goals 7 and 13.

The Sustainable Development Committee of the Board is in charge of reviewing aspects relating to climate change, among other things, and receives regular reports. The 7 meetings that took place during 2018 included aspects relating to climate change in its agenda.

The Board of Directors revised the *Policy against Climate Change*, and specifically Iberdrola's contribution to the mitigation of climate change and to the decarbonisation of the energy model, gradually reducing the intensity of greenhouse gas emissions (expressed in grams of CO_2 per kWh generated) in order to place it below 150 grams of CO_2 per kWh by 2030 (which is a 50% reduction in the intensity of emissions compared to 2007), continuing the development of electric energy from renewable sources, focusing innovation efforts within more efficient technologies having a lower intensity of carbon dioxide emissions, and progressively introducing them in their facilities, until reaching carbon neutrality by the year 2050.

Based on this commitment, there is also a link between the long-term incentive plan of the executive directors and the achievement of goals that support SDGs 7 and 13.

For more information, see the Corporate Governance System section of this chapter, as well as the following link Corporate Governance System.

Strategy

Climate change is a key element for defining the company's strategy. Iberdrola treats it not only as a risk factor, but also as an opportunity for growth through mitigation and adjustment activities during the transition towards a low-carbon economy.

Iberdrola's strategy is aligned with the objectives of the Paris Agreement, given that the company has been integrating the fight against climate change into its strategy since the early 2000s, clearly committing to decarbonisation of the energy model through renewable energy, storage and smart grids, together with the commitment to achieve the SDGs.

In 2018 ScottishPower sold its 2,566 MW of thermal generation, making it the first vertically integrated company in the United Kingdom with 100% renewable wind power generation facilities.

Iberdrola has chosen four climate scenarios on which it is performing the analysis of potential impacts on its business model:

- **Two transition scenarios** that for Iberdrola represent potential paths towards a low-carbon economy. They are based on plausible projects prepared by a third party, the International Energy Agency:
    - *Sustainable Development Scenario* (*SDS*): this scenario assumes achievement of the climate change goals agreed to in Paris (<2°C), improvement in air quality and universal access to electricity in accordance with the UN SDGs.
    - *New Policies Scenario* (*NPS*): a scenario based on the World Energy Outlook, which includes current and announced energy policies (e.g. nationally determined commitments, or NDCs, from the Paris Agreement).

  There has been a comparative analysis of these two scenarios allowing for conclusions to be extracted by business and geographic area regarding the level of resiliency of Iberdrola's strategy with respect to climate change in the short and medium term. Continuity of the Outlook 2018-2022 has been assumed, with a qualitative transfer thereof through 2030.

  The result of the analysis indicates that, thanks to the company's strategy and positioning in renewable energy, divestment from oil and coal plants, and smart grids, its business model is sufficient to face both scenarios.

  It is important to note that, over the long term, Iberdrola's goal to achieve carbon neutrality by 2050 (which the company already set in 2009) is more ambitious than the goals sought under the NPS scenario and is aligned with the SDS.

- **Two physical scenarios**, based on the IPCC Fifth Assessment Report, to diagnose the range of impacts:
    - *Representative Concentration Pathway 8.5* (*RCP 8.5*) of the Intergovernmental Panel on Climate Change (IPCC): the most unfavourable case of the physical risks that the company might face corresponds to a 3.7° C increase in average global temperature during the 2081-2100 period.
    - *Representative Concentration Pathway 4.5* (*RCP 4.5*) of the Intergovernmental Panel on Climate Change (IPCC): stabilisation scenario, taking account of the efforts being made and to be made at the international level to reduce greenhouse gas emissions.

Taking into account that adjustment to the physical risks arising from climate change is a major issue for a sector as strategic as electricity, Iberdrola has analysed the principal climate threats to which the electricity sector might be exposed under these two scenarios in the various jurisdictions and for the different technologies in the short, medium and long term.

From this analysis derive the specific detailed studies in those sectors and locations that have been identified as most vulnerable to the impacts of climate change, going into detail regarding the quantification of the impacts and ability to adapt.

The preliminary analysis evaluated the risks arising from the principal climate threats, like increasing temperature, changes in rainfall and increase in sea levels, considered to be chronic risks, as well as the increase in frequency and severity of extreme meteorological events (flooding, heat waves, hurricanes, etc.) for the various jurisdictions in which Iberdrola operates and for the different technologies, taking into account the vulnerability and exposure thereof. The RCP 4.5 and RCP 8.5 emission scenarios have been considered for the group of climate variables analysed in order to consider a scenario of emissions stabilisation (RCP 4.5) and a more pessimistic scenario of higher concentrations of GHG emissions, and thus greater changes in climate (RCP 8.5).

The analysis leads to the conclusion that the risks arising from climate change affect customary business variables and therefore variables managed within the customary processes of its operations. It is expected that climate change will affect the probability of occurrence and potentially the intensity of such events, for which reason, even if they do not constitute a new source of risk, there is a greater level of sensitivity to them.

Extreme phenomena are identified as one of the main threats to the different technologies and jurisdictions, the frequency and severity of which are expected to increase in coming years. However, there are plans and predictive systems that allow for the impacts arising from these events to be minimised. One example of an extreme event that was already managed is in the management of the networks in the United States, where Avangrid Networks launched a plan for the next 10 years, "Transforming Energy", in order to improve the resiliency of the network against severe storms, with measures like the replacement of supports and conductors, the improvement of tree trimming and maintenance, and better connectivity, among others.

The chronic impacts are progressive and will be occurring in the coming decades, relatively long periods, for which reason they will be managed based on the level of adaptation and resilience of the various facilities. This also means that, in large part, the group's future assets, and not the current assets, will be the ones bearing the most severe impacts, as all assets are gradually renewed when they reach the end of their useful life.

The adaptive ability of Iberdrola's facilities, and thus the ability to manage the risks arising from climate change, is due to, among other factors, the large diversification of generating assets that allows the group to better manage the risk arising from climate change and consideration of climate variability in traditional processes, like the replacement of equipment and the supply of spare parts, as well as in the technical specification of the equipment.

However, given the constant evolution of science and the uncertainty associated with studies on climate projection and the impacts thereof, the analysis must be continued and deepened in order to quantify the potential impacts and establish adjustment measures if necessary. There can thus be a detailed analysis of the variability of resources like hydraulic, wind and solar based on the location of the company's assets, and progress to the extent that climate science homogeneously introduces itself in the processes in the various countries in which Iberdrola

does business. They are all lines within the working plan regarding the adjustment to climate change.

For more information regarding the company's strategy, see the document *Outlook 2018-2022* (or the document replacing it for a subsequent period), which can be accessed through its corporate website in the *About Us* section, as well as in the section "Key impacts on sustainability" of this chapter.

Risk management

As regards the process for identifying the risk of climate change, Iberdrola's Board of Directors and senior management are committed to identifying and evaluating the risks of the group: a) *Ex ante*: the risk tolerance levels are reviewed and approved annually through risk policies and limits that establish the qualitative and quantitative risk appetite at the level of the group and at each of the principal businesses and corporate functions; b) *Ex post*: at least one quarterly supervision of major risks and threats and the different exposures of the group, as well as compliance with the risk policies, limits and approved indicators.

Climate change covers various risks, which to a large extent are not new risks for Iberdrola. Pursuant to the *General Risk Control and Management Policy*, risks relating to climate change are included in the catalogue of threats. Within the group, the identification, analysis and management thereof is approached with a multi-departmental focus, in which there is cooperation between corporate as well as business functions with the participation of the highest management levels of the group. Regular review procedures are established for this purpose.

The group's control and risk management system considers and monitors the risks arising from climate change, which can be grouped into:

- Physical: potential material impacts on facilities.
- Transitional: associated with the process of global decarbonisation, including regulatory changes, market prices, technologies, reputation.
- Other: like risks in the supply chain and social phenomena.

Based on the estimates of the impacts and Iberdrola's mitigating elements (included in section 4.7 of the Consolidated Management Report), it is not expected that the climate change risks evaluated will have a catastrophic or permanent impact on the group's consolidated figures analysed to 2040, which are globally resistant. In any case, the opportunities arising for the company from the decarbonisation of the global economy are greater than the risks.

It should be noted that although the impacts from climate change can already be seen in the short term (e.g.: greater intensity and frequency of climactic events in certain geographic areas), they are gradual and over relatively long terms.

Finally, 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 over the last two decades, 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, smart grids, storage and digitalization, and its commitment to the transition towards a low-carbon and climate-resistant economy:

- **Investment opportunities and improved competitive advantage.** Legislative and regulatory changes encouraging decarbonisation through greater electrification, the development of renewable energy and the integration thereof into the electricity system through smart grids 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.).
- **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.** Result of a leadership position in the energy transition.
- **Sustainable creation of value.** Maximisation of the social dividend for all Stakeholders.

For more information regarding the management of climate risks, see section 4.7 "Climate change risks" of Chapter 4. "Principal risks and uncertainties" of the *Consolidated Management Report* for financial year 2018, as well as the Integrated Report. February 2019.

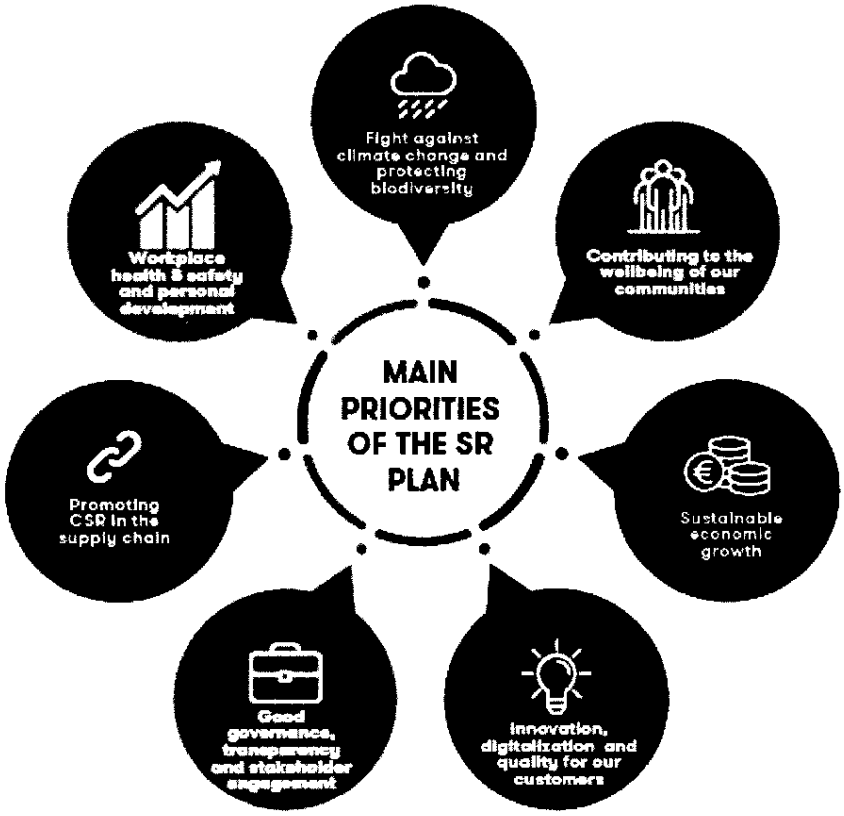
Metrics and targets

Iberdrola includes in this sustainability report and in the Integrated Report significant indicators to report on aspects relating to climate and to the strategy of the fight against climate change, including the greenhouse gas emissions inventory, the intensity of emissions, reduction targets, the use of energy, energy intensity, the energy mix, renewable installed capacity, use of water, source of water, R&D+i and Capex in the development of low-emission products, services and/or technology.

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.

For more information, see the "Reduction in emissions" section of Chapter II.3. Iberdrola also 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.

II. "Responsible Energy for People": Our Priorities



Iberdrola is firmly committed to contributing to the sustainable development of society and improving the quality of life of people. This commitment materialises in the innumerable projects and activities undertaken by Iberdrola and set out in the Social Responsibility Plan 2018-2019 "Responsible energy for people". It summarises the most significant projects, sets the goals and shows our alignment with the Sustainable Development Goals of the United Nations (SDGs).

Iberdrola's vision of its responsibility is based on the long-term creation of value for our Stakeholders. For this reason, we focus our work on meeting their expectations and strengthening the links of mutual trust with our shareholders, employees, suppliers, environment and society in general. We have called this shared value the social dividend, which constitutes the basis of the responsibility that we assume through our actions contributing to society.

The vision of "Responsible energy for people" is grouped around seven priorities: It is a broad focus, because we believe that it is the proper way to respond to the expectations of our Stakeholders. We have also added multiple lines of work with specific tasks (more than 300) and measurable goals in accordance with international sustainability standards. We have also included the exchange of lessons learned to face the new challenges raised by society.

These goals are monitored by the Corporate Social Division together with the areas and businesses, and the results are evaluated by the Sustainable Development and Reputation Committee of the group and by the Sustainable Development Committee of the Board of Directors, when the latter so requests.

Iberdrola's largest impacts for the success of the 2030 Agenda are focused on SDG 13 (Climate action) and SDG 7 (Affordable and clean energy), which also constitute significant business opportunities due to the growing electrification of the economy. One should also note the company's enormous contribution to the development of our communities in the areas of biodiversity, innovation, training, transparency, solidarity, education, the arts, culture, etc. Supplying "Responsible Energy" means responding to all of these challenges, meeting the demands of our Stakeholders.

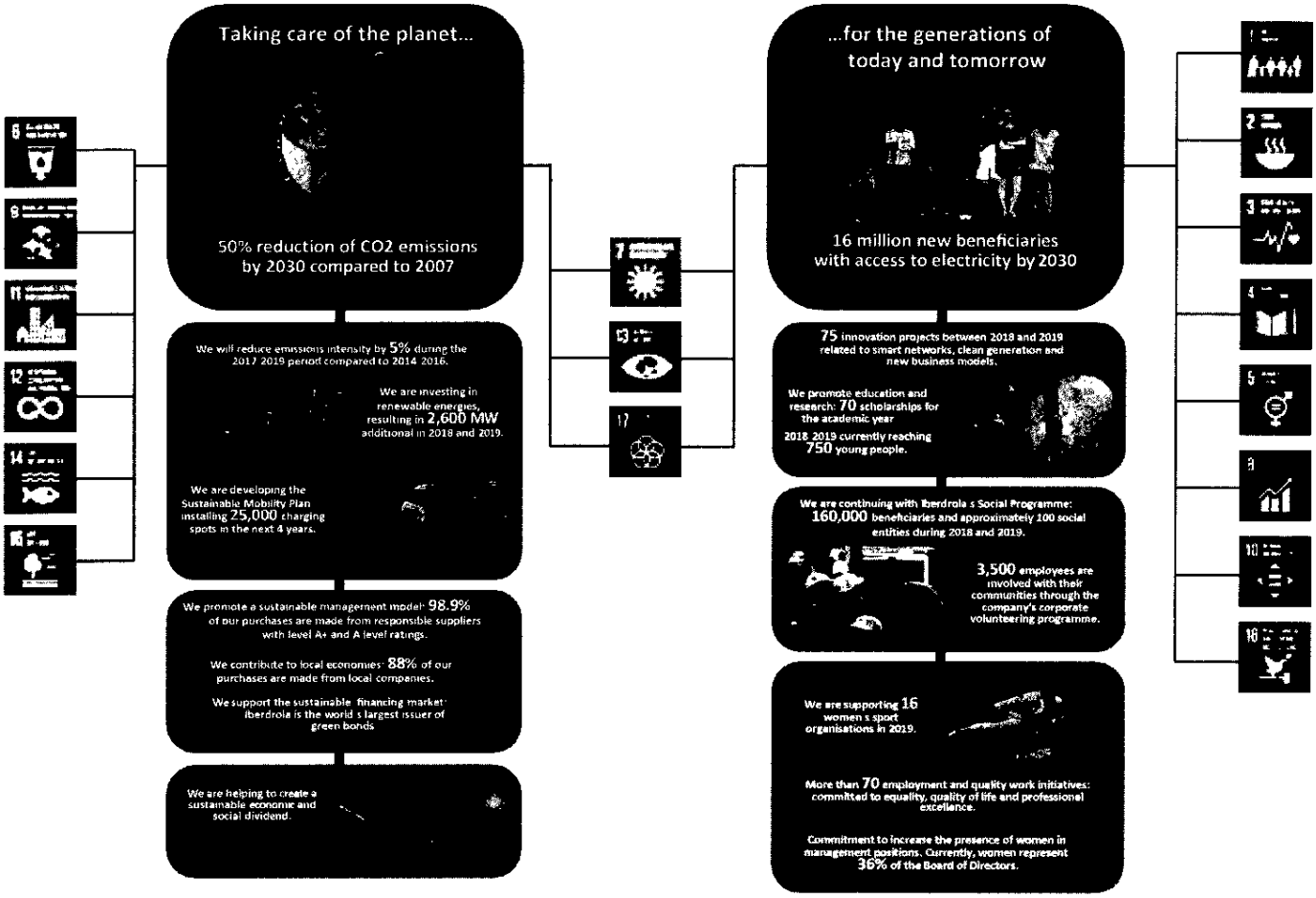
Sustainable development at Iberdrola is integrated into its businesses and corporate areas, and is at the head of a new management paradigm in which companies take a more active role in building a more equitable world.

RESPONSIBLE ENERGY FOR PEOPLE

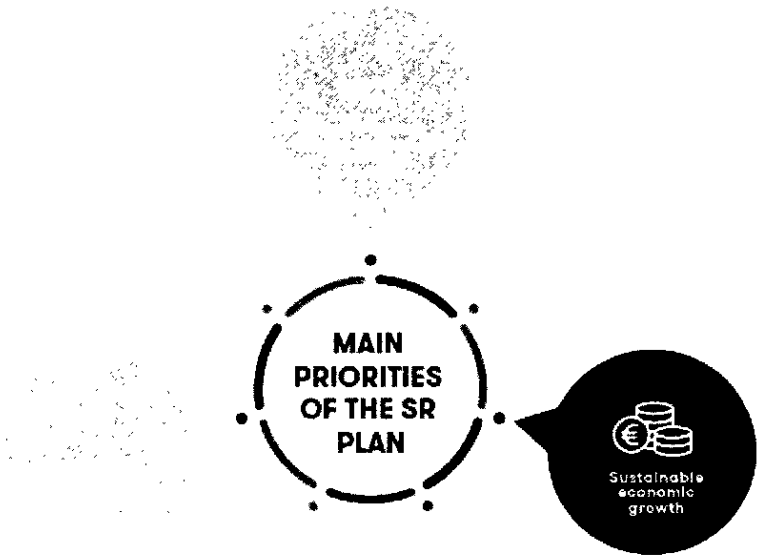
*Our **commitment to sustainable development** is realized by integrating the **United Nations 2030 Agenda** into the strategy and operations of the Iberdrola Group.*

Our greatest contributions to the achievement of the Sustainable Development Goals are oriented around ***two major axes*** *which inspire our actions: **we take care of the planet** by being at the forefront in reducing emissions in the energy sector, and **we contribute to the welfare and progress of societies** in all the territories where we are present. Iberdrola's commitment materialises through different lines of work which encompass more than **300 environmental, social and economic actions,** thus responding to the expectations and needs of our Stakeholders.*

IBERDROLA'S CONTRIBUTION TO THE SUSTAINABLE DEVELOPMENT GOALS DURING 2018 -2019



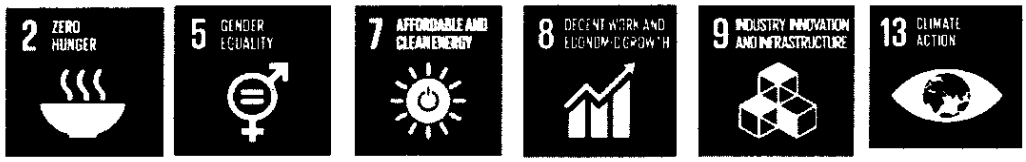
II.1. Sustainable Economic Growth



- Economic/financial impact
- Green financing
- Energy transition and supply costs
- Creation of employment and salaries
- Stable labour environment. Commitment to quality employment

Economic/financial impact

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



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_2 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 large investments in renewable generation facilities, in smart grids and in efficient storage; all accompanied by greater digitalization to support efficiency and the development of new products.

Iberdrola's strategy, implemented at the beginning of the 2000s, has been based precisely on these growth vectors: investment in renewables, smart grids, efficient storage, digitalization and customer solutions. 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.

A summary of the Iberdrola strategy can be found in the document *Strategic Overview 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.

This *Sustainability Report 2018* covers the requirements arising from the entry into force of the new Law 11/2018 on non-financial information and diversity, forming an integral part of the company's management report. The Annual Reports, the *Integrated Report. February 2019*, 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, distributed and retained (€ millions)	2018	2017	2016
Iberdrola total			
Revenue (sales and other income)	36,273	32,714[12]	30,706
Operating costs	22,433	20,446	18,588
Employee remuneration (excluding company social security costs)	2,387	2,517	2,260
Payments to providers of capital	2,402	2,916	2,692
Payments to government administrations	3,096	2,723	2,740
Community investments (verified according to the LBG Model)	54	63	36
Economic value retained	5,901	4,049	4,390

Information by geographic area can be found in Annex 1 Supplementary Information.

Financial assistance received

Financial assistance received by the Iberdrola group is shown in the following table on a consolidated basis:

201-4

Financial assistance (€ millions)	2018	2017	2016
Capital subsidies	6	10	13
Operating subsidies	3	6	3
Investment tax credits[13]	8	30	0
Production tax credits[14]	91	90	87
Assistance for other items included in the GRI Protocol	0	0	0
Iberdrola consolidated total	**108**	**136**	**103**

Information by geographic area can be found in Annex 1 Supplementary Information.

GRI 203

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 economic impacts such as those described below:

203-2

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.

[12] Includes Sales in the amount of €31,263 million and Other revenue €1,451 million.
[13] *Créditos fiscales a la inversión.*
[14] *Créditos fiscales a la producción.*

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.
- Due to this geographic reach, electricity activities generate fees, taxes and duties at the local, regional and national levels and allow for the generation of revenue in very different areas, to which one must add the tax loads associated with increased commercial and financial activity.
- 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.

Negative effects can be considered to include the following:

- 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.
- 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.

Indirect impacts of the supply chain

The high volumes of Iberdrola's purchases (described in detail in the "Description of supply chain" section of Chapter II.6) 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:

- In 2018 Iberdrola procured a volume equivalent to 42.6 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. For more information about this

programme, see the section "Digital innovation and transformation projects" of Chapter II.4, as well as the Innovation section of the corporate website.

During the construction and operation of its facilities, Iberdrola also 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 2018 is provided below:

- Noteworthy is support for professional formation and training in areas near Iberdrola's facilities. In 2018, more than 8,000 people visited the Energy Classrooms near the wind farms in Spain. There is also a visitor centre in the United Kingdom at the Whitelee windfarm, where visits are received from the general public and from school groups.
- In Mexico, it has participated in the construction and/or improvement of various recreational and educational 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.
- Finally, one should note 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.

Green financing

Iberdrola is a world leader at the company level with respect to green financing, highlighted by the number and amount of green bonds issued. All of the foregoing is 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 and March 2018 hybrid green bonds), by the corporation as well as its subsidiaries (Avangrid *green* bond in November 2017).

The process for selecting and evaluating projects that can be (re)financed by green instruments is articulated in the *Iberdrola Framework for green financing* (the "**Framework**"), which has been verified by PriceWaterhouseCoopers Auditores, who also verify this *Sustainability Report*, and is fully consistent with the *Green Bond Principles.*

The validation of the projects eligible for each issue can also 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* and of the *Framework* 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 2018 related to investments financed with the green bonds issued by Iberdrola.

Bond	Area of investment	Installed capacity attributable to the bond (MW)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)
XS1057055060	Renewables[15]	478	1,000	220,493
XS1398476793	Renewables	736	1.384	324,862
XS1490726590	Renewables	403	805	227,687
XS1527758145	Renewables	540	1.128	247,033
XS1564443759	Renewables	201	237	63,509
XS1575444622	Renewables	340	794	313,010
XS1682538183	Renewables	279	587	223,618
XS1721244371	Renewables	648	1,309	370,542
XS1797138960	Renewables	225	0	0
XS1847692636	Renewables	241	0	0
XS1924319301	Renewables	25	81	46,874

For more details on these issues and their sustainability returns, see the *Report on Green Bond Returns* available in Annex 3 of this report.

[15] Among others.

Energy transition and supply costs

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)

Demand-side management

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_2 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 main activities performed are broken down separately due to the unique nature and law of each country or market:

Spain

Noteworthy is the completion of the smart meters installation plan in Spain, reaching a figure of 10.7 million meters installed, within the *STAR* programme.

Iberdrola also sells a wide range of products and services that promote efficiency, energy saving and environmental protection, all within its *Smart Solutions*:

- 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 2018 more than 800,000 customers benefited from products and services that improve energy efficiency.

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.

Other activities to promote energy efficiency were also carried out through the website, social media, campaigns, customer invoices, etc.

In addition, Iberdrola's contribution to the Energy Efficiency Fund, used to increase energy efficiency in the different energy consumers sectors in a way that contributes to reaching the national energy savings goal established by the National Energy Efficiency Obligations System (*Sistema Nacional de Obligaciones de Eficiencia Energética*) was 15.2 million euros.

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_2 emissions and heating costs through insulation and energy efficiency measures. It also provides energy consultancy and support services through a range of channels, with a team of accredited consultants.

In the area of commercial and industrial customers, the company's products are focused on energy savings, cost reductions and CO_2 emissions. These include automated controls that allow for proactive or reactive response to the requirements of the grid.
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

There are various energy efficiency programmes in the states in which Avangrid distributes electricity, including *Clean Energy Communities* and *Home Energy Solutions* in Connecticut.

There are also programmes to help improve the energy efficiency of homes under construction or undergoing major renovations. There is also the *Residential New Construction* programme in Connecticut and the *Berkshire Gas New Construction Initiative* in Massachusetts.

Brazil

The companies of the Neoenergia group carry out various energy efficiency programmes for residential customers. For example, the *Vale Luz* programme, which promotes the safe and efficient use of electric power, and the *Energía con Ciudadanía* project, intend to encourage reduced consumption. 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 and industrial segments, Neoenergia has carried out a range of projects relating to the improvement of energy efficiency and the development and improvement of the competitiveness of these sectors.

Generally, most of the programmes seek to promote energy efficiency in the buildings of customers and help to control their electricity consumption through various tools, allowing this consumption to be monitored.

Availability and reliability

[redacted]

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.

Government 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.

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 role is played by Red Eléctrica de España, S.A.), 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 and pumping 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 and network digitalization programmes, with a view to guaranteeing a more operational and reliable network. Of note is completion of the deployment of smart meters, with 10.7 million installed, a modernisation of 99.9% 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 required capacity to cover demand depending upon its system reliability target, and asks for bids from industry players owning facilities or projects, awarding the required capacity. 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 offshore wind technology.

Electricity transmission network activities are governed by the RIIO-T1 regulatory framework for the 2013-2021 period. Investments with a dual purpose are being considered during this period: 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. Of note is the start-up of the Western Link subsea cable, which has increased transmission capacity between Scotland and Wales by 2,000 MW. 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 regulatory 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 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 (NYISO) 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 of 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.

The construction of the 233 km HVDC transmission line (New England Clean Energy Connect) awarded to Avangrid in 2018 will improve grid stability and reliability, allowing for the supply of 1,200 MW of 100%-hydroelectric energy to the state of Massachusetts. The project is in the initial phase of obtaining the main permits.

Brazil

The group's companies in Brazil manage major electric distribution areas and electricity production plants. They work 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. 4 transmission projects were awarded in December 2018 involving the construction of 3,000 km of transmission lines, favouring the safety of the system.

Other examples of activities to improve the quality of supply in Brazil during 2018 are:

- Improvement of prioritisation of incidents based on their scope (number of customers affected and duration of the interruption) and definition of a new contingency plan for the crisis.
- Review and expansion of automation, improving coordination of protective equipment and expanding automation of the lines.
- Construction of nine new substations.

The group's companies in Brazil also participate in developing generating facilities (hydroelectric, wind and photovoltaic).

Mexico

In Mexico, a major portion of production is generated by combined cycle generation plants with long-term contracts from the Federal Energy Commission. These plants contribute to the country's energy transition with efficient energy, providing safety of supply and high levels of availability. The rest of the production is sold through long-term contracts to private customers.

Iberdrola is also investing to grow in the segment of renewable energy, especially wind and solar photovoltaic.

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 be used to cover fuel costs in euros, as purchases are usually made in U.S. dollars.

The Iberdrola group's generation facilities have high availability factors, as shown below:

Average availability factor of generation technologies (%)	2018	2017	2016
Combined cycle	90.4	90.9	89.9
Conventional thermal	94.3	93.9	85.5
Cogeneration	92.2	82.8	91.0
Nuclear	89.3	89.3	86.0
Hydroelectric	86.9	86.0	87.0
Wind	96.4	94.4	96.8
Total[16]	**91.6**	**90.5**	**91.0**

Information on the availability factors in the various countries is described in Annex 1 Supplementary Information.

Supply costs

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, thanks to the use of renewable energy, with prices that are competitive and can be afforded by society as a whole.

[16] Weighted average with the installed capacity.

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 some of them. The most significant cost-related issues being debated and regulatory developments currently occurring in these countries are described below:

European Union

- The Agency for the Cooperation of Energy Regulators (ACER) and the European Commission, in studies on electricity prices published since 2016, confirm that taxes and components associated with energy and environmental policies are what have grown the most in recent years, reaching half of the bill in countries like Spain. This increase 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, which must be accommodated through general taxes for renewable goals to be distributed among all polluting energies.

- The Clean Energy for All Europeans package includes various legislative proposals, including a revision of the Market Design favouring the energy transition and responding to the need to comply with the 2030 environmental agenda (40% reduction in GHG emissions, 32% increase in renewables and 32.5% 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.

- As regards the existence of specific regulated rates for vulnerable customers, the Package maintains the situation until 2025, when the Commission will analyse the situation and may propose the elimination thereof.

Spain

- The wholesale price for electricity in the Iberian *SPOT* market is aligned with the other European markets. According to the Third Report on Energy Prices and Costs in Europe published by the European Commission at the beginning of 2019, prices for industrial customers in Spain are below the European average. For residential customers, Spain holds fifth place in the European Union, after Germany, Denmark, Belgium and Portugal. However, as mentioned above, only half of the electricity bill of certain customers, especially those in the residential and commercial segment, is directly related to the provision of the service. The rest derives from the pursuit of energy policy goals (aid for renewable energy and cogeneration), social goals (subsidies for electricity in non-mainland territories and recovery of tariff deficits from previous years) and taxes.

- The government has approved a Royal Decree Law (15/2018) with urgent measures for the energy transition and the protection of vulnerable consumers, which seeks to reduce the price of domestic invoices and expand coverage for vulnerable groups, among other things. Along these lines, it expands subsidised rates (*bono social*) to certain groups, creates a thermal subsidised rate for heating, eliminates the "green cent" tax on gas and temporarily suspends the tax on electric power production. All of these measures help to reduce the final price.

- Iberdrola has included in its *General Sustainable Development Policy* the protection of customers in situations of vulnerability, in order to ensure energy supply to this group. For this purpose, it is taking action to promote, inform and facilitate access to the

subsidised rates, and it is also working with public authorities, various institutions and NGOs to identify and protect economically disadvantaged persons (see "Access to electricity" section of Chapter II.5).

United Kingdom

- In 2018, the UK government approved the "Tariff Cap" law and Ofgem defined the cap for the standard variable tariffs (SVT) at 1,137 pounds annually for a dual customer (gas and electricity) with direct debit from 1 January 2019 until 31 March of 2019. Ofgem published the new limits that will apply from April to October 2019 on 7 February: 1,254 pounds annually for dual customers. The price limits will apply until no later than 2023 and will be updated on a half-yearly basis.

- Although the government continues working to minimise the costs that it controls, as a demonstration of its environmental commitment it has maintained the minimum price of CO_2 and has announced an annual budget of 60 million pounds for the next auction of Contracts for Differences for projects commencing during the 2023-24 and 2024-25 periods. The government expects to award between 1 and 2 GW of offshore wind.

United States

- The Environmental Protection Agency (EPA) has proposed an "Affordable Clean Energy" (ACE) rule to replace the Clean Power Plan (CPP) which establishes guidelines for the states allowing them to develop greenhouse gas reduction plans for existing coal plants. The ACE is mainly based on making efficiency improvements at generating plants and on the application of new technologies, giving states the flexibility to develop their own plans for regulating the emissions of generating plants.

- 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. These final rates are agreed between the distributors and the state regulators.

Brazil

- According to the International Energy Agency's *Renewables 2018* market report, Brazil has the least polluting energy matrix among the large economies of the world. 43% of final energy consumption in Brazil is from renewable sources, which rises to 85% if we analyse the electric generation mix.

- Prices in Brazil's electricity market are highly dependent on the hydrological situation of the country and on rainfall expectations; in fact, the hydrological situation worsened beginning in April 2018, causing the Regulator to activate the yellow tariff flag in May and second-level red from June to September (both inclusive), meaning that the final consumer pays an additional cost of 5 Brazilian reais per 100 kWh consumed. The yellow flag was activated during the last quarter of the year, meaning an additional cost of 1 Brazilian reais for each 100 kWh.

- Furthermore, according to ANEEL data, almost 30% of Brazilian domestic consumer electric invoices are due to taxes, 53% corresponds to generation, transportation and other industry costs and 17% corresponds to energy distribution costs.

- Brazil has the "Light for All" programme for vulnerable consumers, which has been extended to December 2022 for Coelba. This programme was created in 2003 in order to electrify rural, isolated and economically disadvantaged areas. The programme is coordinated by the Ministry of Mines and Energy, operated by Eletrobrás and executed by the energy concessionaires and rural electrification cooperatives. The programme is financed by industry funds, by the state governments and by the electric power distribution companies. The current Coelba contract is financed 65% with industry funds (CDE account) and 35% with own funds that are recovered in the tariff revisions every 5 years. The Coelba contract does not have financing from the government of the State of Bahía.

- The Ministry of Mines and Energy has approved the Decennial Energy Expansion Plan, which provides for the installation of a total of 54.6 GW between this year and 2027, of which 32.3 GW will be renewable. Breakdown by technology: 13 GW will be wind, 6.9 GW solar and 6.8 GW hydroelectric, with the remaining 5.6 GW being biomass and mini-hydro. It is also expected that 40,227 million euros will be allocated to the transmission business.

Mexico

- In Mexico, private investment in electricity generation, the goals of renewable generation and the establishment of a system of clean energy certificates are encouraging competition and the diversification of the energy matrix, which is allowing for a reduction in generation costs. These goals are being reached to a large extent thanks to the long-term energy auctions, which allowed for the construction of 7,451 MW of clean energy and very competitive prices at the global level. There were three auctions of this type through the end of 2018, and the price has progressively decreased from USD 41.8/MWh for the first auction to USD 20.57/MWh for the third.

- At the end of 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. This new methodology has been gradually implemented for industrial consumption during 2018. Domestic consumption will remain with the old methodology indefinitely.

As an electricity operator in these countries, Iberdrola maintains a spirit of cooperation with regulators of the electricity supply systems to help define their growth, and will operate within the established regulations, defending the decarbonisation of the economy and 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 compared to other sources of energy.

For more information about the business environment and the main factors and trends in the markets in which the company operates, see the *Integrated Report. February 2019.*

Nuclear plant decommissioning

Iberdrola is the only 100%-owner of a nuclear plant in Spain (Cofrentes). It also has interests in Almaraz I and II (52.69%) Trillo (49%), Vandellós II (28%) and Ascó II (15%), as indicated in the section "Scope of information of Chapter III. About this Report".

According to Law 25/1964 on nuclear energy, the management of radioactive waste, including spent nuclear fuel, and the decommissioning and closing of the nuclear plants, is an essential public service reserved to the State, pursuant to article 128.2 of the Spanish Constitution. This

law vests Empresa Nacional de Residuos Radiactivos S.A. (Enresa) with the management of this public service.

Enresa prepares the *General Radioactive Waste Plan* (*Plan General de Residuos Radiactivos*) (PGRR), which is the basic reference document setting forth the strategies to be followed and activities to be carried out in Spain in the fields of radioactive waste management and plant decommissioning, together with the corresponding economic/financial study. The PGRR is sent to the Ministry of Ecological Transition (MITECO) with a 4-year frequency, or whenever the Ministry requires, for approval after a report of the Nuclear Safety Council, after hearing from the Autonomous Communities with respect to territorial and environmental ordinances. The first PGRR was adopted in 1987 and the sixth, approved in June 2006, is currently in force.

The financing system in Spain for PGRR activities is based on contributions from waste-generating entities called the "Fund for the Financing of the General Radioactive Waste Plan Activities". The fund is managed by Enresa and includes provisions for the decommissioning of nuclear power plants.

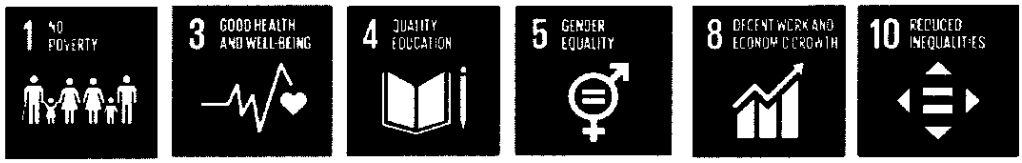
Iberdrola makes contributions to the fund through a fee that is calculated by Enresa and approved by the government, which covers all management expenses relating to the management of the spent fuel and the radioactive waste generated at its plants, as well as the expenses corresponding to the decommissioning and closure thereof, as provided in the PGRR.

In addition, Iberdrola records a reserve on its balance sheet to cover the pre-decommissioning stage of its nuclear power plants. Pre-decommissioning means the period from the final cessation of operations of the plant and decommissioning approval, at which time ownership of the plant passes to Enresa. The current sixth PGRR establishes a period of 3 years for this stage.

Nuclenor, S.A., the company owning the Santa María de Garoña plant in which Iberdrola has a 50% interest, created a reserve for the pre-decommissioning to pay for the closure once commercial operation of the plant has ended and until Enresa takes ownership thereof.

Creation of employment and salaries

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



GRI 401 GRI 202

Policies and commitments

The professionals of the Iberdrola group form a global, multicultural, committed and qualified team that contributes to the sustainable creation of value with its work and talent.

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 ethical principles.

Iberdrola has a *Human Resources Framework Policy*, the purpose of which is to define, design and disseminate a human resources management model of the group that will allow it to obtain, promote and retain talent and encourage the personal and professional growth of all people belonging to the group's workforce, making them participants in the successful business enterprise and guaranteeing them a dignified and safe job.

This policy is further developed in the following specific policies:

- *Recruitment and Selection Policy*
- *Knowledge Management Policy*
- *Equal Opportunity and Reconciliation Policy*
- *Occupational Safety and Health Policy*

The key principles for the conservation of human capital are considered to be the design and implementation of frameworks for the management of human resources and labour relations that allow all employees to share in the group's success and promote the economic and social development thereof, thereby contributing to compliance with SDG 8 Decent Work and Economic Growth, and furthering competitiveness and business efficiency.

Principles of the Iberdrola group's business culture	
Satisfaction of legitimate expectations	Of all Stakeholders.
Financial and non-financial results	All of our actions must be focused on results.
Human capital	Invest in our largest asset, our employees.
Professionalism	For leaders, managers and/or technicians.
Multinational	Teams with different cultures and locations who work together.
Integration and commitment	To the organisation.
Communication	Open, transparent and systematic at all levels.

Objectives

In relations with its employees, Iberdrola has identified as especially significant issues:

- Culture: the strengthening of a group corporate culture.
- Integration: encouraging the integration of the people joining the group (Onboarding Programme).
- Recruitment: defining a basic recruitment model at the international level.
- Training: the implementation of an integrated training management system.
- Diversity: raising the awareness of our workforce with respect to diversity.

Our workforce

[redacted]

Employees in the workforce	2018		2017		2016	
	no.	%	no.	%	no.	%
By gender						
Men	26,117	77%	26,229	77%	25,925	76%
Women	7,961	23%	8,026	23%	8,157	24%
By age group						
Up to 30 years old	5,378	16%	4,924	14%	4,955	14%
Between 31 and 50 years old	19,512	57%	18,912	55%	18,541	55%
Over 50 years old	9,188	27%	10,419	31%	10,587	31%
By professional category						
Management team	830	2%	928	3%	854	2%
Middle managers and skilled technicians	14,240	42%	14,676	43%	16,589	49%
Skilled workers and support personnel	19,008	56%	18,651	54%	16,639	49%
Number of employees	**34,078**	**100%**	**34,255**	**100%**	**34,082**	**100%**

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. Information by geographic area can be found in Annex 1 Supplementary Information.

Subcontracted activities

GRI 102

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 the "Description of Supply Chain" section 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 10,772,560 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.

New hires

GRI 202 401-1

At Iberdrola, we believe that the talent of our organisation is a fundamental part of ensuring the success of the organisation each day. It is for this reason that we join forces from all countries to attract and select professionals with the skills, knowledge and abilities aligned with the current and future values and needs of the company. We thus work in the critical areas to achieve this goal: attraction of talent, recruitment and selection, as well as the orientation and integration of new professionals.

As a global company, we have specific policies approved by the Board of Directors that regulate the selection activity (*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. We also rely on local practices in order to ensure that the best and most diverse pool of talent is attracted and selected in line with activities appropriate to each specific territory and legal system.

In 2018, Iberdrola took various actions in this area, including the following:

- Attending job forums and holding talks and conferences with students to share the value of our company with youth, encouraging them to participate in our selection processes. Numerous activities were attended at various prestigious universities in the countries where Iberdrola has a presence, reaching a target audience of approximately 18,000 students.

- Restructuring of all of the company's pages on professional social media, the purpose of which is to attract talent and promote the brand as an employer.

- Revision and automation of the selection and on-boarding process with the upcoming inclusion in 2019 of a new software tool (*Success Factors*) that will help to improve the experience of internal and external candidates, employees, hiring managers and human resources teams.

- Extraction of key data from the selection and on-boarding process to detect areas for improvement in each process. This information is shared with the local Human Resources teams each month so that they can make comparisons with the other countries and have a global view of each indicator.

- At Iberdrola España and ScottishPower, there is a training course for the hiring managers who participate in the selection process, providing training in four modules: the selection process, impartiality in the process, labour regulations and skills-based interviews. With this training, we increase knowledge of the process and strengthen our policy whereby we always ensure the selection of the best candidate, always observing equality of opportunity and promoting non-discrimination.

- At Neoenergia, a feedback programme has been developed for professionals who participated in the process and have not been selected for the position in question, in order to improve for future candidates.

- Weekly email of vacancies published internally to the group of officers, department heads and team leaders to encourage mobility within the company, as well as for career development and personal and professional growth.

Actions to attract young talent

Especially noteworthy in this area is the Universities Program, *Iberdrola U*, which focuses its efforts on strengthening the relationship between the company and the academic world through a number of resources and activities aimed at attracting talent, transferring knowledge and contributing to our society.

Iberdrola has signed agreements for this purpose with major universities in the countries in which it has a presence.

- Massachusetts Institute of Technology (MIT) in the United States.
- Monterrey Technology Institute in Mexico.
- University of Strathclyde in the United Kingdom.
- Universidad Pontificia de Comillas and Universidad de Salamanca in Spain.
- Hamad bin Khalifa University in Quatar.

Iberdrola U currently reaches approximately 200,000 students, 20,000 professors and 1,500 scholarship fellows, and is based on five lines of action: support for university chairs, development of R&D projects, training through student scholarships, internal training of Iberdrola employees and support for young entrepreneurs.

Specifically, through the Young Entrepreneurs initiative, Iberdrola held 9 "hackathons" and "bootcamps" in 2017-2018 with the presence of 1,000 entrepreneurs and the help of more than 200 mentors. There were also 23 more workshops and more than 3,200 hours of mentoring were provided to the students.

There was also a continuation of the following projects:

- 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, 544 vocational students and 858 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 2018, Iberdrola granted 66 scholarships for Master's studies, with students from Brazil, Spain, Mexico, the United Kingdom and the United States having had the opportunity to study in different countries.
- Mentoring programmes for students from the Iberdrola scholarship programme, with which they can not only develop skills and abilities relevant to the professional area but also work towards their career goals.
- Continuation of the development plan of the junior professional program, in 2018 pursuant to which an extensive group of recent graduates were incorporated into different areas of the company in Mexico, Spain, the United Kingdom and the United States.

All of these scholarship programmes form part of the actions that Iberdrola has taken to attract young talent. The limited number of profiles make it difficult to achieve numerical equality with respect to gender in the hirings that occur in the industry. This is something on which Iberdrola is actively working, taking action at all of its subsidiaries to increase the attraction of women towards technical careers and thus increase the critical mass of available talent.

Finally, with a view to improving opportunities for internal selection, Iberdrola makes available to the group's professionals a unique employment channel, where each of them can view and apply to fill internal job vacancies that match their profile.

New hires	2018		2017		2016	
	Men	Women	Men	Women	Men	Women
By age, in numbers						
Up to 30 years old	1,351	377	1,012	295	962	281
Between 31 and 50 years old	1,235	328	1,353	318	771	290
Over 50 years old	87	35	189	43	108	22
By age[17], in %						
Up to 30 years old	32.15	32.04	26.39	27.09	24.90	25.66
Between 31 and 50 years old	8.44	6.72	9.65	6.50	5.68	5.83
Over 50 years old	1.19	1.84	2.26	2.10	1.27	1.06
Total number	2,673	740	2,554	656	1,841	593
Total[17] in %	10.23	9.30	9.74	8.17	7.10	7.27

202-2

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 2018, 98.85% of executive officers at the companies of the group were local, defined as anyone with management responsibilities in the same geographic area as the one they come from, thus excluding professionals of other nationalities who are assigned there temporarily under an international mobility programme.

[17] Of the headcount of this group at year end.

The management approaches described in the "Diversity and Equal Opportunity" and "Non-discrimination" sections of this report are applied to both remuneration as well as the selection of professionals. 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 (%)	2018	2017	2016
Spain	136.54	140.72	150.63
United Kingdom	113.01	125.52	127.32
United States	146.00	125.00	137.50
Brazil	128.74	135.18	N/Av.
Mexico[18]	449.12	464.09	480.24

Average remuneration (base plus variable salary) by age groups and gender

Iberdrola (EUR)[19]	Remuneration men/ Remuneration women		Men		Women		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Up to 30 years old	92.7	98.0	22,208	25,076	23,953	25,579	22,591	25,188
Between 31 and 50 years old	89.1	94.5	42,685	46,569	47,882	49,299	43,991	47,287
More than 50 years old	111.0	110.2	67,787	68,259	61,064	61,914	66,378	66,973
Total	**97.3**	**100.9**	**45,990**	**49,089**	**47,278**	**48,639**	**46,293**	**48,983**

Average remuneration (base plus variable salary) by professional category

Iberdrola (EUR)[19]	Total		
	2018	2017	2016
Management team[20]	119,185	124,675	123,497
Middle managers and skilled technicians	53,798	56,009	55,304
Skilled workers and support personnel	32,008	34,617	34,233
Total	**46,293**	**48,983**	**49,360**

[18] 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.

[19] Companies included: Iberdrola S.A., subsidiaries of: Iberdrola Spain, ScottishPower, Avangrid, Neonergia and Iberdrola Mexico.

[20] The management team includes up to the level of team leaders.

As regards the on-boarding and integration of new professionals, the new global on-boarding programme has been launched for a group of professionals who recently joined the company in Spain, the United Kingdom, the United States, Brazil and Mexico. This new programme is intended not only to facilitate their on-boarding and inclusion into the company, but also to strengthen their professional development. A new virtual itinerary has been created within this programme in "Landing Page" format which includes all elements that a new employee needs to land at Iberdrola. It has an orientation video, general information about Iberdrola, general courses on the energy business and specific courses on compliance, human rights, social responsibility and cybersecurity, among other topics. This bundling of orientation training is completed with other resources like a new section of the employee portal and a guide for managers.

Employee turnover

Personnel leaving the company[21]	2018		2017		2016	
	Men	Women	Men	Women	Men	Women
By age, in numbers						
Up to 30 years old	293	117	242	113	254	106
Between 31 and 50 years old	839	317	638	288	614	242
Over 50 years old	1,694	382	1,072	336	1,063	216
By age[22], in %						
Up to 30 years old	6.97	9.94	6.31	10.38	6.58	9.68
Between 31 and 50 years old	5.73	6.50	4.55	5.88	4.53	4.86
Over 50 years old	23.27	20.04	12.80	16.45	12.50	10.36
By seniority, in numbers						
Up to 10 years	925	320	810	308	766	293
Between 11 and 20 years	386	165	222	167	245	98
Over 20 years	1,515	331	920	262	920	173
By seniority[22], in %						
Up to 10 years	7.59	8.06	6.18	7.18	6.12	7.37
Between 11 and 20 years	6.85	7.66	3.93	4.16	3.92	4.11
Over 20 years	18.28	18.01	12.32	10.90	11.20	9.64
Total number	2,826	816	1,952	737	1,931	564
Total[22] in %	10.82	10.25	7.44	9.18	7.45	6.91

[21] Information by geographic area can be found in Annex 1 Supplementary Information.

[22] Of the headcount of this group at year end.

Turnover at the company[23]	2018 Men	Women
By age, in numbers		
Up to 30 years old	93	24
Between 31 and 50 years old	270	74
Over 50 years old	309	70
By age[24], in %		
Up to 30 years old	2.21	2.04
Between 31 and 50 years old	1.84	1.52
Over 50 years old	4.24	3.67
By seniority, in numbers		
Up to 10 years	248	70
Between 11 and 20 years	46	17
Over 20 years	378	81
By seniority[24], in %		
Up to 10 years	2.03	1.76
Between 11 and 20 years	0.82	0.69
Over 20 years	4.55	4.41
Total number	**672**	**168**
Total[24] in %	**2.57**	**2.11**

Average seniority of workforce (years) 2018	Men	Women	Total
Spain	20.60	15.81	19.64
United Kingdom	16.54	14.65	15.90
United States	14.16	13.84	14.07
Brazil	7.90	7.27	7.78
Mexico	6.39	4.56	6.05
Other countries	6.65	5.51	6.32
Iberdrola total	**13.99**	**12.57**	**13.66**

[23] Information by geographic area can be found in Annex 1 Supplementary Information.
[24] Of the headcount of this group at year end.

International mobility programmes

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.

In 2018 these programmes were redefined to promote the creation of a global community of talent that contributes to attaining the group's objectives, to transmit and strengthen the company's culture and to offer opportunities for professional growth that attract, motivate and retain the professionals who will ensure the sustainability of our business. During the year, 425 employees participated in the group's international mobility programmes in their various forms.

2018 also saw the continuation of the *Job Swap Opportunity Program*, which seeks 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 internal communication. Through this programme, two employees have the opportunity to temporarily swap their positions for a period of 9 to 12 months, whether within the same organisation, within the same business, between business and corporate area or between different countries. In addition to continuing the *Job Swaps* programme initiated in 2017, 7 employees participated in this initiative at the global level during 2018.

Furthermore, in order to favour opportunities for internal promotion and international mobility, in 2018 there was continued use of the unique employment channel mentioned above, with the publication of 3,337 vacancies, 70% of which were filled internally.

Under the new homogeneity objectives in the Human Resources model, the management team of Iberdrola and its subsidiaries totals 783 people at year-end 2018, with a voluntary turnover rate of 1.75%.

Stable labour environment. Commitment to quality employment

Collective bargaining agreements

[redacted]

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	2018	2017	2016
Number of employees	26,900	26,643	27,010
Percentage of employees	78.94	77.78	79.25

In the companies of the group there are 2 collective bargaining agreements in Spain, 3 in the United Kingdom, 12 in the United States, 11 in Brazil, 3 in Mexico, and 1 in the other countries. A breakdown by geographic area is available in Annex 1 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, safety expert panels, Strategic Safety Board and the *Joint Union Management Partnership Committee* in the United States, 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.

402-1

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 the companies of the group. 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 minimum period of 4 weeks, as provided by law as well as the collective bargaining agreements.
- In the United States, notice requirements are governed both by collective bargaining agreements 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. The deadline is defined by the area itself, depending on the type of operational change.
- In Mexico, significant operations are reflected in the collective bargaining agreements and notice is provided an average of two to three months in advance.

Benefits

401-2

Iberdrola offers a set of benefits to its employees, including:

- Life insurance
- Medical insurance
- Disability insurance
- Maternity/paternity leave
- Pension fund
- Remuneration in the form of company shares

Information by geographic area can be found in Annex 1 Supplementary Information.

For employees of companies party to the *7th Collective Bargaining Agreement* in Spain, ScottishPower, Avangrid, Neoenergia and Iberdrola Mexico, which represent 98% of the workforce, there are no significant differences between benefits provided to part-time employees and benefits provided to full-time employees.

201-3

The features of the contributions to pension plans at the various countries of the group are described below by country:

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.
- 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, for which the company makes the contribution, with benefits being based on salary and years of service. It also has defined-contribution plans with distinct and separate operations. Employees can make contributions as a percentage of their pre-tax salary (generally up to 50%). Approximately 90% of the workforce are members of these defined-contribution plans.
- 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. 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 and a mixed plan (70% of salary as defined benefit and 30% as defined contribution). 83% of the workforce are members of both plans. For the companies of Elektro Holding, 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.
- The distributors Coelba, Celpe and Cosern have various defined-benefit plans and defined-contribution plans. 99% of the workforce are members of both plans.

Mexico

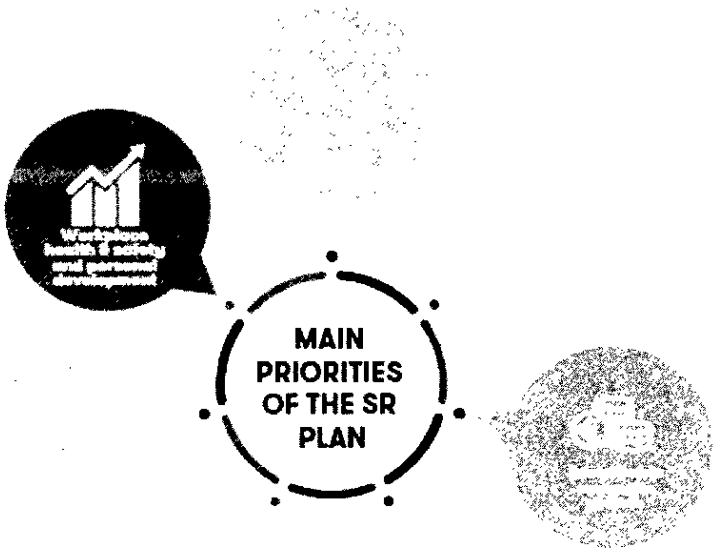
The commitments to the organised employees of Iberdrola Mexico, arising from the auctions by the Federal Electricity Commission, in which Iberdrola is required to apply a Collective Labour Agreement for organised staff, are provisioned as internal funds. A defined-contribution pension plan was implemented in 2015, with 60% of the non-organised workforce with pension plan rights signing up.

EU16

Employees eligible to retire	In the next 5 years (%)			In the next 10 years (%)		
	2018	2017	2016	2018	2017	2016
Iberdrola total	12.59	16.21	12.04	21.70	27.60	25.30

A breakdown by professional category and region can be found in Annex 1 Supplementary Information.

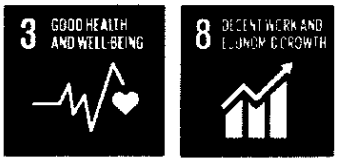
II.2. Workplace Health & Safety and Personal Development



- A safe work environment
- Professional training and development
- Diversity and equal opportunity

A safe work environment

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



GRI 403

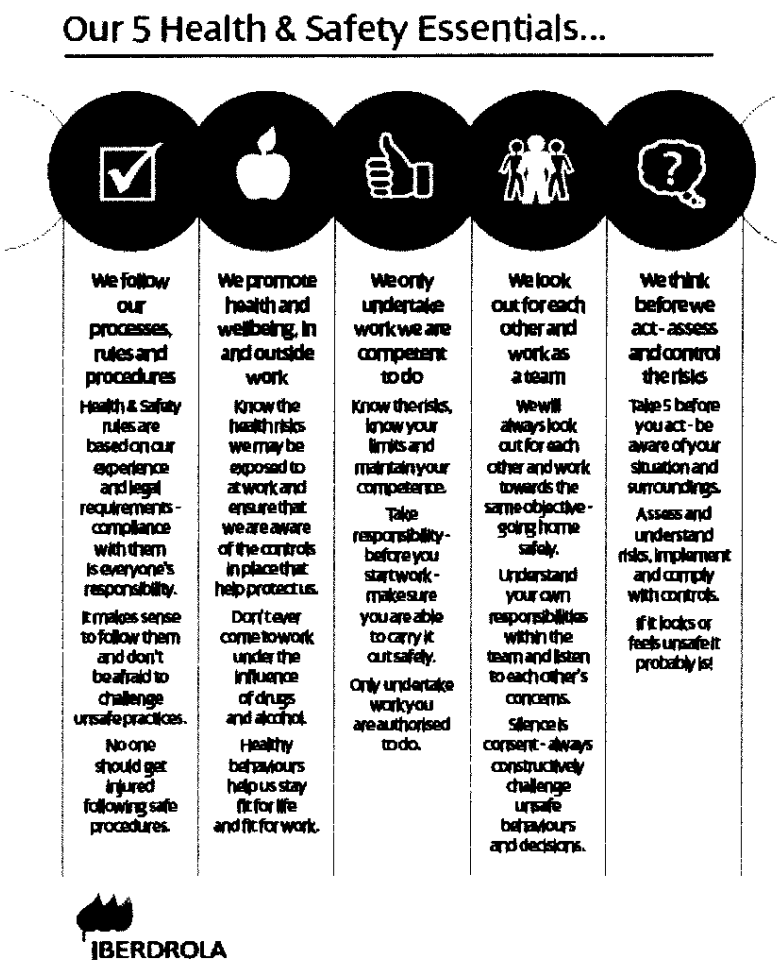
Policies and commitments

The *Occupational Safety and Health Policy*, approved by the Board of Directors in 2007 and last amended in October 2018, describes the principles that should guide the behaviour of the group's companies in this area.

To reduce the number of accidents and improve 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 continuous 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.



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.

EU18

The company thus believes that 100% of the employees of subcontracted companies, regardless of their category, have received appropriate safety and hygiene training.

By way of example, the following are some of the safety and health requirements specified in the contracting terms that apply in all countries of the group:

- 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.
- 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.

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[25], Mexico, Portugal, Greece, Hungary and Romania have OHSAS 18001 certification.
- In the United States, in 2018 UIL and Avangrid Renewables subsidiaries joined in the OHSAS 18001 certification already existing at Avangrid Networks since 2016.

Objectives

For financial year 2018, safety and health goals have been established for the entire group, as well as by country and by business, 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

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.

[25] Neoenergia has a Safety and Health Management System that defines work procedures and instructions, which is available on its intranet. Elektro and the Wholesale and Retail and Renewables Businesses are certified under OHSAS18001. For companies included within Iberdrola's ownership for purposes of the Management System, Neoenergia plans to obtain OHSAS18001/ISO45001 Certification for the distributor Cosern by 2019, for the distributor Celpe by 2020 and for the distributor Coelba by 2021.

There was a strengthening in 2018 of the Global Health and Safety team, under the Human Resources Area, with the following duties:

- Exchange of good practices among all countries.
- Participation and leadership in the Distribution, Wholesale and Renewables GPGs.
- "*Global H&S Assessments*" programme (internal audits based on Iberdrola's health and safety standards) in all countries.
- Launch of the "*5 essentials of safety*" campaign at the global level.
- Work with new Offshore Health and Safety team to establish the prevention management system.
- Subcontractors: Prepare and agree on "*Pre-qualification and Post-evaluation Procedure*" among the Health and Safety, Procurement and Businesses departments at the global level.
- Launch and management of "*Global Practice Groups*".

Occupational safety and health committees

[redacted]

All 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. The committees are described below by country:

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. All were created in accordance with the Occupational Risk Prevention Act and are formed with equal representation between the company and the workers. These committees regularly consult with the workers' representatives on all safety and health issues that affect them.

In 2018, the committees met on a quarterly basis and were the most important consultation and participation control bodies in the area of occupational risk prevention, as well as the forum where formal agreements on the matter were reached with the trade unions.

The Prevention Coordination Committees are responsible for the definition, promotion, coordination, monitoring and control of policies, standards, plans and activities in the area of occupational health and safety, among their management levels, hierarchical/functional organisation and the Prevention Service.

United Kingdom

At ScottishPower, a Health and Safety Committee is responsible for the strategy, the guidelines and management in this area. It is made up of members of each one of the management teams of the businesses and of the health and safety team, and meets quarterly. The committee is supported by the officers of each business, the Health and Safety Department and the Health and Safety Forums. The forums meet regularly and are made up of employees representing each of the businesses, members of the Health and Safety Department and worker representatives.

United States

There are various levels of safety committees representing 100% of the employees at Avangrid. The Health and Safety Committee is made up of the CEO and other officers and meets regularly to review strategic issues, performance and initiatives. At the Networks Business, the Executive Safety Committee and the Strategic Safety Board, along with the Safety Panels (committees made up of employees and safety experts) and the employee safety teams, review risk-related work and the safety activities that have been undertaken. Worker representatives and executives are also involved through their participation in the committees and safety meetings. At the Renewables Business, safety is reviewed regularly at the meeting of the executive committee and at the Central Committee with representatives of all the renewables plants to review the status of health and the achievement of the safety objectives in all regions.

During the pre-qualification project, all contractors of Avangrid are asked questions regarding the participation of their employees in health and safety committees and meetings. 74% of the high-risk contractors involved in operation and construction activities have Health and Safety committees, and 93% of the contractors have documented the safety meetings of their employees.

In the United States, leadership in health and safety has been strengthened with the following initiatives:

- Cintellate (accident management tool) implemented at Avangrid.
- Safety training for particular positions of responsibility at the company ("*HOP*" and "*Leadership Training*").
- *Risk Reduction Plans.*

Brazil

Neoenergia has a Health and Safety Management System that defines work procedures and instructions, which is available on its intranet. All of the businesses are certified under OHSAS18001, except for the companies included within Iberdrola's ownership for purposes of the Management System, which is planned to be certified under OHSAS18001/ISO45001 by 2019 in the case of Cosern, 2020 for Celpe and 2021 for Coelba.

To ensure the evolution of a safety culture, the companies have a Safety Committee made up of the group's management team to join in strategic health and safety actions, which ensures the effectiveness of the activities and the communication of risk prevention actions as a value that informs all of its activities.

Apart from the seven local committees by business and company, the companies have more than 92 internal committees for the prevention of accidents, the latter of which are made up 50% of company representatives and 50% of worker representatives.

A "Zero Accident Plan" was implemented at Neoenergia in 2018, with the following lines of action:

- Improve the evaluation, supervision and monitoring of contractors.
- In-source key maintenance personnel.
- Strengthen the Occupational Risk Prevention leadership and culture.
- Improve training of internal staff on Occupational Risk Prevention.
- Strengthen operational procedures (operations in the electric system).
- Creation of internal procedure for giving notice of these improprieties to the government authorities - intensify record-keeping.
- Intensify public awareness campaigns.
- Investment to maintain and improve the grids (protection, insulation, etc.).

The number of fatal accidents among contractors in 2018 was considerably reduced in Brazil as a result of this programme.

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. 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.

Other countries

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.

The implementation of a prevention management system is commencing in the other countries of the Wholesale and Retail Business.

In house staff represented on health and safety committees (%)	2018	2017	2016
Iberdrola total	**98.61**	**98.53**[26]	**95.70**

At contractors[27], 46% of the staff are represented on safety and health committees. Information by geographic area can be found in Annex 1 Supplementary Information.

[26] In Mexico, there has been a recalculation of the data from 2016 and 2017, including the Renewables and Engineering businesses.
[27] Does not include the United Kingdom, which will be included in the analysis in future years.

Injury and absenteeism rates.

Injury rate among group personnel[28]	2018	2017	2016
Number of accidents	**399**	**455**	**472**
Men	363	376	407
Women	36	79	65
With fatality	**0**	**0**	**0**
Men	0	0	0
Women	0	0	0
With leave	**80**	**104**	**108**
Men	75	101	96
Women	5	3	12
Without leave	**319**	**341**	**364**
Men	288	265	311
Women	31	76	53
Number of fatalities	**0**	**0**	**0**
Men	0	0	0
Women	0	0	0
Number of lost days	**3.929**	**4,374[29]**	**2,877**
Men	3.806	4,318	2,534
Women	123	56	343
Injury rate (IR)	**1.37**	**1.75**	**1.82**
Men	2.26	2.20	2.12
Women	0.21	0.22	0.84
Severity index	**0.07**	**0.07**	**0.05**
Men	0.12	0.09	0.06
Women	0.01	0.00	0.02

[28] Methodology for calculating the indicators:
- Injury rate (IR) = (number of accidents with leave*1,000,000)/hours worked.
- Severity index = (number of calendar days lost per accident, as from first day of leave/hours worked)*1,000.

[29] In 2017 there was a lower number of accidents with leave but a higher mayor number of lost days.

Absenteeism among group personnel[30]	2018	2017	2016
Number of missed days per year	**13,981**	**11,447**	**15,734**
Men	9,371	7,420	10,217
Women	4,610	4,027	5,517
Number of lost days	**166,561**	**189,025**	**199,665**
Men	109,612	125,955	130,461
Women	56,939	63,070	69,204
Number of lost hours	**1,663,424**	N/Av.	N/Av.
Men	1,109,664	N/Av.	N/Av.
Women	553,760	N/Av.	N/Av.
Absenteeism rate (AR)	**4,615.21**[31]	**N/AV.**	**N/AV.**

Information is provided by geographic area in Annex 1 Supplementary Information.

The table below shows the accident and absenteeism rates of subcontracted employees:

Injuries and absenteeism among subcontracted personnel	2018	2017	2016
Number of accidents	**570**	**631**	**438**
Men	549	614	N/Av.
Women	21	17	N/Av.
With fatality	**3**	**13**	**4**
Men	3	13	N/Av.
Women	0	0	N/Av.
With leave	**174**	**309**	**268**
Men	171	307	N/Av.
Women	3	2	N/Av.
Without leave	**396**	**309**	**166**[32]
Men	378	294	N/Av.
Women	18	15	N/Av.
Number of fatalities	**3**	**13**	**4**
Men	3	13	N/Av.
Women	0	0	N/Av.
Number of lost days	**9,661**	**11,927**	**10,194**
Injury rate (IR)[33]	**1.72**	**3.10**	**2.70**

[30] Absenteeism rate (AR) = (missed days due to absenteeism, as from first day of leave/days worked)*200,000.

[31] The data for Spain and Mexico has been recalculated due to a change in methodology, the information for 2016 and 2017 cannot be recalculated due to a lack of data. Therefore, the information for Spain, Mexico and Iberdrola total is not comparable.

[32] Does not contain information from Neoenergia.

[33] Injury rate (IR) = (number of accidents with leave*1,000,000)/hours worked.

As mentioned previously in this section, the number of fatal accidents among contractors in 2018 was considerably reduced in Brazil as a result of the implementation of the Zero Accident Plan at Neoenergia.

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.

Occupational diseases

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.

403-3

Occupational disease rate (ODR) among own personnel[34]	2018	2017	2016
Men	0.01	0.03	0.00
Women	0.00	0.00	0.03
Total	**0.01**	**0.02**	**0.01**

[34] Methodology for calculating the indicators (per GRI standard):
- Occupational disease rate (ODR) = (number of occupational disease cases/hours worked)*200,000.

Professional training and development

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)

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 activities

Iberdrola's commitments to the training and development of its professionals extend to all professional categories, all levels of responsibility, and without distinction as to gender.

In 2018 we launched various global initiatives in the training management area:

- Definition of a global master process for training management in order to harmonise this management among all countries.

- Launch of a unique global learning and development portal, called Learning Meeting Point (LMP), so that employees can directly access all of these virtual training and development tools.
- Availability to employees of a new area with many freely accessible self-study resources in virtual format.
- Recognition of international mobility programmes as an instrument favouring the exchange of experience and knowledge, professional development, the firm establishment of a group culture, and employee retention.

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.

All of Iberdrola's training and development activities are based on the 70/20/10 learning model. This model is supported by the theory that 70% of a professional's learning comes from experience and on-the-job training, 20% is acquired through conversations with other people and evaluations, and only 10% comes from structured courses and programmes.

Other significant training and development activities during the year:

- The Iberdrola Campus has hosted numerous courses and development programmes in all knowledge areas and for all Iberdrola groups. It has also been the location of a large number of corporate events. These facilities have become a leading training centre for the company, and work is progressing on the second phase of the project.
- There has been a continuation of the language programmes, offering Spanish, English and Portuguese classes to employees from the different countries.
- Global initiatives relating to virtual training include the launch of the following courses for all employees: "Equality at Iberdrola", "Campaign against Cancer", "New European Data Protection Regulation (GDPR)", "Human Rights at Iberdrola", "Procurement Policy and Procedure", training seminars within "TEAMS (digital platform for collaborative work)", training seminars on "Climate Change", and training seminars on our *Code of Ethics*, among others.
- Iberdrola has various programmes aimed at those who have been identified as high-potential professionals, 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. In 2018 the third promotion successfully ended the second year of the programme and the selection process has been carried out for the fourth promotion, which will begin in January 2019.
- 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 (PDPs) 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. Although each country locally adjusts to offer the development plans defined in the PDPs, it is important to note that the SAVIA programme (the programme

in which the PDP process takes shape in Spain) celebrated its 10th year in 2018, coinciding with its fourth edition.

In addition to the resources available in the skills-based development model, Iberdrola continued offering specific skills development programmes in 2018 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.

- Within the global process of evaluating leadership skills and identifying employee potential, there was a new analysis of the group in 2018. In this analysis, there has been another review of the group of talent to categorise the career plans of the high-potential group, the management group and the technical group. Another new development in 2018 was the definition of promotion goals, internal movement, job swaps and international mobility for the high-potential group, focusing not only on identifying this group, but also offering them challenges, and generating opportunities for learning through exposure to new experiences. 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, all in order to determine the development activities to be carried out with each of them.
- The development activities include offering external Coaching to various professionals in Spain, the United Kingdom and the United States.
- There has been a continued application of mentoring within the two existing global programs, 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, and the "*50 Hires*" programme. The scholarship students in our International Master's Scholarship Program were also included in our mentoring programme in 2018.
- There has been work to consolidate a programme for new team managers in order to strengthen the abilities and skills required in the management of teams of these professionals in the first stages of their career. This programme has been globally designed but followed a local implementation in order to adapt it to the needs of each of the countries. It thus has different names based on the country involved: "DINAMO" in Spain, "*Leadership Fundamentals programme*" in the United Kingdom, "*AMP'D Leading People*" in the United States, "*Lidera*" in Brazil and "*Liber*" in Mexico. All of them have a modular structure combining different development resources such as visits to facilities, workshops and online resources, as well as jobsite activities.

2018 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 at the Iberdrola Campus in San Agustín de Guadalix (Madrid) in 2018.

Training for executives

The Executive Management and Talent Unit worked during 2018 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 2018:

- *Energising Leadership Programme*, taught by ESADE Business School. Geared towards management trainees with high potential and/or executives who are beginning their careers. 2018 saw the 10th anniversary of the design and administration of this well-established programme in the catalogue of the Management School.
- *Leading in the Age of Disruption*, given by Financial Times – Instituto de Empresa CLA. This programme, held for the first time in 2018, allowed participants to be able to understand the context in which they are operating, how it affects the reality of the company, their environment and individual reality, and to discover what new skills they need as leaders to succeed in this new context.
- *Driving Leadership Transformation Programme*, jointly taught by IESE and IMD Business School. This 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.
- All countries have continued to provide various executive development programmes at the local level.
- Various executives from Spain, United Kingdom and the United States participated in their respective local coaching programmes.
- ScottishPower is readjusting its training and development catalogue for executives in accordance with the needs detected in the Climate Survey.
- Avangrid signed an agreement with Yale University to offer up to ten places in open executive development programmes.

404-1

Employees and hours of training by professional category and gender	2018		2017		2016	
	Men	Women	Men	Women	Men	Women
Hours of training						
Management team	19,504	5,871	21,477	5,225	19,734	4,766
Middle managers and skilled technicians	371,927	164,251	355,838	132,073	440,544	129,480
Skilled workers and support personnel	914,036	112,077	895,808	96,690	649,260	121,210
Total	**1,305,467**	**282,199**	**1,273,123**	**233,988**	**1,109,538**	**255,456**
Average hours of training per employee						
Management team	29.15	34.73	18.06	28.09	33.62	35.83
Middle managers and skilled technicians	36.71	35.54	33.55	26.96	40.46	33.22
Skilled workers and support personnel	56.49	33.74	56.16	30.16	51.92	55.40
Average	**48.38**	**34.78**	**48.54**	**29.16**	**42.79**	**31.32**

The differences between men and women are a result of the different specific training for the diverse professional profiles of the workforce, and are not due to discriminatory policy. Information by geographic area can be found in Annex 1 Supplementary Information.

Labour climate survey 2018

The Global Human Resources Division carried out a process of designing and unifying the commitment surveys of all the countries of the group in 2018, thus generating a single more effective model, since a single survey for the entire group allows for the sharing of results among countries, the plotting of action plans and the adoption of best global practices. The five countries participated in the design, with the support of an outside consultant.

The global surveys were gradually launched in the various countries from February to April 2018. There was an extensive communication campaign that was widely accepted, as 78% of the employees invited to participate answered the survey (25,744 of 32,981 invited employees). This high level of participation allowed for subsequent work with a very reliable database. The survey is 100% confidential, ensuring the anonymity of the respondents at all times.

Communication of the results to team leaders has increased their knowledge of their teams and of their management work. These results have led to the development of action plans to strengthen the more highly valued areas.

Employees receiving performance and career development reviews

As stated in Iberdrola's *Human Resources Framework Policy*, employee performance evaluations and communication of the results thereof are considered to be fundamental aspects of their professional development. Some of the basic principles of conduct relating to this aspect described in said policy are:

- Perform periodic evaluations of the performance of the employees of the group.
- Communicate the results thereof to the employees evaluated so as to favour their professional development.

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.

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.
- Performance review ("How"): review of conduct during the achievement of the goals.

Employees who are not part of the management team:

- Performance review ("How"): employees are reviewed on the basis of a number of personal competencies.

These processes are based on a corporate SAP-based tool that allows management of the Human Resources processes relating to the review. 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, unifying the focus and applicable standards.

Employees with performance reviews (%)			
Men (%)	**80.70**	**83.58**	**85.13**
Management team	89.41	94.57	97.11
Middle managers and skilled technicians	93.21	96.20	98.23
Skilled workers and support personnel	72.64	74.91	73.13
Women (%)	**83.28**	**86.00**	**86.18**
Management team	85.22	90.10	98.14
Middle managers and skilled technicians	91.82	95.23	94.31
Skilled workers and support personnel	71.25	72.15	72.95
Iberdrola average	**81.30**	**84.15**	**85.38**

Information by geographic area can be found in Annex 1 Supplementary Information.

Diversity and equal opportunity

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)

GRI 405

The development of labour relations based on equal opportunity, non-discrimination and respect for diversity are key goals of Iberdrola's *Human Resources Framework Policy* and *Equal Opportunity and Reconciliation Policy* approved by the Board of Directors, which promote the commitments of equal treatment between men and women and support for employees with diverse abilities, promoting their effective employment.

Diversity and inclusion: sum of cultures and talents

At Iberdrola, we work for cultural diversity and we take actions to raise awareness about functional diversity. The companies of the group are committed to the creation of an inclusive environment because each person can contribute their attributes, which entails great wealth. Thus, in the various countries in which it operates, the company promotes equal opportunity and respect diversity, effective equality between men and women in access to employment, training, promotion and working conditions, and provides support to workers with diverse abilities, facilitating their integration into the workplace.

Iberdrola has procedures in place to prevent any discrimination for reasons of race, colour, gender, language, religion, political opinion, national or social origin, social status, membership in an indigenous community, disability, health, marital status, pregnancy, sexual orientation or other personal condition that is unrelated to job-performance requirements.

The following specific activities should be noted:

- In the United Kingdom, ScottishPower has created 4 new employee networks: SP Connected Women, In-Fuse LGBT+, Future Connections and SP Carers, each of them

sponsored by a representative of the ScottishPower Management Committee. ScottishPower has also continued its collaboration with well-known entities such as Employers Network for Equality & Inclusion, Equate, Working Families, ENABLE, POWERful Women, Stonewall and Carer USA. The British subsidiary has once again sponsored the *National Diversity Conference of Scotland*, which brought together representatives from the business and educational world, as well as NGOs, in order to share ideas regarding diversity and encourage the organisations to create a more inclusive and diverse environment. At the conference, ScottishPower and other attendees offered some of their more positive experiences in this area. During the year, ScottishPower has offered workshops directed towards a group of senior leaders in order to define and spread awareness of the Diversity and Inclusion Strategy for 2019 and 2020.

- 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 a consortium, along with other services companies, to discuss good practices to achieve this goal.
- As regards diversity in Spain, 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.

Gender equality

Iberdrola's Corporate Governance System articulates the company's firm commitment to equal opportunities, from which derives the commitment to gender equality in four management areas: recruitment and selection, salary terms, professional training and development, and communication. Six areas of action are specified:

- Promote equality within and outside of Iberdrola.
- Analyse positive measures to correct inequalities.
- Ensure that women participate in all areas of consultation and decision-making.
- Eliminate career obstacles for women.
- Favour the professional development of women within the group.
- Encourage measures of reconciliation and flexibility under the perspective of gender parity.

Iberdrola has taken on the targets of SDG 5 "Gender Equality", and has therefore implemented a number of actions, policies and procedures that contribute to the achievement thereof both directly (through its corporate policy, which focuses on the creation of a favourable framework of labour relations based on equal opportunity, non-discrimination and respect for diversity) and indirectly (through awareness-raising and the promotion of equality outside of the organisation itself). Some specific examples for achieving SDG 5 are:

- Iberdrola promotes the reconciliation of professional and personal life, as well as parity in the performance of household chores, through the provision of facilities for the care of ill family members, children and flexible working hours. Iberdrola supports the concept of family co-responsibility.
- Iberdrola is decisively committed to equality in its governance bodies, as well as in positions of responsibility at the executive level.
- Iberdrola defends effective gender equality not only with the management of its human team, but also, for example, by supporting female sports and the selection of STEM (Science, Technology, Engineering and Mathematics) careers by young students.

WE PROMOTE EQUALITY-FOCUSED ACTIVITIES

We promote gender equality, ensuring that men and women have the same opportunities for personal development and growth.

Agreements with notable universities to achieve gender equality, goal number 5 of the Sustainable Development Goals approved by the United Nations.

Holding events to drive professional growth and leadership among women in the energy sector.

Structuring the recruitment process to avoid personal preferences. Job opportunities available to all staff through the employee portal.

The commitment to gender equality has progressed over the years and has materialised in various initiatives:

- In 2007 Iberdrola Spain introduced measures to support maternity by allowing pregnant women to have 15 days off prior to delivery and one year of reduced working hours at 100% salary, guaranteed.
- In 2008 Iberdrola Spain agreed with its workforce to make the shortened workday universal, which consisted of condensing the workday with no stop for lunch in order to leave the work centre early. The initiative, which was unprecedented at a large industrial company, was an inflection point in Spain, as it was the first in the country to attempt full work and family reconciliation.
- In 2016 Iberdrola's Board of Directors strengthened as a strategic objective the development of labour relations based on equal opportunity, non-discrimination and respect for diversity, as set out in the group's *Equal Opportunity and Reconciliation Policy*.
- At year-end 2018, 36% of Iberdrola's Board of Directors are women, which makes it one of the IBEX-35 companies with the largest number of women on the Board. The company has also committed to a woman as the new CEO of Iberdrola Spain to lead this subsidiary.
- Iberdrola has been included in the Bloomberg Gender-Equality (GEI) Index, which recognises companies that have policies favouring gender equality and best practices in the area of work/life balance. The company is the only Spanish energy company included in this index.

Iberdrola currently has various initiatives and collaborations with institutions that support respect for the principle of equality in both the private and public arena.

At the group level, the company is a member of the European Round Table, an initiative at the EU level bringing together 50 chairs and executive directors of European multinational companies in order to design and defend policies creating a strong, open and competitive European Union. Within this initiative, Iberdrola works in the Social Changes working group, focusing on issues relating to the European Union's most valuable resource, its people. One of its four action areas is the promotion of the representation of women in leadership positions, focused on monitoring figures and milestones mainly promoted and driven by the more than 50 members of the initiative.

Other examples of collaborations and initiatives in the main countries in which it operates are:

Spain

- To put the principle of diversity and equal opportunities into effect, the 7th Collective Bargaining Agreement includes an Equality Plan within the framework of labour relations (hiring, training, promotion, remuneration, etc.). Said Plan describes the numerous reconciliation measures made available to employees, which is a non-monetary supplement to remuneration.
- Sponsorship of the event "Commitment to equality with the UCM".
- Work with the Diversity Charter.
- Sponsorship of female sport through Women's Universe (*Universo Mujer*) (described as case study later in this section).
- Delivery of "Women Who Shine" awards.
- International Day for the Elimination of Violence against Women. To commemorate this day, Iberdrola, together with the Spanish Home Office (*Ministerio del Interior*) carried out the "Don't look the other way" campaign in order to raise awareness and work with all of society to stop this social disgrace. The initiative includes videos recorded with 360º technology showing various episodes of chauvinistic violence that turns the citizen viewer into the leading character in various events. This campaign has also been presented internally to the employees.

United Kingdom

- "*Gender Pay Gap*", a report describing the salary gap, has been published in the United Kingdom in compliance with British law. ScottishPower has also set a goal of exceeding 40% women in middle management positions and 30% women executives by 2022.
- In collaboration with Equate Scotland, there has been a launch of Women Returner, a comprehensive support programme for female employees with STEM careers who have been inactive for two or more years, whatever the reasons.
- Joining in a new coalition on gender diversity to increase the number of women at upper levels and as middle managers in the energy industry in the United Kingdom. The new coalition is made up of eight major companies in the industry.
- Member of Women's Engineering Society (WES), a professional network of women in the technology and engineering area that offers inspiration, support and development to future professionals in the field, and is a member of Employers Network for Equality and Inclusion and of Working Families.
- Organisation of an event in collaboration with two Scottish organisations to encourage children to select the scientific path with a view to attracting young women towards STEM careers.
- Member of POWERful Women (PfW), an organisation that promotes diversity in the energy sector, and of which ScottishPower's CEO is an ambassador. As a result of this collaboration, in 2018 ScottishPower joined a programme of tutoring and career support for 40 women in the industry.
- Participation in BITC's Opportunity Now campaign, in the National Women in Engineering Day, in Telegraph's Top 50 Women in Engineering campaign and in the "Top 50 Women in Engineering 2018" event.

United States

- Collaboration with universities and local organisations to promote diversity, including the WomENERGY programme, focused on discovering and strengthening the talent of women at Avangrid through an action plan to train future leaders of the company based on five main pillars:
    - forging collaborations with associations promoting the role of women;
    - emphasising future leaders, the girls of today;
    - designing development, sponsorship and tutoring programmes;
    - respecting and disseminating the value of diversity and inclusion; and
    - creating networks for acquiring talent.

Brazil

- There has been a conference on female empowerment "Empodere-se", which analyses the current challenges and victories of women, and the "Estrelas" even to celebrate Women's Day, in which employees of Neoenergia gave a talk on female empowerment, as well as leading an internal campaign.
- The attraction of women to the electric market to balance gender presence is promoted through the "*Escola de Electricistas*".
- There is also six-month maternity leave and the hiring of 24-hour legal, financial and psychological support professionals.

Mexico

- Organisation of the "*Mujeres con Energía*" event with the participation of a group of 40 women leaders from Iberdrola Mexico, which also had a "job and personal competitiveness" workshop given by the Instituto Tecnológico Autónomo de México (ITAM) and the sponsorship of female football.

Furthermore, in cases of discrimination or conduct that could in any way hinder the egalitarian development of the professional career of men and women, Iberdrola has implemented a number of measures in the form of corporate policies, local policies, working groups and monitoring.

At the local level, there is the Diversity and Equality Governance Committee in the United Kingdom and the Equal Opportunity Committee in Spain, the principal mission of which is to engage in an appropriate review of the measures implemented to ensure equal opportunities and non-discrimination. A policy against workplace sexual harassment, a policy promoting a non-discriminatory work environment, and a policy on equal employment opportunities have been implemented in the United States. A policy on equal remuneration has been defined in Brazil.

Defend salary equality

Salary equality

Iberdrola guarantees respect for this right and has made it one of the commitments included in the Equal Opportunity and Reconciliation Policy. Monitoring salary equality is one of the keys to ensure the creation of an inclusive and respectful culture without differentiation based on gender, age, race or any other personal factor.

The remunerative structure for all categories of professionals and responsibility levels within the group is designed under the standard of gender neutrality.

Difference between salary gap and salary equality

It is important to understand the difference between the concepts of salary gap and salary equality:

- The salary gap shows the difference between the average salary received by men and women.
- Salary equality is the right of men and women to receive the same salary for the same work.

There is no salary gap at the Iberdrola group

The average salary of men and women within the consolidated group is quite similar. The ratio between the salary of men and that of women was 97.3% in 2018 and 100.9% in 2017, allowing for the conclusion that there is no salary gap within the group.

The underlying cause of the salary gap at certain age groups is the smaller presence of females within the staff, a common situation in the energy sector, which is accentuated in management and technical positions. This reality is more notable due to the scarcity of women specialising in STEM careers.

To mitigate this reality, Iberdrola is working in the following areas:

- On equitable professional development through the implementation of specific training plans for women.
- On the promotion of scientific careers among youth and women students, who will go on to form part of the talent pool that Iberdrola will access in the future.
- On the promotion of measures of reconciliation that equally benefit men and women, so that they can exercise co-responsibility in family duties and thus establish the conditions required for parity.

Iberdrola's defense of salary equality in the last two decades and its commitment to the reduction of the salary gap is seen in the segmentation of average remuneration by age groups and gender.

Iberdrola[35]	Remuneration men/Remuneration women	
	2018	2017
Up to 30 years old	92.7	98.0
Between 31 and 50 years old	89.1	94.5
More than 50 years old	111.0	110.2
Total	**97.3**	**100.9**

Reconciliation of professional and personal life

The principles of conduct of the *Equal Opportunity and Reconciliation Policy* include the implementation of reconciliation 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 both genders, particularly emphasising those intended to foster respect for the rest periods of its professionals and to avoid professional communications outside of working hours, when possible.

As stated above, it should be noted that in 2008 Iberdrola Spain agreed with its workforce to make the shortened workday universal. There are also various options offered in Spain for employees on non-school days like extra-curricular children's classes and summer camps for children of employees, especially taking into account those with different abilities. There has also been a continuation of the "Iberdrola Parents' School", which offers employees the opportunity to participate with their children in various programmes. There was the launch in 2018 of the first edition of the "Starters Bootcamp" programme, where adolescent children of employees had the opportunity to proactively and innovatively discover and develop key skills for their professional future at the San Agustín Campus.

In the United Kingdom, flexible work practices and policies have been implemented, promoting balance between work and non-work commitments. Apart from formal arrangements, flexible work without the limitations of formal arrangements is promoted, developing a culture of confidence and respect. This range of policies and practices includes:

- Improve leave and payment for caring for parents.
- Special leave for employees with responsibilities to care for third parties.
- Development leave for employees who want to take a career break.
- Health and well-being programme that offers a wide range of support and counselling regarding physical and mental well-being.

Avangrid also has the goal of facilitating the reconciliation of professional and personal life. Employees have access to needs-based flexible hours and tele-work options.

In Brazil, the companies of the Neoenergia group are concerned about the well-being of their colleagues, promoting reconciliation of personal and professional life. This includes an initiative in which all computers have a warning system that is activated after the 8-hour work period. Some companies of the group also have flexible working hours. Maternity leave is expanded to six months, two more than guaranteed by law. Some other benefits are: education incentives,

[35] Companies included: Iberdrola S.A., subsidiaries of: Iberdrola Spain, ScottishPower, Avangrid, Neonergia and Iberdrola Mexico.

co-participation in academies and associations, discounts through the Neoenergia benefits club (*Clube Neo*).

At Iberdrola Mexico, the flexible work hours are available to the work force and vacation days beyond what is required by Mexican law are offered. The company allows for a reduced workday due to maternity or other family reasons. Employees are entitled to reduce their normal working hours by 1 hour during the breastfeeding period, at the beginning or end of the workday. All workers can enjoy a period of maternity leave prior to giving birth, and after the legal maternity leave employees are entitled to a leave of absence with the right to return to the job. Special working hours are given for maternity provided that the established number of hours are covered.

Leave and return to work due to paternity/maternity	2018		2017		2016	
	Men	Women	Men	Women	Men	Women
Employees entitled to maternity/paternity leave (no.)	26,117	7,961	26,229	8,026	25,925	8,157
Employees entitled to maternity/paternity leave (%)	100	100	100	100	100	100
Number of employees taking parental leave	441	444	345	440	434	463
Number of employees that returned to work after parental leave ended	516	366	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	373	337	328	411	N/Av.	N/Av.
Return to work rate	117.01[36]	82.34	105.22	79.32	N/Av.	N/Av.

Functional diversity

The main goals in this area during 2018 have focused on:

- 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, particularly persons with diverse abilities, through the Corporate Volunteer Programme, which affords our employees an opportunity to participate in various solidarity initiatives to raise awareness of these groups and to improve the quality of their life. More detailed information can be found in the "Corporate volunteering programme" section of Chapter II.5.

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 this 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

[36] Greater than 100% because employees who were entitled to leave in 2017 returned to work in 2018.

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 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. 75 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.

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.

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.

In the United Kingdom, ScottishPower wagers on policies supporting people with disabilities to help ensure equal opportunity in employment. It has received the Disability Confident Standard award and holds one of the highest positions in the Carers Scotland ranking. It also began work in 2018 with Enable Scotland and Strathclyde Business School to offer qualified training to disabled youths in order to facilitate their integration into the labour force. The British subsidiary offers them a total of eight days of mentoring at its offices, which has broadened their professional horizons. This collaboration was awarded *Best Learning & Development Initiative* during the annual *National Diversity Awards for Power*, as well as the *Youth Employment Award* during the *National Diversity Awards for Scotland 2018*. It has also continued its work with the Business Disability Forum.

In the United States, Avangrid has four specific 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 has continued the "*Programa Novo Olhar*", a pilot project to promote the labour insertion of Down Syndrome youth at the company through a mentoring system.

Iberdrola Mexico has financial assistance for the children of employees with physical and/or mental disabilities in order to be able to achieve full integration into society.

The following table shows the number of disabled employees within the group:

Employees with disabilities 2018			
Iberdrola total[37]	**257**	**145**	**402**

[37] Does not include employees in the United Kingdom or United States. The company has chosen not to request this information in the United Kingdom. In the United States, the employee has the option not to report on their disability, and at year-end 2018 no employee decided to exercise their right to share this information.

Iberdrola, sponsor of women's sports in Spain

In 2016, after its agreement with the Ministry of Education, Culture and Sport, Iberdrola became the first company with a global commitment to encourage female participation in all areas of sport. It continues to promote equality through female sports within the framework of the *Women's Universe Programme*, working with different national federations.

The main goals of this project are to promote gender equality, drive the success and practice of women's sport and foster healthy habits from a young age. The company has thus become the main driver behind the "Woman's Universe" programme to develop initiatives that contribute to improvement and social transformation through the values of female sports. In this context, Iberdrola was a pioneer in making a global commitment to promoting the participation of women in all areas of sport.

In 2018 Iberdrola renewed its commitment to support the various national federations, including:

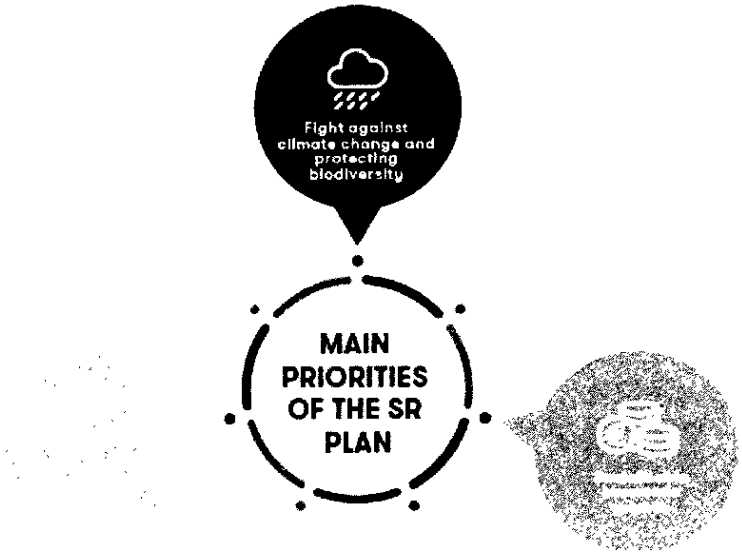
- by promoting and increasing female participation in all areas of sport.
- by the existence of programmes to promote sport at the grassroots level and other social projects.
- by their extraordinary level of success achieved and high participation rate.

Specifically, support for 16 federations has been ratified: gymnastics, badminton, handball, boxing, ice sports, hockey, karate, swimming, rugby, canoeing, triathlon, table tennis, surfing, volleyball and football. Together with each of the federations, Iberdrola also supports activities to promote women's sport like educational campaigns at high schools and national competitions.

In 2018 Iberdrola also organised five stages of the *Women, Health and Sport Tour*, touring various Spanish cities 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, by supporting women's sports, 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.

II.3. Fight against Climate Change and Protection of Biodiversity



- Iberdrola and sustainable management
- Efficiency in the use of natural resources
- Use of materials
- Efficiency in energy consumption
- Reduction of emissions
- Rational use of water
- Waste management
- Protection of biodiversity
- Environmental safety

Iberdrola and sustainable management

The fight against climate change and the protection of the environment are goals that define 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.

Corporate policies

Iberdrola has a *General Sustainable Development Policy* that is further developed in detail by four specific corporate policies for environmental management, all approved by the Board of Directors:

- *Sustainable Management Policy*

The group has transformed its business model in recent years to make it more sustainable, achieving development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

To continue leading this transformation, the group follows a strategy with the following main pillars:

- leadership in the fight against climate change,
- development of clean energies that contribute to the decarbonisation of the economy,
- development of products that are increasingly competitive, cause the lowest possible environmental impact and are capable of assuring its customers of reliable supply.

This *Sustainable Management Policy* reflects the main principles of conduct regarding management that all companies of the group must comply with and that are a framework of reference for achieving the Sustainable Development Goals (SDGs) approved by the United Nations, as well as certain commitments that affect specific areas of group activity.

- *Environmental Policy*

Iberdrola, aware of the importance of the environmental dimension in carrying out its business mission for its customers and shareholders and for other significant Stakeholders with whom it interacts, commits to promoting innovation in this field and eco-efficiency (reduction of the environmental impact per production unit), i.e. to gradually reduce the environmental impacts of their activities, facilities, products and services, as well as to offer, promote and investigate eco-efficient solutions within their market.

The group optimises the management of water and hazardous and non-hazardous waste through systems that set objectives and goals on, among other aspects, waste reduction, the use of best practices in water usage and the use of recycled materials, thus contributing to the transition towards a circular economy.

102-11

Iberdrola's *Environmental Policy* establishes company's the principles of environmental conduct, defining its commitments. They set out the precautionary principle in environmental matters. The practical application thereof is reflected in the wager on more efficient and cleaner 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, from a broad circular economy perspective.

- *Policy against Climate Change*

Climate change is one of the most important challenges that humanity must face in the 21st century. The use of fossil fuels has caused a considerable increase in greenhouse gas emissions, which have accelerated global warming.

Iberdrola recognizes the seriousness of the threat that this 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 commits to assuming a position of leadership in the fight against climate change, to promote a corporate culture focused on promoting awareness-raising among all of its Stakeholders regarding the magnitude of this challenge and the benefits associated with resolving it, identifying specific actions in the area of mitigation and adaptation.

This commitment is consistent with the goals of the Paris Agreement, with goal thirteen of the Sustainable Development Goals (SDGs) approved by the United Nations.

- *Biodiversity Policy*

The scientific community unanimously agrees in noting that there is currently a serious decline in biodiversity as well as a degradation of ecosystems. This loss of biodiversity, a direct consequence of the impact of human activities, is occurring more rapidly and generally, which entails serious environmental, economic and social risks.

Iberdrola is fully aware of these risks and of its responsibility as a leading company in the electricity sector, and works to adopt the measures allowing for the identification and eradication thereof, with a proactive attitude promoting biodiversity that goes beyond strategies of mitigating or containing damages.

Management of natural capital

The *Environmental Policy* contains the commitment to integrate the environmental dimension and respect for the natural environment into the strategy of the group. The company conceives of respect for the environment as one of the corporate values that determines its entire business strategy, as it is key to the configuration of a sustainable energy model.

The development of clean energy and investment in smart grids and in other energy efficiency technologies are the company's basis for protecting natural capital.

Iberdrola considers this environmental dimension as a priority in planning its businesses. This compels it to promote innovation, eco-efficiency and the gradual reduction of environmental impacts in the activities of the group, in order for energy to become a sustainable driver of the economy.

The commitment to renewable energy is the best way to approach this challenge, reducing the consumption of raw materials as well as the intensity of greenhouse gas emissions.

With a presence in disperse regions, especially due to its Networks and Renewables Businesses, the company also pays special attention to the protection of the biodiversity of the

habitats in which its facilities are located, as explained in the "Protection of biodiversity" section of this chapter.

Circular economy

In its commitment to the environment and sustainable development, Iberdrola considers the circular economy to be a pillar of sustainability. Since 2014 Iberdrola has included in its management a focus on the life cycle, which is the basis for the transition towards the circular economy.

In 2017 Iberdrola signed the Spanish government's circular economy agreement with the Ministry of Agriculture, Food and Environment (*Ministerio de Agricultura Alimentación y Medioambiente*) (MAPAMA), now Ministry for the Ecological Transition (*Ministerio para la Transición Ecológica*) (MITECO).

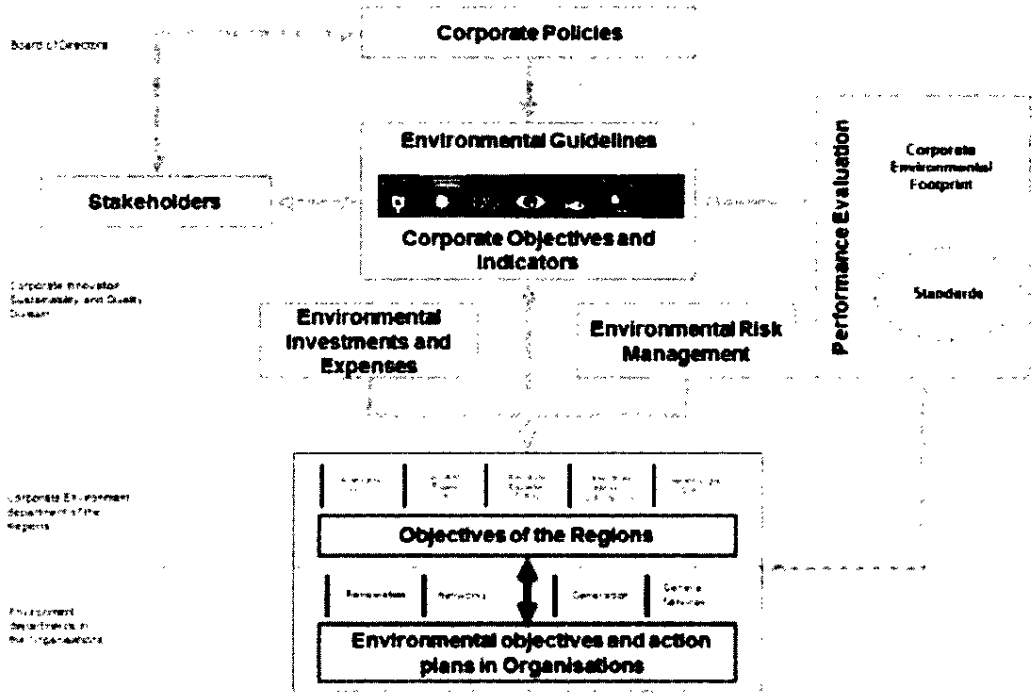
The group has committed to the circular economy, prioritising the reduction in intensity of resources, and wagering on decarbonisation and electrification of the economy, efficiency, R&D+i, digitalization, environmental traction and maximising waste recovery.

Environmental management system

The commitments made in the policies take shape in the Iberdrola group's Environmental Management System. 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 of natural capital.

The group's Environmental Management System establishes a common, homogeneous, integrated and benchmark environmental framework for all of the Organisations. 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.

ENVIRONMENTAL MANAGEMENT SYSTEM OF IBERDROLA GROUP



The System thus translates the corporate environment policies into environmental guidelines, which are deployed by the organisations of Iberdrola in environmental objectives and targets. Environmental guidelines aligned with the SDGs that define Iberdrola's strategic environmental lines are:

- Protect the environment and stop the loss of biodiversity.
- Combat climate change and its effects.
- Guarantee sustainable modes of production and consumption.
- Revitalise partnerships with Stakeholders for sustainable development.

102-11

The precautionary principle set out in the *Environmental Policy* takes shape through its environmental management system. Through its Environmental Management System, Iberdrola thus identifies the environmental risks and opportunities of the group and manages them through specific instruments of prevention and mitigation of risks, and action plans for opportunities.

Apart from reducing environmental risks and identifying opportunities, the management system also contributes very positive aspects, including:

- Identification of environmental aspects throughout the entire life cycle and the impact thereof on the environment by calculating the Corporate Environmental Footprint (CEF).
- Exploitation of synergies between businesses and improvement of internal tools that result in a simplification of procedures.
- Improved environmental training and awareness-raising of employees. (A total of 12,537 hours of environmental training has been provided).
- Improved environmental training at suppliers.
- Strengthening of relations with Stakeholders.

The Iberdrola group's environmental management system is based on regional and organisational management systems for the various activities, businesses and regions of the group. 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. This complies with the "subsidiarity" principle of the *Environmental Policy*, pursuant to which all matters relating to the environment are dealt with and resolved in each region by the affected business, although they must all be included in Iberdrola's environmental management system.

Corporate Environmental Footprint (CEF)

Measurement of the global environmental performance of the group

ANALYSIS LIFE CYCLE
- Identify impacts
- Prioritise aspects

SINGLE INDICATOR
- Single methodology
- Measure to improve

TRANSPARENCY
- Communication with Stakeholders
- Benchmarking

Iberdrola's environmental management includes calculation of the CEF, which evaluates the effects of the company's activities on the environment from the lifecycle 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

Iberdrola's environmental management system is a strong system under the premise of continuous improvement, demonstrated by means of various certifications and verifications based on international standards (ISO14001, EMAS, ISO14064), and always validated by leading certification firms. They are the following:

- ISO 14001. The group's environmental management system groups together all of the partial certifications of each of the businesses and processes. 73% of the group's energy production is under this certification. Apart from generation, the group also has distribution and retail sale as well as its buildings and services under this standard.
- Eco-Management and Audit Scheme (EMAS). The thermal generation plants of the group have certificates under this standard.
- ISO 14064. Iberdrola verifies its greenhouse gas emissions under this standard.
- ISO TS 14072. Iberdrola verifies its Corporate Environmental Footprint under this standard, and is the only company in the industry to obtain this verification certificate.
- ISO 20121. Sustainable Event Management. Iberdrola certifies its General Shareholders' Meeting with this standard.

More information is available in the Certifications and Verifications section of the website.

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 2018 to preserve the environment of the area in which it operates are set forth in the following tables:

Environmental investments and expenses (€ thousand)	2018	2017	2016
Environmental investments	2,132,586	2,239,917	2,262,237
Environmental expenses	549,666	513,233	527,140

Reserves and insurance coverage for environmental risks

Iberdrola made 100 million euros of investments to prevent environmental risks (fires, spills, protection of avifauna, etc.) in 2018. It also makes accounting reserves to cover the materialisation of potential environmental risks.

Iberdrola also has coverage to cover the occurrence of environmental risks in the insurance that it has obtained. The main corporate insurance that the company has obtained with environmental coverage is:

- Environmental Liability Insurance: Contractual limit of 130 million euros per incident and in the aggregate per year.
- Civil Liability Coverage for Sudden Accidental Pollution in the general civil liability policy: Limit of 500 million euros per incident and in the aggregate per year.

Environmental Grievance Mechanisms

Iberdrola makes grievance mechanisms and tools and the management processes associated therewith available to its Stakeholders. All of this is described in the "Introduction" section of Chapter II.5.

Specifically focused on the environmental aspects of its activities, Iberdrola has an email mailbox 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. 2,034 messages were received through this mailbox in 2018, of which only 3 were an environmental grievance, 2 of which were managed with those responsible and closed during the year. The third environmental grievance will be managed during 2019 as it was received at the end of December 2018.

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.

Efficiency in the use of natural resources

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)

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. This is reflected in the following activities:

- Commitment to the development of renewable sources, especially onshore wind, offshore wind and solar photovoltaic.
- Proposed closure of the last two coal plants (in 2018 coal generation represented 1.3% of the group's production), 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 consumables, always respecting the natural environmental and taking the necessary measures to reduce the risks of affecting it.
- Commitment to technologies with lower dependence on hydraulic resources.
- Sustainable management of water collected for cooling, optimising systems for reuse of water prior to return to the environment.

Use of materials

GRI 301-2

The consumption of fuel from non-renewable sources over the last three years is shown below:

GRI

Use of raw materials	2018	2017	2016
Coal (t)	736,670	1,205,609	1,746,457
Fuel (t)	44,155	48,376	45,117
Natural gas (Nm^3)	11,657,294,804	12,293,944,087[38]	11,832,458,331
Gas-oil (m^3)	62,081[39]	15.217[38]	29,520
Uranium (kg)	44,625	65,407	56,915
Waste derived fuel (WDF) (t)	2,983	2,666	1,800

One can see the reduced weight of coal consumption in 2018, and a reduction thereof over the last 3 years as a result of the closing of the thermal coal generation facilities.

The use of waste derived fuel (WDF) represents 0.02% of all fuel consumed at thermal plants during the year. 301-2

The use of fuel (%) during 2018 by country was as follows 301-1:

Distribution of fuel consumption 2018 (%)	Coal	Fuel oil	Natural Gas	Gas oil	Uranium	WDF
Spain	100	100	13	7	100	100
United Kingdom	0	0	9	0	0	0
United States	0	0	5	0	0	0
Brazil	0	0	6	0	0	0
Mexico	0	0	68	93	0	0
Other countries	0	0	0	0	0	0

One can see that the consumption of gas is mainly concentrated in Mexico. In this country, the combined cycle gas plants have transitioned over the last decade from an electric system operated by the CFE and based on very old and polluting plants to a system highly weighted towards renewable sources, as provided by the industry reform they are undergoing. Iberdrola has a broad portfolio of renewable projects in the country, which portfolio continues to be developed.

Apart from fuels, there is also consumption to a much lesser extent of chemical products (in water purification, filtering of gases, etc.), oil and grease (as lubricants to maintain equipment) and office paper. As to this last consumable, it should be noted that implementation of electronic billing continued during 2018 in Spain and the United States, involving a savings of 474 t of paper compared to the prior year.

[38] Data recalculated with respect to the data published in 2017.

[39] Shutdowns of the plants in Mexico for maintenance work increased the use of gas-oil at those plants.

Efficiency in energy consumption

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, equipment and digitalization.
- As an energy consumer, Iberdrola promotes the on-going improvement of energy efficiency across all its activities (offices and buildings, vehicles, water, mobility, employee awareness, etc.).
- As an electricity supplier, it hopes 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.

Energy intensity

The intensity of fuel consumption at the thermal generation plants (tep/GWh) in relation to net output and the intensity of internal energy consumption is shown in the following two tables:

Fossil fuel consumption (tep/GWh)[40]	2018	2017	2016
Total	**174**	**189**[41]	**189**

Intensity of internal energy consumption (GJ/GWh)	2018	2017	2016
Total	**2.75**	**3.26**[41]	**3.10**

The energy intensity of the group has been reduced as a result of the growing weight of renewable production. It should be kept in mind that the variability of wind and hydroelectric resources as a result of climate factors might cause a slight uptick in intensity in certain years (in 2017, due to the drought in Spain), as explained by the following data:

[40] Conversion factor used: 1GJ= 0.023888889 Tep.
[41] Data recalculated with respect to the data published in 2017.

Generation technologies	% energy output		
	2018	2017	2016
Renewables	**42.4%**	**36.7%**	**39.6%**
Onshore wind	*25.1%*	*24.7%*	*23.1%*
Offshore wind	*1.1%*	*0.6%*	*0.0%*
Hydroelectric	*15.9%*	*11.4%*	*16.3%*
Photovoltaic solar and other	*0.3%*	*0.00%*	*0.2%*
Nuclear	**16.2%**	**16.9%**	**17%**
Combined cycle	**34.8%**	**39.3%**	**36%**
Cogeneration	**5.5%**	**5.0%**	**5%**
Coal	**1.1%**	**1.9%**	**3%**

As seen in the table above, the increase in renewable generation and the decrease in combined cycle and thermal coal production has caused energy intensity to decrease by 15.6% since 2017.

Energy consumption within the organisation 302-1

Energy consumption within the organisation (internal consumption) includes the consumption of energy at all of the Iberdrola group's facilities, buildings and offices, and is calculated as:

Energy consumption within the organisation (GJ) = Fuel consumption + Energy purchased - Energy sold (non-renewable) - Steam sold.

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 (NCV):

$$Consumption(GJ) = Fuel\ consumption\ (kg) x PCI(\frac{MJ}{kg})/1000$$

The value of the energy purchased or sold is obtained by direct measurement at the facilities, buildings and offices.

$$Consumption(GJ) = \sum building/facility\ consumption(\ MWh)\ x\ 3.6\ GJ/MWH$$

Energy consumption within the organisation in recent years is shown in the following table:

Energy consumption within the organisation (GJ)[42]	2018	2017	2016
Fuel consumption	**705,935,390**	**760,201,810**	**764,386,296**
By type of fuel			
Natural Gas	415,501,034	462,114,731	442,096,346
Uranium	265,340,801	262,902,924	274,800,068
Coal	20,786,260	33,020,919	45,338,800
Fuel-oil	1,801,267	1,899,317	1,919,103
Gas-oil	2,408,430	175,699	173,154
WDF	97,598	88,220	58,826
By type of technology			
Generating plants[43]	630,823,781	691,154,673	693,437,227
Cogeneration	74,427,358	68,440,622	69,893,794
Non-generating plants[44]	631,635	606,515	1,055,275
Energy purchased	**11,154,560**	**11,664,660**	**13,951,277**
Standby and pumping	10,443,459	10,886,544	13,096,768
Buildings	711,101	778,116	736,428
Energy sold (non-renewable)	**301,836,963**	**312,791,322**	**309,683,361**
Steam sold[45]	**14,694,432**	**18,527,684**	**26,484,009**
Total[42]	**400,558,556**	**440,547,464**	**442,170,204**

Reduction of energy consumption

Two fundamental blocks for reducing energy consumption are considered; on the one hand the energy savings from reduction in fuel consumption and on the other those associated with energy efficiency.

The consumption of fossil fuels for the generation of 237,008,460 GJ was avoided in 2018 through the generation of renewable energy and the supply of steam to industrial customers.

Reduction of energy consumption by the generation of renewable energy and steam				
Areas	Energy type	Energy saved (GJ)		
		2018	2017[46]	2016
Renewables	Annual primary energy savings through the production of renewable energy	222,314,028	182,689,200	205,089,621
Cogeneration	Annual savings through the supply of heat energy (steam) within the group	14,694,432	18,511,200	26,484,009
Total		**237,008,460**	**201,200,400**	**231,573,630**

[42] Energy consumption within the organisation (GJ) = Fuel consumption + Energy purchased - Energy sold (non-renewable) - Steam sold.

[43] Combined cycle, conventional thermal and nuclear plants.

[44] "Non-generating" facilities are Daldowie (thermal drying) and Hatfield (gas storage) in the United Kingdom.

[45] The reduction in the value of steam sold during 2017 is due to the sale of the cogeneration plants in Brazil.

[46] Data recalculated with respect to data published in 2017, decreased renewable generation and the sale of the cogeneration plant in Brazil.

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.

$$Consumption(GJ) = \sum generation\ (MWh)\ x\ 3.6\ GJ/MWH$$

Various measures were implemented in 2018 to improve energy efficiency at buildings and infrastructure. The energy savings produced by these measures is presented below:

Reduction of energy consumption associated with increases in efficiency				
Areas	Item	Energy saved (GJ)		
		2018	2017	2016
Efficiency in the distribution network	Savings due to efficiency in the grid	2,824,279	4,273,557	2,337,062
Efficiency in generation	Savings due to efficiency improvement at plants	9,117	44,744[47]	936
Efficiency at buildings	Savings due to efficiency at buildings	672	76,000	N/Av.
Total		**2,834,068**	**4,318,301**	**2,337,998**

Savings due to efficiency measures of the electricity grid

Energy savings from network efficiency derive 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 reduce administrative and non-technical losses.

[47] The increase in savings over 2016 is due to the placement into service of more efficient equipment at the generating plants in 2017.

The table below shows transmission and distribution network losses:

Transmission and distribution network losses (%)	2018	2017	2016
Transmission			
United Kingdom	1.52	2.12[48]	1.13
United States	4.68	4.72[49]	4.71
Distribution			
Spain	6.60	6.70	6.89
United Kingdom	6.43	6.32	6.22
United States	5.25	3.59	4.79
Brazil[50]	13.21	12.24	12.46

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.

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 calculation of savings from efficiency in generation is obtained by measuring the reduction in consumption of fuel by MWh due to the improvements made.

The table below shows the average performance of the thermal generation facilities:

Average performance[51] at thermal generation facilities (%)	2018	2017	2016
Combined cycle	54.22	53.57	51.82
Conventional thermal	34.28	34.38	33.00
Cogeneration	55.62	53.81	56.14
Total	**53.83**	**52.76**	**51.08**

Combined cycles, which are the most efficient thermal technology, represent 60% of the group's thermal production[52], as derived from the information reported in the "Key operational figures" section of Chapter I "About Iberdrola" of this report.

Information on the average performance of the thermal generation facilities in the various countries is described Annex 1 Supplementary Information.

[48] Derived from surcharges on lines from adjustment due to closing of Longannet.
[49] 2017 and 2016 data recalculated due to new methodology.
[50] All Iberdrola group networks in Brazil are classified as distribution.
[51] Average of efficiencies weighted by the annual production of each thermal power plant.
[52] Includes nuclear generation.

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 672 GJ.

Reductions in energy requirements of products and services

Iberdrola fosters efficiency, gradually reducing the environmental impact of its 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.

302-5

Energy savings of green products and services (GJ)	2018	2017	2016
Photovoltaic solar energy	20,336	1,899	605
Energy audits and plans	46,545[53]	100,375	199,980
Gas maintenance service	875,326	790,441	809,507
Other savings and efficiency activities	99,970	158,113[54]	87,459
Green energy supplied	42,700,000[55]	49,874,302	51,764,036
Total	**43,742,176**	**50,925,130**	**52,861,587**

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.

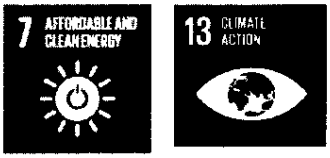
Energy consumption outside of the organisation 302-2

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[56]. The energy consumption for these items is around 847,440 GJ.

[53] The energy audits and plans are in effect for 5 years, giving rise to the reduction they produce
[54] Recalculated data.
[55] No data available from Brazil as at the date this report is issued.
[56] Defra: Department for Environment, Food and Rural Affairs (United Kingdom).

Reduction of emissions

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



Iberdrola recognises the fight against climate change as a strategic pillar of its activity in its corporate governance system, and has updated its *Policy against Climate Change* in 2018. To put this commitment into practice, Iberdrola has a climate action plan with various lines of action dealing with both mitigation and internal adaptation to climate change, its active participation in the global agenda, the promotion of a corporate culture focused on promoting awareness-raising and the engagement of all of its Stakeholders in this area. This work is coordinated through an internal working group, which integrates the various areas of the company involved in this area.

As part of its climate action, Iberdrola has ambitious emission reduction objectives that will bring us to be emission neutral by 2050 and which are recognised as Science Based Targets (SBTi). It also has an investment plan and innovation policies focused on decarbonisation of the energy mix and consolidating our leadership in renewable energy, smart grids and clean technology, and is progressing with its commitment to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Furthermore, it is working to participate in domestic and international institutions, entities and events to support the definition of climate policies and promote the significant participation of the private sector, contributing with analyses and positions on decarbonisation strategies.

Iberdrola has once again registered its footprint with the Carbon Footprint, Carbon Offset and Carbon Dioxide Absorption Projects Register of the Spanish Ministry for Ecological Transition (*Ministerio para la Transición Ecológica*) (MITECO).

The main source of direct emissions, which contribute to the company's Greenhouse Gases (GHGs), is the emission of CO_2 arising from combustion at the thermal generation plants.

Other atmospheric emissions deriving from the combustion of fossil fuels are NO_x, SO_2 and particulates. These are trending downward thanks to improvements in combustion processes.

More information is available in the climate change and emissions section of the website.

Leaders against Climate Change

The electric industry plays a key role in achieving the purpose set out in the historic Paris Agreement to limit the increase in the planet's temperature to below 2º C. The Iberdrola group, a world leader in the fight against climate change (goal 13 of the Sustainable Development Goals (SDGs)) and an active participant in the various Climate Conferences, is fully aligned with this international agreement. Iberdrola is publicly committed to maintaining its position as one of the leading European companies with the lowest CO_2 emissions per kWh produced.

Iberdrola has thus set itself an environmental goal to reduce the intensity of its CO_2 emissions to 50% below those of 2007 (to below 150 grams of CO_2 per kWh) by 2030, and to be carbon-neutral by 2050. These goals have been recognised as being based on science in accordance with the Science Based Targets initiative (SBTi).

Carbon **neutral by 2050**

The strategy to achieve this target is based on gradually reducing the intensity of GHG emissions through a commitment to close its last two coal plants and continuing to pursue electricity generation based on renewable sources, progressively introducing more efficient and less carbon-intensive technologies at existing facilities, and improving the energy efficiency of its activities.

In its commitment to maintain a position of leadership in the fight against climate change, Iberdrola has established the following foundations for action:

FOUNDATIONS FOR CONDUCT
1. Contribute to the mitigation of climate change and to the decarbonisation of the energy model.
2. Support international climate change negotiation processes and significant private sector participation in the global agenda.
3. Maintain global leadership in renewable energy, smart grids and efficient technologies.
4. Integrate climate change into internal decision-making processes as well as in the analysis and management of long-term risks for the group.
5. Actively foment a culture that promotes the efficient and responsible use of energy.
6. Promote climate training and awareness-raising among stakeholders and the adoption by suppliers of similar policies.

68% of the group's total installed capacity was emission free by year-end 2018. Some of the milestones reached during the year include the conclusion of the STAR Project for digitalization of networks in Spain, the inauguration of the Wikinger offshore wind farm, which will avoid the annual emission of almost 600,000 tons of CO_2, and the sale of conventional generation assets in the United Kingdom, which makes ScottishPower the first 100% renewable energy company in this country.

Commitment and raising awareness against Climate Change

During 2018 Iberdrola has shown clear leadership in the private sector's participation in the principal milestones of the global climate agenda, including: the Katowice Climate Change Conference (COP 24), the events associated with the United Nations General Assembly, the activities of the *Marrakech Partnership for Global Climate Action* and the various phases of the *Tanaloa Dialogue*.

The *Talanoa Dialogue* is a space for debate designed to encourage the participation of governments and civil society in the achievement of the climate goals agreed to at the 2015 Paris Conference. Iberdrola is the only Spanish company and the only energy company present at the debates both during the technical and political phase of this Dialogue, having also participated in the organisational sessions at the European level. On all these occasions, the company has offered a constructive view[57] regarding the opportunities arising from compliance with the climate goals through a sustainable energy model.

Iberdrola's support for an ambitious focus on decarbonisation of the economy became quite visible in a public position paper submitted by the *Corporate Leaders Group at the Climate Action Summit in San Francisco*. In this Declaration, its members (including Iberdrola) supported climate policy frameworks that will lead to an economy with net zero emissions by 2050. Support for this Declaration is in addition to a multitude of public positions within the framework of the various organisations with which we work (*We Mean Business, World Business Council for Sustainable Development, World Economic Forum, etc.*) and those promoted by governments or international bodies (e.g. the Support for the Electro-Mobility Declaration[58] launched by the COP Presidency).

In the area of awareness-raising, we know that fight against climate change, and all that it entails, 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.

[57] Iberdrola's formal contribution to the Talanoa Dialogue is available at the following link: https://unfccc.int/documents/65018

[58] https://cop24.gov.pl/PRESIDENCY/INITIATIVES/DRIVING-CHANGE-TOGETHER-PARTNERSHIP/

The most notable activities performed during 2018 include:

- A global online course on climate change, its causes and solutions, which was completed by more than 16,150 employees by its close in June 2018.
- Together with the youth and student association AIESEC, we have carried out the Climate Volunteers programme, a revolutionary experience in which we gave the opportunity to 29 youth from the various countries in which Iberdrola does business to live a global volunteer experience, working on social projects relating to climate action in Brazil, Colombia and Costa Rica.
- On-site school workshops on climate change by Iberdrola volunteers, more than 150 of which were presented during the 17-18 school year, reaching approximately 6,000 students in Spain, Mexico and Brazil.
- Technical advice and support on the dissemination of the documentary "Vigilantes del Planeta" (Vigilantes for the Planet), which was broadcast on various Spanish television stations and in various countries of the Americas, and was seen by more than one million viewers in 2018.
- Collaboration with the Centro Superior de Estudios de la Defensa Nacional (CESEDEN) in preparing a Strategy Workbook focused on climate change and its impact on defence[59].

For the third consecutive year, the *Moving for Climate NOW* awareness-raising initiative took place, organised by Iberdrola and Red Española del Pacto Mundial (Spanish Global Compact Network). This third year, the electric bicycle route covered 650 km from Vienna to the Katowice COP24 conference, where the cycling team, made up of more than 40 people from various organisations and countries, delivered a statement with a call to action and climate aspirations to the authorities of the UN Climate Change Secretariat and of the COP24.

As a result of all these activities, the organisation InfluenceMap (a British non-profit organisation) has once again put Iberdrola in the A-List of positive global leaders on climate change in its 2018 report. InfluenceMap notes the active and positive pressure of Iberdrola on the energy and climate policies of the European Union, also noting its desire to reduce the EU's GHG emissions in line with the objectives of the Paris agreement, as well as to defend the financial instruments helping to finance the transition towards renewable energy.

Another recognition of this work was the award given to Iberdrola by the *Climate Reality Project Awards* in the "Companies" category for its valiant efforts in the fight against climate change and for putting this issue on the first line of the social agenda.

[59] http://www.ieee.es/en/publicaciones-new/cuadernos-de-estrategia/2018/Cuaderno_193.html?__locale=en

Intensity of greenhouse gas emissions

The intensity of CO_2 emissions is calculated based on direct emissions from the production facilities [see "Direct greenhouse gas emissions. Scope 1 (per GHG Protocol)" below] divided by the group's net output, including steam. The following table shows this intensity.

Intensity of CO2 emissions	2018	2017	2016
Specific emissions from global mix (kg/MWh)	163	187	177
Specific emissions from global mix (kg/€)[60]	0.694	0.854	0.908

In 2018, CO_2 emissions per MWh generated remained among the lowest among domestic and international energy companies. It should be noted that Iberdrola's emissions intensity in Spain was 82 kg/MWh in 2018.

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 2018, for the ninth consecutive year, Aenor verified Iberdrola's greenhouse gas emissions inventory, covering the direct and indirect emissions from all activities, pursuant to the UNE ISO 14064-1:2006 standard.

Set forth below is the inventory (as of the date of approval of this report) to be submitted for verification in 2019 pursuant to the *Greenhouse Gas Protocol* of the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI).

CO_2 equivalent emissions to be verified in 2019 (t)	Spain	United Kingdom	United States	Brazil	Mexico	Total
Scope 1: Direct emissions	4,958,842	2,242,114	1,202,792	1,310,724	14,930,626	**24,645,098**
Scope 2: Indirect emissions	1,081,958	532,699	377,332	486,073	1,773	**2,479,834**
Scope 3: Other indirect emissions	1,581,743[61]	3,343,814	9,101,788	4,473,919	2,872,670	**21,373,934**

Updated information is available in the Greenhouse Gas (GHG) Inventory on the corporate website.

[60] Direct emissions from energy generation facilities (305-1) compared to net revenue in €.

[61] Information on energy sold is not available as at the date of approval of this report.

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_4) (storage and transport of natural gas).
- *Fugitive emissions of sulphur hexafluoride (SF_6) in distribution networks.*
- 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.

Iberdrola has reduced its direct emissions (Scope 1) by 8% over the last two years[62] from 26,691,055 to 24,645,098 t CO_{2eq}. This is mainly due to the reduction of emissions at the thermal generation plants, which decreased 8.3% since 2016, as shown in the following table:

305-1

CO_2 emissions at production facilities Scope 1 (t)	2018	2017	2016
Thermal generating plants[63]	20,329,419	23,027,444	22,812,513
Cogeneration	4,005,405	3,693,748	3,728,577
Total	**24,334,824**	**26,721,192[64]**	**26,541,089**

68.2% 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 of Scope 1.

305-1

Other Scope 1 emissions (t CO_{2eq}) in 2018	2018	Source of emission factors
Non-generation emissions (Gas storage and sludge drying)	44,858	DEFRA[65]: United Kingdom.
CH_4 Fugitive Emissions (Gas storage and transmission)	178,519	IPCC[66]
SF_6 Fugitive Emissions (Electricity distribution)	35,340	IPCC
Emissions at buildings (Fuel consumption)	10,126	MITECO: Spain. DEFRA: United Kingdom, Mexico and Brazil. EPA[67]: United States, Mexico and Brazil.
Emissions from mobile combustion (fleet vehicles)	30,181	DEFRA: Spain and United Kingdom. EPA: United States, Mexico and Brazil.
Total	**299,024**	

[62] Considered the base year for calculating the greenhouse gas emissions inventory.

[63] 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.

[64] Data updated in the verification of the GHGs.

[65] DEFRA: Department for Environment, Food and Rural Affairs (United Kingdom).

[66] IPCC: Intergovernmental Panel on Climate Change.

[67] EPA: Environmental Protection Agency (United States).

For more information, go to the climate change and emissions section of the corporate website.

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.
- 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_2.

- Spain: Red Eléctrica de España
- United Kingdom: DEFRA
- United States: U.S. Energy Information Administration
- Mexico: SEMARNAT[68]
- Brazil: Ministry of Science, Technology and Innovation for Brazil

There will be work in 2019 on the additional calculation of the footprint according to the "market based" methodology as requested by some environmental experts.

Iberdrola has reduced its direct emissions (Scope 2) by 45% over the last two years[69] from 4,503,670 t CO_{2eq} to 2,479,834 t CO_{2eq}. This is mainly due to the improvement in efficiency of the facilities and distribution networks made in recent years.

305-2

Scope 2 emissions (t CO_{2eq})	2018	2017[70]	2016
Emissions associated with network losses.	1,763,941	2,464,981	3,714,179
Emissions from consumption of electric energy during shutdowns and pumping	666,791	897,732	749,628
Emissions associated with the consumption of electricity in buildings	49,101	52,484	39,863
Total	**2,479,834**	**3,415,197**	**4,503,670**

More information is available in the *GHG Report*, which is audited annually under the ISO 14064 standard.

Other indirect greenhouse gas emissions. Scope 3 (per GHG Protocol)

Iberdrola has incorporated the life cycle perspective into its management model, which includes knowledge of the long-term impacts of the value chain. New elements are thus included each year in the calculation of its Scope 3, indirect emissions that are a result of the company's activities at sources not owned or controlled thereby. They include the following:

[68] SEMARNAT: Secretaría de Medio Ambiente y Recursos Naturales (Secretary of the Environment and Natural Resources) in Mexico.
[69] Considered the base year for calculating the greenhouse gas emissions inventory.
[70] Data updated since those published in the 2017 Sustainability Report according to audit performed in 2018.

- Emissions associated with the transport of employees for work purposes (hire vehicles and personal vehicles, planes, trains and ferries) (Category 7 GHG Protocol).
- Emissions associated with the transport of employees *in itinere*, from their home to their work place (Category 6 GHG Protocol).
- Emissions associated with the transport of fuel (Category 4 GHG Protocol).
- Emissions associated with the supply chain (Category 1 and 2 GHG Protocol).
- Emissions associated with energy purchased from third parties for sale to end customer (Category 3 Activity D GHG Protocol).
- Emissions arising from upstream (suppliers) and downstream (customers) activities (Category 3 Activity A GHG Protocol). Excludes transport of fuel, as this is specified in Category 4 and emissions scope 1 and 2.

The emission factors used in calculating each of these emissions are obtained from official sources. More information is available in the *GHG Report*, which is audited annually under the ISO 14064 standard.

Scope 3 emissions were the following in 2018:

305-3

Scope 3 emissions (t CO_{2eq})	2018	2017	2016
Emissions from employee business travel	15,907	21,033	15,311
Emissions associated with the transport of fuel[71]	71,290	92,167	88,743
Emissions associated with the supply chain[72]	1,789,382	1,636,912	705,499
Emissions associated with the transport of employees from their home to their work place[73]	62,288	79,703	70,495
Emissions associated with energy purchased from third parties for sale to end customer[74]	15,864,855	18,761,881	17,457,573
Upstream (WTT) emissions from fuel acquired and consumed	3,570,211	3,893,731	N/Av.
Total	**21,373,934**	**24,485,427**	**18,337,621**

Emissions from employee travel per employee in 2018 were 0.45 t CO_{2eq}.

[71] Calculated for the transport of fuel by motorway, train and ship. Fuel transport activities in 2018 only occurred in Spain.

[72] Estimated based on the Supplier Awareness and Greenhouse Gas Measurement Campaign that Iberdrola sends to the group's suppliers.

[73] Estimated using a survey is sent each year to the employees of the Iberdrola group in order to record their emissions through an emissions calculation tool.

[74] The energy purchased for sale to the end customer is calculated based on the difference between the energy supplied at market prices and the internally produced energy. The emissions from such energy result from CO2 emissions obtained by applying the emission factor of the generation mix of the corresponding country and adding it to the upstream emissions of such energy, using the DEFRA WTT (Well To Tank) emission factor.

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 2018 are given below:

Areas	Actions and initiatives	CO_2 avoided 2018 (t)
Renewables	Primary energy savings through the production of renewable energy	16,122,652
Cogeneration	Savings through the supply of heat energy (steam) within the group	559,326
Network efficiency	Savings from distribution network efficiency in Spain, the United Kingdom and Brazil	114,023
Commercial	Energy savings and efficiency from green products and services (Spain, United States and Brazil)	2,683,218
Group	Use of videoconferencing (t CO_{2eq})	5,450
Total		**19,484,669**

There were 50,923 videoconferences in 2018 that avoided employee travel, entailing a reduction of approximately 5,450 t of CO_{2eq}.

In total, the emission of 19,484,669 t CO_2 was avoided, equal to the amount of CO_2 absorbed by 975 million trees over the course of a year[75].

The operating regimen of the group's production facilities led to the level of CO_2 emissions described in the section "Direct greenhouse gas emissions. Scope 1 (per GHG Protocol)". The section "Reduction of energy consumption"[76] and "Direct greenhouse gas emissions. Scope 2 (per GHG Protocol)" provide additional information in this area.

[75] The estimated amount of CO_2 absorbed by an average tree 20 kg. of CO_2 per year.

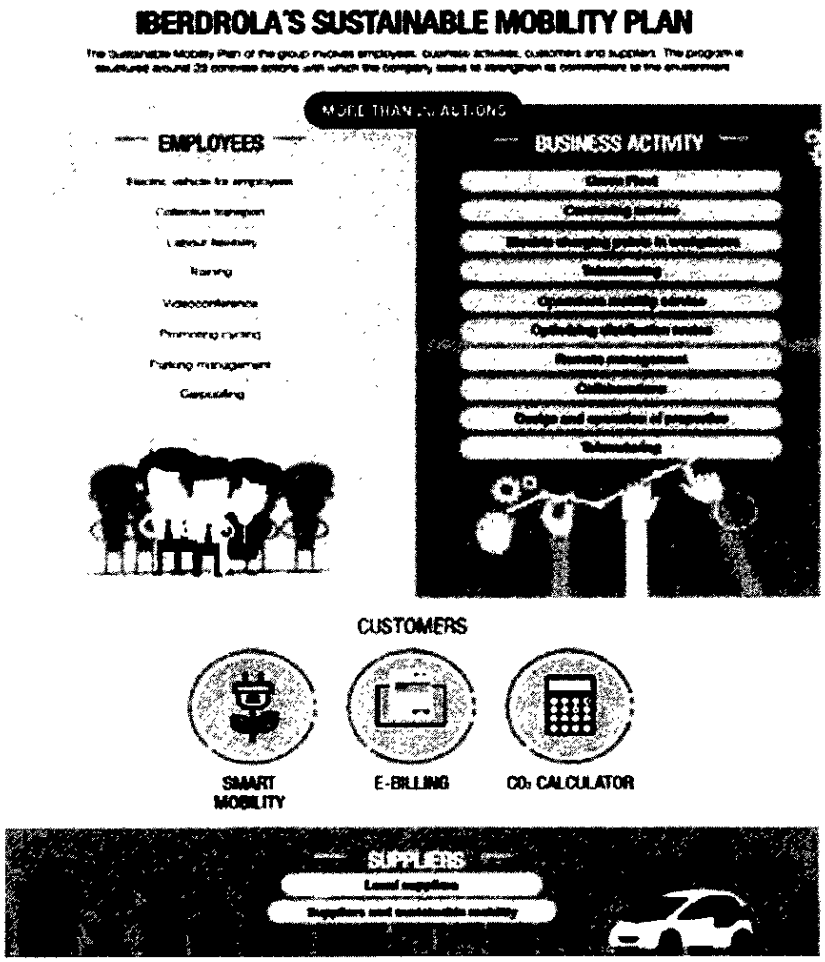
[76] In addition to the reductions described in "Reduction of energy consumption", the group's nuclear production prevented emissions of 5,089,685 t CO_2, taking into account the emission mix. Source: RRE.

Sustainable Mobility Plan for employees

A Sustainable Mobility Plan has been developed in order to reduce emissions relating to employee travel and travel from home to work, contributing to a rational use of the means of transport. This plan is included in the commitment made by the company in its *Sustainable Management 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 initiative, the local emission of 277 t CO_{2e} in employee travel to the work place in Spain and the United Kingdom was avoided in 2018.



Allocation of CO_2 emissions allowances or equivalent

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 facilities located in Europe (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.

Only the Tarragona Power facility has been assigned 24,394 emissions rights, within the emissions trading system (ETS) market.

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 in Spain.

Other atmospheric emissions

Emissions[77] of sulphur dioxide (SO_2), nitrogen oxides (NO_x) and particulate matter are also created by the burning of fossil fuels. The changes in the generation profile discussed in the emissions section tends to reduce them 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_2, NO_x 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 (NOx)

NO_x emissions (t)	2018	2017	2016
Generating plants	6,549	7,613[78]	12,934
Cogeneration	6,202	8,539	8,037
Total	**12,751**	**16,152**	**20,971**

Intensity of NO_x emissions (kg/MWh)	2018	2017	2016
Specific emissions from global mix	**0.085**	**0.113**	**0.140**

[77] These emissions are obtained either by direct measurement or through conversions of fuel consumption using emission factors from official sources.
[78] The reduction in 2016 is due to the closing of the Longannet thermal plant.

Emissions of sulphur dioxide (SO_2)

Sulphur dioxide (SO_2) emissions (t)	2018	2017	2016
Generating plants	2,733	4,143	6,510
Cogeneration	782	1,249	578
Total	**3,515**	**5,392**	**7,088**

Intensity of SO_2 emissions (kg/MWh)	2018	2017	2016
Specific emissions from global mix	**0.023**	**0.038**	**0.047**

Emissions of particulates

Particulate emissions (t)	2018	2017	2016
Generating plants	745	1,114	1,067
Cogeneration	141	158	141
Total	**886**	**1,272**	**1,208**

Intensity of particulate emissions (kg/MWh)	2018	2017	2016
Specific emissions from global mix	**0.006**	**0.009**	**0.008**

Emissions of ozone-depleting substances

305-6

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, 39.5 kg of CFC-11 equivalent was recharged in 2018, consisting of: 34.4 kg of CFC-11 equivalent in Spain and 5.1 kg in Mexico.

Emissions of mercury (Hg) and other compounds

The emission of mercury (Hg) during 2018 from the combustion of coal was 29.8 kg.

Furthermore, 335.03 t of volatile organic compounds (VOCs) were emitted in Spain, the United Kingdom, Mexico and the United States; and 4.30 kg of hazardous air pollutants (HAPs) were emitted in the United States.

Rational use of water

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.

Total water withdrawal by source

The following table breaks down the group's total water withdrawal by source:

Source of gross water withdrawal (hm^3)	2018	2017	2016
Surface water (sea, rivers, lakes, reservoirs, wetlands)	1,966	1,962	1,839
Groundwater	1	2	1
Rainwater directly withdrawn and stored	0	0	0
Purified wastewater	15	15	13
Municipal water supply or supply from other water companies	4	5	6
Total	**1,986**	**1,984**	**1,859**

Total water withdrawal is the sum of the various sources, and is obtained by direct measurement (flowmeters) or by estimating the performance of the water withdrawal pumps.

The 99.5 of total water withdrawn is used in cooling process and other auxiliary services of the generation plants. The rest of the water withdrawn (0.5%) is consumption in offices and other uses.

The group's use of water is summarised in the following table:

Water use[79]	2018	2017	2016
Total water use (hm^3)	89	80	82
Water use/overall production (m^3/GWh)	610	597	573
Water use/overall sales (m^3/$k)	2.14	2.15	2.35
Water use/overall sales (m^3/€k)	2.53	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 2018.

Water use in generation (hm^3)	Total thermal generation 2018
Withdrawal	
Withdrawal for standby process and services	12
Withdrawal for cooling	1,973
Discharge	
Evaporation of water used for cooling	80
Discharge into receptor environment [80]	1,897
Water use (withdrawal less discharge)[81]	**87**
Percentage of water returned	**96%**

After use in cooling and other auxiliary processes, 96% of the water withdrawn at thermal generation and cogeneration facilities returns to the receptor environment in a physical/chemical condition allowing it to be utilised by other users without affecting the natural environment. The other 4% 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.

The following table shows the different sources of withdrawal for cooling:

Source of withdrawal of cooling water	Gross water withdrawal (hm^3)[82] 2018	Gross water withdrawal (%) 2018
Sea and salt water	1,229	62%
Rivers and groundwater	336	17%
Lakes and reservoirs	395	20%
Purification of wastewater	9	1%
Total	**1,969**	**100%**

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.

[79] Use of water is defined as water withdrawn minus water discharged into the natural environment.

[80] 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.

[81] Withdrawal less discharge into the receptor environment is considered water use.

[82] Gross water withdrawal: total volume of gross water withdrawal for cooling.

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 the preceding table, 62% of the water withdrawn is salt-water or brackish water. These areas can be seen in the FAQ.

Water cycle in hydroelectric generation[83]

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 turbined water less pumped water.

Water use in hydroelectric generation (hm^3)	2018	2017	2016
Net water use	245,918[84]	49,824	101,368
Volume of pumped water	2,710	2,807	3,623
Annual increase of reservoir water	2,547	-1,179[85]	-1,941

Additional information, such as withdrawal locations and discharges from the thermal facilities, can be found at Water use.

Water 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^3 before being purged. The total volume of this reuse was approximately 2,253 hm^3 in 2018.

Water recycled

At some of the thermal generation plants in Spain, Mexico and the United States, waste water is also used in their cooling systems.

Use of waste water or recycled water in cooling systems	hm3	% of total country
Mexico	11,397	4%
United States	3,284	95%
Spain	79	0.01%

In addition, at some of ScottishPower's wind farms the control buildings have rooftop rainwater collectors and storage tanks to use the water.

[83] Hydroelectric generation in the United States, which is 1.15% of installed hydro capacity, is not included (information not available).
[84] 2018 was a year with high levels of precipitation and high hydroelectric generation in Spain.
[85] Substantially reduced net water volume due to low precipitation in Spain during 2017.

Effluents management

[redacted]

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.

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.

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.

In Mexico, the combined cycles have separate and independent networks for industrial and sanitary water. The latter receive final treatment in biodigesters 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.

The data regarding the discharge of water into the environment for all facilities and offices is as follows:

Total water discharged (hm^3)	2018	2017	2016
Ocean	1,221	1,289	1,171
Rivers	325	249	274
Lakes and reservoirs	348	360	326
Purification network	6	6	5
Total	**1,900**	**1,904**	**1,776**

Water collection and discharges by the facilities during 2018 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).
- In Mexico the discharge from the Altamira III and IV plant 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.

For more information, see the Water Usage section of the corporate website.

Waste management

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)

GRI 103

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 Spanish Ministry for Ecological Transition (*Ministerio para la Transición Ecológica*) (MITECO).

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.

306-2

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	2018	2017	2016
Ash produced (t)	92,440	174,523	256,399
Ash reused (t)	61,459	76,034	87,260
Percentage of product reused (%)	66	44	34

Reused ash was used for the production of cement as filling in infrastructure work and to produce compost.

2. Nuclear waste

Further to its commitment to transparency of information for Stakeholders, Iberdrola provides additional information on its nuclear plants (*General Radioactive Waste Plan*, Enresa[86]). 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[87].

Low-low level and low-medium level radioactive waste generated during 2018 is shown in the following table:

Hazardous waste generated at nuclear facilities 2018	Net output (GWh)	Low low level waste		Low medium level waste	
		Produced (m^3)	Produced (m^3 / GWh)	Produced (m^3)	Produced (m^3 / GWh)
Cofrentes nuclear plant	8,823	32	0.004	163	0.018
Partially-owned nuclear plants	14,713	255	0.017	311	0.021

As to high level waste, 99 spent fuel assemblies were generated during 2018.

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)	2018	2017	2016
Produced	13,169	9,193	10,579
Deposited and/or incinerated	4,161	3,023	2,148
Recovered, recycled, reused	8,839	7,288	7,353

Hazardous waste produced includes PCBs, batteries, dissolvents, lighting, etc. The company has minimisation, reutilisation and recycling plans as well as awareness-raising campaigns to promote good environmental practices by its employees.

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. The company's policy is to eliminate equipment containing PCBs from its facilities. 168 t of oil with pyralene in Spain, 2 t in the United States and 135 t in Brazil were managed during 2018.

[86] Enresa: Empresa nacional de residuos radioactivos, S.A.

[87] 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.

2. Non-hazardous waste

Non hazardous waste generation (t)	2018	2017	2016
Produced[88]	549,146[89]	1,053,671	978,845
Deposited and/or incinerated	247,256	543,254	443,752
Recovered, recycled, reused	294,845	449,920	470,832

Non-hazardous waste produced includes inert waste from construction and demolition, 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 recovery in value thereof, selling it to companies that put it back on the market after transforming it. During 2018, this exercise produced income of 2,449,758 euros from the sale of non-hazardous waste.

[88] Total value of waste produced, also includes the total value of waste managed.

[89] Due in large part to the reduction in inerts because of lower construction activity in the United Kingdom.

Protection of biodiversity

Contribution to SDGs of the performance described by the indicators of this section

IBERDROLA
WITH BIODIVERSITY

OBJECTIVE

PRESERVE AND RECOVER
the ecosystems associated with our activities

IN LINE WITH GROUP'S PLANS
in affected areas to half the loss of biodiversity

APPROACH

Knowledge and awareness | **Action** | **Commitment**

GRI 304

Biodiversity is a fundamental component of natural capital, and can be affected by the company's activities. The company considers it to be one of the fundamental assets for 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 the *Biodiversity Policy*, approved by the Board of Directors, defining four priority lines of action:

- Encouragement of the protection, preservation and sustainable use of natural capital.
- A preventive focus on the environmental impact evaluations of new projects and the adoption of best practices throughout the entire life cycle.
- Engagement with the Stakeholders, considering their needs and expectations regarding biodiversity for the integration thereof in action plans, and collaborating with research projects.
- Commitment to internal and external training, awareness-raising and communication regarding the significance of biodiversity.

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 developed by various lines of action.
- *Stakeholder Relations Policy* and the company's Stakeholder Relations Model.
- *Corporate Environmental Footprint*, allowing for evaluation of the group's impact on biodiversity.
- The environmental management system of the group and its organisations, certified under ISO 14001 or EMAS, which implement biodiversity commitments in action plans establishing the monitoring and control thereof.
- Environmental committees with the environmental heads of the organisations dealing with biodiversity risks and opportunities.
- Biodiversity plans based on avoiding and/or mitigating impact, restoring natural capital (if required), assessing impacts, organising the relationship with affected Stakeholders, and awareness-raising.

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.

102-11

Based on the precautionary principle, Iberdrola wagers on knowledge of the environment and encouragement of the restoration of natural capital, participating in various studies to understand the behaviour of species in the habitats in which it operates, like the "Bird Migration" project[90], the objective of which is to study the migratory movements of birds in Spain, and studies focused on the assessment of eco-systemic services, like the pilot *Cumbernauld Living Landscape Pilot Project: Natural Capital Assessment.*

There is also a collaboration on preparing a Practical Guide to Ecological Restoration[91], a methodological tool intended to guide decisions to encourage Ecological Restoration in actions to strengthen and recover natural capital.

Iberdrola also applies mitigation hierarchy (avoid, minimise, remediate and, as a last option, compensate) in the environmental impact assessments (EIAs) that it performs for new projects. These analyse alternatives, 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. Before beginning the process, Iberdrola consults the various Stakeholders regarding new projects and

[90] Collaborative project of Fundación Iberdrola and Sociedad Española de Ornitología, SEO/BirdLife.
[91] Mola, I., Sopeña, A. and de Torre, R. (editors). 2018. Guía Práctica de Restauración Ecológica. Biodiversity Foundation of the Ministry for the Ecological Transition. Madrid. 77 pp (available at https://ieeb.fundacion-biodiversidad.es/ content/guia-practica-de-restauracion-ecologica)

incorporates best construction practices, going beyond applicable legal requirements in each case. Afterwards, and during construction, Iberdrola continues to work together with the Stakeholders, seeking for the environmental impact to be as low as possible, and restoring the affected areas.

Iberdrola identifies and evaluates the potential impacts of new projects in this way, through the EIA processes. The following links show some examples in Spain, SP Networks, SP Renewables and Avangrid.

The following table shows the actions that might have more significant impacts during the various phases of a project:

	Actions during the phases of a facility's life cycle
Construction phase	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.
Operation phase	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.
	Discharges and spills.
Decommissioning phase	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).

Based on these actions, we can single out a number of significant potential effects on biodiversity, arising from the activities, products and services of the group:

Potential impacts	
General impact	Loss of habitat and species.
	Increase in greenhouse gases and climate change.
	Pollution of the atmospheric, edaphic and/or aquatic 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.

If significant impacts are identified during the evaluation process, 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 avoidance or mitigation is not possible, remedial measures are implemented.

EU13

The following table shows the principle activities in this regard during 2018:

Country	Technology	Actions	Results
United Kingdom	North Wales Wind Farms Connection Project	The planting of 13,231 m^2 of forests and brushwood and planting of 8,970 m^2 of brushwood is proposed. A total of approximately 7,993 m^2 would be left for natural regeneration. This planting will be monitored for a period of 5 years.	North Wales Wildlife Trust has been designated to make the more than £100,000 in environmental improvements in the areas of the North Wales Wind Farms Connection.
	Wind farms	Continued management of the Habitat Management Plans, managing more than 93 km^2 to date, with the monitoring of species like the hen harrier (*Circus cyaneus*), blackcock (*Tetrao tetrix*) and crested newt (*Triturus cristatus*).	Improvement of the conditions of the offset habitats. Example of management serving as a guide for other projects.

Country	Technology	Actions	Results
United States	Power lines and substations	The CCTP project resulted in the conversion of 0.26 acres of forest wetlands into bush and the permanent loss of 0,096 acres of wetland for the substation. To mitigate these impacts, 0.8 acres of forest wetland improvements, 0.16 acres of improvement to 160 linear feet and improvement to 1.23 acres of highland areas. Preservation of 2.19-acre mitigation area.	These improvements were completed at the end of 2018, consisting mainly of plantings. Annual reports are required to document the success of the improvements for 5 years.
		12.6 acres of wetlands were created within a 36-acre parcel to offset the elimination of portions of forest wetlands. General mitigation index of 1 : 1.5 for the cleaning of forest wetlands in NY.	The recently created wetland has areas with ponds, shrubbery and tree plantings. Annual reports are required to document the success of the improvements for 5 years.
		The disturbed areas in the RARP transmission line project will be restored and planted. The additional mitigation for this project will include the conversion of forest wetlands and <1 acre of permanent fill in a wetland area.	Mitigation work will be performed in 2019.
	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.
Brazil	Baguari (hydroelectric)	Recovery of 1.77 km^2 of forestry commenced in September 2018	Improvement of adjacent habitats, strengthening of soil absorption capacity and reduction of risk of losses due to erosion.
	Corumbá (hydroelectric)	With the reforestation of 295,000 trees in 2018, there has been a total of approximately 1,300,000 trees since it began.	One also sees a significant improvement in the quality of the soil, in the physical and chemical structure, increasing the rainwater absorption ability and reduction in erosion and compacted soil layers.
	Dardanelos (hydroelectric)	Strengthening of natural recovery in 5 ha and reforestation of the area around the plant.	Improvement of adjacent habitats, strengthening of soil absorption capacity and reduction of risk of losses due to erosion.
	Baixo Iguacu (hydroelectric)	192.1 ha will be reforested to establish connectivity with the forest areas of Iguaçú National Park (*Parque Nacional del Iguazú*) (PNI) with the areas to be expropriated and reforested in the Direct Influence Area (DIA) of the Baixo Iguaçu HPP, covering the biodiversity corridor.	Creating an ecological corridor to connect the remaining existing forests in the Area of Influence of the site of the National Park at Iguaçú (PNI) together with the actions described in the Biodiversity Corridor Consolidation Programme at the Baixo Iguaçu plant.

Country	Technology	Actions	Results
	Power lines	Reforestation of degraded areas with plants at various stages of growth. There will be compensatory reforestation with native species from the region in accordance with the environmental permits for the installation and operation of transmission lines (69 kV to 138 kV), substations (69 kV to 138 kV) and distribution networks (13.8 kV to 34.5 kV). 70,000 plants were replanted in 2018, out of the 168,000 that have been planted since 2017.	There is constant natural regeneration as a result of maintenance work connected to the presence of fragments of native vegetation on the banks of the Aguapeí river, factors that favour the recovery of a large number of native species.

[redacted]

Iberdrola currently has group infrastructure in protected areas or areas with great biodiversity value, most of which was built prior to such declarations of protection by the government authorities.

Facility	Location with respect to protected area	Affected surface area/length	Type of protection[92]
Spain			
Reservoirs	Inside	30,758 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	374 ha	Nature 2000 Network
United Kingdom			
Power lines	Inside	3,677 km	NSA, SPA, SAC, Ramsar, NNR, SSSI.
Substations	Inside	367 units	NSA, SPA, SAC, Ramsar, NNR, SSSI.

[92] 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 (UK).
NSA: National Scenic Areas (UK).
NNR: National Nature Reserve (UK).

Facility	Location with respect to protected area	Affected surface area/length	Type of protection[92]
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.
United States			
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	384 km	
Brazil			
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.
Mexico			
Generating plant	Adjacent	1 production centre	Environmental protection areas.
Wind farms	Adjacent	1 wind farm	Environmental protection areas.
Greece			
Wind farms	Inside	15.64	Nature 2000 Network.
Hungary			
Wind farms	near	1 wind farm	Near Nature 2000 Network areas.
Portugal			
Wind farms	Inside	1 wind farm	Nature 2000 Network area and Natural Park.
Romania			
Wind farms	Near	1 wind farm	Near Nature 2000 Network areas.

Iberdrola identifies threatened species included in the UICN Red List and national and regional lists of the areas in which it does business through its environmental management systems and/or its monitoring programmes.

304-4

IUCN Red List Classification	No. of species
Critically endangered (CR)	18
Endangered (EN)	74
Vulnerable (VU)	173
Near threatened (NT)	48
Least concern (LC)	247
Not on UICN List	32

Habitats protected or restored

GRI 304-3

Based on the needs of each facility and during the life cycle thereof, Iberdrola carries out the following:

- 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 2018 or prior years and that have continued during this financial year are shown below:

Spain:

Project/ Technology	Actions	Objectives
Power lines	Within the ALETEO project, the goal of which is to reduce the risk of damage to avifauna from pylons in protection zones, 4,127 pylons have been corrected and 6,659 are being adjusted.	Reduce the risk of damage to avifauna
	Performance of 132 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 1,152 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 34.4 km^2 of vegetation-covered surface to reduce the risk of fire at facilities.	
Hydroelectric plants	Limnological control of the most eutrophicated reservoirs in the Douro and Tagus 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.
	Performance of studies on feasibility of devices for ichthyofauna to pass through the Doña Loba, San Lázar, Cernado, Vozqueimado, Casteligo and Parafita waterwheels.	Reduce impacts and avoid levels that are harmful to ichthyofauna.

Project/ Technology	Actions	Objectives
	Replacement of auxiliary services transformers (with PCB-contaminated oil) with dry transformers.	Prevention of pollution and potential effects on flora and fauna.
	Maintenance and conformance of spill containment systems to prevent environmental pollution at Esla plant.	
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.
	Performance of activities to prevent pollution, improve the environment and recover/restore the natural environment at the Lada Plant: measures to minimise outside noise, channel storm waters, research contaminated soil.	Prevention of pollution and recovery of the environment

United Kingdom:

Project/ Technology	Actions	Objectives
Thermal and gas storage plants	Implementation UK Biodiversity Action Plans (UK BAP) at each facility. E.g.: Create nesting, shelter and feeding habitat for native species. Provide habitat for nesting bird populations. Communication, enabling and monitoring of ecological activity. (More information is available at ScottishPower Wholesale Energy Markets and at www.iberdrola.com).	Recover and promote regeneration of natural habitats and of the flora and fauna characteristic of facilities' environments.
Wind farms	62 activities in 20 areas included in the *Habitat Management Plan*, mainly consisting of the monitoring of birds and follow-up on reforested areas, and 39 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.
Galloway (hydroelectric)	Continued monitoring by means of the installation of antennae at the Loch Doon Vaki fishing port.	Maintenance of the two fish pathways at the Tongland, Earlstoun, Loch Doon and Carsfad reservoirs allows fish like Atlantic Salmon to cross potential barriers to their migration posed by the plan's reservoirs.
	Management of vegetation around the substation and control and elimination of the invasive *Fallopia japónica* species.	Improvement of adjacent habitats.

United States:

Project/ Technology	Actions	Objectives
Power lines	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.
	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 *Aubern Transmission Project.*	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. 20 monitoring and mitigation activities were carried out in 2018.	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 Conservation Areas (APPs) and degraded areas (quarries, tips).
	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.	

Mexico:

Project/ Technology	Actions	Objectives
Thermal plants	Development of the *Garrapatas Estuary Rescue Project.*	Improve the habitat, fostering indigenous species, and raise social awareness of the area's rich biodiversity.
	Development of the *Feline Support Project in the Altamira region.*	
Wind farms	Follow-up of reforesting carried out during construction of the La Ventosa wind farm.	Ensure the success of reforesting 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.

For more information regarding the biodiversity protection measures taken by the Iberdrola group, 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 the company has a presence. Also see Iberdrola's *Biodiversity Report 2014-2017*.

Environmental safety

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)

Disaster/emergency planning and response

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 contingency 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 and the Renewables Business have 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, ScottishPower has a Business Continuity Management System for the management and minimisation of emergency situations, which is externally certified and audited under ISO 22301, and has implemented a *Black Start* plan coordinated with the Wholesale and Retail businesses to restore ScottishPower's transmission area. 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, which optimises the safety of people and of the facilities in the event of a serious rupture or breakdown of the dam and is known by civil protection authorities, municipalities and other government organisations.

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*), for which the governmental authorities are responsible (called the Nuclear Emergency Plan (*Plan de Emergencia Nuclear*) (PEN) 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. The Basic Nuclear Emergency Plan

(*Plan Básico de Emergencia Nuclear*) (PLABEN) provides for an interface to coordinate both Emergency Plans.

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 facilitate the restoration of electric service in the case of a major outage, such as the electric emergency plans of the distribution subsidiaries of Avangrid in the United States, like CMP's Service Restoration Plan, 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. Monitoring the system in real time controls the conditions of the electric system and responds to scheduled and emergency requests for service, ensuring the restoration of service as quickly as possible, while respecting safety and quality. In the United Kingdom, ScottishPower actively communicates with vulnerable groups during power outages to ensure that they are provided the assistance that may be required.

Significant spills

306-3

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.

One example of safety and containment measures taken to mitigate damage are those implemented in Spain, where 889 preventive actions were performed in 2018 to prevent and mitigate the impact of potential spills. These included the construction of 19 oil collection reservoirs in case of a major discharge at the substations and 870 trenches/oil collection trays at transformer stations.

Of all the leaks and spills recorded within the Iberdrola group in 2018, 23 incidents were significant[93], with a total spill volume of 16.4 m^3. 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.

[93] 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.

Environmental compliance

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.

Incidents relating to the environment during 2018 involved the following fines and monetary sanctions:

Fines relating to the environment (€)	2018	2017	2016
Total amount of fines imposed	**7,538,539**	**3,881,246**	**2,375,559**

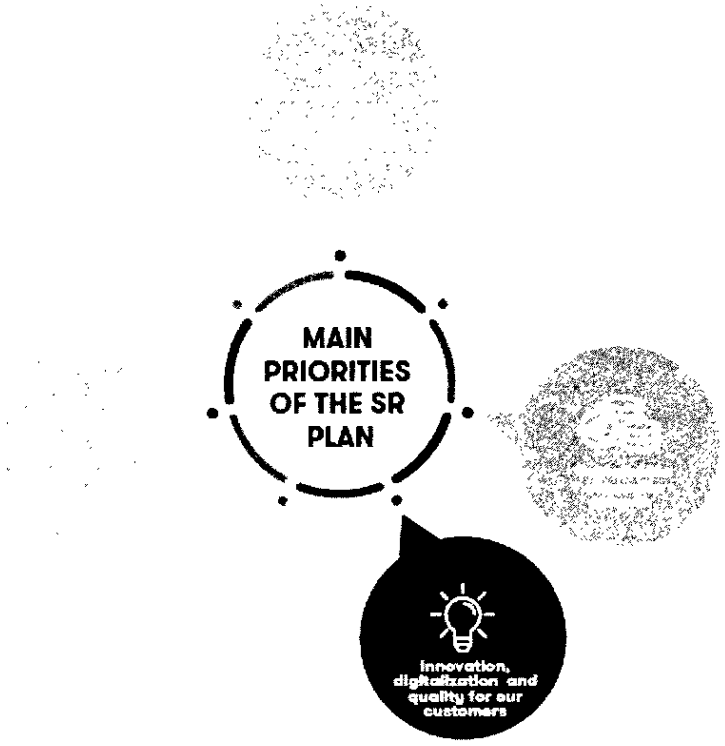
Of the total amount of fines imposed during the financial year, 6,510,236 euros were in Spain, 964.816 euros in Brazil and 63,486 euros in the United States. In Spain, 63% of the total amount were for three sanctions cases for the loss of three specimens of protected species in Spain. In Brazil, they were due to a breach of environmental conditions affecting ichthyofauna and improper pruning.

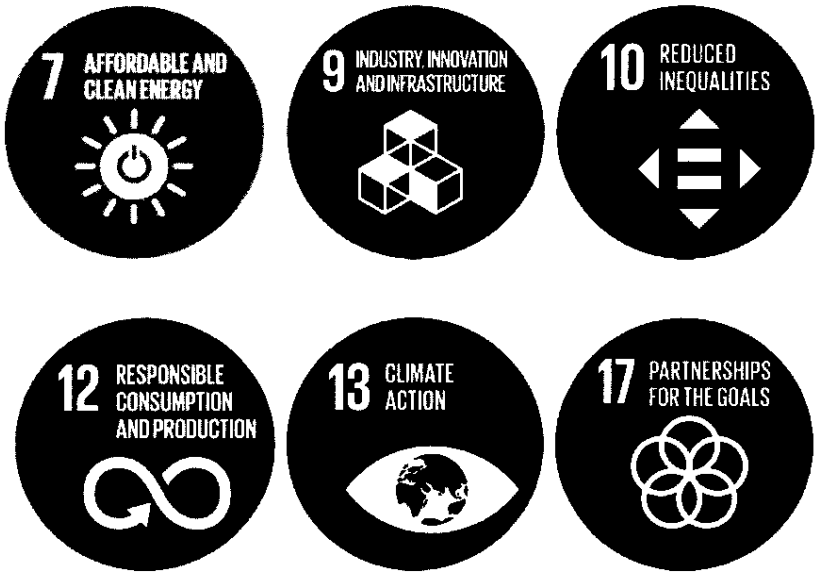
Non monetary sanctions, sanction proceedings and arbitrations (no.)	2018	2017	2016
Non-monetary sanctions	41	14	2
Proceedings commenced	212[94]	57	86
Cases being resolved through arbitration or similar mechanisms	0	0	9

All non-monetary sanctions correspond to Brazil. The proceedings correspond to the network businesses in Spain and Brazil.

[94] Of the 212 proceedings commenced, 104 are in Spain. 82% of them are proceedings commenced without financial penalties, mainly in relation to actions to modify electric lines.

II.4. Innovation, Digitalization and Quality for our Customers





- Products and services
- Digital transformation
- Innovation projects

Products and services

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)

Iberdrola operates an organisational structure in relation to its customers in which:

- the Networks Business manages the activities of transmission and distribution in Spain, the United Kingdom, the United States and Brazil, and the regulated sale of energy in the United States and Brazil and any other regulated activity that the group carries out in these four countries.
- the Wholesale and Retail Business manages non-regulated activities in Spain, the United Kingdom, Brazil, Mexico and continental Europe.
- for its part, the Renewables Business manages long-term power purchase agreements (PPAs) with large companies in the United States.

In the liberalised 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 (see "Main products and services" section), 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 manage a total of 31.6 million energy supply points, of which 30.6 million correspond to electric power and 1.0 million to gas supply. This information is described in this report by type of supply point in the "Key figures" section.

Customer satisfaction

Iberdrola has various mechanisms to measure customer satisfaction levels and to gather their opinions, verify compliance with its quality standards within the customer service and sales channels, and implement suggestions for improvement. The most significant studies by country are:

- In Spain, in the Wholesale and Retail business, there are various mechanisms to measure the satisfaction level of users, including the *Voice of the Customer Study*. On a quarterly basis, it generally measures satisfaction with the service received by the customer and offers detailed information regarding attributes like agility, training and treatment within the channels, clarity of the invoice, management of claims, quality of supply, price competitiveness and electronic billing, whether for large customers, companies, small businesses or residential customers. Overall satisfaction in 2018

exceeded 7 out of 10 for the fourth consecutive time, with large customers being the segment most satisfied with Iberdrola.

For the most part, the studies use the *NPS (Net Promoter Score) Index*, which evaluates the recommendation that Iberdrola's customers would make on a scale of 0 to 10. This index has increased from 25.6 in 2017 to 27 in the third quarter of 2018.

There is also a Gas Maintenance Service Satisfaction Survey, conducted on a yearly basis, with 90% of customers satisfied (2 percentage points more than in 2017) and a Study on satisfaction with the Electrical Emergencies and Home Electric Protection Service, with an average satisfaction with the service of 8.5 and 8.4, respectively.

A Voice of the Customer Measurement Programme was also implemented in 2018 allowing for the centralisation of satisfaction surveys, and collecting unstructured information thanks to text analytics. All of the above allows for more agile detection of the opinion of customers and implementation of improvements.

Iberdrola engages in two types of studies with respect to the Networks Business: for new supplies, reaching 3.3 out of 5 in 2018, and for retailers of electric power and customers with direct rates: in this case the results for 2018 are at 3.7 for retailers and 3.8 for direct rates on a scale of 5.

- In the United Kingdom, customer satisfaction is measured by a series of internal and external studies within the *Customer Insight* department. These analyses include various satisfaction surveys that vary in frequency, from monthly to annually.

  At the external level, the key comparative studies measuring the satisfaction of ScottishPower's customers as compared to its competitors are uSwitch, Which? (with annual surveys) and UK-CSI, which is published twice per year. These studies analyse specific areas like customer billing, campaign follow-up and complaints. ScottishPower obtained a general customer satisfaction rate of 70.6% (compared to 69.4% in 2017) in the *uSwitch*, from among more than 17,000 customers surveyed. UK-CSI places the British subsidiary as one of the 6 companies with the most improvement during the year, obtaining 70.5% in 2018 compared to 68% the year before.

  The most significant internal analysis is *Pulse,* which is performed monthly and measures confidence, loyalty, ease of use, value, etc., showing an overall satisfaction level of 49 out of 100. The result is along the same line as other customer satisfaction studies like "Which?" Measures are being applied to improve the processing of customer complaints. At the internal level, there is also *YouGov*, which is used to compare the various competitors in terms of brand reputation and intent to purchase.

- In the United States, the subsidiaries of Avangrid measure service perception and customer satisfaction, which are evaluated through telephone surveys on a weekly basis. The companies of Avangrid obtained the following results in 2018: 90% (NYSEG), 91% (RGE), 88% (CMP), 96% (UI), 89% (SCG) and 85% (CNG). All of the distributors have fixed customer service quality standards, although only NYSEG and RG&E have regulatory targets, which are 89.5% and 88%, respectively.

- There are two types of annual satisfaction surveys in Brazil. The Brazilian Association of Electric Power Distributors (*Associação Brasileira de Distribuidores de Energia Elétrica*) (ABRADEE), 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 Perceived Quality Satisfaction Index (Índice de Satisfação da Qualidade Percebida) (ISQP) of the services is obtained through evaluations by the customer via surveys performed by Instituto Innovare, which evaluates the quality of the services provided, classified into supply of energy, information and communication, energy bill, customer service, image, etc., and the results obtained from the ISQP in 2018 are 63.2% (Celpe), 73.7% (Coelba), 81.1% (Cosern) and 78.7% (Elektro).

As to research by the National Electric Energy Agency (ANEEL), which measures the Customer Satisfaction index (IASC), the measurement of the attributes of perceived quality, perceived value, satisfaction, trust and loyalty have not yet been disclosed by the agency.

Supply quality

EU28

Improvement in the quality of the service is an essential element of electric supply and one of the main goals of Iberdrola's business activity. A quality system allows for the achievement of objectives linked to continuous improvement. The implementation thereof also involves strict internal and external audit procedures, which ensure compliance with the established quality standards.

Iberdrola monitors service quality in the 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	2018	2017	2016
Spain	0.91	1.14	1.04

- Customer interruptions per 100 connected customers ("CI") is used in the United Kingdom.

CI	2018	2017	2016
United Kingdom	43.4	36.0	42.7

- System average interruptions frequency index ("SAIFI") is used in the United States.

SAIFI	2018	2017	2016
United States	1.22	1.15	1.15

- Equivalent duration of interruption by consumer unit (Portuguese acronym "FEC") is used in Brazil.

FEC	2018	2017	2016
Brazil	5.81	7.15	7.44

Throughout this "Innovation, digitalization and quality for our customers" chapter, additional information is offered regarding the development of smart grids to improve the quality of electric supply, among other things.

Similarly to the preceding section, the figures for average duration of electric supply outages are as follows:

- Installed Capacity Equivalent Interrupt Time (Spanish acronym "TIEPI") is used in Spain.

TIEPI	2018	2017	2016
Spain	44.6 min	52.7 min	54.0 min

It should be noted that the 2018 figure is the best historical record for the company in the country.

- Customer minutes lost per connected customers ("CML") is used in the United Kingdom.

CML	2018	2017	2016
United Kingdom	35.4 min	31.0 min	33.8 min

- Customer average interruption duration index ("CAIDI") is used in the United States.

CAIDI	2018	2017	2016
United States	2.07 h	1.91 h	1.84 h

- Equivalent duration of interruption by consumer unit (Portuguese acronym "DEC") is used in Brazil.

DEC	2018	2017	2016
Brazil	12.24 h	15.96 h	17.14 h

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 Association for Digital Economy (*Asociación Española de la Economía Digital*) (Adigital), 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 advertising rules and also follows a structured internal approval procedure for all advertisements, which includes legal aspects, prices, product development and marketing. All advertisements are approved by the legal department, which compares them to current advertising practices codes of the Advertising Standards Association to ensure compliance therewith. They also conform to the conditions of

supply license SLC 25 and SLC 7B for a more simple, clear and just market for domestic consumers and microentrepreneurs, treating all customers equally.

The companies of Neoenergia in Brazil follow the basic rules defined by advertising ethics in accordance with the principles of responsible advertising of the National Council on Advertising Self-Regulation (*CONAR-Conselho Nacional de Autorregulamentação Publicitária*) (Conar Statute), such as to not produce deceitful or abusive advertising that cause distress to customers or companies or that accentuate social or racial differences. They also follow the Rule on Management of Institutional, Commercial and Internal Communications and Relations, which give guidance regarding eternal communications and Advertising and the Corporate Policy on Social Media Usage.

The following table sets forth the incidents that occurred due to non-compliance regarding marketing, advertising, promotion and sponsorship during financial year 2018, when 5 incidents occurred in Spain resulting in a fine.

417-3

Incidents of non compliance concerning marketing, advertising, promotion and sponsorship (no.)	2018	2017	2016
Resulting in a fine	5	0	2
Resulting in a warning	0	0	0
Relating to voluntary codes	0	0	0
Total incidents	**5**	**0**	**2**

Information on and labelling of electricity sold

GRI 417

417-1

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 standard model images and labels established by the National Markets and Competition Commission (*Comisión Nacional de los Mercados y la Competencia*) (CNMC), which also provides a breakdown of the mix of national production technologies to compare the average national percentages with those corresponding to the energy sold by the company together with the company's energy mix. 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 we get our 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 beginning of the "Digital transformation" section.

The following table sets forth the incidents related to information and labelling that occurred during financial year 2018, during which none have occurred.

Incidents relating to information and labelling (no.)	2018	2017	2016
Resulting in a fine	0	2	8
Resulting in a warning	0	0	0
Relating to voluntary codes	0	0	0
Total incidents	**0**	**2**	**8**

Health and safety of customers and of the general population

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 and security forces in order to explain possible conflicts that they may find in the performance of their work 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 people.

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 described in the "Stakeholder engagement" section.

416-1

All processes required for the supply of electricity and gas at all stages, described above, 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.

The table below sets forth incidents regarding the impacts of products and services on the health and safety of customers during 2018, of which there were 0 incidents.

416-2

Incidents stemming from non compliance with regulations or voluntary codes regarding health and safety (no.)	2018	2017	2016
Resulting in a fine	0	6	1
Resulting in a warning	0	0	0
Relating to voluntary codes	0	2	0
Total incidents	**0**	**8**	**1**

EU25

Furthermore, as described above, the construction, operation and maintenance of electric infrastructure involves certain risks, which may at times give rise to incidents affecting people outside of the company. In most of the cases detected, the incidents are related to third parties working without safety measures in the areas around the distribution facilities, as well as accidental contacts with the network.

The following table shows the accidents of this kind that occurred during 2018. 6 of the persons who suffered accidents were in Spain, 15 in the United Kingdom, 17 in the United States and 151 in Brazil. Of the accidents that have occurred, 1 caused a fatality in Spain and 40 in Brazil.

Accidents of persons not belonging to the company (no.)	2018	2017	2016
Accident victims	229	333	261
Fatalities	41	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. Annual legal proceedings finished and pending by year-end 2018 amounted to 61 in Spain, 51 in the United States and 122 in Brazil.

Annual legal proceedings (no.)	2018	2017	2016
Settled and pending, stemming from those accidents	234	408	258

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 2018* and *Radioelectrical emissions of relay stations 2018*. 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.

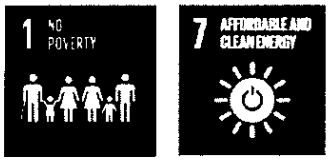
In the United Kingdom and the United States, the facilities comply with applicable regulations and measurements are not taken at the facilities unless requested by the customer. However, they offer an advisory service and perform surveys that gather the concerns of customers. During 2018, 35 such requests were received in the United Kingdom from England, Wales and Scotland, and there was no pending action for breach of maximum levels. For the 35 requests for information, there were 32 field visits, and safety advice and information was given to the customer on 3 occasions. In the United Kingdom, there is also monitoring of applicable legislation, changes therein and research through working groups within the Energy Networks Association. In the United States, a complaint has been received through CMP for a dispute regarding electromagnetic field (EMF) levels.

In Brazil, the law requires a number of measurements and simulations of electromagnetic fields above 138 kV, which are below the reference values established under federal law, with one complaint being received during 2018 from the neighbourhood of the Setúbal substation of the municipality of Guararapes in the state of Sao Paulo regarding high levels of electromagnetic field emissions. Cosern has also been asked to measure a facility in the municipality of Caicó (Río Grande).

Access to adequate information

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



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 sustainable development, 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.

Iberdrola continues to offer a pioneering sign language video-interpretation service in its customer service area thanks to the collaboration initiative with Fundación CNSE that began in 2012, and that was renewed in 2018. 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, thus covering the needs of all deaf persons, regardless of the degree or type of disability or whether or not they know sign language. Furthermore, the On-line Customer Office is available in Spanish, Basque (Euskera) and English, and the website is also available in English. Communications (invoices, letters, policies, etc.) are 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*).

Furthermore, to facilitate communications, a video-call customer service tool (Whisbi) has been included on the website in which treatment and communication with the customer are much closer and more human. In addition, in My Customer Area, a webchat has been launched that offers direct and efficient real-time customer service during online navigation. This tool helps to

reduce calls and emails received at the *Contact Center*, is available at no additional cost to the customer and increases their level of satisfaction and loyalty.

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 has an interpreting service to facilitate communications in cases where customers find it difficult to make themselves understood in English. Also, for customers who choose Welsh as the language in which they wish to receive service, invoices are offered in this language, and they are offered the mechanisms required to communicate effectively. In addition, the *Customers Requiring Additional Support* programme offers 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 impairments 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 U.S. companies CMP and NYSEG, subsidiaries of Avangrid, 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*.

Avangrid also has a service to help people with special needs and advise them on choosing services that might be useful. The company also has customer service for Spanish-speaking customers through the *In-house Spanish Speaking Representatives* service. CMP and RG&E also make available to customers employees who know other languages for those persons who request information in a language other than English (*Bilingual employee list*).

In Brazil, Neoenergia makes improvements in physical accessibility at customer service locations and preferential treatment for persons with diverse 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 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).

Iberdrola's suppliers are also required to comply with strict security measures, even sealing off facilities where there are clear risks to people or their property. In addition, upon the passage of 15 days from the notice of sealing a facility, the company requires gas maintenance suppliers to visit again to verify whether the problem is remedied and the facility is in proper operational status, thus avoiding dangerous situations or irresponsible activities by customers.

Along with the *Electrical Emergencies, Gas Maintenance Service, Gas Protection, SME Assistance, Home Assistance, Appliance Protection, Home Electric Protection, Home Electric Protection Plus, Air Conditioning Protection* and *Iberdrola Gas Comfort* services, the *Appliance Protection 10* service was launched in 2018 whereby a qualified technician will repair 9 kitchen appliances and the home TV so that the customer can avoid unexpected expenses, ensuring safety and the proper operation of the equipment.

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. Breakdown prevention consisting of maintenance visits together with fast response to repair breakdowns, thus providing improved safety for customers.

In Portugal there has been an expansion of the Products and Services offered to Customers with the launch of the *Home Electric Protection* service, which covers breakdowns of kitchen appliances and of home electric service, the *Appliance Protection* service covering breakdowns of kitchen appliances, and the *Gas Inspection* service, providing gas installation inspections.

Also noteworthy is the entry into the French residential market in 2018, with the launch of two services for the home: *Electricity Additional Comfort* and *Gas Additional Comfort*. These services are focused on the diagnosis and maintenance of electric and gas installations, respectively, and breakdown assistance.

In the United Kingdom, ScottishPower has maintained its *PowerWise* website program regarding electrical safety for parents, teachers and students, with 9,369 visits in 2018. 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 13,962 visits. Further, 6,744 children also attended the *Crucial Crew* event, 200,000 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 is also the service partner of *Stayenergysafe*, launched by Crimestoppers in order for the public to report energy-related crimes, where the manipulation of meters could endanger property and life. Welcome packages for new customers as well as ScottishPower's website offer emergency-related information, and it provides safety-related pamphlets, seminars and tweets.

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. *Storm Safety Information* provides safety information regarding potential public safety risks. In 2018, the Emergency Preparation Unit held a meeting with employees and officials from the 17 cities in which UIL provides its services to safely remove public easements and restitution for affected customers.

In addition, CMP has an *Outreach Campaign* targeting at-risk groups such as school children, safety personnel, contractors and emergency personnel.

In Brazil, Neoenergia provide 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. There were more than 500 safety awareness activities in 2018 by the companies of the Neoenergia group directed towards all sectors: farmers, children, industrialists, freelance construction professionals, etc.

Innovation and digital transformation projects

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)

In the future, new technologies, innovation and people will be the foundations upon which the new energy model will be built:

- **Disruptive technologies** that are increasingly efficient, sustainable and environmentally friendly, and that allow for optimisation of the operation of facilities and processes.
- **New products and competitive services** that respond to customer needs, with more personalised content and offers.
- **Digitalization and automation.** Between 2018 and 2022, Iberdrola plans to invest 4,800 million euros in digital transformation and will focus its investment efforts on improving the operation and maintenance of its assets and on increasing the availability of its generation plants.
- **Innovation with 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. Of note is the Universities Project, which involves the development of various initiatives: university chairs, R&D+i projects, training of students, internal training and young entrepreneurs.

Thanks to human and financial efforts (267 million euros in 2018) 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.

As evidence of its commitment to innovation, on 23 May 2018 Iberdrola held the first *Innoday 2018* event, the energy sector's major innovation roadshow, on the company's international campus.

Some of the innovative initiatives are set out below, classified by major category:

Renewable energy:

- Improved efficiency at wind farms, photovoltaic plants and hydroelectric facilities. Includes the *Doctor PV* projects, aimed at reducing costs in photovoltaic plants though predictive maintenance strategies, the *ROMEO* projects, coordinated by Iberdrola, and *ASPA*, aimed at developing models and tools for early detection of failures based on artificial intelligence and big data techniques. The *Renewables Digital Evolution Plan (2018-2022)* and the *Renewables Accelerator* project for the promotion of new ideas to

foster increased efficiency and global competitiveness of renewable energy have also been launched.

- Projects of note in the hydroelectricity area are *HIDRODEMAND*, targeted at the implementation of operating efficiencies, and *HIDROSMART*, for the development of new technologies to be exploited at the Cuenca Operation Centres (COCs).
- Improved integration of renewable energy, including the registration of Avangrid Renewables as a Balancing Authority (BA).
- As to innovation in offshore wind projects, the Wikinger wind farm was inaugurated and construction of East Anglia One has started in the United Kingdom.

Clean generation technologies:

In 2018, efforts in the generation area centred on operational flexibility and efficiency, respect for the environment and improved safety at facilities:

- Projects in the nuclear area included *OFF-GAS, RESHAND* and *FILTRABRIS,* which were collaboratively developed with *GDEST4S* within the framework of Iberdrola's *Innovation Programme for Suppliers*, and all of which are oriented toward operational efficiency and nuclear safety.
- The thermal generation area includes the *OCTAVE* project, which is intended to develop technologies for the diagnosis and control of the combustion process to make our plants more flexible. This project is key to ensuring the resilience and safety of the Spanish electricity system, permitting the integration of renewables.

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. In this regard, in 2018 Iberdrola has worked on:

- New initiatives to improve the customer's experience. New projects were launched in 2018, focused on increased personalisation of content and offers, together with a new *Customer App* in Spain, France and Portugal and a new website. It is now also possible to enter into contracts and procure products online, without prior registration.
- New products and functionalities. In 2018 we launched new packs in *Smart Home,* which combines energy, products and services and tools focused on improving energy management in the home without charge. We have also improved the functionalities of *Smart Home*, so that one can get an "online offer" on the website thanks to the analysis of consumption curves, expected insulation, location and orientation of the installation.

  Smart Mobility includes the launch of the new *Iberdrola Public Recharge App*, which allows one to reserve and use recharging stations on the Iberdrola network, and also launch the *Smart Mobility Home* application to control the recharging of domestic equipment.

  In Brazil, Neoenergia has made available to customers a mobile application that allows them to check their consumption, see bills and make payments; and in the United States Avangrid has launched *NYSEG Smart*, an online store where customers can search for, compare and safely buy efficient energy products (smart thermostats, lighting, electric vehicle chargers, etc.).

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, the company continues to participate in the *ASSURED* project to develop rapid charging solutions for heavy duty electric vehicles, and in the *INTENSIS4EU* project, which seeks a new focus in the area of smart grids and energy storage.

In Spain, Iberdrola will continue pushing the digital transformation of the electricity grid of the Basque country thanks to the *Bidelek 4.0* project. There is a continuation of the *LAYCA* project, which seeks to develop a system for locating breakdowns and identifying failures in medium-voltage networks, and has launched the *Caravaca BESS* project in order to achieve integration of a battery energy storage system (BESS) in operation.

In the United Kingdom, development continues on the *Fusion* and *LV Engine* projects, directed towards the optimisation of low-voltage grids. There is also the *SPEN* project, conceived to manage restrictions on the high-voltage grid at the Dunfries and Galloway plants.

In Brazil, there is the *Bid Monitor* project, which seeks to develop a support system for decision-making in electricity sales, and *Smart City* project for the implementation of innovative solutions for automation and operation of the electric grid. The *TITAM-BT* project also seeks to develop equipment that would allow for a reduction in fraud and ensure proper billing for customers.

In the United States, the *Woodbridge Microgrid* seeks to develop a micro-network with fuel cell to strengthen the grid under extreme climate conditions. There has also been a continuation of initiatives included in the *Energy Smart Community* programme, like the *ADMS* project to develop an advanced system for managing the distribution system and distributed resources.

Of note is the inauguration in 2018 of *Iberdrola Innovation Middle East*, a technology centre focused on responding to the challenges of the digitalization of the energy system, and focusing on three key areas: smart grids, integration of renewables and energy efficiency.

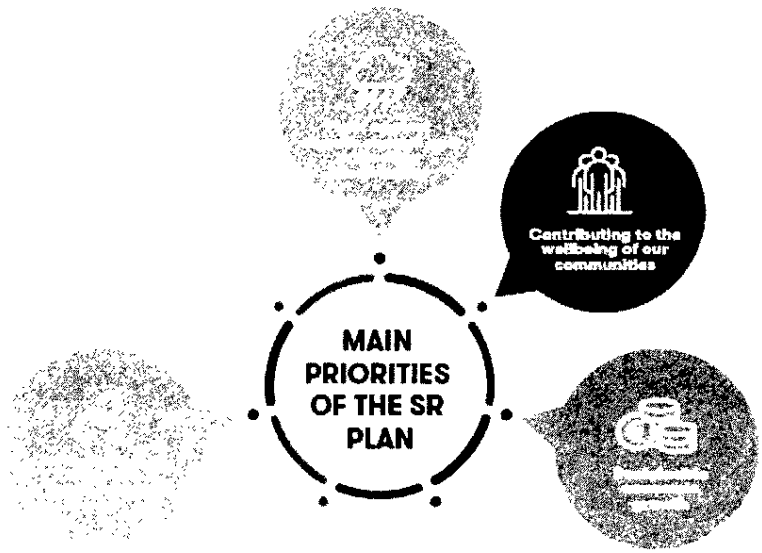
Iberdrola Ventures – Perseo

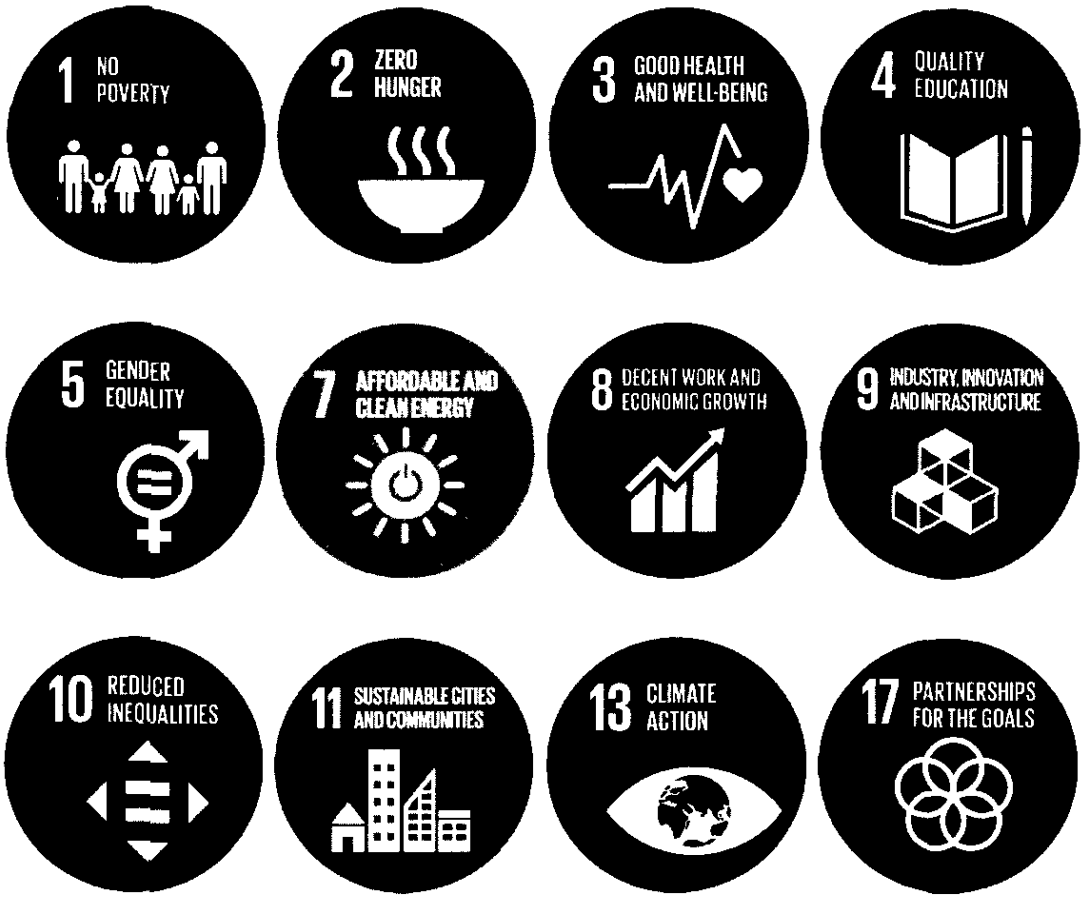
Iberdrola Ventures - Perseo is Iberdrola's start-up programme with 70 million euros to promote the development of a dynamic ecosystem of start-ups and entrepreneurs in the energy sector. Since its creation in 2008, more than 50 million euros have been invested in start-up companies in the energy sector worldwide. The main achievements in 2018 included:

- Recognition by the European Commission within the framework of the *Start-up Europe Partnership* initiative, by naming Iberdrola for the second consecutive year one of the top 12 European corporations that work best with start-ups. Iberdrola also received the special "*Start-up Procurement Award*".
- More than 10 pilot projects with start-ups in technological areas like Artificial Intelligence, Big Data, Internet of things (IOT) and blockchain, in order to improve both the planning and the management of assets and optimise operation and maintenance.
- In the investment area, there is the company Atten2, dedicated to developing solutions for online monitoring of critical assets to improve the operation and maintenance thereof, as well as prolong its useful life through predictive maintenance and better operation thereof.

Further information on the R&D&i projects in which Iberdrola participates can be found in the Innovation section of the corporate website.

II.5. Contribution to the Well-being of our Communities





- Introduction
- Access to energy
- Protection of human rights
- Support to local communities
- Contributions to society (LBG)
- Corporate volunteering programme
- Foundations
- Iberdrola and the Global Compact

Introduction

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 a relationship model with each of them, and maintenance of fluid channels of communication, are significant goals to which Iberdrola dedicates numerous resources, as described in more detail in the "Stakeholder engagement" section of Chapter II.7 Good governance, transparency and Stakeholders engagement" of this report.

Within the company's explicit commitment to the sustainable creation of 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.

In relation to Iberdrola's commitment to defend human rights, the main goal is to incorporate the management thereof into all of 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 last revised in October 2018. 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*.

Within the framework of its *Human Rights Management Model*, Iberdrola is performing diagnostics to identify the actual and potential risks of its activities affecting human rights in all of the countries in which it does business, paying special attention to those countries in which the risk of impact might be higher due to lax legislation in this area. The analysis also evaluates the extent to which current due diligence procedures of the company are sufficient to manage these risks and comply with the provisions of the Guiding Principles and industry guidelines in this area. The company also has other tools approved by the Board, like the *Code of Ethics*, approved in February 2002 and last revised in October 2018, which serves as a guideline for the conduct of directors, professionals and suppliers, establishing control measures as well as disciplinary measures in case of non-compliance.

Consultation and complaint mechanisms

As provided by Iberdrola's By-Laws, the corporate website (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 any page on the corporate website, one can use the new navigation menu to directly access pages dedicated to customers and to the distribution networks of the countries in which Iberdrola does business.

- The "Iberdrola group" link in this menu also offers a complete map from which one can access all of the websites of the various country subholding companies and head of business companies of the group, as well as those of the Foundations of each country.
- The navigation menu can also be used to access the "Contact" section, in which the following appear in an organised and accessible form:
    - The main contact channels (Corporate Communication, Brand, Social Responsibility, Investor Relations Office, Office of the Shareholder, CDI an ADR Holders, Sustainability and Environment, Supplier Service Centre, Employment Channel, etc.).
    - The addresses of the Iberdrola group's offices in the various countries.
    - Customer service centres in the various countries.
    - Subject-specific query mailboxes.
- Finally, the Corporate structure of the group section within Corporate Governance shows the corporate diagram with corresponding links to all of the country subholding companies and head of business companies of the group.

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 identifying and investigating unethical behaviour or behaviour that might lead to situations of fraud or corruption in any form: the ethics mailbox, the professionals' ethics mailbox, the shareholders' ethics mailbox, the suppliers' ethics mailbox, through which employees, shareholders and suppliers can channel 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 "Environmental safety" section of Chapter II.3 and in the "Socio-economic compliance" section of Chapter II.7 of this report.

Incidents relating to discrimination in the labour area during 2018 are set out in the "Protection of human rights" section of this chapter. Iberdrola has not received any complaint during financial year 2018 regarding other aspects relating to human rights through the channels established for this purpose, nor is it aware of court claims that might have a specific social impact.

Access to energy

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)

Access to energy for off-grid customers

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 835,500 km^2, with a resident population of slightly more than 33.6 million people), 200,563 persons do not have electricity, representing around 0.6% of the total population within the area of the Neoenergia group companies.

The companies of the Neoenergia group have continued to develop rural electrification programmes, undertaken jointly with government authorities, 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.

In 2018, the aggregate funds allocated to rural electrification programmes in Brazil represented a total of 189.6 million euros on a consolidated basis for the group.

Electrification programmes 2018	(€ thousands)
Neoenergia	189,636

For some populations with difficulties accessing the network, such as indigenous populations or *quilombolas*, they also receive various assistance programmes from Neoenergia and the installation of off-grid photovoltaic systems and other actions to ensure universal access to the distribution network.

Electricity for All programme

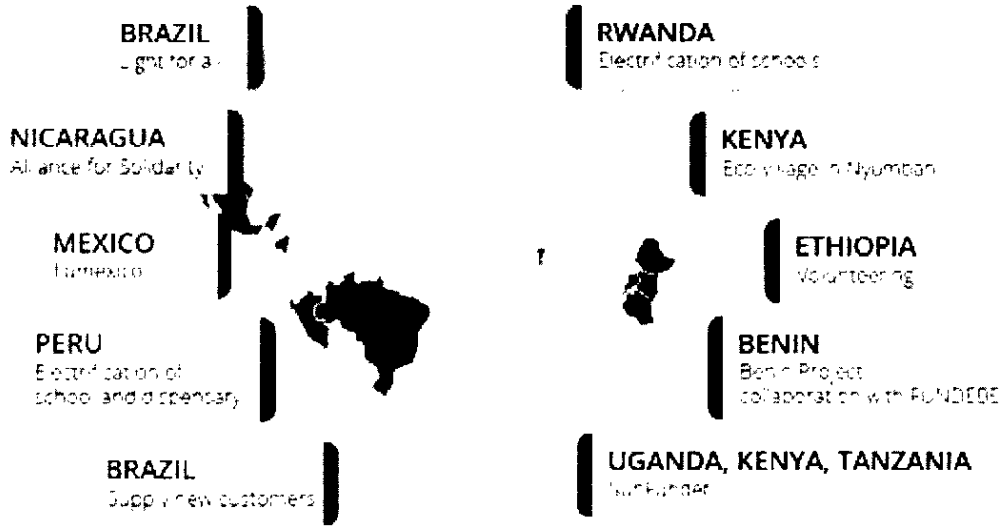
The Sustainable Development Goals (SDGs) 2015-2030, to which Iberdrola has linked its business strategy, define universal access to energy as essential and frame sustainable energy as an opportunity that transforms life, the economy and the planet. To meet the challenges and opportunities currently faced 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.

Upon launching the programme, the company 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. This objective was revised in 2018, and within the framework of the Iberoamerican Conference on the Sustainable Development Goals held in Salamanca, Iberdrola launched an ambitious 2030 goal of providing access to electricity to 16 million persons without it in emerging countries.

There are 5.4 million beneficiaries of the *Electricity for All* 2014-2018 programme with 3 areas of activity:

- Financing of projects through capital investment, using the PERSEO investment fund. Iberdrola has invested in Sunfunder and in Iluméxico within the framework of this programme.
- 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 and their rural customers.
- It develops projects with a high social component, through NGOs and corporate volunteers.



Access for vulnerable customers

The *General Sustainable Development Policy* approved by the company's Board of Directors assumes as a principle of conduct that attention is paid to customers who are economically disadvantaged or in any other situation of vulnerability, establishing specific procedures of protection and collaborating in providing on-going access to energy and gas supply according to the policies established by the competent government authorities in each case.

Thus, the companies of the group have procedures to protect customers at risk of exclusion or in vulnerable situations to facilitate access for the most disadvantaged groups, including the following:

- In Spain, there is application of the *Vulnerable Customer Protection Procedure*, which allows for an increase in 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 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*) that apply lower electricity prices to electricity consumers considered to be vulnerable on the basis of certain 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. During the year, the publication of Decree 15/2018 specified, among other measures, the conditions of the subsidised rates and expanded coverage to special groups (family units with disabled members, victims of gender violence or terrorism). At the end of 2018, Iberdrola had 404,540 customers with subsidised rates.

  To facilitate access to subsidised rates, Iberdrola has implemented a broad communication plan to get information to all people, like the creation of a new website of the retailer, where customers can obtain all information through the website www.iberdrolacur.es/bonosocial. It has also sent information to more than 1,500 Consumer heads, and has had meetings with consumer associations. The company has made available to customers a consultation inbox, 512 onsite service points with more than 1,000 agents, and 24-hour telephone service with personnel specifically trained to serve customers with respect to the *Bono Social*. It has also created a leaflet and has sent more than 18 million informational letters in the invoice to all customers of Ibercur, together with an informational video distributed on social media, and informational notes and subject-specific meetings with the principal media outlets.

- In the United Kingdom, ScottishPower has signed the *Energy UK Safety Net for Vulnerable Customers* agreement, which includes a commitment to not 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, implemented by the government in 2011, is also still in operation. The *"Extra Care"* programme provides "extra care" to the most vulnerable customers, ensuring that they receive the support they need, adjusting payment methods to their individual circumstances and providing them with additional services if necessary. They also have "*Hyper Care*",

which offers support to customers who show signs that their circumstances might be changing and that they might be entering into payment difficulties.

- 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*) with two levels of assistance: *Basic Energy* (monthly bill credit) and *Limited Benefit* (to cancel debts for delayed payment). At CMP, the ELP programme also guarantees a connection for people with limited resources who depend on an oxygen tank or ventilator.

- 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. In 2018, Aneel (*Agência Nacional de Energia Elétrica*, 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.

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:

EU27

Residential disconnections for non payment (no.)	2018	2017	2016
Paid up to 48 h after disconnection	1,270,849	1,304,986	1,182,466
Paid between 48 h and one week after disconnection	253,559	236,436	237,576
Paid between one week and one month after disconnection	239,246	226,654	214,745
Paid between one month and one year	197,422	181,141	188,504
Paid after more than one year	8	7	0
Outstanding and unclassified	0	0	48,606
Iberdrola total	**1,961,084**	**1,949,224**	**1,871,897**

Residential reconnections following payment of unpaid bills (no.)	2018	2017	2016
Less than 24 h after payment	1,640,500	1,612,578	1,561,202
Between 24 h and one week after payment	162,744	184,780	191,332
More than one week after payment	124,722	116,395	102,068
Unclassified	0	0	14,634
Iberdrola total	**1,927,966**	**1,913,753**	**1,869,236**

Information on disconnections and reconnections in the various countries is described in Annex 1 Supplementary Information.

Protection of human rights

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)

Iberdrola's commitment

The group has a firm commitment to the defence of human rights, and has a set of tools that ensure and promote the protection of and respect for human rights, in order to prevent, mitigate and repair any possible impact on human rights. Therefore, the company's practices are in line with the principles underlying the *United Nations Global Compact*, *Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework (hereinafter the GPHR)*, the *OECD Guidelines for Multinational Enterprises*, the *Tripartite Declaration of Principles Concerning Multinational Enterprises* and the *Social Policy* of the International Labour Organization.

Iberdrola has a *Policy on Respect for Human Rights* approved by the Board of Directors in 2015 and last revised in October 2018, the principles of which must be followed by all professionals of the group, regardless of the place in which they carry out their activities. With this policy, apart from formalising its public commitment, Iberdrola wants to send all of its Stakeholders a clear message that the company is committed to respecting the human and labour rights recognised by domestic and international law.

The company has adopted the measures necessary to comply with this policy in all countries in which it operates. And it has made 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.

During 2018, it has updated its risk map by country and business using 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 2018 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 (2017 data, the latest available during the study).
- Transparency International (Corruption Risk, 2017 data, the latest available during the study).
- Countries involved in armed conflict (*Report on Conflicts, Human Rights and Peace Processes. 2018 Alert*. School for a Culture of Peace).

412-1 407-1 408-1 409-1

Once the risk map was updated, the data were cross-checked against the analysis identifying the significant locations of operation in 2018, in order to know what locations might have a possible risk of violating these rights.

Of the 150 significant locations of operation (detailed information in the "Key figures" section) covered by analysis or impact evaluations in the area of human rights (100% of the significant locations), 57 of them (38% 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 subsidiary Avangrid, Iberdrola does not believe there is a risk of violation of these rights for the group's workers.

Beginning of the project for a new human rights due diligence strategy

During 2018, Iberdrola developed the first stage of a new approach to human rights due diligence. Further developing its *Policy on Respect for Human Rights*, it followed the advice of the Guiding Principles (principle 18.a of the HRGP) and has drawn on the advice of experts who are recognised internationally for their advice on human rights due diligence processes. The due diligence project seeks to adjust the HRGP to the size of the company, the diversity and peculiarities of facilities in the various countries and the complexity of implementing the human rights management system at a company like Iberdrola.

The entire project focuses on persons, specifically on the company's relationship with affected persons, and for that reason it is essential to know the needs of all Stakeholders first-hand (principle 18.b of the HRGP). For the same reason, concurrently with the human rights due diligence project, Iberdrola has developed a Stakeholder relationship model that ensures there are appropriate communication channels for each of them, which will help to better identify important matters and to both prevent and mitigate possible impacts and allow the company to respond with the required agility.

The greatest progress in the methodology used to date has been in the considerable increase of the number and quality of the sources for the identification of actual and potential impacts on its activities, and in the boost given to the full and detailed review of due diligence mechanisms.

Efforts during 2018 focused on:

- building a new methodological and analysis framework to carry out this task, and
- compiling the information required to identify human rights impacts and gaps in due diligence using the new methodology.

The final results and recommendations derived from this work will be presented in 2019 and an Action Plan will be prepared to solve the possible weaknesses in existing due diligence processes, both at the corporate level and at the companies forming part of the group.

In summary, the methodology applied adopts the recommendations of the HRGP at three successive levels of refinement and depth in the identification of human rights impacts:

1. *potential impacts* for the sector, affected by country risk (principle 17).
2. *significant impacts* for the company, based on the severity, possibility of remediation and linkage of impacts (principle 19.b).
3. *priority impacts* for the Action Plan, giving preference to the elimination of due diligence gaps (principle 19.a).

Progress on and results of the human rights due diligence project

The potential impacts on the electric power industry have been identified, thus defining, extensively but precisely, the area with respect to which Iberdrola must be vigilant as regards human rights. This has made it possible to enlarge the focus of what the *Policy on respect for Human Rights*, the *Code of Ethics* and other corporate documents have considered to date were human rights issues, following the advice of the HRGP to take the entire spectrum of internationally recognised human rights into account (principle 12).

To facilitate analysis, in the resulting inventory of potential impacts, they have been classified into categories that include those that share the same aspect relating to the organisation and operations of the company:

- Impact on local communities
- Small-scale environmental impact
- Large-scale environmental impact
- Public insecurity
- Labour practices

- Quality of supply and services
- Universal access to energy
- Privacy and data protection
- Ethics and integrity

Furthermore, various areas of business activity were detected in this phase that are potentially affected by human rights issues but that were not included (at least not explicitly) due to issues of simple terminology or strategic formulation. Thus, progress has also been made in raising sensitivity on human rights across the entire company.

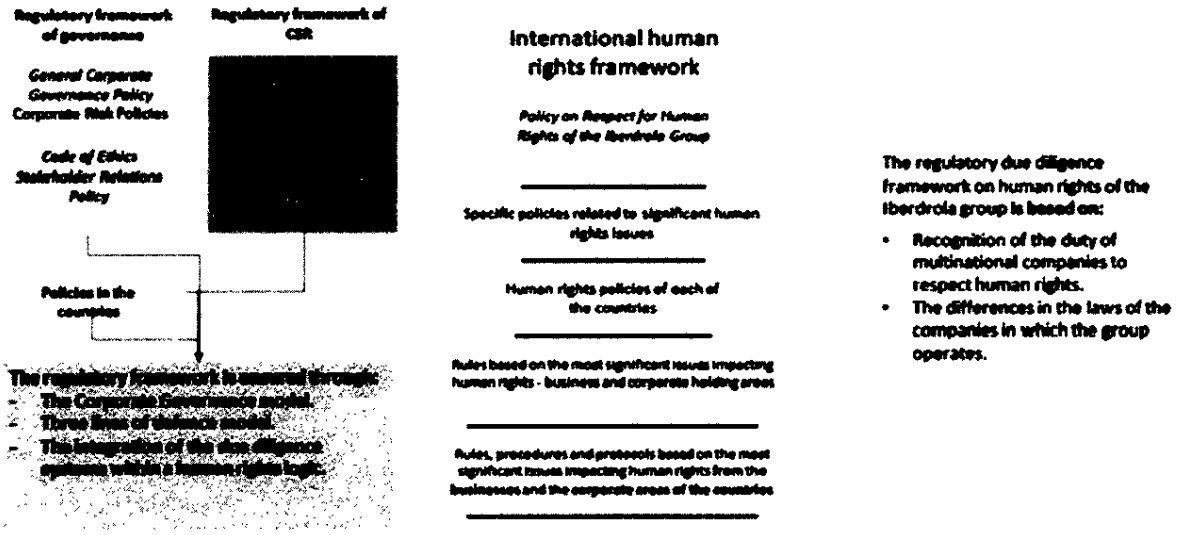
At a second level, an in-depth study has been undertaken to determine which of such potential impacts the company is specifically generating or runs the risk of generating. This study is carried out taking into account the particular characteristics of different contexts and, for that reason, a specialised team has visited work centres and facilities in Spain, Brazil, Mexico and the United Kingdom, while visits to centres in the United States are scheduled for the first few months of 2019. In addition, a survey directed at the heads of the 150 main activity centres was prepared to complete the compilation of information. During the visits made in the reporting period, more than 60 conversations were held with various areas of the company, in which both the consulting team and the Social Responsibility area participated. Thanks to these activities, the significance of the human rights impacts specific to each country is being assessed, based on standards of frequency, severity, scope, possibility of remediation and connection.

Due diligence framework

A general human rights due diligence framework has been determined that is in line with existing management mechanisms.

- The Iberdrola group's corporate governance model, which allows for independence among the various companies of the group while ensuring consistency regarding their commitment to human rights.
- The group's control model, based on three lines of defence that assigns clear prevention, monitoring and assessment responsibilities, thus allowing for an on-going improvement model.
- The regulatory framework for corporate responsibility, which is the basis for policies to guide the responsible management of the business and provide due diligence guidelines across the entire group:
    - *General Sustainable Development Policy*
    - *Innovation Policy*
    - *Human Resources Framework Policy*
- Integration of the due diligence systems within a human rights logic.
- Review of the reporting channels of the *Code of Ethics.*

The following diagram illustrates the foregoing:



Progress has been made in documenting existing commitments, procedures and controls, including both those that have been formally established and those that are customary practices and informal management methods. This task has highlighted the existence of many commitments, procedures and control mechanisms at Iberdrola that are in line with HRGP objectives which, while not explicitly mentioning their connection with respect for human rights, are consistent with a framework of prevention, mitigation and reparation of human rights impacts. Two clear examples are environmental management processes and privacy and data protection policies.

This framework has allowed the company to undertake a gap analysis, which will be the basis for the process to prioritise human rights actions. These actions will be set forth in a short-, medium- and long-term action plan that will take into account the differences at the corporate level and in each of the countries in which the company operates.

Prioritisation

The HRGP recommend prioritising impacts when scheduling initiatives to prevent and mitigate them. That is a third level of analysis. Preliminary results of such assessment indicate that there are differences in the issues that are most significant not only for each country, but also for the various operations and areas of activity. The next step during 2019 will be to assess the differences and the different human rights management models in each country in which the company does business, based on the same human rights due diligence model and gap analysis.

Significant issues for our Stakeholders

Below are some examples of how Iberdrola is managing specific human rights issues that are significant for its Stakeholders.

a) Related to labour practices

In connection with labour practices, an issue that was particularly significant for Stakeholders was non-discrimination.

GRI 406

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 its mission is to avoid any discrimination for reasons of race, colour, gender, language, religion, political opinion, national origin, social status, membership in an indigenous community, disability, health, marital status, pregnancy, sexual orientation or other condition of the person that bears no relationship with the requirements to perform their work. It also has collective bargaining agreements and local policies, including:

- 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 Neoenergia, in Brazil.

By applying all of these instruments, Iberdrola ensures that the selection processes are based solely on the merits of the candidates and that the promotion of equality within the group as regards access to employment, professional training and promotion and working conditions is guaranteed.

During 2018, the group received a total of 26 grievances regarding labour discrimination through the various channels. 10 of them are pending. Of the grievances that have already been closed, i.e. 16, 4 ended confirming the existence of improper action in this area and the rest, 12, did not find evidence of such impropriety. Of the former, 3 led to a written reprimand and the fourth led to dismissal.

406-1

Reported incidents of discrimination (no.)	2018	2017	2016
Iberdrola total	**26**	**12**	**7**

b) Related to an impact on local communities and the rights of indigenous peoples

GRI 411 411-1

In relation to local communities, the issue of relations with indigenous peoples has been a concern of the Stakeholders.

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).

Employees belonging to indigenous communities

During 2018 in Brazil, only the electricity distributor Celpe (Neoenergia group) has employees that declare themselves to be of indigenous race, but since they do not reside in an indigenous community, they do not belong to one. However, at the Belo Monte hydroelectric plant (owned by Norte Energia, a company in which Neoenergia has an indirect 10% interest, without exercising control or management thereof), outside labour has been hired from the various indigenous communities in implementation of the Medio Xingu Territorial Protection Plan (*Plano de Proteção Territorial do Médio Xingu*) (PPTMX). Furthermore, in the United States Avangrid has employees who identify as Native Americans or Native Alaskans. There is no evidence of employees belonging to indigenous communities at the other companies of the Iberdrola group.

It should be noted that there were no incidents relating to the violation of the rights of employees belonging to indigenous communities during 2018.

Presence of the company in indigenous territory

The company, with a presence in 3 countries where there are indigenous communities (Brazil, Mexico and the United States) 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 the various organisations representing these communities, in order to report on the projects with due transparency and integrity. However, there may occasionally be direct or indirect impacts on these communities at some facilities, which is why there is an attempt to promote ethical practices with the goal of preventing conflicts, being competitive and generating mutual benefit, which in the long term is the base social value.

The activities performed in indigenous territories is describe below:

- In Brazil, in August 2017 Iberdrola became the majority shareholder of Neoenergia, S.A., a company that already held 10% of Norte Energía, S.A., which 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, affecting a total of 9 ethnicities (around 3,857 indigenous persons). In order to mitigate, compensate and/or prevent these impacts, Norte Energia, S.A. prepared an ethnological study, and based on that study prepared a Basic Environmental Plan for the Indigenous Component (Projeto Básico Ambiental-Componente Indígena) (PBA-CI) 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. It also prepared the Medio Xingu Territorial Protection Plan (*Plano de Proteção Territorial do Médio Xingu*) (PPTMX) based on the relocation of populations called "riparians" (*ribereños*). The actions to protect the riparian population are included in the General PBA, now connected to the Rural Resettlement Project. Through December 2018, approximately 313 families have been relocated, 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 will be reviewed every 5 years in order to update it and thus ensure that indigenous rights are respected. For more information regarding the environmental permit programmes of Below Monte, see:
https://www.norteenergiasa.com.br/pt-br/sustentabilidade/licenciamento-ambiental

- 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. This plant is located 60 km from the border of the nearest indigenous lands. Although there is no direct impact, under Brazilian law there must be socio-environmental studies and programmes, for which reason the company 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 expectations 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.

  The plan is being implemented according to the timetable approved by the Teles Pires hydroelectric company, and the works approved for the Kayabi have already been completed, the works for the Munduruku are being finalised, and the works for the Apiaká have started. For more information on the indigenous components of the Teles Pires environmental action plan, see:

  - P 45 - PBAI APIAKÁ
  - P 45 - PBAI KAYABI
  - P 45 - PBAI Munduruku

- As regards network construction activities, various distributors of the Neoenergia group have engaged in construction in indigenous land areas in Brazil. The distributor Coelba built two medium-voltage projects (Medida Provisoria - Faz Renascer - Región Sapucaeira y Medida Provisoria - Faz Bela Cascata) which were processed by the governmental environmental authority to obtain the Vegetation Suppression Approval (VSA) and Declaration of Intervention in Permanent Preservation Area (DIPPA) and FUNAI was also consulted. The distributor Celpe also built a substation and transmission lines in the Fulni-ô indigenous territory, in the municipality of Águas Belas (Pernambuco). Finally, the distributor Elektro is bidding on two sub-transmission lines, Línea de Transmisión Manoel da Nobrega-Mongaguá and Línea de Transmisión Mongagua-Perúíbe, located near certain indigenous villages on the southern coast of the state of Sao Paulo, and it is also working with FUNAI and a specialised company to prepare the Indigenous Component of the environmental licensing study to mitigate the impacts.

  It is important to note that all of these electricity grid construction activities adhere to 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 greater co-existence with existing forestation.

- In the United States, in the State of California, the Tule Wind Project reached commercial operation at the beginning of 2018, 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). As part of the agreed mitigation efforts, a consultant specialising in cultural resources was hired to design a District Nomination request pursuant to the provisions of Section 106 of the National Historic Preservation Act in order to document and help to preserve the cultural resources discovered near the project site. There was also work together with tribal representatives to determine both the location of the pavilions as well as the text of the panels to be placed in public places with specific information on the history of the region and its tribes, managed by the BLM.

- The activities of Iberdrola Mexico did not lead to incidents with indigenous communities during the reporting period.

c) Relating to public insecurity and labour practices in the hiring of security services

Another issue that is significant to the Stakeholders has been the management of security services.

GRI 410-1

The *Corporate Security Policy* approved by Iberdrola's Board of Directors and the specific security procedures adopted by the Corporate Security Division for each situation and country are compatible both with international human rights provisions and with the laws of each country.

With the certification granted by Aenor and IQNet since 1999, 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 security and monitoring services providers is handled by the Procurement and Insurance Division using competitive tender processes in accordance with the corporate Procurement Policy, model and procedure currently in effect. The Corporate Security Division is responsible for setting the technical specifications and standards to be met by such suppliers in order to be hired, in terms of physical security, resources, training, cybersecurity, etc.

412-1

Security personnel trained in human rights	2018	2017	2016
Company personnel			
Company personnel (no.)	173	140	130
Company personnel trained in human rights (no.)	172	139	120
Company personnel trained in human rights (%)	99	99	92
Subcontracted personnel			
Subcontracted personnel (no.)	1,448	1,483	1,242
Subcontracted personnel trained in human rights (no.)	909	1,240	1,059
Subcontracted personnel trained in human rights (%)	63	84	85

The reduction in the number of subcontracted security personnel with human rights training is due to the tender for security and monitoring services in Spain and Mexico in 2018, with the resulting subrogation to the companies providing the services. The new companies have committed to provide a specific online human rights training course for security personnel in 2019.

d) Employee training on human rights

412-2

Due to the importance that respect for human rights has for the company, there are various training initiatives 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, mitigation and the remediation of any violation of human rights.

Iberdrola 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.

Employee training on human rights (h)	2018	2017	2016
Spain	109,595	73,244	136,790
United Kingdom	102,510	30,561	25,242
United States	15,238	49,247	32,241
Brazil	16,533	23,316	11,935
Mexico	20,832	25,901	14,526
Iberdrola total	**264,708**	**202,270**	**220,736**

Aware that internal awareness-raising alone is not enough, Iberdrola has also acted as a motivating lever for its suppliers, preparing an awareness-raising module regarding human rights, and intends to make it available to other Stakeholders.

e) Investment agreements and contracts that include human rights clauses

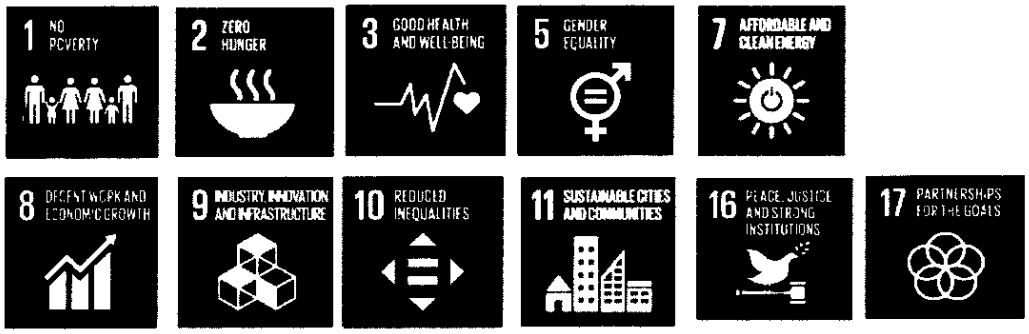
The policies, codes and procedures governing the operation of the company are applied in all of Iberdrola's activities, including investments. Specifically, the *Procurement Policy*, which contains the general contracting terms of the Iberdrola group, includes a specific section on respect for human rights. Specific human rights clauses are also included in the United Kingdom by application of the Modern Slavery Act approved in 2015. During financial year 2018 there were 13 projects with significant investments[95], all located in the United States:

- In the Networks Business, Central Maine Power Company (CMP) is developing the New England Clean Energy Connect (NECEC) transmission project in New England, with an estimated capital investment of approximately 950 million dollars.
- In the Renewables Business, turbines have been acquired for the Coyote Ridge and Otter Creek wind farms in the total amount of 316 million dollars, and there are various contracts regarding the construction of the new Karankawa wind farm, as well as the repowering of the current Colorado Green wind project for almost 250 million dollars.

[95] 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 format or strategic importance thereof.

Support to local communities

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



GRI 413

Introduction

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 España, ScottishPower Foundation in the United Kingdom, Avangrid Foundation in the United States, Instituto Neoenergia in Brazil and Fundación Iberdrola México.
- 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.

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 "Economic/financial impact" section of Chapter II.1 Sustainable economic growth and in the "Contributions to society (LBG)" and "Foundations" sections of this chapter.

Impact assessments

In each of the countries in which the group operates, environmental impact assessment studies are performed at Iberdrola's locations 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:

Iberdrola believes that the impacts of the start-up of electric power generation plants are especially significant. In the countries in which the company builds and operates 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 social and 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 and by the Community Eco-Management and Audit Scheme (EMAS). For example, in the case of nuclear plants, an environmental Radiological Protection Programme is prepared to control and monitor the impacts of the facility during the operation thereof. There are also barometers regarding the environment near the facilities, half-yearly meetings with the municipal authorities, and frequent contacts to measure the "social environment".

Most facilities have an Integrated Quality and Environmental Management System[96], 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.

Advisory committees and processes and participation of local communities in decision-making

Iberdrola plays an active role in the participation of local communities during the planning and construction of projects, expressing its points of view and making its knowledge and experience available to the government authorities. 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.

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

[96] 73% of the group's energy production is under Environmental Management System certification.

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 in Mexico, there have been studies of the social impact of the projects currently under construction, specifically at the Topolobampo combined cycle plants (in Ahome, Sinaloa). Based on these studies, the Secretary of Energy of the Mexican government issues a resolution setting out recommendations and actions in the social area to benefit the community: paving, improvements to educational and social centres, etc. And in Brazil, there has been a socio-economic evaluation of the area around Termopernambuco, analysing demographic aspects, surroundings, influence area of the Suape Port, basic infrastructure, cultural heritage and generation of employment.

- In the Networks Business, pursuant to procedures for the management of social impact, there is public dissemination regarding projects of a certain size, in all cases complying with the regulations of each country. Both the project and the size thereof are especially taken into account regarding the impact on road infrastructures, as well as potential impacts on the landscape.

- In the Renewables Business, since the commencement of the Támega 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 2018 there were quarterly meetings 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 socio-economic impact, which is completed with site visits. The agreements with the municipal chambers of the influence zone were also renewed.

  In the United States, there are social evaluations regarding community development during the planning and construction phases for potential projects. There were various consultations with communities around potential project areas in Illinois, New York, South Dakota, Oregon, Washington and Texas in 2018. The fishing fleets of Massachusetts and Rhode Island are also in the process of consultation for the Vineyard Wind offshore wind project. In Mexico, in the construction expanding the La Ventosa plant, the affected area is being restored in accordance with the ruling of the National Commission on Natural Protected Areas (*Comisión Nacional de Áreas Naturales Protegidas*). 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. The new facilities of Neoenergia in Brazil are committed to promoting local development activities for both urban and rural populations: projects to generate income, technical support for affected rural families, health units, schools and social centres.

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 the "Stakeholder engagement" section of this report.

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 below.

GRI

The construction of Wholesale and Networks assets have not affected the real property of people because they are built on land acquired or assigned, and are also small in size. No person was physically or economically displaced during 2018.

As regards the Renewables Business, Iberdrola is currently developing various plants that involve displacements of population:

- In the construction of the Támega 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, of which there have already been three phases. 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. The displacements that have been identified as necessary and the respective economic compensation has been provided in accordance with the law on expropriations in Portugal and the socio-economic studies and in accordance with the methodology implemented regarding the management and definition of displacements and potential economic damages. Up until 2018, after agreement with the affected families, there have already been 7 displacements of homes affected by the construction (approximately 30 people).

- In Brazil, some of the hydroelectric projects in the past caused population displacements or interfered with their economic activities. The mitigation plans that were implemented are described in the "Protection of human rights" section above. There were no displacements of people in 2018.

Contributions to society (LBG)

Social actions, in cooperation with government authorities 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, Brazil and Mexico.

Dedicated resources

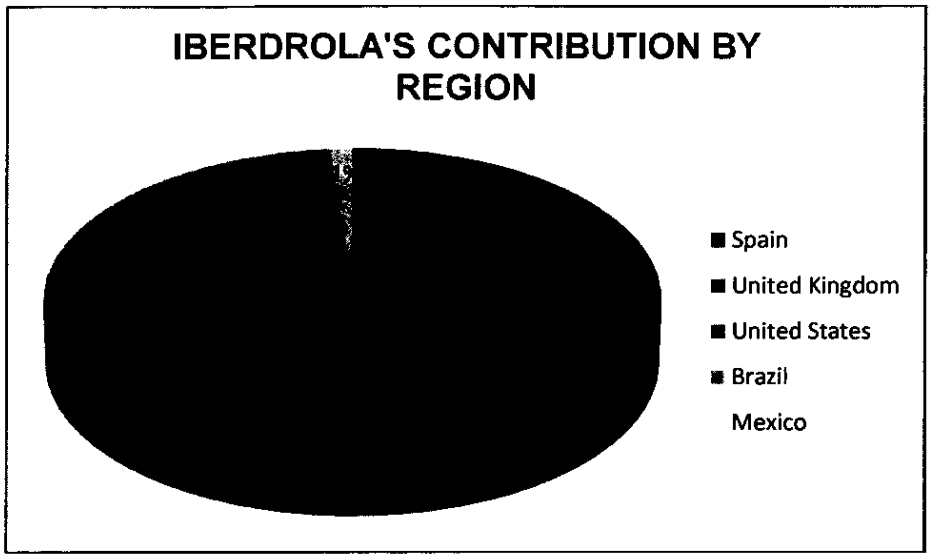
Iberdrola has selected the *London Benchmarking Group* (LBG) model to measure and assess business contributions to the community due to its wide international recognition. It is regarded as the most highly-valued standard for measuring the results and impacts of social programmes, both for the company and for the community. This standard only recognises projects that involve voluntary contributions for social or environmental protection ends, for non-profit purposes and that are not restricted to groups related to the company.

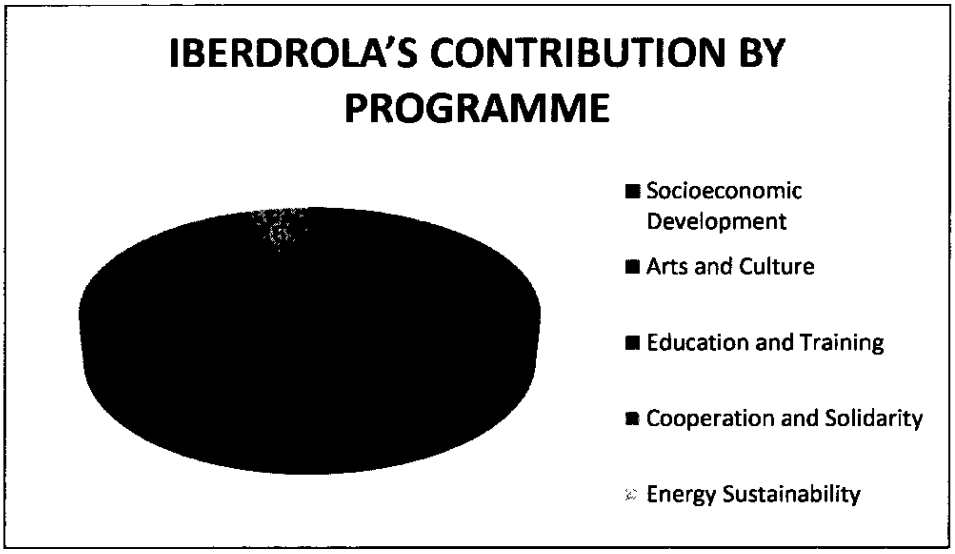
A detailed description of the LBG model can be found at the www.lbg.es.

Iberdrola has used the LBG model to report its contributions to society in this *Sustainability Report* for financial year 2018.

Contribution to the community in 2018	(euros)
By category	
- Charitable gift	3,481,748
- Community investment	36,268,099
➢ Socioeconomic development of the community	
➢ Energy sustainability	
➢ Art and culture	
➢ Education and training	
➢ Cooperation and community service	
- Commercial initiatives in the community	10,328,534
- Management costs	3,373,888
By type of contribution	
- Cash contributions[97]	49,946,201
- Staff time	115,648
- In-kind contributions	16,532
- Management costs	3,373,888
Total	**53,452,269**

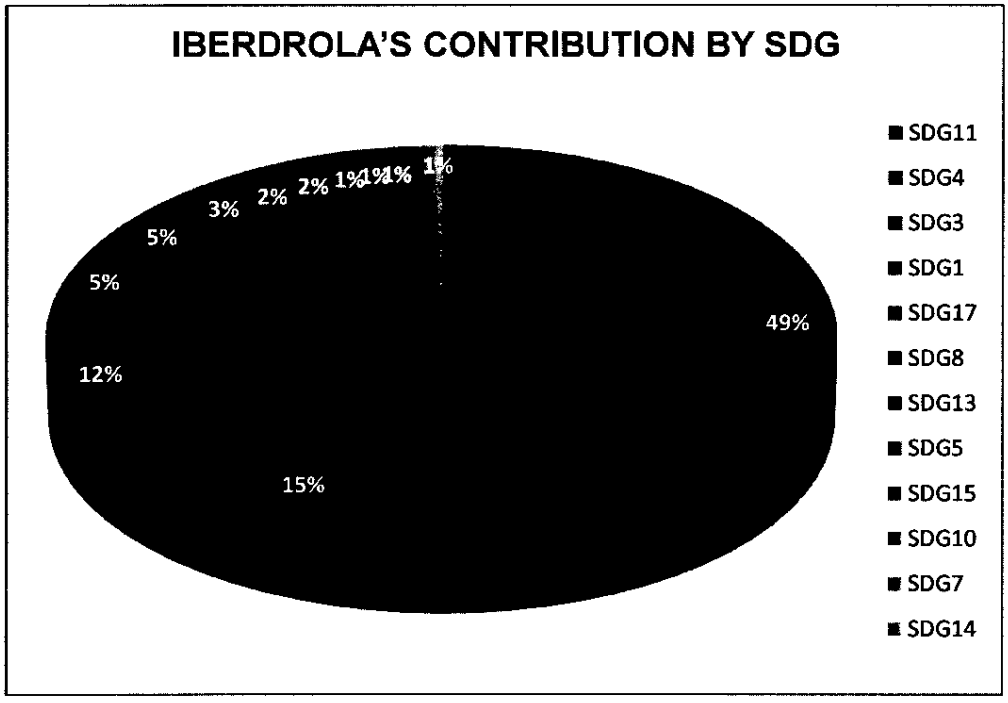
[97] Contributions made mostly to non-profit organisations and foundations but also to universities, government administrations, etc. provided that they meet the aforementioned LBG Model standards.


IBERDROLA'S CONTRIBUTION BY REGION
Spain
United Kingdom
United States
Brazil
Mexico


IBERDROLA'S CONTRIBUTION BY PROGRAMME
Socioeconomic Development
Arts and Culture
Education and Training
Cooperation and Solidarity
Energy Sustainability

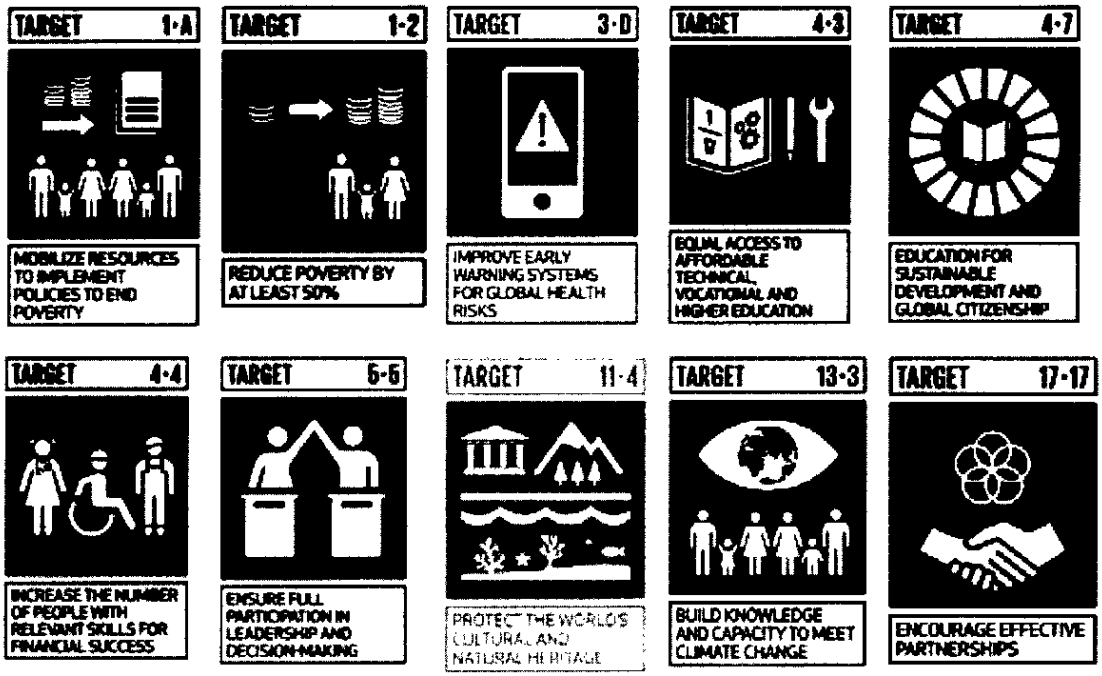
Also, for the second year in row, Iberdrola has evaluated the SDGs and targets to which each of its social initiatives contribute, as shown in the following table:

Contribution to the community in 2018	(euros)
By Sustainable Development Goals (SDGs)[98]	
- 1. End poverty	2,581,838
- 2. Zero hunger	10,329
- 3. Good health and well-being	6,032,889
- 4. Quality education	7,480,624
- 5. Gender equality	1,032,313
- 6. Clean water and sanitation	23,262
- 7. Affordable and clean energy	487,559
- 8. Decent work and economic growth	1,475,338
- 9. Industry, innovation and infrastructure	155,311
- 10. Reduced inequalities	612,753
- 11. Sustainable cities and communities	23,574,742
- 12. Responsible consumption and production	149,664
- 13. Climate action	1,208,086
- 14. Life below water	287,244
- 15. Life on land	717,875
- 16. Peace, justice and strong institutions	220,445
- 17. Partnerships for the goals	2,273,652
Total	**48,323,924**



[98] The breakdown of contributions to the community by SDG covers 96.5% 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.

The 10 targets for which the most contribution has been made through social actions in 2018 are described below:



Benefits for society

Iberdrola uses various parameters to measure the results achieved by its community support programmes. In its Master Plan for the 2019-2021 period, Iberdrola's foundations have among their guidelines the development of evaluation mechanisms that include a methodology adapted from LBG to measure outputs and impacts for its most important programmes and projects which include direct contributions to the Sustainable Development Goals.

In 2018, Iberdrola's foundations forged multiple alliances in Spain, the United Kingdom, the United States, Brazil and Mexico covering a total social investment of 9.3 million euros for its commitment to society in these areas of work:

- **Training and Research**: this area of work focuses on a group of young students, supporting their degree studies, technical training and languages. Education is a useful tool to promote sustainable development and these initiatives offer opportunities to youth with good academic backgrounds who do not need financial resources to engage in their studies. These projects of Fundación Iberdrola linked to training contribute to achieving SDG 4 Quality education with an investment of 1.3 million euros.

- **Biodiversity and Climate Change**: from this work area there is work with public institutions and entities dedicated to protection of the environment, contributing to the scope of specific targets of SDGs 13 Climate action and 15 Life on land with an investment of 1 million euros.

- **Art and Culture**: from this area there is work with cultural institutions, prestigious museums, public institutions and religious entities in order to promote culture and restore and conserve artistic heritage, favouring local development. This directly impacts Goals 8 Economic growth and 11 Sustainable cities and communities with an investment of 2.2 million euros.

- **Social Action**: from this area there is work with non-profit institutions, foundations and development agencies to boost social and humanitarian projects focused on the most vulnerable people and that contribute to reaching the specific goals of SDGs 1 End poverty, 3 Good health and well-being, 5 Gender equality, 7 Affordable and clean energy and 10 Reduced inequalities with an investment of 3.5 million euros.

GENERAL OBJECTIVES (GO)	WORK AREAS	SDGs
1. Support training and research generally, prioritising innovation to contribute to energy sustainability	Training and Research	
2.Support protection of the environment and improvement of biodiversity, to actively contribute to the fight against climate change	Biodiversity and Climate Change	
3. Protect and safeguard artistic and cultural heritage: promote conservation and restoration, driving local development.	Art and Culture	
4.Cotribute to sustainable human development, supporting the most vulnerable people and groups	Social Action	
5.Promote partnerships that allow for actions to reach the SDGs, associated with actions by the Foundations within the Local Context.	Partnerships for the SDGs	

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.
- Strengthen focus of social action for Iberdrola's Stakeholders and for society in general.
- Contribute to the scope of the larger global challenge, the Sustainable Development Goals.
- Contribute knowledge, technical experience and skills for human development.

Corporate volunteering programme

The Iberdrola group offers its workforce various volunteer opportunities within the framework of its Corporate Volunteering Programme, in which more than 3,500 employees participated during 2018. Created in 2006, it is today a global and international project aligned with the values of the group and its *General Sustainable Development Policy,* which is intended to channel the employees' spirit of community service (solidarity) 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). This year the programme was recognised with an Innovation Award during the IMPACT2030 summit, held at the United Nations Headquarters in New York. This award recognises the innovative approaches of companies that make the most of their human capital, through corporate volunteering programmes, to move forward in achieving the Sustainable Development Goals (SDGs). Specifically, Iberdrola was selected for being a company that innovates to educate, inspire and unite employees around the SDGs in their community, and provides opportunities for them to be agents for change and achieve an impact, as well as for its exceptional commitment to move volunteers to action on the SDGs.

Also, this year, Iberdrola became part of the governing board of Voluntare, the most important Spanish-speaking international corporate volunteering network, with a presence in both Spain and in Latin America. With this decision, the company strengthens its commitment to Corporate *Volunteering as a sustainable development tool.*

Iberdrola has also maintained its leadership in the Corporate Volunteerism Observatory together with the NGO Cooperación Internacional, an initiative that, since its inception, promotes study, research and training and promotion activities relating to corporate volunteerism, with the goal of helping corporations make appropriate decisions in this area.

Some of the more noteworthy corporate volunteer initiatives carried out in 2018 were the following:

- The seventh edition of the global INVOLVE (International Volunteer Vacation for Education) project, which has offered training in new technologies to youths at risk of exclusion, with a two-week stay over the summer in Brazil or Mexico, respectively, of an international team of 34 volunteers from Spain, the United Kingdom, the United States, Brazil and Mexico, supported by local volunteers as an intercultural link.
- National and international volunteer days were organised, including International Volunteer Day held simultaneously in Spain, the United Kingdom, the United States, Brazil and Mexico which, under the motto *Together we build the world that we want!*, brought together more than 1,800 participants in more than 60 simultaneous initiatives, directed towards the fight against climate change, the inclusion of vulnerable groups and raising awareness about diversity. Volunteer 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, which has commenced its second phase. At the same time, the company worked on another initiative to improve access to

water through photovoltaic solar systems at refugee camps in Kenya, Mauritania and Sudan.

- "Iberdrola with Refugees" has continued giving support to the Integration Schools, promoted by Fundación para el Fomento del Desarrollo y la Integración (FDI), where 104 refugees have been able to take advantage of digital tools workshops in 2018, in addition to training in the Spanish language and adjustment to the environment. These workshops have expanded their humanitarian emergency response to include a group of refugees from the Aquarius vessel who arrived in Spain, and culinary integration days have allowed for cultural exchange at various Spanish cities.
- Other international initiatives in which the company participated were "Lights... and Action!" together with Fundación Tomillo to provide energy efficiency training and develop the employability of youths from underprivileged environments, and "Know your Laws", which has favoured the integration of immigrants through courses offered by company employees with legal training. In the United Kingdom, several volunteers have made available professional knowledge on marketing or administrative work, respectively, to the social entities Glasgow Building Preservation Society and Ronald McDonald House.
- Climate action continued with global projects such as "Fight against climate change" in Spain, Mexico, Brazil and the United Kingdom to raise awareness among youth on this problem through talks at school centres, and training was offered to 6,408 children at 77 centres. "Climate Volunteers", together with AIESEC, had 29 participants from the 5 countries where the company has a presence, who had the opportunity to live a volunteer experience in Brazil, Colombia and Costa Rica to create environmental awareness in various communities.
- Environmental care activities, cleaning of invasive species and reforestation in various cities in Spain, the United Kingdom, the United States, Brazil and Mexico, such as the 11th Tree Day in Spain, which has allowed for recovery of the Urdaibai (Biscay) Biosphere Reserve and thus continue with the "Iberdrola Forest" project, and participation in SEO/BirdLife's "LIBERA" initiative together with Ecoembes, with its large cooperative trash collection at various points in Spain to raise awareness concerning nature without trash.
- Projects to offer a new life for unused objects, such as "Solidarity Recycling", combining solidarity and environmental ends, which has continued to collect plastic plugs and has expanded the scope of its activities by including the collection of prescription glasses for donation to refugee camp inhabitants in Lesbos (Greece).
- Sports competitions with environmental ends, such as the ECORUN race.
- International food collection campaigns, which have allowed for the collection of more than 6.5 tons of basic foodstuffs and children's products. This activity ended with volunteer activities at social canteens and distribution of food to homeless persons.
- The company participated in various sports competitions aimed at the integration of vulnerable groups, such as the "Capacities Race", "Run for Syria", "Final Four. First National Wheelchair Basketball Competition, HePA Race and various races to support cancer victims, such as the Race against Cancer to support the Asociación Española Contra el Cáncer, "Mexico Special Olympics for integration", "11th Nobody Gives Up Here Race" to support Mexican children with cancer, and the "I run VS Cancer" race.
- Activities to promote the independence of vulnerable women, such as the "Women with their Own Light" Literary Workshop, or a sports day adapted for women with functional diversity for Women's Day.
- Childhood support activities with various entities such as Aldeas Infantiles, the Asociación Española de Ayuda a Niños con Enfermedades Hepáticas y Transplantados Hepáticos

(HEPA) in Spain, the Red Cross in the "Their rights at stake" campaign or "Solidarity Tree" which has offered support for more than 10 Brazilian institutions to assist the minors who are part of their programmes. There are also other activities in Mexico and the United Kingdom.

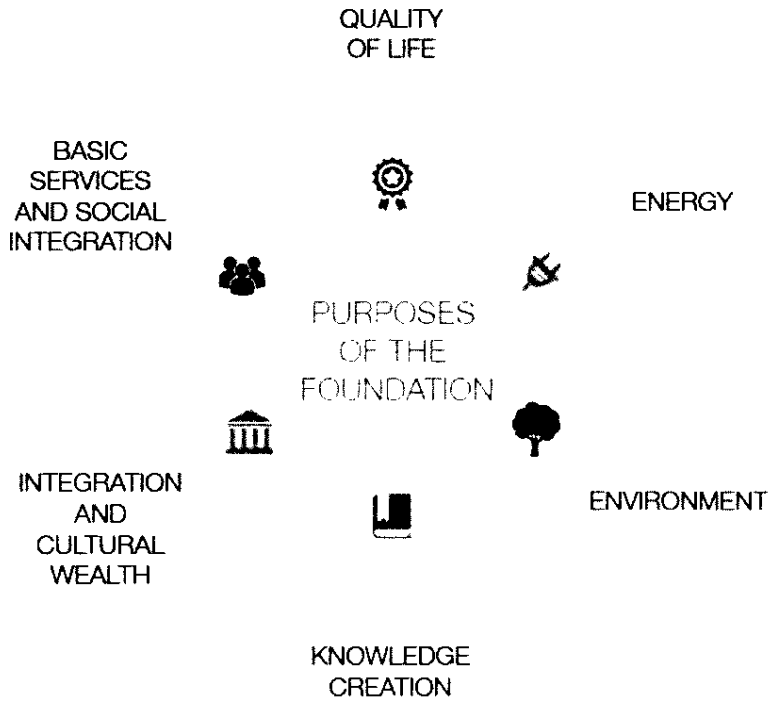
- Participation in the International Corporate Volunteering Week which, under the "Give & Gain" motto, offers visibility and promotes the role of corporate volunteering as an agent for social change.

The company continues its links with the main international work groups and volunteer associations, such as Voluntare, EVEN (Employee Volunteering European Network), IMPACT 2030 and IAVE, participating in their International Conferences, where we share our volunteering good practices.

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.

Foundations

ScottishPower Foundation, Avangrid Foundation, Fundación Iberdrola México, Instituto Neoenergia and Fundación Iberdrola España represent Iberdrola's commitment to sustainable development in the countries in which it does business. Pursuant to the Master Plan, the foundations have updated their mission, vision and values to include among their purposes and principles the contribution to the achievement of the Sustainable Development Goals (SDGs). The 2030 Agenda, promoted by the United Nations General Assembly, provides a unique opportunity for global transformation leading to more inclusive and sustainable development models. Along these lines, the foundations prioritise their focus on sustainable human development in order to define objectives linked to programmes and specific aims under the SDGs and to contribute to fostering positive changes for the most vulnerable people and for the planet. It should also be noted that they engage in specific collaboration with other cultural, social, scientific and cooperation institutions in all of the countries.

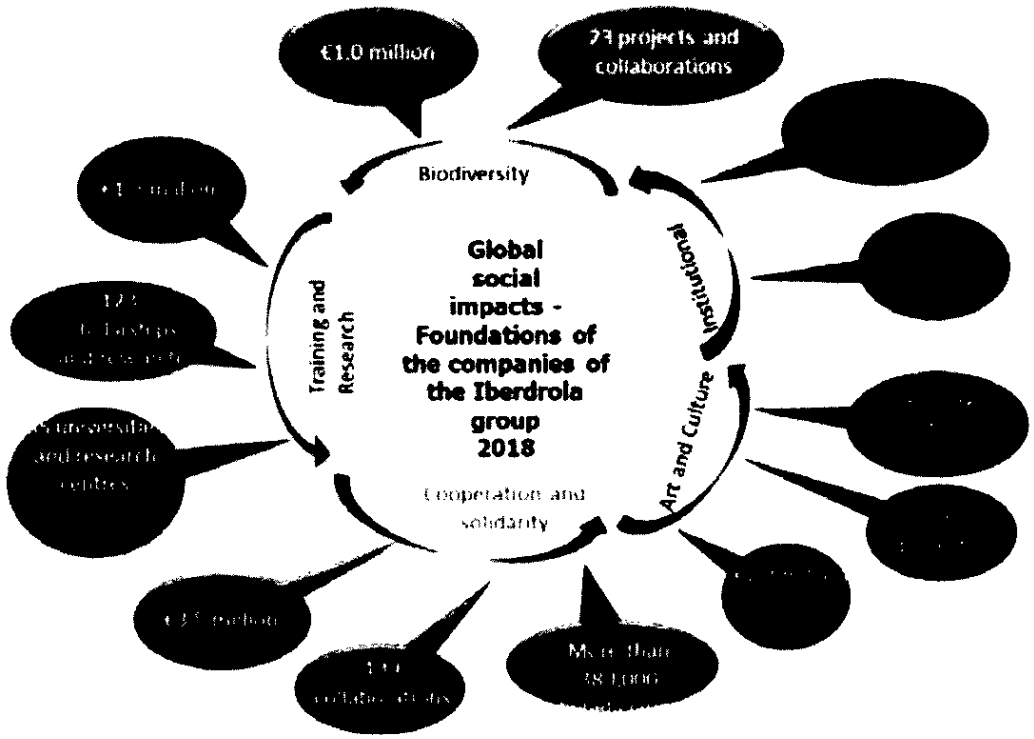


The charts below show the economic impact of the activities of Iberdrola's foundations by global achievement and by country during 2018 (also shown in the social contribution figures in accordance with the LBG Model previously reported upon in this chapter):

Activities of Iberdrola Foundations by area of activity (€ millions)	2018
Training and research	1.3
Climate change	1.0
Art and culture	2.2
Solidarity and cooperation	3.5
Institutional collaboration	1.3

Activities of Iberdrola Foundations by country (€ millions)	2018
Spain	5.5
United Kingdom	1.2
United States	2.1
Brazil	0.3
Mexico	0.3

Foundations of the companies of the Iberdrola group – Results in areas of activity in 2018 (€)



The results and achievements by country are available in Annex 1 – Supplementary information.

Training and Research Area: aids for course studies, scholarships and research

The new foundations Master Plan now takes a fresh approach in order to advance equality of opportunity for access to education by means of a new Support Programme for course studies that includes the following projects:

In the United States:

- *KVCC Lineworkers* in the training of electricians in Maine, through scholarships in the CMP Lineworker Technology Programme, to train specialists while prioritising the inclusion of young women in the energy sector.
- *Monroe Community College Foundation – Salute to Excellence* (Rochester): scholarships for underprivileged students, giving them the opportunity to complete their higher education and overcome barriers to complete their university studies.
- *Binghamton University Foundation*: two-semester course in which the students participate in real engineering projects, together with Binghamton University, the Kopernik Observatory and Science Park, the Chesapeake Alliance Discovery Centre for the Protection of the Alaskan Malamute, Broome Humane Society, Willow's Wings Animal Sanctuary & Rescue, and The Community Foundation Greater New Haven.

In Mexico:

- There is 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.

In Spain:

- Initiatives for linguistic immersion in English: the aim is to teach English to school students in their 3rd and 4th years of Compulsory Secondary Education. The selection of the students is made by the Education Department of several Autonomous Communities that participate in the programme, according to objective criteria of academic excellence and financial resources. The programme promotes and facilitates the participation of students in rural areas, given that this is the profile of student that finds it most difficult to access this kind of training. Iberdrola offers its facilities over the summer and Easter periods as a venue for these courses. A total of 80 students and 22 teachers have participated in the summer courses in Castile and León, Extremadura and the Valencian Community.

This area also benefitted from scholarships and research grants in 2018:

- Fundación Iberdrola México has awarded a total of 13 scholarships to underprivileged students at the Altamira Technical Training centre with the aim of achieving the inclusion of these vulnerable youths.

- Instituto Neoenergia in Brazil has awarded 9 scholarships in order to allow youths to pursue an international master's degree, thus promoting the training of high-level professionals who are capable of contributing to the development of a sustainable energy service.

- Fundación Iberdrola España has awarded a total of 56 scholarships and grants, 20 of which focus on energy and environmental research. A call for scholarships has also been launched through Fundación Carolina to pursue energy and environment master's degrees at Spanish universities, and 2 Fullbright scholarships have been awarded for energy and environment master's degrees.

  In collaboration with ICAI - Universidad de Comillas, Iberdrola has announced a call for 9 scholarships for undergraduate students in order to help with their studies. There are also scholarships for leading museums: 3 for restoration and conservation at the Prado Museum and 2 for the Bilbao Museum of Fine Arts. In the area of sports, the foundation continues to support the Paralympics by awarding 10 support grants to undergraduate sportspeople.

The company also manages other training programmes, as set forth in greater detail in the "Creation of employment and salaries" section of chapter II.1

Biodiversity and Climate Change Area: conservation of birds, habitats and ecosystems

In Spain, particularly noteworthy is the Migra project, aimed at monitoring the movements of migratory birds, in collaboration with the Spanish Ornithology Society SEO/BirdLife. At the end of 2018, the programme has 946 birds tagged from 32 different species. During the financial year, 10 Montagu's harriers have been tagged, and information has been downloaded about the lesser kestrels tagged with nano-GPS last year with the collaboration of Grefa, the Córdoba Zoo and the City Council of Alcalá de Henares. Finally, several days were devoted to recapturing common and pallid swifts tagged in prior years, with two birds having been recaptured in Barcelona.

Another important initiative is the signing of a collaboration agreement with the Fundación para la Conservación del Quebrantahuesos (Bearded Vulture Conservation Foundation) with a view to studying the influence of climate change on this and other alpine birds. In 2018, 39 boxes were installed to capture insects, and for 72 nights hematophagous mosquito traps were set using ultra-violet light and CO_2 as attractants. 32 samples were obtained, which were taken to the University of Veterinary Medicine of Zaragoza, where they continue to be studied.

In the United Kingdom, support is given to the Dolphin Watch project for the protection of dolphins at the Sussex Wildlife Trust. The Foundation supports the 50th anniversary of this education centre and nature reserve with outreach and awareness-raising projects regarding the conservation and care of habitats.

In the United States, support has been given to Riverkeeper in New York, an initiative to help transform the Jettie S. Tisdale school, Johnson Oak Park in the impoverished East End of Bridgeport. It highlights the evolution and importance of parks in terms of urban biodiversity, human health, access and equality, the economy and other benefits. In partnership with the City of Bridgeport and other Stakeholders, efforts have centred around engaging the community in designing the restored green space known as Park City.

On land located near the Industrial Port zone of Altamira in Mexico, a project is being promoted that is devoted to the conservation of Felines, which aims to guarantee the survival of a number of jaguars, jaguarondis, ocelots and bobcats that inhabit the region. Progress has been made in the creation and demarcation of biological corridors facilitating the safe passage of these animals in danger of extinction.

The conservation of the Mangrove is another of the projects promoted by Fundación Iberdrola México to ensure the survival and encourage the increase of flora and fauna in the mangrove

ecosystem through constant monitoring, research and demarcations that ensure permanence there. Another initiative is the conservation project Parque Estatal Cañón de Fernández, in partnership with PRONATUR in the Fernández Canyon, to protect biological and ecological processes in the area and provide environmental services in the ecosystems of the state park.

Of note in Brazil is the *Flyways* project for the conservation of wader birds and endangered species. In collaboration with *Save Brazil*, support is also given to a project devoted to the conservation of endangered birds in the area of Río Grande do Norte. The last census carried out yielded 4 species of endangered wader birds, a total of 306 specimens. Finally, outreach activities have been developed regarding wader birds and the importance of conservation of their habitat, for students and teachers of the *Maria Salete Martins* School.

Eco-citizen: building a sustainable future is another initiative in Brazil that focuses on training professionals in sustainable technology systems and their roll-out in communities that are socially at risk. The project includes training activities for professionals in the area of eco-construction, through free courses for training and implementation of sustainable technology systems in socially vulnerable communities. In order to promote this social initiative, a community vegetable garden was started, using sustainable techniques.

Art and Culture Area: programmes for lighting, restoration and support to museums

The Iberdrola Foundations Lighting Programme is mainly focused on improving the interior and/or exterior lighting of remarkable buildings, to showcase the historical-artistic heritage. The use of new LED technology entails a series of advantages such as improving conservation, increasing energy efficiency (on average 75% more than conventional bulbs) and reducing maintenance expenses thanks to a much longer-lasting useful life. In addition to the artistic, economic and environmental benefits, one must add the potential of these projects that favour economic activity, facilitating local development around the historical-artistic heritage. The most significant projects in 2018 were the following:

- In the United States, Avangrid Foundation has sponsored lighting projects in the Morgan, Hilles, Austin and Wadsworth 301-303 galleries, replacing 2,625 bulbs with LED technology.
- The Foundation in Mexico champions the MUNAL Programme to light halls in Mexico's National Museum of Art (MUNAL), improve energy efficiency and play a role in conserving the works of art in this museum.
- The Foundation in Spain has launched and completed quite significant projects in 2018: exterior lighting on the façade of the Monastery of Uclés, decorative lighting of the Royal Pantheon at San Isidoro de León Collegiate Church, the Military Museum in Toledo and the restoration workshop at the Royal Tapestry Factory using the latest LED technology. Work continues on the projects of the Ávila Cathedral, the Salamanca Cathedral, the Fonseca School, the Talavera Basilica, the Barrena Palace in Ordizia, Valdepeñas Church and the Supreme Court in Madrid.
- Instituto Neoenergia has been the driving force behind the projects for lighting of the Cinco Pontas Fort in Recife and for restoration of the Barra Grande Fort in Guaruja, Brazil.

Also in Spain, the Iberdrola Museum Programme collaborates with the Restoration Workshops of the Prado Museum and the Bilbao Museum of Fine Arts for the conservation of paintings, sculptures and works of art on paper at their art galleries. This museum has also promoted the Art to Touch Programme for persons with disabilities, especially those who are visually handicapped.

Another significant restoration initiative is the Atlantic Romanesque Plan involving church buildings in Spain and Portugal.

Within the scope of the Restoration Programme, the following projects have been completed: Tapestries of the Royal College of the Patriarch, the altarpiece of the Cuenca Cathedral, the codices of the Yuso Monastery Library and the restoration of the three flags of Saigon owned by the Naval Museum of Madrid. In the last months of 2018, work has started on a project to restore the altarpiece of the church of San Martín de Tours, in Villarmentero de Campos, Palencia.

The Exhibitions Programme has had two main initiatives: in Spain, the exhibition Sorolla and Fashion with simultaneous and complementary exhibits at the Sorolla Museum and the Thyssen-Bornemisza Museum. The exhibition brings together more than seventy paintings from museums and national and international private collections, some of them never previously exhibited to the public, together with a significant collection of period dresses and accessories, with valuable pieces also loaned by prominent institutions and private collections, many of them previously unseen.

In Mexico there has been a temporary exhibition of European and Novohispanic paintings promoted by the Foundation in Mexico and the MUNAL Museum under the title *Caravaggio. A work, a legacy*. Another exhibition promoted by Iberdrola's foundation in Mexico is *Nahui Olin. La mirada infinita*, showcasing a representative collection of the Mexican avant-garde artist María del Carmen Mondragón, with collaborators being invited to the opening and enjoying a guided tour round the temporary exhibition.

The Art and Culture Outreach Programme has the ScottishPower Foundation as a point of reference. The following initiatives were supported in 2018:

- The international scenic arts festival Futureproof, aimed at young people from different backgrounds and communities. This is a multi-artistic and multi-platform space that will be set up in ten areas in Scotland and will be shared with the rest of the United Kingdom via social networks.
- *Art Promotion Llangollen International Musical Eisteddfod* is based on previous work to promote art education, reduce inequality of opportunity and make Eisteddfod a truly inclusive event. This project will improve the skills and confidence of participants that face difficult circumstances and will result in the creation of a unique music and dance presentation that celebrates diversity. The project will also enhance the dimension of culture, beliefs and community commitment, and will promote respect and understanding.
- National Museums Scotland. Powering Up 2.0. Financing will make it possible to improve the successful *Get Energized* programme, recognised by teachers as an excellent and attractive initiative to promote and disseminate cultural activities in Edinburgh.

Among the projects implemented by Avangrid Foundation, the following cultural events are particularly noteworthy: The *International Festival of Arts & Ideas* (Connecticut) aimed at creating and producing plays with a special focus on community education and engagement, and the Rochester Area Community Foundation/*Rochester International Jazz Festival* (New York), which is internationally acclaimed, attracts a large and diverse audience and celebrates and develops the local community. Finally, through Barrington Stage Company (Massachusetts), Avangrid Foundation develops the *Playwright Mentoring* theatre programme, which offers teenagers at risk (13 to 19) a safe place where they can talk about the serious

challenges in their daily life, using their own life stories as a basis for creating original plays. The project provides participants a protective space for young people.

Cooperation and Solidarity Area

Iberdrola's Foundations consolidate their *Social Programme* in order to contribute to improving the quality of life of the most vulnerable groups, with a special focus on childhood, youth and women. The programme works with non-profit institutions devoted to eradicating child poverty, fostering education as a useful tool for youths, promoting the social inclusion of persons with disabilities and improving the quality of life of persons who are seriously ill and their families.

Spain:

In 2018, 52 alliances have been entered into with non-profit social organisations and local institutions to provide support to 22 solidarity initiatives and promote 35 finalist projects, with an investment in excess of one million euros and a positive impact on 65,000 beneficiaries, which has entailed the creation of one hundred direct jobs. The programme works along three lines of action, and the following are the most significant collaboration projects:

- Projects to eradicate child poverty:
    - Asociación Ciudad Joven: school support, leisure and free time for the social inclusion of children.
    - Fundación Balia por la Infancia: "Aula BALIA" for boys and girls at risk of social exclusion.
    - Candelita: "Conduce a tu futuro" ("Lead your future"): guidance, training and support for vulnerable women to facilitate access to employment.
    - Fundación Altius: "Jóvenes en la cocina" ("Youths in the kitchen"): social and occupational inclusion of 250 unemployed youths at risk of exclusion.
    - Fundación Tomillo: training in energy efficiency aimed at vulnerable youths as drivers of social change.
    - Ayuda en Acción: "Re-Ilumina": equality of opportunity for quality education.
    - Amigó: "Proyecto conviviendo" ("Living together Project"): prevention of violence among teenagers and their families in the Basque Country and Madrid.
    - Ilundai Haritz Berri: "Bizi-Baso", the forest of life: support for the social and occupational inclusion of vulnerable youths.
    - Bizitegi: temporary lodging for homeless women.
    - Columbares: comprehensive service for socially vulnerable children in the municipality of Murcia.
    - Fundación Anar: involvement with children, victims of gender-based violence through the ANAR phone line.
    - Save the Children Foundation: fight against child poverty and social and occupational inclusion for children, teenagers and families.

- Projects focused on the autonomy of persons with disabilities:
    - Upacesur: medical-functional rehabilitation of children and youths with cerebral palsy and other multiple disabilities.
    - Fundación Síndrome de Down: training and occupational integration project. Social entrepreneurship as a component of personal development and the occupational inclusion of youths.
    - ADSIS: support services in the transition to adult life for youths at risk of social exclusion.
    - AMICOS: training for persons with disabilities.
    - ASPRODEMA: "Tendiendo puentes a la comunidad" ("Building bridges with the community"), support resources centre for the promotion of personal autonomy.
    - ASOCIDE: "Guides-Interpreters for deaf and blind persons – communication is possible". Support for deaf and blind persons in their daily activities with the help of specialised guides-interpreters.
    - ANFAS: model centred around families and natural contexts with a focus on early care (3 to 6 years).
    - GUREAK: "Nuevos pasos" ("New steps"), a social and occupational inclusion of persons with disabilities.
    - ASIDO: "Quiero vivir mi propia vida" ("I want to live my own life"), a project promoting personal autonomy in persons with intellectual disabilities.

- Projects to improve the quality of life of seriously ill persons:
    - ASPANION: psycho-social and financial support for children with cancer and their families.
    - AMAMEC: "Mucho por vivir" ("A lot to live"), psychological, physical and social care for women suffering from breast cancer.
    - AECC: emergency social and psychological care for families at risk of social exclusion due to oncologic disease.
    - Menudos Corazones: integration programme based on leisure and free time for children, teenagers and youths with heart disease.
    - Proyecto Hombre: various types of collaboration with institutions engaged in the Proyecto Hombre programme and which develop projects focusing on therapeutic intervention in cases of comorbidity, addictions and psychiatric disorders; learning and service programme for the promotion of leisure among young people; dual approach to the treatment of persons affected by addictions; treatment and reinsertion programme for persons with alcohol addiction problems.

In the United Kingdom:

- Alzheimer Scotland: The *Dementia Friends* programme aims to foster the public's understanding of and empathy towards this disease, so that persons suffering from dementia feel supported, accepted and welcome in their communities.
- Bangor University: The ReachingWider association focuses on higher education for vulnerable people in Wales. Its *Bright Sparks* initiative aims to encourage and inspire students and help them achieve their potential in the science, technology, engineering and mathematics (STEM) schools across the six regions in North Wales.
- Adventure for All: The Bendrigg Trust is an outdoor education centre specifically for disabled people. Its goal is to help them integrate into society, achieve independence and become healthier through adventure activities and spending time away from home.
- Live Music Off the Grid! The project involves providing live music at health centres and hospitals in remote areas such as the Scottish Highlands & Islands, Dumfries & Galloway, Kintyre, Cumbria, Northern Ireland, Wales, Devon and Cornwall.
- Prince & Princess of Wales Hospice: Provides specialised free palliative care in Glasgow to terminally ill patients, offering support to their families and carers.
- The Manchester Young Men's Christian Association: Backing of the Mental Health Champions project targeting young men to halt the rise in mental health problems. It also helps young men's parents, teachers and employers to provide better support.
- The Outward Bound Trust: This project enables young people to get involved in community activities by spending five days at the Loch Eil centre. Everyone taking part is to attend an event to share their experiences with friends and families, and 6 young people will be chosen to take part in a summer programme.
- The Great Steward of Scotland's Dumfries House Trust. *Engineering Education Programme*. The Engineering Education Centre provides indoor and outdoor experience-based learning for early primary school and secondary school students. The financing will help pay for students' school visits in South West Scotland and will contribute to their development and growth. It will also support family/public participation events. The aim of the programme is to reach a wider geographical area and also encourage the participation of schools that did not have the chance to take part in STEM activities in the past.

In the United States:

- *Operation Fuel*: Ensures that struggling families have access to year-round energy assistance in more than one hundred towns across Connecticut. Local government and community-based organisations take part in this project. It includes other activities to guarantee basic needs such as distribution of food, clothes, etc.
- Yale New-Haven Hospital (Connecticut): Ongoing support for the Yale-New Haven Hospital McGivney Center for Musculoskeletal Care, which provides specialist care and the best relief possible for patients with chronic diseases. The hospital has a specific mission to meet the needs of the most vulnerable people.
- United Way Worldwide - Trust - Employee Match (Connecticut & Massachusetts): Support for community-based organisations that encourage volunteering for the common good.
- *Working for Worcester* (Massachusetts): Improvements to recreational infrastructure and school facilities, parks, community centres, sports fields and other leisure/free time spaces in Worcester.

- Urban League of Rochester: Early Acquisition programme for transition from secondary school to university, by means of which young people from minority and disadvantaged groups are provided with training for university, work and life. The mission of the *Urban League of Rochester*, New York is to enable Afro-Americans, Latinos and other disadvantaged persons to secure economic self-reliance and to guarantee civil rights, removing all barriers to equal participation in the economic and social mainstream of America.
- Chelsea Hicks Foundation: Therapeutic play project for more than 2,400 children and their families every year in local hospitals.
- *Progress Center*: The project offers students at risk or from low-income households in the Oxford Hills area new backpacks and school supplies to start the new school year.
- Food Bank of Western Mass., to significantly reduce food insecurity among residents of the counties of Berkshire, Franklin and Hampden.
- Ronald McDonald House of Connecticut and Western Massachusetts: Refuge home for children receiving medical treatment and their families. It helps to create a homely atmosphere, to have a wide variety of supplies to choose from to prepare breakfast, lunch and dinner for the families, and is essential to ease the financial burden of having to buy all food out, thus enabling the families to focus on what matters most: the health and well-being of their children.

Mexico:

The Asociación Civil Excelencia Educativa offers boys and girls a participative space where they can be active subjects in the learning process, enjoying new ways of approaching knowledge. This initiative was carried out throughout 2018 in 11 schools located near Iberdrola plants and installations.

Brazil:

Particularly significant is the *Jovens Brilhantes* (Young Brilliant People) project, to help children and adolescents in the state school system develop the skills and competencies needed for the 21st century. Target subjects are STEM (science, technology, engineering and mathematics) and a nurturing and interactive approach is taken to meet the real challenges faced in society. The institute also collaborates with UNICEF and the Ayrton Senna Foundation on projects helping children at risk.

International Cooperation Programme for Human Development

The International Cooperation Programme addresses humanitarian crises and promotes multi-sector alliances in order to foster sustainable development and overcome situations of extreme poverty through the electrification of basic social infrastructures (schools, health or community centres, etc.), with education and technical training components that promote productive and local development actions and the provision of help in humanitarian emergency crises. The most significant alliances are:

- The SHIRE Alliance, promoting access to electricity in refugee camps. This initiative is promoted by the Universidad Politécnica de Madrid, and also has the support of the UNHCR, AECID and the European Union.

- ILUMEXICO contributes to the development of marginalised communities in Mexico where there is no access to the national electricity grid or where the service they receive is poor. Infrastructure and community work programme relating to renewable energy.

- Migrant Children Alliance in Sahel: led by Save the Children, it promotes a system for the protection of migrant boys and girls through a network of care and training centres in Mauritania with the participation of the European Union.

As regards humanitarian emergencies, mention should be made of the negative impact of Hurricane Harvey, which affected Florida's most vulnerable population. In the United States, the company continues to collaborate with the Red Cross (American Red Cross Disaster Relief) to help victims and contribute to reconstruction in the affected areas of Puerto Rico.

Institutional collaboration

Finally, the Foundations engage in specific collaboration with other cultural, social, scientific and cooperation institutions in the respective countries.

Iberdrola and the Global Compact

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 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 UN Global Compact website

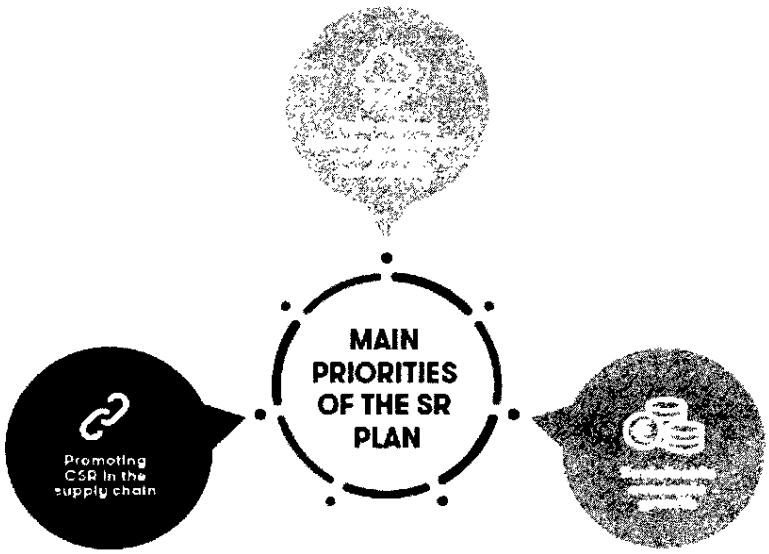
During 2018, Iberdrola took in the following actions in connection with the Global Compact:

- Submission of the Progress Report 2017 on compliance with the principles of the Compact, rated at the highest level for this type of report ("*GC Advanced*").
- Attendance at the 2018 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 COP24 Climate Summit held in Katowice (Poland) in November 2018.
- Iberdrola participated with the Global Compact on numerous initiatives to promote and develop the Sustainable Development Goals, which can be seen in the "Iberdrola's contribution to the SDGs" section of Chapter I. About Iberdrola.
- Active collaboration in promoting sustainable finances and creating robust sustainability reporting frameworks through participation in the Platforms on *Financial Innovation for the SDGs* and *SDG Reporting*.
- Encourage the global process of climate action in its role as a sponsor of the Pathways to Low-Carbon and Resilient Development Platform. In this area, also quite noteworthy is Iberdrola's contribution to the preparation of the "Ambition Loop" report, focused on generating dynamics to increase ambitions in the area of climate change, and participation at meetings and events held at the principal climate change milestones during 2018 (Katowice Climate Summit, New York Climate Week, etc.).
- Highest level of support for Global Compact events, with the participation of Iberdrola's chairman at the *UN Global Compact Leaders Summit* held within the framework of the United Nations General Assembly in September 2018.

As mentioned above and shown both in these joint activities and in its daily work, Iberdrola has linked the SDGs to its business strategy, and actively works with the Global Compact to contribute to the achievement thereof, within its scope of activities.

In 2019, Iberdrola will continue to actively participate in the activities of the Red Española del Pacto Mundial in a manner similar to the past year.

II.6. Promotion of Socially Responsible Practices in the Supply Chain



- Description of the supply chain
- Sustainable management of the supply chain

Description of the supply chain

The Iberdrola group's supply chain consists of two different processes:

- The acquisition of material and equipment and the procurement of works and services is the responsibility of the group's Procurement and Insurance Division.
- 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 has 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

The mission of the group's Procurement and Insurance Division is to implement on a corporate and centralised basis the procurement of equipment and material (other than energy), as well as works and services and insurance programmes (other than life and casualty, health and pension insurance) for the entire Iberdrola group, meeting the strategic goals established by the Board of Directors.

"Efficiency in costs, strategic alignment with the Iberdrola group and ethics guide our procurement activity, contracting and management of operational risks"

The group's 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.

Iberdrola placed orders with approximately 23,300 suppliers during 2018. A breakdown of the economic and geographic volume is set out in the following table:

General supply of equipment, materials, works and services (€ millions)	2018[99]	2017	2016
Spain	1,564	1,406	1,354
United Kingdom	1,775	1,663	2,134
United States	1,945	2,467	2,146
Brazil	1,335	1,500	1,242
Mexico	957	902	453
Other countries	177	676	179
Total	**7,753**	**8,614**	**7,508**

The difference in the amount compared to 2017 was mainly due to the fact that there was invoicing for the turbines of the Wikinger offshore wind farm and turbines for wind farms in the United States during the financial year.

Acquisition of fuel

Iberdrola dedicated more than 3,300 million euros to the acquisition of natural gas, uranium and coal in 2018. The purchases of uranium are made in Spain and only through Empresa Nacional del Uranio (Enusa). Acquisitions of natural gas and coal are made on the international market, mainly through long-term commercial relationships with some 11 large domestic and international suppliers and market operators (producers and traders). Coal was only 1.3% of the total amount of fuel.

Spending on local suppliers

Iberdrola follows a local supplier strategy for its strategic contracting that has allowed for the creation of indirect employment and the maintenance of a strong industrial fabric in the countries in which it does business. The following table shows the percentage volume of procurement from local suppliers:

204-1

Acquisition or contracting of materials, equipment, works and services from local suppliers[100] (%)	2018	2017	2016
Spain	85	88	93
United Kingdom	71	85	69
United States	97	98	98
Brazil	100	100	100
Mexico	69	60	66
Other countries	65	76	N/A
Iberdrola total	**85**	**88**	**84**

[99] Volume billed during the financial year. Amount awarded in 2018: €8,930 M.

[100] 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.

Sustainable management of the supply chain

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)

Promotion of sustainability amount suppliers

From the viewpoint of sustainability and responsibility, Iberdrola is market driver, 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.

In the initial registration and 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.

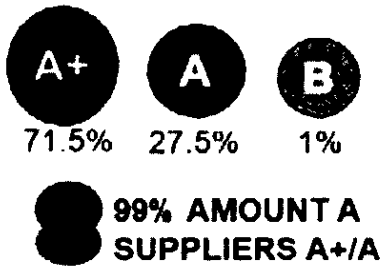
Supplier sustainability evaluation model: *CSR Scoring*

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. Dimensions evaluated:

Leadership (20%)	Dialogue (15%)	Management Systems (45%)	Communication (20%)
• International CSR Initiatives • Good Labour Practices • Good Ethical Practices	• CSR Learning Platforms • Stakeholder Relations	• CSR Management System • Supplier Requirements • Quality System • Environmental System • Risk Prevention System	• Communication Platforms • Third Party Data Assurance

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 2018 CSR scoring data[101] regarding the volume of purchases analysed (89% of the group's total procurement) are shown below:



Improvement goals have been established 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. 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 in social responsibility.

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+, causing the suppliers to commit during the year to improve the lesser developed areas.

During the financial year, there were 114 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.

During 2018, 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.

Procurement of fuel

Fuel procurement is also subject to the general principles of Iberdrola's sustainable development policies, which require the encouragement of suppliers to engage in activities that are socially responsible, respectful of the environment and prevent occupational risks.

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_2 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 sustainability. 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.

[101] "A+" suppliers above the average. "A" suppliers within the average. "B" suppliers below the average. Scope: Suppliers with orders during the year in an amount equal to or greater than 400,000 euros. November 2018.

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.

In the case of fuel procurement, there were no external complaints during 2018 through 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.

Environmental assessment of suppliers

Alignment in Procurement and in supplier management with respect to the environment and sustainability:

[redacted]	Sets out principles on the environment that suppliers must follow and sustainable and responsible management in the Iberdrola group's supply chain
[redacted]	Environmental certification will be weighted in the overall assessment of the supplier
[redacted]	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
[redacted]	Innovative aspect establish annual improvement goals for the Procurement team linking variable remuneration directly to the environmental improvement of suppliers
[redacted]	The Procurement Division is part of Iberdrola's Global Environmental System Committee monitoring of environmental guidelines established goals and related indicators. Audits
[redacted]	Contribution to Sustainability Infographic and Annual Procurement and Supplier Management Report published on the corporate website

[redacted]	Includes environmental principles. Must be accepted by the Group's suppliers and is attached to orders and contracts
[redacted]	Environmental clauses that suppliers must comply with during the term of the contract
[redacted]	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
[redacted]	Annual supplier greenhouse gas measurement campaign
[redacted]	Includes environmental aspects. CSR evaluation of suppliers quantifying their relative position based on their management of this area
[redacted]	Environmental category that promotes the environmental responsibility of suppliers and publicly recognises those who stand out in this area

At the end of 2018, procurement from suppliers with a certified environmental management system represented 68% of all procurement from suppliers of general supplies. With respect to fuel suppliers, those with an environmental management system represented 90% 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.

Supplier social assessment

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 Iberdrola group's *Code of Ethics*. In the case of other fuels, the company's goal is to include such clauses as new contracts are signed.

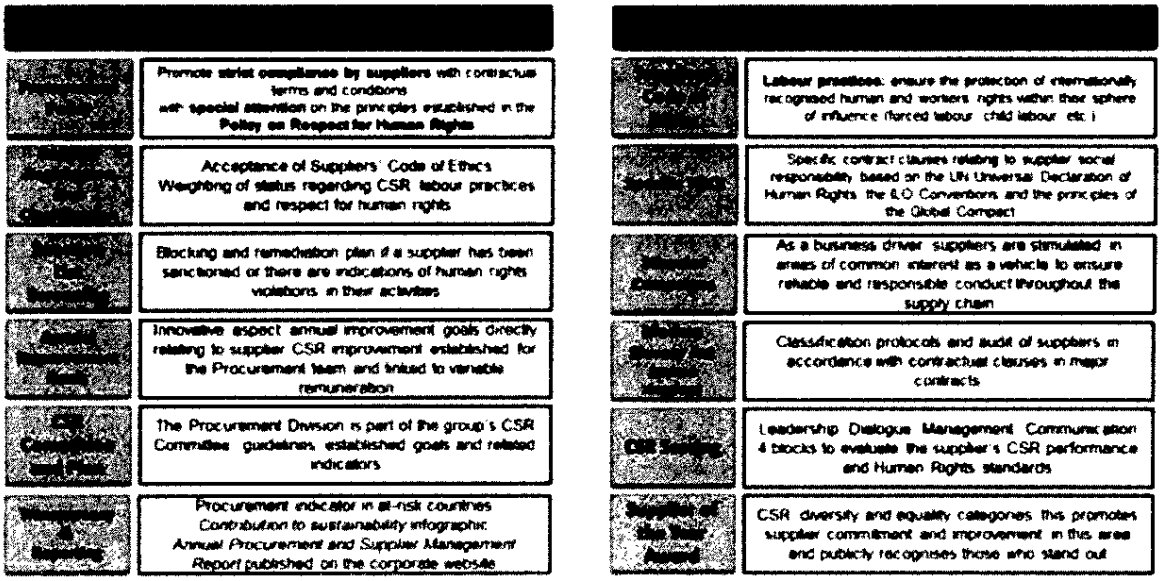
During the term of the contract, the supplier must allow Iberdrola to review the level of compliance with the principles established in the contracts, and if noncompliance is detected and corrective plans are not adopted, the company reserves the right to cancel the contracts.

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.

25.8% of general procurement has been made in countries in which there might be a risk of human rights violations, according to the sources consulted. In 2018 the percentage with respect to fuel procurement stayed at the same 51% as in 2017. In addition, as described in the "Ethics and integrity" section of Chapter II.7 "Good governance, transparency and Stakeholders relations" 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 11%. The standards used to identify countries at risk are the same as those described in the "Protection of Human Rights" section of Chapter "III.5. Contribution to the well-being of our communities" of this report.

There was no identification in 2018 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.

Alignment in Procurement and in supplier management using human rights standards



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 and satisfaction of suppliers

The 6th supplier satisfaction survey was taken at the global level with the participation of suppliers from all geographic areas. It was sent to a representative set of the group's suppliers, 2,812 suppliers, and 1,213 responses were received, yielding the following high level of participation: 43.1%.

Supplier satisfaction survey	6th Survey (2018)	5th Survey (2016)	4th Survey (2014)	3rd Survey (2012)	2nd Survey (2009)	1st Survey (2007)
Rating (out of 10)	8.18	8.06	8.00	7.74	7.57	7.56

Suppliers have very highly valued the ethics and reputation of Iberdrola, the brand and trust that inspires, and state that being a supplier to the group contributes to maintaining job positions.

In the Procurement area, suppliers value very positively the professional respect of their contacts during the bidding phase, as well as transparency in setting terms and conditions, consideration and the treatment provided (attributes with an average of 8.5 points). The attribute with the lowest rating are the financing possibilities offered (with an average of 7.05 points).

Main initiatives with suppliers of materials, equipment, works and services during 2018

Global Supplier of the Year Awards 2018: Contributing together every day

Iberdrola has delivered the Global Supplier of the Year Awards, the purpose of which is to incentivise, promote and recognise the work of the group's suppliers, which is fundamental to achieving the company's strategic objectives.

The event, held at the auditorium of the Iberdrola Campus in San Agustín del Guadalix (Madrid), was attended by approximately 340 guests, including representatives of 167 suppliers of the company from different countries. The award consists of 12 categories and the winning companies came from eight different countries.

More information is available at https://www.iberdrola.com/suppliers/moving-forward-together.

> **"With our suppliers we are addressing the important challenges posed by the UN Sustainable Development Goals. Companies are making a key contribution to the realisation of the new agenda." Ignacio Galán, Chairman of Iberdrola.**

A journey through human rights and your business

Human rights are relevant to businesses because they can have an impact on the human rights of all their Stakeholders during the course of their operations. Iberdrola has prepared an online awareness module on human rights, which is accessible to all suppliers.

More information is available at:
https://www.iberdrola.com/suppliers/contribution-sustainability/human-rights-business

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 58 million euros of contracting volume with these groups in 2018.

During 2018, the contracting volume with Special Employment Centres in Spain (in order to assist and work with persons with disabilities) totalled 2.8 million euros.

Presence and organisation of events and activities related to stimulus in CSR, compliance or increased participation of local companies

- 7th annual UN Forum on Business and Human Rights: with the participation of the Director of Procurement Services, with a presentation focused on managing suppliers with a focus on human rights within the different contexts and countries of operation.
- CSR Europe: *Fair trade and sustainable value chains.*

- Collaborative sessions between Iberdrola and local Spanish entities to discuss how to be a supplier and local opportunities for collaboration.
- Collaboration at mentoring sessions: "*Compliance programmes as a basic element in the value chain*" and participation in the National Compliance Congress.
- SDG Campaign and alliances with suppliers of the Iberdrola group.
- CPO Net Convention "Innovation in the supply".
- CSR workshop for suppliers in Mexico.

Transparency and reporting

Further information on Iberdrola's relations with and management of its suppliers can be found in the *Purchasing and Supplier Management Activities Report* and in the Contribution to Sustainability section of the corporate website.

Challenge 2019

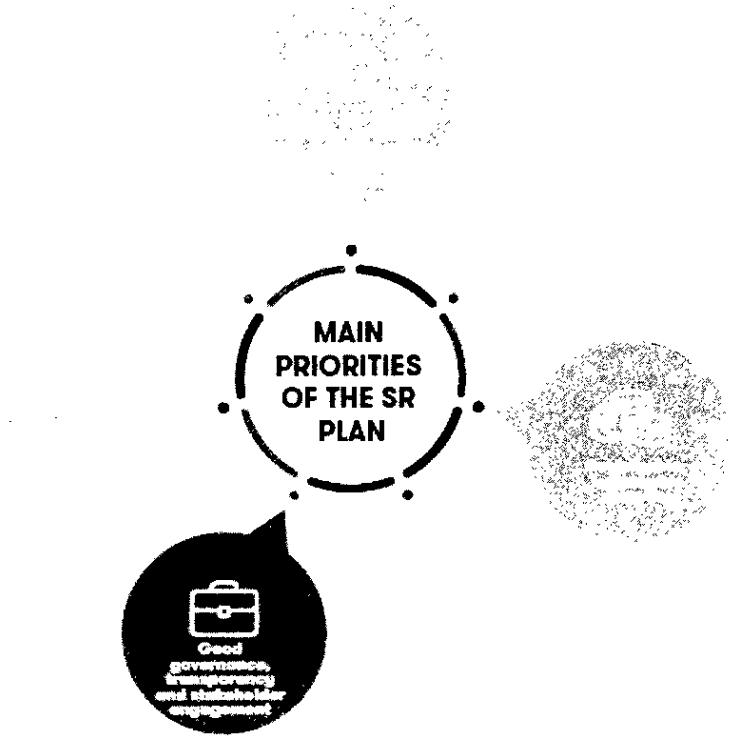
Iberdrola's procurement model has been subject to ongoing review based continuous incremental improvements to adjust it to the needs of the service and the continuing search for efficiencies.

The market points to changes towards advanced management models supported by disruptive technological changes, many of which are already available, and the businesses and corporate areas as internal customers are moving in more competitive, changing, global and efficient environments, which require faster response times, where technology and innovation will be the keys to success.

Now that the *Review of the Group's Procurement Model* project has been completed, the Procurement Division has commenced a project of Digital Transformation of the processes and the adoption of tools allowing preparation for the change towards advanced management models and the new challenges that will appear in the market.

"Procurement as the driver and leader of its own change"

II.7. Good Governance, Transparency and Stakeholder Engagement



- Corporate governance
- Stakeholder engagement
- Ethics and integrity
- Fiscal responsibility
- Competition
- Public policy
- Cybersecurity and information privacy
- Socioeconomic compliance

Corporate governance

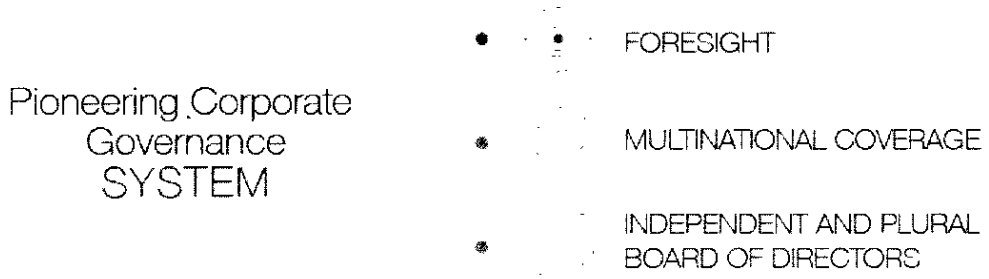
Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)

Iberdrola's Corporate Governance System, described in Chapter I.1, is inspired by and based on the commitment to ethics, transparency and leadership in the application of best international practices on good governance. Pay special attention to the social dividend, as a result of which in 2018 there were reforms in its Corporate Governance System in order to deepen the integration of the Sustainable Development Goals into its strategy. This chapter discusses the structure of the board and its committees; its powers and responsibilities; its evaluation and remuneration policies.

An independent and plural Board of Directors

The Board of Directors focuses its activities on the supervision of the general guidelines and the strategy of the group, as well as on the establishment of its corporate policies.

The following keys define the vision of the company's future, its multinational scope and the establishment of channels of participation and relations with shareholders:



- **A Board of Directors under constant renewal, adjusting to the needs of the businesses and markets in which the group operates.**
- **With 14 directors of various nationalities and professional profiles, selected based on a broad set of criteria.**
- **71% of the directors are independent. Women represent 36% of the members of the Board of Directors and hold positions of the highest significance: the vice chairmanship of the Board and the chairmanship of 3 consultative committees.**

The governance structure is described in the "Corporate and governance structure, ownership and legal form" section of Chapter I.1. For more detailed information regarding the composition, operation and activities carried out by the governance bodies of the company, see also the *Activities Report of the Board of Directors and of the Committees thereof* for financial year 2018.

[redacted]

The critical concerns considered by the Board of Directors are principally:

- Analysis of the challenges in the energy industry: decarbonisation and electrification.
- Approval of the Strategic Outlook 2018-2022.
- Definition of the digitalization strategy.
- Introduction of new developments in the shareholder remuneration system.
- Integration of the SDGs into the strategy.
- Approval of plan for rotation of non-strategic assets.
- Appointment of a new lead independent director.
- 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.

102-33

The highest-level persons in charge of the various business divisions and corporate divisions have a presence on the Operating Committee referred to in the "Responsibilities" section of Chapter I.3. It is chaired by the chairman & CEO, who in turn reports to the Board of Directors.

Selection and nomination of the members of the highest governance body

102-24

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, 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.

In particular, they must be irreproachable professionals, whose professional conduct and background is aligned with the principles set forth in the *Code of Ethics* and with the corporate values contained in the *Purpose 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*.

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 2018, 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:

- Big Data and Artificial Intelligence in the energy sector: applications and impact
- New EU regulation on prospectuses for public offerings or admission to trading of securities.
- Mechanisms for remote participation in general meetings of shareholders of listed companies. Comparative study at the international level.
- Compliance System: Essential elements for effectiveness.
- European Data Protection Regulation and its application to the Iberdrola group.
- Trends in the social investment market.
- The application of blockchain technology at the general shareholders' meeting.
- New obligations for the publication of non-financial information of capital enterprises.
- Shareholder activism.
- Trends and best practices in risk supervision.

For their part, the consultative committees have developed their own training programmes during the year. They have dealt with various issues, all handled in person:

- Best practices in the renewal of boards of directors.
- Corporate governance trends and issues relating to shareholder participation at the 2018 General Shareholders' Meeting.
- Talent management and retention.
- Latest accounting developments.
- Risk management and board of directors.

Evaluating the highest governance body's performance

102-28

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, 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 a prestigious independent firm.

Within the framework of the evaluation process of financial year 2018, Iberdrola has decided to draw on the help of PricewaterhouseCoopers Asesores de Negocios, S.L.

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.

Identifying and managing economic, environmental and social impacts

102-29 102-31

The Board of Directors of Iberdrola is structured as described above, 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 2018, available on the corporate website.

The Sustainable Development Committee has supervised the company's conduct in the area of sustainability, corporate reputation, corporate governance and compliance. Various external consultants and members of the following areas and divisions of the company appeared before the Committee during 2018:

- Foundations Committee
- Office of the Secretary of the Board of Directors
- Compliance
- Innovation, Sustainability and Quality
- Finance and Resources (Human Resources and General Services; Investor Relations and Corporate Communication; Corporate Social Responsibility and Reputation; Stakeholders; Reputation and Brand)
- Legal Services (Corporate Governance of Subsidiaries)

The issues discussed during these appearances are described in the "Collective knowledge of highest governance body" section above.

Remuneration policies

[redacted]

The current Director Remuneration Policy for the years 2018, 2019 and 2020 was approved by the shareholders at the General Shareholders' Meeting held on 13 April 2018.

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 2018 it drew on the advisory services of PricewaterhouseCoopers Asesores de Negocio, S.L. Section C.1.20 of the *Annual Corporate Governance Report* for financial year 2018 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.

The *Director Remuneration 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. The reference parameters are contained in the current Director Remuneration Policy and cover economic/financial, operational and sustainability aspects. Each Annual Remuneration Report specifies the objectives to which the annual variable remuneration of executive directors is tied. The 2017-2019 Strategic Bonus approved by the shareholders at the General Shareholders' Meeting describes the multi-annual remuneration system relating to the achievement of long-term objectives, including the reduction of CO_2 emissions.

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.

Stakeholder engagement in remuneration

The *Director Remuneration Report* for financial year 2017 was submitted to a consultative vote of the shareholders at the General Shareholders' Meeting held on 13 April 2018, which had a quorum of 76.09%, and was approved with only 5.83% of the shares represented in person and by proxy voting against.

The *Annual Director Remuneration Report* for financial year 2018 will be submitted to a consultative vote of the shareholders at the General Shareholders' Meeting called to be held on 29 March 2019.

Annual total compensation ratio and annual total compensation percentage increase 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 the "Corporate and governance structure, ownership and legal form" section of Chapter I.1 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[102]	Highest level of remuneration	Annual total compensation ratio[103] (102 38)			Annual total compensation percentage increase ratio[103] (102 39)		
		2018	2017	2016	2018	2017	2016
Spain	Director	20.42	21.08	30.30	-0.41	-1.15	6.78
United Kingdom	CEO	12.59	12.09	11.83	1.28	1.60	3.31
United States	CEO	23.67	22.22	16.66	0.89	4.54	N/A
Brazil	Director	21.54	22.43	41.00	0.53	N/A	0.16
Mexico	Director	6.32	7.63	7.21	0.19	1.48	-0.73

[102] Country composition:
Spain: Iberdrola, S.A.; Iberdrola Spain.
United Kingdom: ScottishPower.
United States: Avangrid.
Brazil: Neoenergia.
Mexico: Iberdrola Mexico.

[103] Annual total compensation includes fixed salary, cash salary supplements and variable remuneration. Does not include long-term incentives or benefits.

Shareholder engagement

Iberdrola is a pioneer in defining one of the fundamental pillars of its corporate governance strategy to be the engagement of its shareholders, with the General Shareholders' Meeting being their main channel for participation in corporate life.

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 *Implementing Rules for 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, 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. Also 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) Office of the Shareholder (*Oficina del Accionista*). From the call to the General Shareholders' Meeting through the end thereof, the shareholders can rely on the support of the Office of the Shareholder, 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 Office of the Shareholder 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.

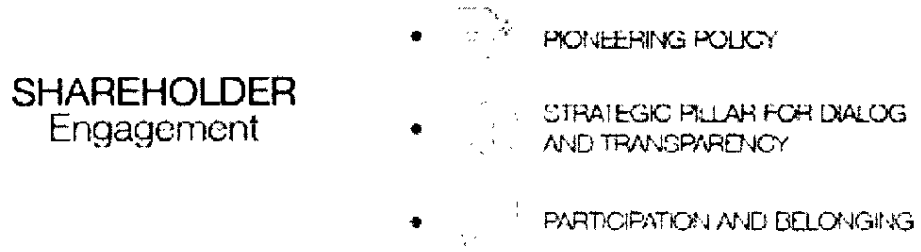
c) The Investor Relations Office (*Oficina de Relaciones con Inversores*). This responds on a regular and personalised basis to the questions of analysts and institutional and qualified investors in equities, fixed-income securities and socially responsible investments.

d) Interactive OLS - On Line Shareholders system. The website has an interactive system that allows shareholders (who can 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.

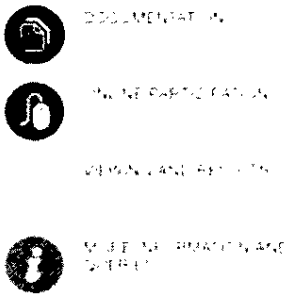
e) Relations with shareholder associations and institutional shareholders. Both shareholder associations and institutional shareholders may request meetings with representatives of the company through the Investor Relations Division. Long-term engagement plans may also be developed with those shareholders 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.

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.



- First Spanish company and one of the pioneers worldwide in formalising a *Shareholder Engagement Policy*, which is one of the main pillars in the corporate governance strategy.
- Constructive, continuous, effective and transparent dialogue with the shareholders, encouraging their engagement and promoting their active participation through various channels like the interactive On Line Shareholders (OLA) system and the Shareholders' Club, among others.



Iberdrola's General Shareholders' Meeting, a sustainable event

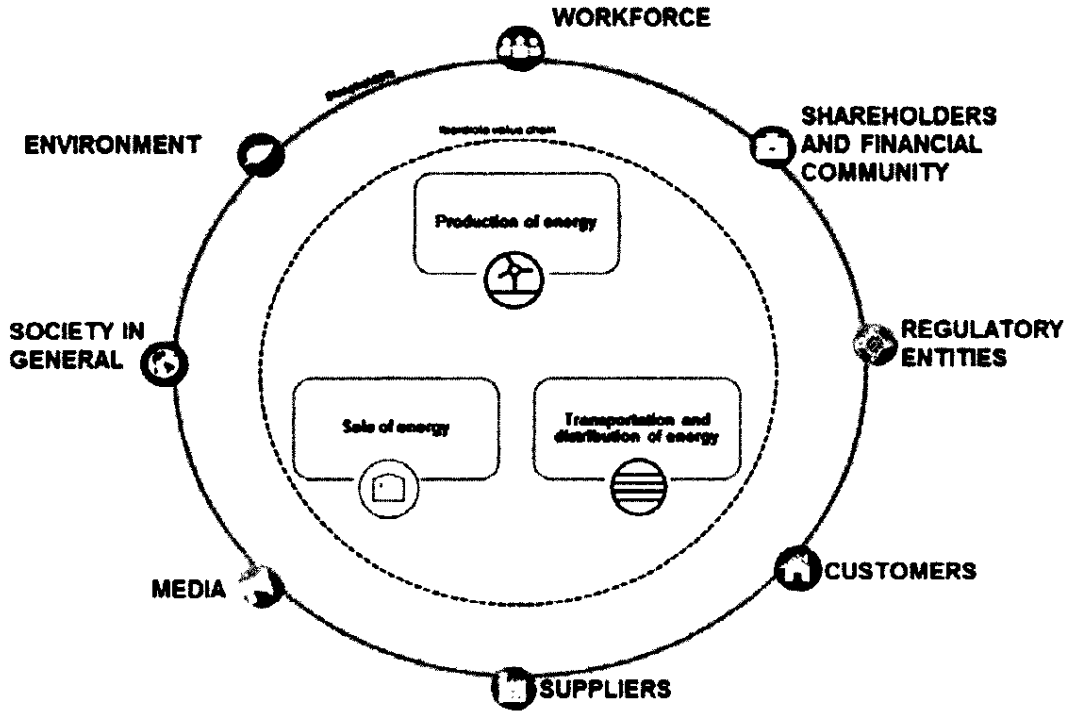
Notably, in 2016 Iberdrola was the first Ibex-35 company to certify its General Shareholders' Meeting as a sustainable event, in accordance with international ISO 20121 standard. This means that all the processes of the General Shareholders' Meeting (from its planning to its subsequent holding) follow 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. Improvements were proposed for the 2018 General Shareholders' Meeting and more than 70 initiatives are launched to promote the sustainability of the event, including:

- 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.

It should be noted that Iberdrola has received the "Erronka Garbia" environmental certificate in acknowledgement of best environmental practices in the organisation of its Shareholders' Meeting.

Stakeholder engagement

Iberdrola's *Stakeholder Relations Policy* (approved by the Board of Directors in February 2015 and updated in October 2018) 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:



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 the preceding section.

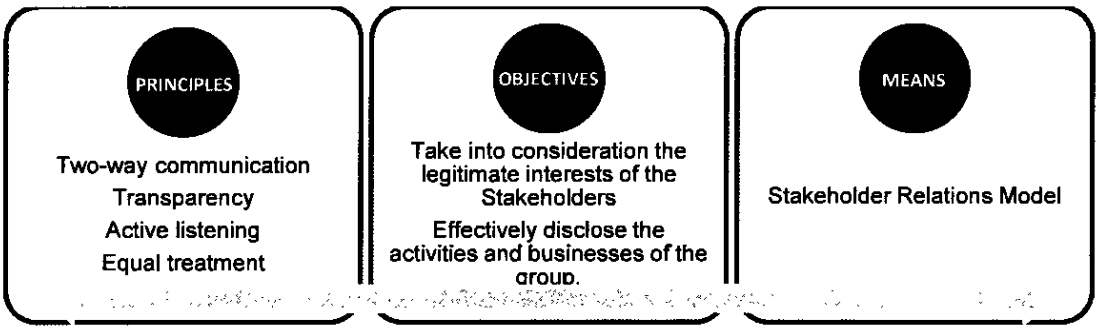
102-42

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.

Approach to Stakeholder engagement

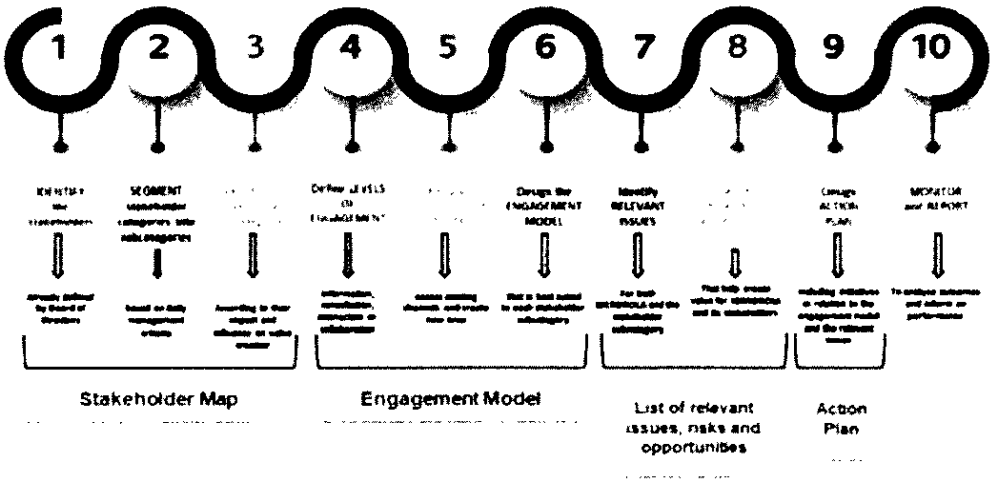
Iberdrola develops a responsible and sustainable business model, which puts Stakeholders at the centre of its strategy. The company's objective is thus to build relations of confidence with the various Stakeholders, as well as to deepen their participation, engagement and sense of belonging to Iberdrola.

The *By-Laws* themselves include a specific article dedicated to Stakeholder relations, establishing the principles and objectives that govern these relations:



Iberdrola has decisively driven compliance with its *Stakeholder Relations Policy* (mentioned above), through a Global Stakeholder Relations Model based on the AA1000 Stakeholder Engagement Standard (AA1000SES) 2015 standard and in its three requirements of inclusiveness, materiality and responsiveness[104].

Among other objectives, this Model seeks to systematise Stakeholder relations throughout the Iberdrola group, in all countries and businesses; and to create a corporate culture with respect to the significance of dialogue with the Stakeholders for more sustainable performance by the company. It constitutes a process of continuous improvement in and of itself, as shown below:



[104] Iberdrola has been continuously applying *Assurance Standard AA1000* for the last twelve years. In 2016 Iberdrola's Operating Committee approved a new *Global Stakeholder Relations Model* (referred to in this report), the second phase of which was implemented in 2018.

This process was implemented in 2018 to manage eight of Iberdrola's Stakeholders in the five main countries and at most of the Generation and Renewables facilities, as well as in the various geographic areas of the Networks Business.

Relationship channels and significant issues

[redacted]

Iberdrola keeps the relationship channels[105] with its eight Stakeholder groups updated and makes continuous efforts to identify the issues that are most important to each of them. An analysis of these issues shows that, while there are issues exclusive to each geographical area, most are common to Iberdrola's five main countries[106].

Set out below is a summary of the most important Stakeholder relationship channels and the main global issues detected in 2018:

WORKFORCE

RELATIONSHIP CHANNELS
- ✓ Telephone, mail, web (intranet), meetings
- ✓ Events, surveys, bulletins, newsletter, information screens, posters
- ✓ Commissions, committees
- ✓ Ethics mailbox

SIGNIFICANT ISSUES
- ✓ Management and retention of talent (career plan, training, quality and maintenance of employment)
- ✓ Occupational risk prevention and health and safety training
- ✓ Employee benefits and pension plans

SHAREHOLDERS AND FINANCIAL COMMUNITY

RELATIONSHIP CHANNELS
- ✓ Telephone, mail, shareholders website, meetings
- ✓ General Shareholders' Meeting, Shareholders' Club, Shareholders' Bulletin
- ✓ Road shows, Investor Day, Investor Relations App, Corporate reports
- ✓ Shareholders' Ethics Mailbox

SIGNIFICANT ISSUES
- ✓ Economic, social and environmental performance of the company and future plans
- ✓ Political situation in the markets in which Iberdrola is present
- ✓ Share price and dividends

DISTRIBUTION CUSTOMERS

RELATIONSHIP CHANNELS
- ✓ Telephone, mail, customer website, meetings
- ✓ Satisfaction surveys, claims systems, awareness-raising campaigns
- ✓ Social media, mobile (apps, chat, etc.)

SIGNIFICANT ISSUES
- ✓ Communication during supply incidents
- ✓ Complaint management
- ✓ Service quality

RETAIL CUSTOMERS

RELATIONSHIP CHANNELS
- ✓ Telephone, mail, customer website, meetings
- ✓ Satisfaction surveys, claims systems, customer service shops, sales force
- ✓ Social media, mobile (apps, chat, etc.)

SIGNIFICANT ISSUES
- ✓ Overall customer experience: channels, service, product offerings and complaints
- ✓ Optimisation of power and consumption and impact on billing
- ✓ Service quality

[105] The By-Laws state that "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*".

[106] 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 2018.

REGULATORY ENTITIES

RELATIONSHIP CHANNELS

- ✓ Telephone, mail, letters, corporate website, meetings
- ✓ Workshops, events, debates
- ✓ Queries, procedures, information capsules

SIGNIFICANT ISSUES

- ✓ Energy transition (energy efficiency, alternative energies, emissions reduction, etc.)
- ✓ Present and future regulatory framework of the electricity sector
- ✓ Remuneration to the businesses

SUPPLIERS

RELATIONSHIP CHANNELS

- ✓ Telephone, mail, supplier website, meetings
- ✓ Register and classification of suppliers, Supplier of the Year Award, satisfaction survey, stimulus campaigns
- ✓ Suppliers' ethics mailboxes

SIGNIFICANT ISSUES

- ✓ Iberdrola's role in the supply chain (ethics and CSR, stimulus campaigns, fostering of innovation)
- ✓ Regulatory measures in each country
- ✓ Commercial relations with suppliers (communication of strategy, award standards, contracting terms, payments and billing)

MEDIA

RELATIONSHIP CHANNELS

- ✓ Telephone, mail, corporate website, meetings
- ✓ Press releases, events, visits to facilities
- ✓ Social media

SIGNIFICANT ISSUES

- ✓ Financial results and company strategy
- ✓ Operational and corporate governance performance and social impact of the activity
- ✓ Present and future industry regulation

SOCIETY IN GENERAL

RELATIONSHIP CHANNELS

- ✓ Telephone, mail, corporate website, meetings
- ✓ Partnership agreements, reports, events, working groups, visits to projects
- ✓ Social media

SIGNIFICANT ISSUES

- ✓ Iberdrola engagement in the development of the communities in which it is present (investment, innovation, collaboration programmes and projects)
- ✓ Relationship and contribution of the company in institutions and other representatives of society
- ✓ Awareness-raising, disclosure and training on specific industry issues and other issues of social interest

ENVIRONMENT

RELATIONSHIP CHANNELS

- ✓ Telephone, mail, corporate website, meetings
- ✓ Reports, sustainability surveys, inspections, audits
- ✓ Alliances, collaborations, events, conferences, roadshows

SIGNIFICANT ISSUES

- ✓ Environmental performance of the company and its facilities (environmental investments, biodiversity, environmental footprint, circular economy and water management)
- ✓ Climate change and energy transition
- ✓ Report and transparency of non-financial information (sustainability indices)

Iberdrola's Wholesale, Networks and Renewables facilities mainly manage three Stakeholder groups: Regulatory entities, Society and Environmental[107]. 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* 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. Likewise, the corporate website and the websites of the businesses and the foundations contain information in this regard.

The methodology described in the preceding sections 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 the "Defining report content" section.

Considering all of the foregoing, Iberdrola has a complete Stakeholder management system, subject to a process of continuous improvement, which allows it to increasingly engage all of the groups with which it relates and to encourage their participation in all of the company's decisions[108].

[107] In the case of the cogeneration plants, the main Stakeholder group is 'Customers', for whom the most significant issue is compliance with contracts.

[108] 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.

Ethics and integrity

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)

[redacted]

[redacted]

The Iberdrola group's compliance system

Pursuant to the *General Compliance System Framework of the Iberdrola group* approved by the Iberdrola group's Compliance Unit (the "**Unit**"), the foundations for the operation of its compliance system have been established following best domestic and international practices in the area of compliance, fraud prevention and the fight against corruption.

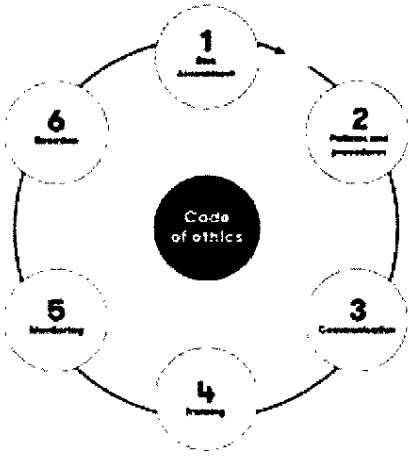
The group's compliance system is thus defined as a set of substantive rules, formal procedures and material actions intended to prevent, avoid and mitigate the risk of conduct that is improper or contrary to ethics or the law that may be committed by professionals of Iberdrola within the organisation, and to ensure that the conduct is in accordance with ethical principles and applicable law (the "**Compliance System**"). The bodies and divisions directly entrusted with the implementation and further development thereof also form part of this Compliance System.

Iberdrola has created a Compliance Unit, a collective, internal and permanent body linked to the Sustainable Development Committee of the Board of Directors. There is also a compliance division linked to the Audit and Compliance Committees at each subholding company and/or head of business company. The duties of all of them include promoting a culture of ethical behaviour and zero tolerance for fraud and the commission of unlawful acts and management of the Compliance System.

The Compliance Unit has powers related to the *Code of Ethics*, the *Anti-Corruption and Anti-Fraud Policy*, the *Crime Prevention Policy*, the *Internal Regulations for Conduct in the Securities Markets*, legal provisions regarding the separation of activities, and all other powers that may be entrusted thereto by the Sustainable Development Committee or the Board of Directors of the company or that are established in Iberdrola's Corporate Governance System.

Within this context, 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:



1) the regular evaluation of risks;
2) the development and maintenance of policies, procedures and action protocols for the professionals of the group describing the expected, appropriate and suitable behaviour;
3) communications activities;
4) the training of employees on compliance-related issues;
5) the continuous monitoring and review of the Compliance System through internal and external audits and control and detection mechanisms like the ethics mailboxes; and
6) the launch of plans to respond and react to conduct or situations that are improper or contrary to applicable legal provisions or failures in the Compliance System.

1.- Evaluation of compliance risks

2018

One of the main elements of the Compliance System is the regular and continuous identification and evaluation of compliance-related risks in each of the corporate areas and functions and in the businesses of the group. The purpose of this evaluation is to be able to establish the measures required to neutralise or mitigate them based on the probability thereof and the seriousness of the consequences thereof. Various areas in which this risk evaluation occurs are described below.

Crime prevention programmes

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 companies of the group have 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.

To implement these *Crime Prevention Programmes,* there is a regular evaluation of the risks of committing criminal acts that might ultimately be alleged against the various companies of the group based on their activities, as well as an identification of existing controls and the establishment of new controls for the prevention thereof.

The criminal risk evaluation process follows the methodology described below:

- Meetings are held with the heads of the various areas (corporate and business) of each company in order to analyse the specific activities they perform within their area of responsibility.
- Based on the activities performed by each area, conduct that might entail the risk of committing a crime is identified.
- The risks identified are classified based on the probability of occurrence thereof and are included in a criminal risk map that reflects the divisions, departments or areas of activity within each company where there is a risk of the commission of each crime.
- For each of the crimes, there is an identification of the controls applicable to the various areas that allow for the limitation, prevention and mitigation of each of the criminal risks identified; and in those cases in which an insufficiency is observed, the specific measure necessary to strengthen prevention is adopted, e.g. implementing additional controls or modifying existing ones.
- A control map is thus developed assigning each of the controls to the crime or crimes it is intended to avoid, and identifies a person responsible for each control, who must ensure the proper operation thereof with a predetermined frequency. The person responsible for each control has the powers, experience, training and authority level appropriate for supervision of the effectiveness thereof.
- The persons responsible for the controls issue annual certifications regarding the appropriate operation thereof.

Fraud and corruption in particular

In financial year 2018 there was an update of the analysis of the risks of fraud and corruption within the Iberdrola group based on a self-evaluation of the exposure to this risk, with the participation of professionals in charge of all 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[109], Iberdrola España, S.A.U., Iberdrola México, S.A. de C.V., Iberdrola Participaciones, S.A.U., Neoenergia, S.A.[110] and Scottish Power LTD as well as the principal business thereof: i) Networks Business, ii) Wholesale and Retail Business, and iii) Renewables Business.
- As regards the corporate divisions, 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.

To perform this evaluation, guidelines and a methodology are provided that allow the compliance directors and the heads of the businesses and corporate functions to identify and

[109] Avangrid formed part of the process through a specific ethics survey.
[110] Neoenergia formed part of the process through a specific analysis of this company.

evaluate the risks of fraud and corruption within the group. Based on an analysis of the information received, each Compliance Division prepares the risk map for its respective company, identifying the main controls to mitigate them, and proposes improvements or modifications 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 with higher risk or 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.

Risks associated with suppliers

Suppliers are considered strategic players within the Iberdrola group and the Procurement function has implemented policies and mechanisms to ensure the transparent, comprehensive and responsible management of its supply chain and to mitigate risks.

- Procurement policy and procedure: global framework for the control and management of risks and opportunities arising from procurement.
- *Code of Ethics*: principles of conduct that bind the group in its relations with third parties and that contain specific principles of conduct for suppliers that match the principles and values of the group. Attached to orders and contracts.
- Procurement terms and conditions. Contract clauses:
    - Require the parties to act within the most stringent levels of safety, occupational risk prevention and environmental protection.
    - They include specific clauses on supplier corporate social responsibility and respect for human rights.
    - They include the rejection of any fraudulent practice or corruption.

The procurement process ensures that counterparty risks are evaluated in decision-making during the tender and award process.

Evaluation of supplier risks, set out in the Procurement Policy

PROCUREMENT POLICY

Credit risk	*"In significant Procurements or tenders, a Supplier credit risk assessment shall be required in order to ask for sufficient contractual guarantees to ensure obligations are met".*
Fraud risk	*"Depending on the nature and amount of the object of the tender, a Supplier fraud risk assessment must be carried out, the result of which shall determine the level of approval required to start the relationship".*
Cybersecurity risks	*"Processes shall be included to identify and establish cybersecurity requirements that would mitigate the risks associated with access by Suppliers and their potential subcontractors to information or to IT systems and services and communications of the group".*
CSR risks	*"[...] priority will be given to those Suppliers that have advanced management systems, certified by a third party and, in particular: (i) Environmental Management System; Quality Management System; (iii) Occupational Risk Prevention System; (iv) Corporate Social Responsibility Action Plan; and (v) Internal Code of Ethics.*
Party risk	*"[...] Suppliers shall be requested to state in their bid the work they propose to subcontract, as well as the names of potential subcontractors, for purposes of analysis in the context of evaluating the bid".*
Tax risk	*"No contract may be entered into with a supplier that is not current in the payment of its tax obligations, tax-related obligations or any other kind of obligations as a result of which the group might incur any secondary liability".*

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 2018 (TI CPI 2018)* 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[111]	% of 2018 general supply purchases in countries on the CPI Index 2018
Low	51.8
Medium	21
High	27.2

According to the TI CPI 2018, 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 33% of the group's total investments were made in 2018.

[111] Low risk: country index ≥ 60 / Medium 59-50 / High risk: < 50 on a scale of 0 (perception of high corruption levels) to 100 (perception of low corruption levels).

Iberdrola has not made any significant purchase of general supplies from suppliers located in tax havens.

Review of fuel supplies in countries presenting a risk of corruption

An analysis of the purchases of fuel shows the following ratios in 2018:

Corruption risk[111]	% of 2018 general supply purchases in countries on the CPI index 2018
Low	49
Medium	0
High	51

According to the TI CPI 2018, 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 11%.

Money laundering

Although Iberdrola, S.A., Iberdrola España, S.A.U and their head of business companies are not subject to *Law 10/2010 on the prevention of money laundering and terrorist financing* (the "**Money Laundering Act**"), this risk is contemplated as part of the *Crime Prevention Programme* of such companies, given the breadth of the definition of the crime and taking into account that this type of crime can be committed by careless action. The general controls related to these crimes include i) the *Code of Ethics* itself, ii) the *Procurement Policy,* iii) the *Protocol for Social Contributions, Donations and Sponsorships*, and iv) the *Protocol for Management the Risk of Third-Party Fraud and Corruption.* These companies also have a number of specific controls for these types of crimes that have also been identified in the aforementioned Programme.

However, due to the nature of its activities, Iberdrola Inmobiliaria, S.A.U. is subject to the Money Laundering Act, for which reason this company, in addition to having the preventive controls mentioned above, has specific additional controls mainly intended to prevent these types of crimes. By way of example, the company has rules like the *Procedure for Action to Prevent Money-Laundering and Terrorist Financing* and *Contract Approval Countersigning.*

2.- Policies and protocols

Once the risks are identified and duly evaluated, the company must approve the required internal rules (policies, protocols or procedures) to which decisions and activities will be subject in order to prevent and mitigate said risks.

Along these lines, the Iberdrola group has approved (as an integral part of its Corporate Governance System) a number of general internal policies and rules in the compliance area mainly intended to serve as a guide for the conduct of its professionals in a global, complex and changing environment. This general rulemaking includes the *Code of Ethics*, the *Crime Prevention Policy* and the *Anti-Corruption and Anti-Fraud Policy*, which are have been approved by Iberdrola, S.A.'s Board of Directors and are called upon to further develop the *Purpose and values of the Iberdrola group.*

Apart from the higher-level rules mentioned above, the Unit in the exercise of its powers approves procedures and protocols in the Compliance area required for the further development thereof (some of which have already been mentioned). These lower-level rules attempt to regulate and mitigate certain specific identified risks and must in any case be in consistent with the provisions of the Corporate Governance System.

In particular, in the area of the fight against corruption, specific rules have been developed pursuant to which there is an analysis and evaluation of the risk of fraud and corruption of the third parties with which Iberdrola is related. In this context, they include:

1) **Third parties generally.** During financial year 2018, the Unit approved the *Protocol for Management the Risk of Third-Party Fraud and Corruption.* This protocol is configured as a rule specifically intended to prevent the risks of fraud and corruption arising from the relationship of the companies of the group with any third party related thereto. It establishes a number of procedures and analyses related to the process of selection and contracting thereof.

   The scope of application of this protocol excludes the third-party types referred to below.

2) **Government administrations and public officials.** Iberdrola has also approved a *Protocol for Conduct in Professional Relations with Governments, Political Parties, Authorities and Public Officials,* applicable to the entire group, governing employee relationships with government administrations, authorities, public officials and other persons who participate in the exercise of public office, as well as political parties, federations, coalitions or electoral groups. Apart from establishing certain principles of conduct to be observed by all of the professionals, this protocol establishes certain requirements to report to the corresponding Compliance Division prior to the formalisation of any contract, agreement or pact with public officials or government administrations.

3) **Corporate transactions.** The company has approved a *Corporate Transactions Protocol* in order to establish the steps to take regarding risks associated with compliance in the case of mergers and acquisitions, joint ventures and other types of corporate transactions contemplated in the area of application thereof. This protocol establishes the obligation to engage in a compliance review and analysis for any corporate transaction that is going to be formalised. Likewise, the Compliance function also engages in a prior analysis of investment and divestment projects from the standpoint of fraud and corruption risk.

4) **Donations, sponsorships and social welfare activities.** The company has also approved a *Protocol for Social Contributions, Donations and Sponsorships,* the object of which is to evaluate any compliance risks associated therewith and the terms and conditions for such transactions, as well as the beneficiaries thereof.

This internal rule, which is regularly reviewed by the Unit and the compliance divisions to the actual activities of a dynamic organisation, as well as to a changing environment, is disseminated and made available to all employees.

3.- Communication

The Unit and the compliance divisions establish an internal and external communication plan in relation to the Compliance System each year. Communication actions are established based on an evaluation of risks, strategic priorities, defined objectives and identified ethics and compliance requirements.

The Communication Divisions, working with the Unit and/or the various compliance divisions, as applicable, are responsible for implementing and monitoring the communication plans.

The various available tools and channels have been used for the communication activities selecting those that are most effective based on the particularities of each case. The support, cooperation and advice of the company's Communication Division was available for this purpose at all times. To summarize, the main communication activities performed at the group by the various compliance divisions are the following:

- **Email campaign:** The Unit and the various compliance divisions prepare and send emails in relation to the various issues relating to the *Code of Ethics,* compliance rules and the Compliance System generally. During financial year 2018, there were communications relating to i) changes made in the latest update of the *Code of Ethics,* ii) the launch of anonymous ethics mailboxes for the Spanish companies, encouraging the use thereof, and iii) the launch of the ethics survey of the Iberdrola group.
- **Employee portals.** The new version of the employee portal of the Iberdrola group has updated and revised the information relating to compliance and ethics appearing therein. In particular, the employee portals of the Iberdrola group in Spain have been updated to include, among other things, the current versions of all compliance regulations, as well as the *Crime Prevention Programmes* of each company.

  The employee portal also makes available to the employees i) an interview with the group's Compliance Director to emphasize the importance of using the group's ethics mailboxes, and ii) specific information regarding the 2018 ethical culture survey.
- **Publications in external media.** Apart from the information published on the group's corporate website www.iberdrola.com, for purposes of Iberdrola's inclusion for the fifth consecutive year in the list of the "*World's Most Ethical Companies*" published each year by the Ethisphere Institute, there have been publications in this regard in various media, thus contributing to the dissemination of the group's commitment to ethics, honesty and integrity in all of its activities.

  There has also been publication in various external media of the acquisition by Iberdrola of the "*Compliance Leader Verification*" certification provided by the Ethisphere Institute to those companies that not only comply with applicable legal provisions but go beyond them and demonstrate the existence of an internal culture that promotes ethical values in all of their businesses and activities. The "Companies with best compliance practices" 2018-2019 award given by Expansión to Iberdrola was also recently published.
- **Events and seminars.** The compliance directors have participated in various ethics and compliance events and seminars, including *Compliance Officer Day* organised by the Spanish Compliance Association (ASCOM), the domestic and international compliance conference organised by Thompson Reuters, and the compliance sessions organised by the National Markets and Competition Commission.
- **Support programmes.** In collaboration with ASCOM, Iberdrola has developed a programme for compliance systems intended to help small- and medium-sized businesses (SMEs) and public bodies in the implementation of these systems. The initiative was addressed to almost 40 entities in Navarre, the Basque Country and Valencia. Iberdrola promotes this programme to disseminate a culture of compliance among the third parties with which it relates in order to achieve both a higher level of ethical commitment from all organisations and improvement in the competitiveness thereof, highlighting the competitive advantage that compliance systems offer to those who implement them.

4.-Training on anti-corruption policies and procedures

The Unit and the various compliance divisions establish specific annual ethics and compliance training plans, which are defined taking into account (i) the areas in which a higher level of risk in this area has been identified, (ii) changes in applicable rules, and (iii) changes in internal rules. The Human Resources Division is available to assist with the implementation of these specific annual plans.

The initiatives carried out during the year include:

Training for governance bodies

- As part of the training programme for the directors of Iberdrola, S.A., there was a training initiative in 2018 directed to the Board of Directors regarding the Iberdrola group's Compliance System and the structure, bodies and tasks thereof.

  The Compliance Unit also regularly reports to the Sustainable Development Committee on the most significant compliance issues for the period, having appeared before this body a total of three times in 2018. The aspects reported on include the report on annual reports, update of the internal compliance rules and the *Crime Prevention Programmes*, the implementation of anonymous ethics mailboxes at the Spanish companies, the results of the survey on ethical culture, the annual activities plans, resources and budgets.

Training for employees of the group

- 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:
  - On-site training and awareness-raising sessions on the Code of Ethics and anti-corruption provisions for members of the company's management team in Spain. During 2018 more than 145 employees belonging to this group have received on-site training within this programme through the various meetings held in Madrid and Bilbao.
  - During the month of September there was a global training programme in collaboration with the law firm Baker & McKenzie regarding international anti-corruption risks and regulation for those employees who might be affected by these types of risks due to the nature of the duties they perform. This training was made up of an onsite session in Madrid which was broadcast globally and attended by more than 430 professionals.
  - Specific training regarding the *Internal Regulations for Conduct in the Securities Markets*. The Compliance Unit, together with the law firm Uría Menéndez, held onsite training sessions in Bilbao and Madrid, the principal purpose of which was to review and comment on the main aspects of the regulation, as well as the obligations it imposes on the persons affected and on treasury share managers. 48 professionals these meetings.
  - Specific local anti-corruption training:
    - In the United Kingdom, there is specific training in this area directed to employees in various areas with potential risk. More than 70 employees have received this training.

- The *Code of Ethics* training in the United States includes a short training session on anti-corruption. This online course was taken by 6,386 professionals in 2018.
- There have been onsite training sessions in Mexico regarding key aspects of ethics and compliance. This initiative was developed through 32 sessions attended by 654 employees.
- There have also been on-line and in-person training courses in Brazil regarding the *Code of Ethics*, fraud and corruption, attended by 8,759 professionals.

5.- Monitoring

The main activities performed by the group within the Compliance System are monitored quarterly by the Compliance Unit through the report in which the Compliance Divisions of each country subholding and/or head of business company report on changes in a number of indicators regarding the principal elements making up the compliance programs of the respective companies.

Grievance mailboxes of the group

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 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. All professionals who have reasonable indications of the commission of an event of this kind must report it through the aforementioned mailboxes. In addition to potential grievances, queries may also be made through these channels on matters relating to the interpretation of and compliance with the *Code of Ethics* and the other internal rules in this area.

All communications received 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. As a new development in 2018, the Compliance Unit has made anonymous ethics mailboxes available to the employees of the companies in Spain and Mexico.

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 *Code of Ethics* within the framework of their business relations with the group. These mailboxes are available in the procurement portal of the website. This mailbox also has the option of reporting anonymous grievances since 2018.

The group also has a shareholders' ethics mailbox. This mailbox represents a channel of communication through which shareholders can report conduct that night 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".

Iberdrola group ethical culture survey 2018

In September 2018 the Compliance Unit took a survey of the ethical climate for all professionals of the group, obtaining more than 17,500 responses. The survey attempts to evaluate the ethical culture of the organisation and tries to measure significant aspects like employee perception of the company's ethical culture, their evaluation of the controls within the organisation and their confidence in the ethics mailboxes.

An analysis of the survey results leads to a number of specific measures to improve situations or problems that have been detected.

Internal reviews of the compliance system

During financial year 2018, internal audit performed a review of the *Crime Prevention Programmes* of the companies of the Iberdrola Spain subgroup, focusing on the following crimes:

- Business corruption
- Money laundering
- Illegal financing of political parties
- Bribery and influence peddling
- Terrorism financing

Although the results thereof did not indicate any non-compliance, certain areas for improvement have been identified and sent to the corresponding Compliance Divisions for assessment.

Internal reviews of the compliance system

- In 2018, as a result of the external audit of Iberdrola's Compliance System by the Ethisphere Institute, the company has renewed the "Compliance Leader Verification" certification, which this institute gives to those companies that not only comply with applicable legal provisions but go beyond them and demonstrate the existence of an internal culture and leadership that promotes ethical values in their businesses.

- Iberdrola has been included by the Ethisphere Institute for the fifth consecutive year as one of the most ethical companies in the world, according to the World's Most Ethical Companies 2018 ranking. Iberdrola is once again the only Spanish company with this classification.

- After the annual follow-up audit in 2018, Aenor has made an evaluation of Iberdrola's system according to (1) the UNE-ISO 37001 standard regarding the anti-bribery management system, and (2) the UNE19601 standard regarding criminal management systems.

  Also in 2018, (i) the country subholding company Iberdrola España, S.A.U. and its head of business companies, and (ii) Iberdrola Inmobiliaria, S.A.U. have obtained the ISO37001 and UNE19601 certifications mentioned in the preceding paragraph.

- The law firm Uría Menéndez has issued a report evaluating the effectiveness of the *Crime Prevention Programmes* implemented at the various companies of the group. As a result of the review for 2017, it was concluded that these programmes are in compliance with best international practices, are effective and are useful to significantly reduce the risk of commission of the crimes sought to be prevented.

- Finally, Iberdrola was given the "Companies with best compliance practices 2018-2019" award by Expansión. This award is given to those companies that have a compliance model ensuring not only compliance with the internal or external rules to which it is subject, but that also has appropriate procedures, tools and personnel.

6.- Response and remediation plans

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 confidentiality, to a defence and to the presumption of innocence of the persons under investigation are guaranteed in all investigations.

In addition to the work of investigation, in view of the results of the investigation or grievance processes, the Compliance Unit or Divisions may identify potential corrective actions and make suggestions to the corresponding areas to improve the control, prevention and mitigation systems.

As regards the communications received through the ethics mailboxes established in the group, a total of 1,695 communications were received in financial year 2018, of which 655 were queries and 1,040 were complaints. Of the 1,040 complaints received, 648 were accepted for processing. In 8% of the cases of complaints allowed to proceed, some type of disciplinary action was taken upon a showing that there had been improper conduct or conduct contrary to the *Code of Ethics* or any other applicable rule.

Information regarding the existence of cases of corruption during the financial year

The company has not been informed, either through the ethics mailboxes or through the corresponding legal channels of its Legal Services, of any specific court decisions regarding cases of corruption during the reporting period. There were also no incidents reported through the mailboxes established for such purpose resulting in the cancellation of orders or of contracts with group suppliers.

Proceedings from prior years with an impact on the financial year

On 22 December 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.) 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.

Among the obligations agreed to with the bank under the Agreement, Iberdrola Ingeniería y Construcción, S.A.U. and Iberdrola, S.A. have committed to develop, finance and implement a specific programme to sponsor activities in the area of compliance by taking actions and measures in favour of the fight against corruption and fraud for a period of four years from the signing of the Agreement. Within this context, the company has performed more than 20% of the agreed activities during 2018.

Fiscal responsibility

The fiscally responsible behaviour of all companies of the Iberdrola group forms part of the *General Sustainability Development 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 18 December 2018. 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".*

Applying the maximum standards of tax transparency, Iberdrola, S.A. has 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*.

In addition, in order to strengthen its commitments in this area, Iberdrola, S.A. has submitted to the Spanish tax authorities the "Annual Tax Transparency Report for companies adhering to the Good Tax Practices Code" for 2015, 2016 and 2017.

In 2018, it began a new path through the preparation for purposes of the holding of the company's General Shareholders' Meeting of a document regarding "Global Tax Contribution/Financial Year 2017 - Our Commitment to Society". This document will be included after 2019 in the "Tax Transparency Report" approved by the Board of Directors, which will group together all significant tax issues.

Furthermore, aware of the significance today of tax havens and non-cooperative jurisdictions, it should be noted that 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) or in territories classified by the European Union in its black list as non-cooperative jurisdictions for tax purposes.

It only held an indirect interest in the company Garter (an inactive company residing in the British Virgin Islands) acquired with the merger of Neoenergia into the Iberdrola group at the end of August 2017, although this company has already been liquidated.

The group also pays special attention to the state of Delaware due to the interest it raises, even though it is not considered a tax haven or non-cooperative jurisdiction. In this regard, various companies forming part of 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 locations of operation 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 for 2016 and 2017, submitted in 2017 and 2018, respectively, information regarding the activities of the

group 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 and 2018 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 and 2017 information, respectively, in recognition of its good tax practices and its transparency.

The taxes paid are presented in the following table:

Tax contribution (€ millions)	2018	2017	2016[112]
Company contributions	3,096	2,723	2,768
Contributions due to third-party payments	4,843	4,388	4,361
Iberdrola consolidated total	**7,939**	**7,111**	**7,129**

More than 98% 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 1 Supplementary Information.

[112] For better comparability of the 2017 and 2016 information, 100% of the taxes paid by Neoenergia in Brazil during 2016 are included.

Competition

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)

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. The group also 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 Sustainable Development 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 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 United Kingdom, ScottishPower has implemented internal processes to ensure compliance with REMIT, the EU regulation on the integrity and transparency of the energy market. REMIT provides a specific regulatory framework for wholesale energy markets that defines market abuse (including manipulation or attempted manipulation of the market, use of inside information, explicit prohibition against market abuse, etc.). The regulator Ofgem

supervises compliance with such regulations on integrity and transparency of the electricity and gas market, monitoring, investigating and sanctioning violations of REMIT.

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 below requiring the intervention of the competent courts.

[redacted]

In 2017, a class action lawsuit was filed with the United States District Court of Massachusetts on behalf of New England customers against the company and Eversource, alleging that certain of their respective subsidiaries that provide natural gas transmission services using the Algonquin Gas Transmission (hereinafter, "AGT") pipeline, which for the company would be its indirect subsidiaries SCG and CNG, engaged in natural gas pipeline capacity scheduling practices with respect to AGT that resulted in an artificial increase in electricity prices in New England. The plaintiffs sought to recover damages, disgorgement, redress in the form of restitution, injunctive relief and an award of costs. The company filed a motion to dismiss all claims on 29 January 2018, and on 27 February 2018, the Federal Energy Regulatory Commission (hereinafter, "FERC") released the results of a staff inquiry into the gas pipeline capacity scheduling practices involving the AGT. The FERC stated that the inquiry did not uncover any evidence of anticompetitive withholding of natural gas pipeline capacity on the AGT and that it would not take any further action on the matter. On 27 April 2018, the company filed a motion to dismiss all claims based on federal pre-emption and lack of any evidence of antitrust behaviour, citing, among other reasons, the results of the inquiry conducted by FERC staff. The plaintiffs filed opposition to the motion to dismiss on 25 May 2018, and the U.S. District Court of Massachusetts held a hearing on the motion to dismiss on 1 August 2018. On 11 September 2018, the U.S. District Court upheld the motion filed by the company and dismissed all of the claims. On 10 October 2018, the plaintiffs filed an appeal. The company cannot predict the outcome of this class action lawsuit.

In addition, on 10 August 2018, PNE Energy Supply LLC, a competitive energy supplier located in New England that purchases electricity in the day-ahead and real time wholesale electric market, filed a civil antitrust action, on behalf of itself and those similarly situated, against Avangrid and Eversource alleging that their respective gas subsidiaries illegally manipulated the supply of pipeline capacity in the "secondary capacity market" in order to artificially inflate New England natural gas and electricity prices. The plaintiff claimed to represent entities which purchased electricity directly in the wholesale electricity market that it claimed was targeted by the alleged anticompetitive conduct of Eversource and the company. On 28 September 2018, the company filed a motion to dismiss all of the claims based on federal pre-emption and lack of any evidence of antitrust behaviour, citing, among other reasons, the results of the FERC staff inquiry and the dismissal of the claim by the same Court in September. The company cannot predict the outcome of this class action lawsuit.

No cases related to monopoly practices or anti-competitive behaviour have been recorded at the other companies of the Iberdrola group during the financial year. Nor do any cases filed in prior years remain open.

Public policy

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)

GRI 103

Relations with regulatory entities and social institutions

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.

- 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. **102-13**

International	
World Energy Council	WindEurope
World Economic Forum	Electric Power Research Institute (EPRI)
United Nations Global Compact	European Distribution System Operators (EDSO)
Union of the Electricity Industry EURELECTRIC	Global Wind Energy Council (GWEC)
CSR Europe	Nuclear Industry Association (NIA)
International Electrotechnical Commission/European Committee for Electrotechnical Standardisation (IEC/CENELEC)	European Network of Transmission System Operators for Electricity (ENTSOE)
International Emissions Trading Association (IETA)	World Association Nuclear Operator (WANO)
BetterCoal	European Utilities Telecom Council-EUTC
Institute of Electrical and Electronics Engineers (IEEE)	International Conference on Electricity Distribution (CIRED)
European Round Table (ERT)	Smart Life
Prime Alliance	International Council on Large Electric Systems (CIGRE)
Connection Network Codes	European Technology Platform Smart Grids
Solar Power Europe	
Spain	
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 (AELEC)	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 Empresarial para el Desarrollo e Impulso del Vehículo Eléctrico	Asociación Empresarial Eólica (AEE)
Corporate Excellence	Grupo Español de Crecimiento Verde
United Kingdom	
The Confederation of British Industry	Aviation Investment Fund Company Limited
The Scottish Council for Development and Industry	Energy UK - Energy Efficiency Group
Energy UK-ECO Group	Generators Safety & Integrity Programme
Energy Networks Association	Business Disability Forum
Scottish Renewables UK	Energy Institute
Energy & Utility Skills	Energy Action Scotland
Scotland's Towns Partnership	Cheshire Energy Hub
National Skills Academy for Power	Joint Environment Programme
Institute of Engineering & Technology	Gas Storage Operators Group
National Energy Action	Energy Efficiency Group
Scottish Rugby Union	British Hydro Association
Distribution Connection and Use of System Agreement (DCUSA)	Glasgow & Edinburgh Chamber of Commerce
United States	
Business Council of New York State	American Wind Energy Association (AWEA)
Mid-Atlantic Renewable Energy Coalition (PJM States)	Center for Energy Workforce Development (CEWD)
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 Energy Northwest (RENEW)
Renewable Energy Northeast (RENEW)	The Wind Coalition (TWC)
Gas Technology Institute (GTI)	American Gas Association (AGA)
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)	Independent Energy Producers Association of California
Northeast Underground Committee (NEUC)	New England Power Pool
National Electrical Safe Code	New England-Canada Business Council
Mid-Atlantic Renewable Energy Coalition (MAREC)	Center for Energy Efficiency (CEERT)
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)	North American Transmission Owner and Operator Forum (NATF)
Call Before You Dig, Connecticut	Association of Edison Illuminating Companies
American National Standards Institute (ANSI)	Operations Technology Development (OTD)
Industrial Asset Management Council (IAMC)	Clean Grid Alliance (WOW)
The Wind Coalition (TWC)	Rochester Business Alliance
Mexico	
Asociación Mexicana de Energía Eólica (AMDEE)	Cámara Española de Comercio, A.C. (CEE)
Asociación Mexicana de Energía, A.C (AME)	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 (CAINTRA)	Consejo Ejecutivo de Empresas Globales, AC
Empre-Bask México, A.C	
Brazil	
Associação Brasileira de Distribuidoras de Energia Elétrica (ABRADEE)	Associação Brasileira da Infraestrutura e Indústrias de Base (ABDIB)
Associação Brasileira dos Comercializadores de Energia (ABRACEEL)	Sistema Federação das Indústrias do Estado da Bahia (CIEB)
Movimiento Pernambuco Empresarial (ABERJE)	Instituto Ethos de Responsabilidade Social
Associação Brasileira de Energia Solar (ABSOLAR)	American Chamber of Commerce (AMCHAM)
Associação Brasileira de Geradoras Termelétricas (ABRAGET)	Associação Brasileira de Energia Eólica (ABEEOLICA)
Associação Brasileira das Empresas de Transmissão de Energia Elétrica (ABRATE)	Associação Brasileira de Relações Institucionais e Governamentais (ABRIG)
Comitê da Bacia Hidrografica do Rio Doce	Instituto Acende Brasil
Associação Brasileira dos Contadores do Setor de Energia Elétrica (ABRACONE)	Associação Brasileira das Empresas Geradoras de Energia Elétrica (ABRAGE)
Federação das Indústrias do Estado de Pernambuco (FIEPE)	Associação Brasileira dos Produtores Independentes de Energia Elétrica (APINE)
Centro de Pesquisas de Energia Elétrica (CEPEL)	

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.

Transparency of regulatory positions

As a general rule, Iberdrola endorses the principles of good regulation: proportionality, effectiveness and efficiency, responsibility and independence, consistency and credibility and, finally, transparency and clarity.

Therefore, a project for the dissemination of regulatory positions has been developed as part of Iberdrola's transparency policy. The company has thus 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.

Iberdrola backs the objective of decarbonising the economy, taking a leading role in the transformation of the electricity sector. At year-end 2018, 68.2% of its installed capacity is emissions-free, the company being the leading renewable energy producer among European utilities and in the United States.

In order to decarbonise the economy, it is necessary to evolve into more efficient energy uses from emissions-free energy:

1- First, **the electricity sector must be transformed**, with fossil fuels being replaced by renewable energy.

   Along these lines, all existing energy plans include penetration objectives for renewables; specifically, the European Union has set a binding 32% by the year 2030.

   Renewables are intermittent and their costs are mostly fixed; therefore, in order to ensure their development, long-term revenue stabilisation policies are needed, such as auctions and Power Purchase Agreements (PPAs).

   In addition, firm and flexible capacities, which are needed to match demand and production, require specific payments associated with capacity, without putting the environmental objectives at risk.

   Finally, the electricity grid is key to integrating distributed and intermittent resources and to optimising the global investment. It must be adequately remunerated for these new services, and the associated costs must be allocated among all the system users.

2- Furthermore, **the other energy uses, especially transportation and construction, must be electrified**, based on an appropriate cost-benefit analysis.

   As far as transportation is concerned, the most efficient and sustainable means of decarbonisation is the development of the electric vehicle. In this regard, technological development and an adequate recharge network must both be promoted. In order to honour the commitments of the Paris Agreement and become carbon-neutral, there should be no internal combustion vehicles by 2050.

   As regards construction, the heat pump is an efficient alternative that should be specifically advanced as a renewable solution.

   Once the economy has been electrified to the maximum possible extent, other energy alternatives should be considered for uses that do not allow for electrification. For example, electrogas could be a viable alternative for sea and air transport.

3- The electrification of the economy must be financed by all the polluting sectors, for which purpose an economic signal, in certain cases coupled with a tax reform, is indispensable.

In this transformation process, it is essential for consumers to be able to make appropriate decisions based on true, adequate and clear information. Smart meters provide customers with

better information on their consumption patterns and allow for continued progress toward custom-made offerings.

Renewable distributed generation (internal consumption) contributes to reducing emissions and makes the customer a more active player. Customers should be allowed to feed their surpluses into the network and receive the energy price in effect at the time of injection.

The company places a greater focus on vulnerable customers, to whom it wishes to guarantee basic energy supply. Several countries have developed protection policies in this regard that must be funded from general budget revenues.

The most prominent institutions share this view of electrification of the economy: MIT, EPRI, NARUC, CEER, etc.

External initiatives to which the organisation subscribes or which it endorses

102-12

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 *General Sustainable Development Policy*. In addition to meeting its goals to reduce the intensity of CO_2 emissions 30% by 2020 and 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, ESADE), organising informational seminars, publishing materials and participating in forums like the *High Level Political Forum 2018* in New York and the *Youth Speak Forum* (of which Iberdrola is once again 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:

- World Economic Forum (WEF) –CEO Climate Leaders–.
- World Business Council of Sustainable Development (WBCSD)
- UN Global Compact LEAD.
- European Round Table of Industrialists.
- The Prince of Wales's Corporate Leaders Group. Green Growth Platform.
- Carbon Pricing Leadership Coalition.
- REDS, Red Española de Desarrollo Sostenible.
- SE4ALL.
- We Mean Business.
- The Climate Group.
- Fundación Rafael del Pino- Programa Inicia
- 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 Treasury 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 has also engaged in other initiatives in collaboration with this organisation, like the participation of Iberdrola's chairman Ignacio Galán in the *UN Global Compact Leaders Summit*, and the *LEAD global programme*, projects relating to human rights, the fight against climate change, and membership in other platforms and activities at the domestic and international levels. This *Progress Report* that Iberdrola prepares annually to communicate progress in complying with and disseminating the *Principles of the Global Compact* has reached the maximum level, defined as *Advanced.*
- 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*) (AELEC) and the Ministry of the Environment.

In the United Kingdom, ScottishPower has created a team 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 for Life*, Stand up to Cancer. It also has a specific rate called *Help Beat Cancer Fixed Price*, which when purchased commits the company to work with this organisation by contributing up to 5 pounds per contract per year.

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 2018, and more than 86,000 customers have already joined to collect funds. The company also participates in the proceedings of World Cancer Day and World Cancer Research Day.

In Brazil there is a continuation of the Together for the Sustainable Development of Communities, which is intended to contribute to improving social and corporate investments and stimulate the participation of private initiatives. For yet another year Iberdrola has supported the Mexican Red Cross in its national drive for 2018, while the company has participated in the creation of the "Fund to Support the Tehuantepec Isthmus" operated by the Mexican Wind Power Association, to rebuild the area affected by the earthquake.

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. 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. And it is also a signatory of the *American Business Act Climate Pledge* to support the fight against climate change.

Lobbying activities and contributions to political parties or to related institutions

[redacted]

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.

Iberdrola has a neutral position from a political standpoint. In financial year 2018, 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 (€)	2018	2017	2016
United Kingdom	**27,696**	**26,266**	**26,889**
United States	**35,129**	**14,997**	**129,543**
Federal level	0	0	0
State level	35,129	14,997	129,543
Other countries	**0**	**0**	**0**
Total	**62,825**	**41,263**	**156,432**

In the United Kingdom, ScottishPower contributed a total of 27,696 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 Renewables Business of Avangrid contributed a total of 35,129 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.

Cybersecurity and information privacy

Contribution to SDGs of the performance described by the indicators of this section (according to SDG Compass www.sdgcompass.org)

In order to ensure appropriate protection of the group's physical and IT assets, Iberdrola has a *Cybersecurity Risk Policy*, approved by the Board of Directors, 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 and any other asset that forms part of the group's cyber-infrastructure. The framework 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. Iberdrola has appointed a chief information security officer (CISO) to lead and supervise the deployment of the global cybersecurity strategy, as well as information security officers at the various country subholding companies to ensure the implementation thereof in each country, taking into account the particularities of their territory.

The group's Cybersecurity Committee, led by the global CISO, and on which all businesses and corporate functions are represented, promotes and supervises the deployment of the cybersecurity strategic plan and rules throughout the organisation, based on risk analysis and management and on the application of technical and organisational measures for appropriate protection and resilience of assets based on the critical nature thereof. It also establishes training and awareness-raising for the entire workforce, cybersecurity in the supply chain and the management of threats and incidents, including collaboration with government authorities and external security services to defend the brand and the company's customers against potential risks and fraud through social engineering.

GRI 418

Iberdrola pays special attention to ensuring the privacy of the personal information of the group's Stakeholders. For this purpose, the company has a *Personal Data Protection Policy*, approved by the Board of Directors, and conforming to the European *Global Data Protection Regulation.* 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 data, guaranteeing compliance with applicable law on this topic in all countries in which the group is present.

To further develop this policy, the Corporate Security Division has developed 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 the coordination mechanisms and responsibilities in this area. The Corporate Security Division is the body responsible for developing the global data protection strategy, with the support of Legal

Services and technological support of the Systems Division, for the data processing performed by the group.

The Iberdrola group has also appointed a Global Data Protection Officer, who will rely on a network of Local Data Protection Officers at each of the country subholding companies of the countries in which the group does business, and which ensures the implementation in each country of the global personal data protection strategy, taking into account the particularities of their territory.

The table below shows substantiated complaints regarding breaches of violations of privacy and losses of customer data.

Incidents relating to privacy (no.)	2018	2017	2016
From regulatory entities	173	163	175
From other sources, substantiated	191	29	14
Total substantiated complaints	**364**	**192**	**189**

Of the incidents arising from regulatory entities, 151 occurred in the United Kingdom and 22 occurred in Spain. Of those having another origin there were 181 in the United Kingdom and 10 in Spain.

During 2018 there were also 6 cases of loss or breach of customer data, 3 in Spain and 3 in the United Kingdom.

Socioeconomic compliance

Contribution to SDGs of the performance described by the indicators of this section (according to SDG Compass www.sdgcompass.org)

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 sustainable development. 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

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 Chapter II.3.

Significant fines and non monetary sanctions in the social and economic area[113]	2018	2017	2016
Fines imposed (€)	59,544,962	58,891,707	208,758,953
Non-monetary sanctions (no.)	17	1	3
Cases being resolved through arbitration or similar mechanisms (no.)	301	465	575

[113] Arbitration mechanisms are not included in the labour area.

Of the total amount, fines in the amount of 58,508,283 euros have been imposed in Brazil, of which 48,545,380 euros correspond to fines of the Networks Business, mainly a fine for alleged violations in the calculation of corporate income taxes (*impuesto sobre la renta de las personas jurídicas*) (IRPJ) and corporate social contributions (*contribución Social sobre el beneficio neto de las personas jurídicas*) (CSLL). In the Renewables Business, there were fines in the amount of 5,315,971 euros, mainly for a finding of a violation in the collection of the tax on services (*impuesto sobre servicios*) (ISS) in relation to construction contracts for two wind farms. In the Wholesale Business, there were fines in the amount of 3,435,476 euros relating to findings of violations and tax notices, for which the company has submitted a defence. Fines were also imposed at Neoenergia Corporación in the amount of 1,211,456 euros mainly for two tax penalties applied by the Brazilian tax authority for failure to homologate a declared loan in two proceedings and 18,397 euros for labour violations.

Fines in the amount of 654,435 euros were imposed in Spain, of which: 256,325 euros are for fines imposed on the Wholesale and Retail Business (33,040 euros for provisions governing information on and advertising of the prices of goods and services, 83,283 euros for consumer claims due to supply disconnections and management of documentation, and 140,002 euros for penalties regarding personal data protection); and 398,110 imposed on the Networks Business for opening trenches without a construction permit, all of which cases are being appealed.

In the United Kingdom, ScottishPower has received two fines in the amount of 278,797 euros, one corresponding to the Networks Business for disputes in the construction of transmission networks at the Longannet and Blacklaw projects, and another corresponding to the Renewables Business for delay in payment of the Land and Buildings Transaction Tax (LBTT).

In the United States, fines have been imposed in the amount of 85,050 euros mainly corresponds to violations of "*Dig Safe*" safety regulations during the excavations.

No fines were imposed during 2018 in the other countries in which the company operates.

Finally, in Brazil, Neoenergia received 15 non-monetary penalties: 12 for consumer claims regarding bills and disconnections, for which the company, as a corrective measure, has made visits to PROCON (consumer portal) to explain the regulated right and the increase in the conciliatory attempt to resolve complaints; 2 due to a failure to pay apprentices and 1 for a claim for repair of motorways affected by lorry traffic from the construction of a wind farm. In the United Kingdom, ScottishPower has received two sanctions, one for a legal complaint for unfair dismissal, and the other for the occurrence of four turbine fires at the Arecleoch wind farm.

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 1,324 grievances about labour practices in 2018[114]; of these, 894 were resolved in that same year. In addition, 1,436 other grievances pending from previous years have been resolved.

[114] 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.

III. About this Report

- Scope of Information
- Defining Report Content. Materiality Analysis
- Content Index in Relation to the Requirements of Law 11/2018 (Statement of Non-Financial Information)
- GRI Content Index
- Content Index in Relation to the Principles of the Global Compact
- Independent External Assurance

Scope of Information

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 2018.

B. Information boundaries of this report

Time scope

102-50 102-51 102-52

Year 2018. The report is published on an annual basis.

Organisational scope

102-6 102-45

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 economic information that is included in this *Statement of Non-Financial Information. Sustainability Report 2018* comes from the *Annual Financial Report* for financial year 2018.

Other non-financial information stated as within the "global boundary", 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 they are minority interests in companies dedicated to non-strategic activities for the group and whose employees do not belong thereto), which are included under the heading "Other".

B.2. Report boundary

Made up of Iberdrola, S.A. and its subsidiaries and minority-owned companies that are significant for purposes of sustainability that do business in the countries indicated in the table below and engage in the activities described therein.

Significant countries and activities for the Iberdrola group in terms of sustainability[1] and included in the 2018 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
		Conven-tional	Renewable (4)		Wholesale market	Retail market		
Spain (5)		X		X		LIB		X
United Kingdom		X		X		LIB		
United States		X		X		REG		
Brazil		X		X		REG		
Mexico		X				LIB		X
Portugal						LIB(8)		
Germany						LIB		
Canada								
Greece								
Hungary								
Poland								
Romania								
France						LIB		
Italy						LIB		
Rest countries (11)								

1) The countries set out herein are those in which the company does business, with facilities and employees. Countries in which the company makes purchases of general supplies and procures fuel are not included. The workforce reported is as at year-end.

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 sales activities in Germany, France and Italy is not consolidated, because it is not yet integrated into the corporate systems as at the date of preparation of this report. It will be included in future reports to the extent the systems collect this information.

4) It includes the activities of hydroelectric, wind and solar generation. 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. Environmental information on construction projects in Portugal and France is not included.

5) Any reference to the *7th Collective Bargaining Agreement* includes the following companies at 31 December 2018: 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 and retail activities from the Republic of Ireland are included in the United Kingdom and renewables activities from Cyprus are included in Greece.

7) Activities corresponding to assets sold in 2018. These activities are not significant from the environmental standpoint. In the labour area employees are recorded in those indicators that are calculated with data accumulated through the date of sale.

8) The activity of electricity and/or gas supply in Portugal are included in Spain.

9) Activities related to the 350 MW Wikinger offshore wind farm: After the connection to the German transmission network at the end of 2017, the project entered into the commercial operation phase. Special mention should be made of the official inauguration of the wind farm on 29 October 2018 in Sassnitz-Mukran, which was tremendously successful with the attendance of both guests and the media.

10) Activities are not significant from the environmental standpoint. Labour information is included in the information for the United States.

11) Other countries: Algeria, Belgium, Bulgaria, Costa Rica, Egypt, Russian Federation, Latvia, Montenegro, Qatar and South Africa. Employees in these countries represent only 0.063% of the employees of the group. Environmental information on these activities is not included as it is not deemed relevant in terms of sustainability.

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.

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	
Report boundary = Iberdrola, S.A., subsidiaries and affiliates considered to be significant for sustainability purposes.	Spain United Kingdom United States Brazil Mexico Other countries (Portugal, Germany, Canada, Greece, Hungary, Poland, Romania, France, Italy, Algeria, Belgium, Bulgaria, Costa Rica, Egypt, Russian Federation, Latvia, Montenegro, Qatar and South Africa) **Report boundary**
Global boundary = report boundary plus the information of affiliates consolidated by the equity method that are not considered significant for purposes of this report.	Other **Iberdrola total**

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.

Significant changes to the organisation and its supply chain

GRI 102-10

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:

- In Spain, the sale of Iberdrola Energía Solar de Puertollano in Ciudad Real to the Ence Energía, SL. group was agreed on 18 October 2018.
- In the Cogeneration area there was a sale of the interest held (20%) in the energy recovery plant located in Mallorca to the company TIRME, S.A. and the transfer of the participation in COBANE A.I.E. to the company TARRAGONA POWER, S.L., the owner of which is Iberdrola Generación Térmica, S.L.U.
- In the United States, on 19 February 2018 Avangrid formalised a final agreement for the sale of the gas storage business unit (Enstor Gas LLC) to Amphora Gas Storage USA.
- In the United Kingdom, on 31 December 2018 Iberdrola culminated the sale of Scottish Power Generation, which included its conventional generation assets, to Drax Smart Generation Hold Co Limited.
- Finally, in Mexico the Escobedo combined cycle plant (878 MW) was placed into commercial operation during 2018.

These operations are framed within the asset rotation plan that Iberdrola presented in the Outlook 2018-2022.

Changes in capital structure

The shareholders acting at the General Shareholders' Meeting of Iberdrola held on 13 April 2018 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 2018 and the second in January 2019.

Changes in supply chain

There were no significant changes in the company's supply chain during the financial year.

Defining Report Content. Materiality Analysis

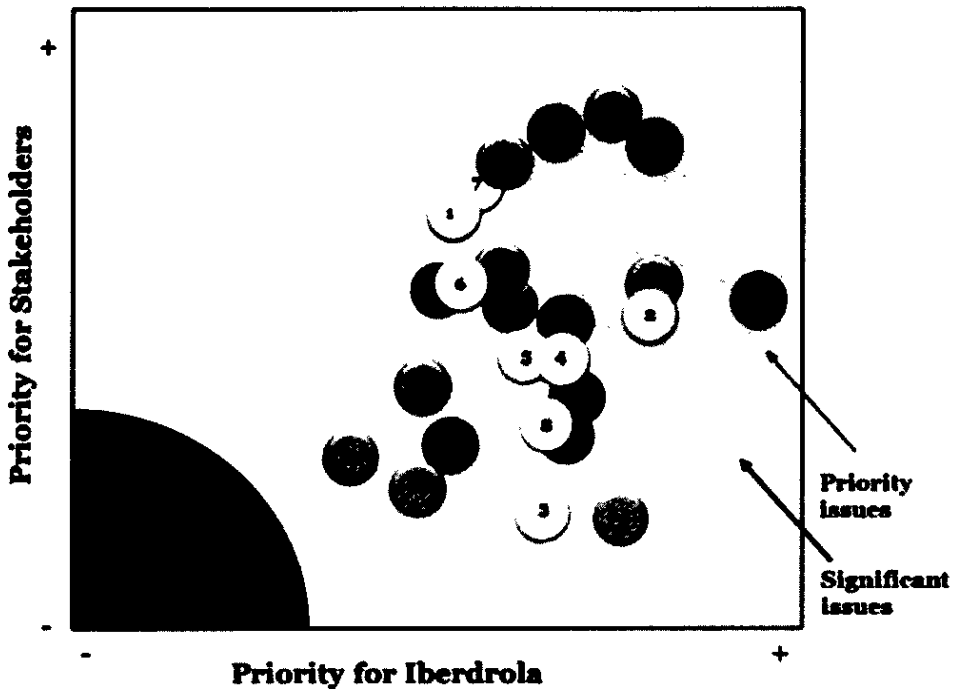
Iberdrola has indirectly identified its material aspects since 2003, using the *GRI Sustainability Reporting Standards* (and prior versions) as well as the *Electric Utility Sector Supplement*, both of the Global Reporting Initiative (GRI), as a model for preparing its annual sustainability report.

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 legal requests on matters of sustainability made by GRI, with its recommendations, and also 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 sustainable development 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 economic, social, environmental and ethics issues that are significant to its focus on sustainable development.

The analysis for 2018 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, 6 topics, shown in the following chart, have been identified as "material":



Priority issues	Significant issues	Other significant issues
19. Diversity and equal opportunity	11. Innovation and new business models	14. Management of biodiversity
15. Energy transition	7. Smart grids and supply quality	21. Impact on local communities
20. Occupational health and safety	1. Socially responsible investment	3. Transparency
18. Customer satisfaction	24. Attraction, development and retention of human capital	17. Environmental safety
13. Climate change	12. Integration of renewable energy within the electric system	9. Management of natural capital
2. Economic and financial performance	16. Availability and management of water	10. Circular economy
	4. Ethics and integrity (anti-corruption and free competition)	
	6. Public policy	
	25. Connectivity, digitisation and cybersecurity	
	5. Responsible supply chain	
	23. Vulnerable customers	
	22. Human Rights	
	8. Green financing	

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 various sections of 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:

Priority issues	Description	Iberdrola's response
Diversity and equal opportunity	Non-discrimination against women in the labour world and especially in management positions. Merit- and skill-based selection, salary and promotion equality.	"Diversity and equal opportunity" section of Chapter II.2. Workforce health & safety and personal development. "Non-discrimination" section of Chapter II.5. Contribution to the well-being of our communities.
Energy transition	Transition towards a low-carbon economy. Energy efficiency to reduce the industry's energy requirements. Regulatory changes to encourage greater inclusion of renewable energies in the "mix". Improvements in the systems for inclusion of renewable production within the grid. Nuclear plant decommissioning.	"Key operating figures" section of Chapter I. About Iberdrola. "Business model" section of Chapter I. About Iberdrola. "Energy transition and supply costs" section of Chapter II.1. Sustainable economic growth. "Efficiency in energy consumption" section of Chapter II.3. Fight against climate change and protection of biodiversity.
Occupational health and safety	Management of health and safety of employees and contractors, prevention policies and plans Establishment of goals and performance in accident and absenteeism rates. Employee, supplier and subcontractor training.	"A safe work environment" section of Chapter II.2. Workforce health & safety and personal development.
Customer satisfaction	Evaluation of customer satisfaction and establishment of improvement objectives. Accessibility and transparency of information Digitalization. Management of information security and privacy, grievances and claims and other matters related to meter reading, billing, rates and contracts.	"Products and services", "Access to adequate information" and "Innovation projects and Digital transformation" sections of Chapter II.4. Innovation, digitalization and quality for our customers.
Climate change	Science-based goals for reduction of emissions, emissions trading, CO_2 storage systems, available adaptation and mitigation mechanisms, economic impacts from climate change, evaluation of risks and opportunities, awareness-raising and sensitisation, etc.	"Business model" section of Chapter I. About Iberdrola. "Economic/financial performance" section of Chapter II.1. Sustainable economic growth. "Introduction", "Emissions reduction" and "Efficiency in energy consumption" section of Chapter II.3. Fight against climate change and protection of biodiversity. "Products and services" section of Chapter II.4. Innovation, digitalization and quality for our customers.
Economic and financial performance	Action plans to guarantee results in uncertain environments. Economic value generated and distributed. Tax policy and strategy, cooperation with tax authority, tax contributions. Indirect economic impacts and creation of social value.	"Business model" section of Chapter I About Iberdrola. "Economic/financial performance" section of Chapter II.1. Sustainable economic growth. "Contribution to society (LBG)" section of Chapter II.5. Contribution to the well-being of our communities.

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 that is included in this chapter of the 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[115], as described in the "Stakeholder engagement" section of Chapter II.7 "Good governance, transparency and stakeholder relations".

[115] 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.

Statement of Non-Financial Information

In the current context there is a growing demand by society in general, as well as shareholders and investors in particular, for companies to explain the way in which they achieve financial results and their evaluation in terms of sustainability, understanding that adequate disclosure of non-financial information is an essential element for the sustainability of financing activities.

After the entry into force in 2014 of *Directive 2014/95/EU*, the Directive was transposed into the Spanish legal system in 2017 by means of *Royal Decree-law 18/2017, of 24 November*, and in 2018 *Law 11/2018, of 28 December on non-financial and diversity information* was approved. This new Law expands the legal requirements regarding non-financial information to be published regarding its management of environmental and social aspects, 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 *Statement of Non-Financial Information. Sustainability Report 2018* covers the requirements arising from the entry into force of the new legal provision, forming an integral part of the company's management report.

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).

The table below sets out the pages of this document in which you can find the information required by the new legal provision.

Disclosures from the Statement of Non Financial Information	Related GRI Disclosures	SNFI pages
Description of the group's business model		
business environment	102-1	10, 22, 23, 28, 30, 55, 60, 63, 74, 87, 300, 332
organisation and structure	102-2	
markets in which it does business	102-3	
objectives and strategies	102-4	
main factors and trends that might affect its future progress	102-6 102-7 102-14	
Description of policies that the group applies regarding such issues		
due diligence procedures applied to identify, evaluate, prevent and mitigate significant risks and impacts and for verification and control	103	64, 66, 68, 206
measures adopted		
Results of policies		
key indicators of relevant non-financial results that allow for monitoring and evaluation of progress and that favour comparability among companies and industries, in accordance with the domestic, European or international reference frameworks used for each topic	GRI content index	
Main risks relating to these issues in connection with the group's activities		
when relevant and appropriate, the commercial relations, products or services thereof that might have negative impacts in these areas, and how the group manages these risks, explaining the procedures used to detect and evaluate them in accordance with leading domestic, European or international frameworks for each area	102-15 205-1 413-1 407-1 408-1 409-1	64, 66, 68, 206, 271
information on the impacts detected, providing a breakdown thereof, particularly regarding the main short-, medium- and long-term risks.		
Key indicators of non-financial results that are relevant regarding the specific business activity and that meet the standards of comparability, materiality, relevancy and reliability	102-54	Global Reporting Initiative Standards (GRI content index)
I. Information regarding environmental surveys		
Detailed information regarding the current and expected effects of the company's activities on the environment and, if applicable, on health and safety	102-11 201-2 308-1 308-2	96,132,135, 137, 138, 146, 247
environmental evaluation or certification procedures		
resources dedicated to the prevention of environmental risks		
application of the precautionary principle		
amount of reserves and coverage for environmental risks		
Specifically:		
– Pollution:		
measures to prevent, reduce or repair carbon emissions that seriously affect the environ; taking into account any form of atmospheric pollution specific to an activity	305-5 305-6 305-7	155,157, 158, 156, 342
including noise and light pollution.	Non-material indicator for the company, as described in the Materiality Analysis 2018 (page 319).	
– Circular economy and waste prevention and management:		
measures for the prevention, recycling, reuse, other forms of recovery and elimination of waste	301-2 301-3 306-2	140,147, 164, 317, 343
actions to combat food waste.	Non-material indicator for the company, as described in the Materiality Analysis 2018 (page 319).	
– Sustainable use of resources:		
water consumption and supply in accordance with local limitations	303-1	25, 55, 83, 159, 340, 161, 140-146, 339
consumption of raw materials and measures adopted to improve the efficient use thereof	303-2 303-3	
direct and indirect consumption of energy	301-1	
measures taken to improve energy efficiency and the use of renewable energy	301-2 302-1 302-2 302-3 302-4 302-5	
– Climate change:		
important elements of greenhouse gas emissions generated as a result of the company's activities, including the use of property and services that produce it	305-1 305-2 305-3	151-158, 341

measures adopted to adapt to the consequences of climate change	305-4	
voluntarily established medium- and long-term targets established to reduce greenhouse gas emissions and the means implemented to such end	305-5 201-2 305-5	
– Protection of biodiversity:		
measures taken to preserve or restore biodiversity	304-3 306-5	163, 169, 172- 174, 340
impacts cause by activities or operations in protected areas	304-1 304-2	
II. Information regarding social issues and personnel		
– Employment:		
total number and distribution of employees by gender, age, country and professional classification	102-8 405-1	28, 32, 93, 346, 376-380
total number and distribution of types of employment contracts		
annual average of permanent contracts, temporary contracts and part-time contracts by gender, age and professional classification,		
number of dismissals by gender, age and professional classification	103	99
average remuneration and evolution thereof broken down by gender, age and professional or similar classification	103	97
salary gap	405-2	126
remuneration of same or average job positions of the company	103	97
average remuneration of directors and officers, including variable remuneration, attendance fees, severance pay, payment into long-term savings benefit systems and any other remuneration broken down by gender	102-35 102-36 102-38 102-39	Note 47 to the Annual Financial Report 2018
implementation of labour disengagement policies	103	126
employees with disabilities	405-1	128
– Organisation of work:		
organisation of work time	103	123
number of hours of absenteeism	403-2	112, 113, 369
measures to facilitate enjoyment of reconciliation and encouragement of the responsible co-exercise of responsibility by both parents	103	123
– Health and safety:		
occupational health and safety conditions	103	101
occupational accidents, particularly the frequency and seriousness thereof broken down by gender	403-2	112, 113, 369
occupational diseases; broken down by gender	403-3	114
– Social relations:		
organisation of social dialogue, including procedures to inform and consult with staff and negotiate with them	407-1	206, 248
percentage of employees covered by collective bargaining agreements by country	102-41	101, 356
balance of collective bargaining agreements, particularly in the field of workplace health and safety	403-4	109
– Training:		
policies implemented in the field of training	103	110
total hours of training by professional category	404-1	118, 373, 374
– Universal accessibility of disabled persons	103	124
– Equality:		
measures adopted to promote equality of treatment and opportunities between women and men	405	120-124
equality plans (Chapter III of Organic Law 3/2007, of 22 March, for the effective equality of women and men)	405	123
protocols against sexual and gender-based harassment	405	120, 121
measures adopted to promote the employment, integration and universal accessibility of disabled persons	405	128
policy against all types of discrimination and, if applicable, management of diversity	405	210
III. Information regarding respect for human rights		
application of human rights due diligence procedures	102-16 102-17 412-3 412-2 410-1 412-1	20, 57, 98, 205-209, 214- 215, 270
prevention of the risks of violating human rights and, if applicable, measures to mitigate, manage and repair possible abuses	412	207
complaints of human rights violations	406-1	210
promotion of and compliance with the provisions of the basic treaties of the International Labour Organization regarding respect for the freedom of association and the right to collective bargaining; the elimination of discrimination in respect of employment and	407-1 406-1 409-1 408-1	206, 248

occupation; the elimination of forced or compulsory labour; the effective abolition of child labour		
IV. Information regarding the fight against corruption and bribery:		
measures adopted to prevent corruption and bribery	102-16 102-17 205-1 205-2 205-3	20, 57, 98, 271- 281
measures to combat money laundering	205-2	278
contributions to non-profit foundations and entities	*103*	*221*
VI. Information about the society:		
– Commitments of the company to sustainable development:		
impact of the company's operations on employment and local development	203-1 203-2 413-1	79, 81, 217
impact of the company's operations on local communities and on the land	203-1 203-2 411-1 413-1 413-2	79, 81, 217, 210, 206-214
relations with local players and types of dialogue therewith	102-43 413-1	210, 266,
association or sponsorship activities	102-12 102-13	288, 292
– Subcontracting and suppliers:		
inclusion of social, gender equality and environmental issues in the procurement policy	102-9 308-1 414-1	*Procurement Policy* 243, 245, 247, 248, 381
consideration of social and environmental responsibility of suppliers and subcontractors in relations with them	414-1 414-2	248
supervision and auditing systems and results thereof	414-1 414-2	248
– Consumers:		
consumer health and safety measures	416-1	188
grievance systems, complaints received and resolution thereof	416-2	188-191
– Tax information:		
profits per country	201	334
taxes on profit paid	201	336
public subsidies received	201-4	316

Readers of this *Sustainability Report 2018* can also read the *Annual Corporate Governance Report 2018*, the *Annual Financial Report 2018* and the *Integrated Report. February 2019,* all of which are accessible in the "Annual Reports" section of the corporate website, and which contain additional useful information for a better understanding of Iberdrola's performance during the financial year and of its future prospects.

GRI Content Index

102-54 102-55

This report has been prepared in accordance with the GRI Standards: Comprehensive option.

GRI Standard	Description	SNFI pages	External assurance	Relationship with SDGs
GRI 100 UNIVERSAL STANDARDS				
GRI 101 Foundation 2016 (Note: does not require disclosure of information)				
GRI 102 General disclosures 2016				
1.- Organisational profile *				
102-1	Name of the organisation	Iberdrola S.A.	✓	
102-2	Primary activities, brands, products and services	23	✓	
102-3	Location of headquarters	The registered office of Iberdrola, S.A. is: Plaza Euskadi número 5 48009 Bilbao, Biscay Spain	✓	
102-4	Location of operations	22	✓	
102-5	Ownership and legal form	36	✓	
102-6	Markets served	23, 26, 300	✓	
102-7	Scale of the organisation	28, 30, 332	✓	
102-8	Information on employees and other workers	28, 346 Iberdrola supervises the subcontracted activities performed, and does not deem it necessary to keep statistics regarding subcontracted personnel, except as regards health and safety	✓	8
102-9	Supply chain	243, 245	✓	
102-10	Significant changes to the organisation and its supply chain	304	✓	
102-11	Precautionary Principle or approach	132, 135, 168	✓	
102-12	External initiatives to which the organisation subscribes or which it endorses	292	✓	
102-13	Main memberships of associations	288	✓	
EU1*	Installed capacity	25, 326	✓	7
EU2*	Energy output	25, 328	✓	7, 14
EU3*	Electricity users and producers	26, 330	✓	
EU4*	Transmission and distribution lines	27, 331	✓	
EU5*	Allocation of CO_2 emissions allowances or equivalent	157	✓	14, 15

102-14	Statement from senior decision-maker	10	✓	
102-15	Key impacts, risks and opportunities	55, 64, 66	✓	
102-16	Values, principles, standards and norms of behaviour	20, 57, 58	✓	16
102-17	Mechanisms for advice and concerns about ethics	270	✓	16
102-18	Governance structure	32	✓	
102-19	Delegating authority	35	✓	
102-20	Executive-level positions with responsibility for economic, social and environmental topics	62	✓	
102-21	Processes for consultation between Stakeholders and the Board of Directors	257	✓	16
102-22	Composition of the highest governance body and its committees	32, 33, 35	✓	5, 16
102-23	Chair of the highest governance body	33	✓	16
102-24	Selection and nomination of the members of the highest governance body	256	✓	5, 16
102-25	Processes for the highest governance body to avoid conflicts of interest	Section D.6 of the *Annual Corporate Governance Report* for financial year 2018 describes the mechanisms used to detect, determine and resolve potential conflicts of interest between Iberdrola and its directors, officers and significant shareholders.	✓	16
102-26	Role of highest governance body in setting purpose, values and strategy	20, 57	✓	
102-27	Collective knowledge of highest governance body	257	✓	4
102-28	Evaluating the highest governance body's performance	258	✓	
102-29	Identifying and managing economic, environmental and social impacts	258	✓	16
102-30	Effectiveness of risk management processes	67	✓	
102-31	Review of economic, environmental and social topics	258	✓	
102-32	Highest governance body's role in sustainability reporting	Iberdrola's Board of Directors is the body responsible for reviewing the *Sustainability Report 2018*, which was approved on 19 February 2019 (following a report from the Sustainable Development Committee), the date of preparation of the company's annual accounts for financial year 2018.	✓	
102-33	Communicating critical concerns	256	✓	
102-34	Nature and total number of critical concerns	255	✓	
102-35	Remuneration policies	260	✓	
102-36	Process for determining remuneration	260	✓	
102-37	Stakeholders' involvement in remuneration	261	✓	16
102-38	Annual total compensation ratio	261	✓	

102-39	Percentage increase in annual total compensation ratio	261	✓	
5.-Stakeholder engagement				
102-40	Stakeholder groups engaged by the organisation	265	✓	
102-41	Collective bargaining agreements	101, 356 Iberdrola supervises the subcontracted activities performed, and does not deem it necessary to keep statistics regarding subcontracted personnel, except as regards health and safety	✓	8
102-42	Identifying and selecting stakeholders	265	✓	
102-43	Approach to stakeholder engagement	266	✓	
102-44	Key topics and concerns raised	267	✓	
6.-Reporting practice				
102-45	Entities included in the consolidated financial statements and in the boundary of this report	300	✓	
102-46	Defining report content and scope and topic boundaries	305	✓	
102-47	List of material topics	307	✓	
102-48	Restatements of information provided in previous reports	It was not considered necessary to reformulate the information from prior reports during financial year 2018. If a specific indicator requires reformulation, it will be specifically explained in the indicator itself.	✓	
102-49	Significant changes in scope and topic boundaries	There were no changes deemed significant in the scope, coverage or methods of valuation used in the report in financial year 2018, keeping the ability to compare the group's key figures with those of prior years.	✓	
102-50	Reporting period	300	✓	
102-51	Date of most recent report	300	✓	
102-52	Reporting cycle	300	✓	
102-53	Contact point for questions regarding the report	429	✓	
102-54	Claims of reporting in accordance with the GRI Standards	313	✓	
102-55	GRI content index	313	✓	
102-56	External assurance	323	✓	
GRI 103 Management approach 2016				
General management approach, applicable to all aspects of this report.		54, 58, 60, 61, 62, 63	✓	1.5, 8, 12, 13, 14, 15, 16

GRI 200 ECONOMIC DIMENSION					
Material topics	Reporting on management approach and corresponding disclosures	EINF page	Omissions	External assurance	Relationship with SDGs
A. Topics of the GRI Standards					
- GRI 201 Economic performanc	Management approach (103-1, 103-2 and 103-3)	78		✓	2, 5, 7, 8, 9, 13

	e 2016	201-1	79, 334	✓	
		201-2	68	✓	
		201-3	102	✓	
		201-4	The Iberdrola group is not aware of government participation in the shareholding structure.	✓	
-	GRI 202 Market presence 2016	Management approach (103-1, 103-2 and 103-3)	94	✓	1, 5, 8
		202-1	97	✓	
		202-2	96	✓	
-	GRI 203 Indirect economic impacts 2016	Management approach (103-1, 103-2 and 103-3)	79	✓	1, 2, 3, 5, 7, 8, 9, 10, 11, 17
		203-1	81	✓	
		203-2	79	✓	
-	GRI 204 Procurement practices 2016	Management approach (103-1, 103-2 and 103-3)	245	✓	12
		204-1	244	✓	
-	GRI 205 Anti-corruption 2016	Management approach (103-1, 103-2 and 103-3)	270	✓	16
		205-1	271	✓	
		205-2	278	✓	
		205-3	281	✓	
-	GRI 206 Anti-competitive behavior 2016	Management approach (103-1, 103-2 and 103-3)	286	✓	16
		206-1	287	✓	
-	Availability and reliability	Management approach (103-1, 103-2 and 103-3)	85	✓	7
		EU10	85	✓	
-	System efficiency	Management approach (103-1, 103-2 and 103-3)	141	✓	7, 8, 12, 13, 14
		EU11	145, 339	✓	
		EU12	145	✓	
-	Demand-side management	Management approach (103-1, 103-2 and 103-3)	83	✓	
-	Research and development	Management approach (103-1, 103-2 and 103-3)	194	✓	
-	Nuclear plant decommissioning	Management approach (103-1, 103-2 and 103-3)	90	✓	
-	Supply costs		87	✓	
-	*Green* financing		81, 404	✓	
-	Fiscal responsibility		283	✓	

- Cybersecurity		395	✓	
- Privacy of the personal information of Stakeholders		395	✓	

GRI 300 ENVIRONMENTAL DIMENSION				
Material topics	Reporting on management approach and corresponding disclosures	EINF page	Omissions External assurance	Relationship with SDGs
A. Topics of the GRI Standards				
- GRI 301 Materials * 2016	Management approach (103-1, 103-2 and 103-3)	140	✓	8, 12
	301-1	140	✓	
	301-2	140	✓	
	301-3	Iberdrola's main activity is the sale of electricity and gas, a product that cannot be reused and that does not generate packaging waste in the final use thereof.	✓	
- GRI 302 Energy 2016	Management approach (103-1, 103-2 and 103-3)	141	✓	7, 8, 12, 13
	302-1	142, 143, 309	✓	
	302-2	146	✓	
	302-3	141	✓	
	302-4	143	✓	
	302-5	146	✓	
- GRI 303 Water * 2016	Management approach (103-1, 103-2 and 103-3)	159	✓	6, 8, 12
	303-1	159, 340	✓	
	303-2	161	✓	
	303-3	161	✓	
- GRI 304 Biodiversity * 2016	Management approach (103-1, 103-2 and 103-3)	167	✓	6, 14, 15
	304-1	172	✓	
	304-2	169	✓	
	304-3	174	✓	
	304-4	173, 340	✓	
	EU13	170	✓	
- GRI 305 Emissions * 2016	Management approach (103-1, 103-2 and 103-3)	147	✓	3, 12, 13, 14, 15
	305-1	152, 341	✓	
	305-2	153, 341	✓	
	305-3	154	✓	
	305-4	151	✓	
	305-5	155	✓	
	305-6	158	✓	

		305-7	157, 342	✓	
-	GRI 306 Effluents and waste * 2016	Management approach (103-1, 103-2 and 103-3)	162	✓	3, 6, 12, 13, 14, 15
		306-1	163	✓	
		306-2	164, 343	✓	
		306-3	178	✓	
		306-4	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	163	✓	
-	GRI 307 Environmental compliance 2016	Management approach (103-1, 103-2 and 103-3)	179	✓	12, 13, 14, 15, 16
		307-1	179	✓	
-	GRI 308 Supplier environmental assessment 2016	Management approach (103-1, 103-2 and 103-3)	247	✓	
		308-1	247	✓	
		308-2	247	✓	

GRI 400 SOCIAL DIMENSION

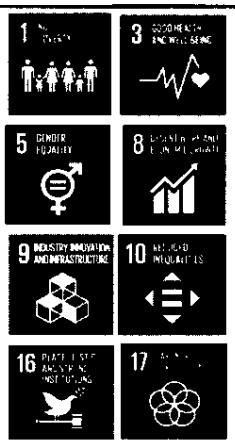
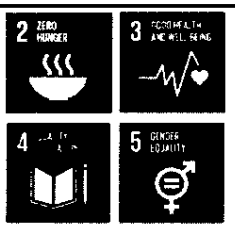
Material topics		Reporting on management approach and corresponding disclosures	EINF page	Omissions External assurance	Relationship with SDGs
A. Topics of the GRI Standards					
-	GRI 401 Employment * 2016	Management approach (103-1, 103-2 and 103-3)	92	✓	5, 8
		401-1	94, 357	✓	
		401-2	102, 365	✓	
		401-3	127, 366	✓	
-	GRI 402 Labour/management relations* 2016	Management approach (103-1, 103-2 and 103-3)	92	✓	8
		402-1	101	✓	
		EU15	103, 367	✓	
		EU17	94	✓	
		EU18	107	✓	
-	GRI 403 Occupational health and safety * 2016	Management approach (103-1, 103-2 and 103-3)	106	✓	3, 8
		403-1	109, 114, 369	✓	
		403-2	112, 113, 369	✓	
		403-3	114	✓	
		403-4	109	✓	
-	GRI 404 Training and education 2016	Management approach (103-1, 103-2 and 103-3)	115	✓	4, 5, 8
		404-1	11, 373, 374	✓	

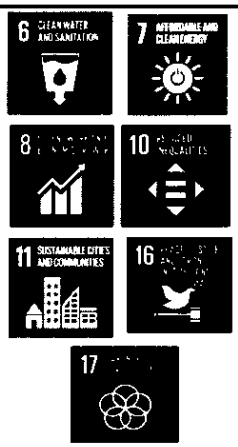
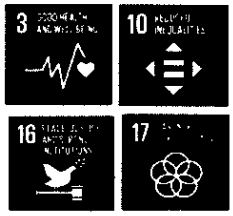
		404-2	116	✓	
		404-3	119, 375	✓	
-	GRI 405 Diversity and equal opportunity 2016	Management approach (103-1, 103-2 and 103-3)	120	✓	5, 8, 10
		405-1	32, 93, 376, 377, 379, 380	✓	
		405-2	126	✓	
-	GRI 406 Non-discriminatio n 2016	Management approach (103-1, 103-2 and 103-3)	210	✓	5, 8, 16
		406-1	210	✓	
-	GRI 407 Freedom of association and collective bargaining* 2016	Management approach (103-1, 103-2 and 103-3)	205	✓	8
		407-1	206, 248	✓	
-	GRI 408 Child labour 2016	Management approach (103-1, 103-2 and 103-3)	205	✓	8, 16
		408-1	206, 248	✓	
-	GRI 409 Forced or compulsory labour 2016	Management approach (103-1, 103-2 and 103-3)	205	✓	8
		409-1	206, 248	✓	
-	GRI 410 Security practices 2016	Management approach (103-1, 103-2 and 103-3)	213	✓	16
		410-1	214	✓	
-	GRI 411 Rights of indigenous peoples 2016	Management approach (103-1, 103-2 and 103-3)	210	✓	2
		411-1	210	✓	
-	GRI 412 Human rights assessment 2016	Management approach (103-1, 103-2 and 103-3)	205	✓	
		412-1	206	✓	
		412-2	214	✓	
		412-3	215	✓	
-	GRI 413 Local communitie s * 2016	Management approach (103-1, 103-2 and 103-3)	216	✓	1.2
		413-1	217	✓	
		413-2	217	✓	
		EU22	220	✓	
-	GRI 414 Supplier social assessment 2016	Management approach (103-1, 103-2 and 103-3)	248	✓	5, 8, 16
		414-1	248, 381	✓	
		414-2	248, 381	✓	
-	GRI 415 Public policy 2016	Management approach (103-1, 103-2 and 103-3)	288	✓	16
		415-1	394	✓	

-	GRI 416 Customer health and safety *2016	Management approach (103-1, 103-2 and 103-3)	187	✓	16
		416-1	188	✓	
		416-2	188	✓	
		EU25	188	✓	
-	GRI 417 Marketing and labelling 2016	Management approach (103-1, 103-2 and 103-3)	185	✓	12, 16
		417-1	186	✓	
		417-2	187	✓	
		417-3	186	✓	
-	GRI 418 Customer privacy 2016	Management approach (103-1, 103-2 and 103-3)	295	✓	16
		418-1	296	✓	
-	GRI 419 Socioeconomic compliance 2016	Management approach (103-1, 103-2 and 103-3)	297	✓	16
		419-1	297	✓	
-	Disaster/emergency planning and response	Management approach (103-1, 103-2 and 103-3)	177	✓	
-	Access to electricity	Management approach (103-1, 103-2 and 103-3)	201	✓	1, 7
		EU26	201	✓	
		EU27	204, 382	✓	
		EU28	184	✓	
		EU29	185	✓	
		EU30	87, 345	✓	
-	Access to adequate information	Management approach (103-1, 103-2 and 103-3)	190	✓	
-	Iberdrola and the Global Compact		240	✓	
-	Contribution to society (LBG)		221	✓	
-	Iberdrola, promoting women's sport		129	✓	

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	**Principle 1.** Businesses should support and respect the protection of internationally proclaimed human rights.	410-1 to 412-1, 412-2, 413-1, 413-2	
	Principle 2. Businesses should make sure they are not complicit in human rights abuses.	412-3, 414-1, 414-2	
Labour Rules	**Principle 3.** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	102-41, 407-1, 402-1	
	Principle 4. Businesses should uphold the elimination of all forms of forced and compulsory labour.	409-1	
	Principle 5. Businesses should uphold the effective abolition of child labour.	408-1	
	Principle 6. 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	**Principle 7.** 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	
	Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility.	301-1 to 308-2	

	Principle 9. 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	

Independent 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 *Statement of Non-Financial Information. Sustainability Report* by PricewaterhouseCoopers Asesores de Negocio, S.L. Annex 4 hereto includes the external independent assurance report on this document.

IV. Annexes

- Annex 1: Information Supplementary to the Sustainability Report
- Annex 2: Iberdrola's Contribution to the SDGs and targets of the 2030 Agenda
- Annex 3: Report on Green Financing Returns

  External independent assurance report on green financing
- Annex 4: External Independent Assurance Report on the Sustainability Report

Annex 1: Information Supplementary to the Sustainability Report 2018

- Key figures
- Economic dimension
- Environmental dimension
- Social dimension

Key figures[116]

Installed capacity by region and energy source (MW) EU1				
		2018	2017	2016
Spain	Renewables	15,789	15,821	15,819
	Onshore wind	*5,770*	*5,752*	*5,752*
	Offshore wind	*0*	*0*	*0*
	Hydroelectric	*9,715*	*9,715*	*9,715*
	Mini-hydro	*303*	*303*	*302*
	Solar and others	*0*	*50*	*50*
	Nuclear	3,177	3,177	3,410
	Combined cycle	5,695	5,695	5,695
	Cogeneration	353	368	364
	Coal	874	874	874
	Total	**25,887**	**25,934**	**26,161**
United Kingdom	Renewables	2,100	2,666	2,572
	Onshore wind	*1,906*	*1,906*	*1,812*
	Offshore wind	*194*	*194*	*194*
	Hydroelectric	*0*	*566*	*566*
	Mini-hydro	*0*	*0*	*0*
	Solar and others	*0*	*0*	*0*
	Nuclear	0	0	0
	Combined cycle	0	2,000	2,000
	Cogeneration	0	1	1
	Coal	0	0	0
	Total	**2,100**	**4,667**	**4,573**
United States	Renewables	6,713	6,625	6,035
	Onshore wind	*6,466*	*6,387*	*5,853*
	Offshore wind	*0*	*0*	*0*
	Hydroelectric	*118*	*118*	*118*
	Mini-hydro	*0*	*0*	*0*
	Solar and others	*129*	*119*	*63*
	Nuclear	0	0	0
	Combined cycle	212	212	209
	Cogeneration	636	636	636
	Coal	0	0	0
	Total	**7,561**	**7,472**	**6,880**
Brazil	Renewables	2,935	2,629	2,399
	Onshore wind	*516*	*516*	*421*
	Offshore wind	*0*	*0*	*0*
	Hydroelectric	*2,419*	*2,113*	*1,978*

[116] Operating figures include figures corresponding to partially owned and uncontrolled companies, applying the percentage interest.

Installed capacity by region and energy source (MW) EU1				
		2018	2017	2016
	Mini-hydro	*0*	*0*	*0*
	Solar and others	*0*	*0*	*0*
	Nuclear	0	0	0
	Combined cycle	533	533	533
	Cogeneration	0	0	77
	Coal	0	0	0
	Total	**3,467**	**3,162**	**3,009**
Mexico	Renewables	679	410	367
	Onshore wind	*409*	*367*	*367*
	Offshore wind	*0*	*0*	*0*
	Hydroelectric	*0*	*0*	*0*
	Mini-hydro	*0*	*0*	*0*
	Solar and others	*270*	*43*	*0*
	Nuclear	0	0	0
	Combined cycle	6,446	5,546	5,200
	Cogeneration	346	294	237
	Coal	0	0	0
	Total	**7,471**	**6,250**	**5,804**
Rest of countries	Renewables	961	961	621
	Onshore wind	*605*	*605*	*615*
	Offshore wind	*350*	*350*	*0*
	Hydroelectric	*0*	*0*	*0*
	Mini-hydro	*0*	*0*	*0*
	Solar and others	*6*	*6*	*6*
	Nuclear	0	0	0
	Combined cycle	0	0	0
	Cogeneration	0	0	0
	Coal	0	0	0
	Total	**961**	**961**	**621**
Iberdrola total	**Renewables**	**29,177**	**29,112**	**27,813**
	Onshore wind	***15,671***	***15,533***	***14,820***
	Offshore wind	***544***	***544***	***194***
	Hydroelectric	***12,252***	***12,513***	***12,378***
	Mini-hydro	***303***	***303***	***302***
	Solar and others	***406***	***219***	***120***
	Nuclear	**3,177**	**3,177**	**3,410**
	Combined cycle	**12,885**	**13,985**	**13,637**
	Cogeneration	**1,335**	**1,299**	**1,315**
	Coal	**874**	**874**	**874**
	Total	**47,448**	**48,447**	**47,049**

Net energy output, by region and source of energy (GWh)				
		2018	2017	2016
Spain	Renewables	25,973	19,587	30,319
	Onshore wind	*11,654*	*11,216*	*11,236*
	Offshore wind	*N/A*	*N/A*	*N/A*
	Hydroelectric	*13,590*	*7,903*	*18,325*
	Mini-hydro	*670*	*394*	*686*
	Solar and others	*58*	*74*	*71*
	Nuclear	23,536	23,254	24,381
	Combined cycle	4,092	3,812	3,709
	Cogeneration	2,472	2,608	2,290
	Coal	1,637	2,642	2,084
	Total	**57,711**	**51,903**	**62,783**
United Kingdom	Renewables	5,145	4,880	3,688
	Onshore wind	*3,812*	*3,358*	*2,370*
	Offshore wind	*755*	*820*	*728*
	Hydroelectric	*578*	*702*	*590*
	Mini-hydro	*N/A*	*N/A*	*N/A*
	Solar and others	*N/A*	*N/A*	*N/A*
	Nuclear	N/A	N/A	N/A
	Combined cycle	5,530	7,260	8,341
	Cogeneration	N/A	0	N/A
	Coal	N/A	N/A	N/A
	Total	**10,675**	**12,140**	**13,748**
United States	Renewables	17,261	15,738	15,320
	Onshore wind	*16,650*	*15,103*	*14,803*
	Offshore wind	*N/A*	*N/A*	*N/A*
	Hydroelectric	*269*	*386*	*327*
	Mini-hydro	*N/A*	*N/A*	*N/A*
	Solar and others	*342*	*250*	*190*
	Nuclear	N/A	N/A	N/A
	Combined cycle	8	12	14
	Cogeneration	2,713	2,354	2,557
	Coal	N/A	N/A	N/A
	Total	**19,983**	**18,105**	**17,891**
Brazil	Renewables	10,099	8,195	4,559
	Onshore wind	*2,120*	*1,865*	*1,204*
	Offshore wind	*N/A*	*N/A*	*N/A*
	Hydroelectric	*7,979*	*6,330*	*3,355*
	Mini-hydro	*N/A*	*N/A*	*N/A*
	Solar and others	*N/A*	*N/A*	*N/A*
	Nuclear	N/A	N/A	N/A
	Combined cycle	3,553	3,956	4,033
	Cogeneration	0	91	446
	Coal	N/A	N/A	N/A

Net energy output, by region and source of energy (GWh)				
		2018	2017	2016
Mexico	**Total**	**13,652**	**12,242**	**9,038**
	Renewables	1,095	963	1,119
	Onshore wind	*1,084*	*963*	*1,119*
	Offshore wind	*N/A*	*N/A*	*N/A*
	Hydroelectric	*N/A*	*N/A*	*N/A*
	Mini-hydro	*N/A*	*N/A*	*N/A*
	Solar and others	*12*	*0*	*N/A*
	Nuclear	N/A	N/A	N/A
	Combined cycle	37,470	39,013	34,795
	Cogeneration	2,831	1,801	1,654
	Coal	N/A	N/A	N/A
	Total	**41,396**	**41,777**	**37,569**
Rest of countries	Renewables	2,180	1,382	1,437
	Onshore wind	*1,284*	*1,373*	*1,429*
	Offshore wind	*887*	*0*	*N/A*
	Hydroelectric	*N/A*	*N/A*	*N/A*
	Mini-hydro	*N/A*	*N/A*	*N/A*
	Solar and others	*9*	*9*	*9*
	Nuclear	N/A	N/A	N/A
	Combined cycle	N/A	N/A	N/A
	Cogeneration	N/A	N/A	N/A
	Coal	N/A	N/A	N/A
	Total	**2,180**	**1,382**	**1,437**
Iberdrola total	**Renewables**	**61,754**	**50,747**	**56,443**
	Onshore wind	***36,605***	***33,878***	***32,162***
	Offshore wind	***1,642***	***821***	***728***
	Hydroelectric	***22,416***	***15,321***	***22,597***
	Mini-hydro	***670***	***394***	***686***
	Solar and others	***421***	***333***	***270***
	Nuclear	**23,536**	**23,254**	**24,381**
	Combined cycle	**50,654**	**54,053**	**50,892**
	Cogeneration	**8,016**	**6,853**	**6,947**
	Coal	**1,637**	**2,642**	**3,803**
	Total	**145,597**	**137,549**	**142,466**

EU5

	Electricity users (%)	2018	2017	2016
Spain	Residential	93.0	92.8	92.8
	Industrial	1.5	1.7	1.6
	Institutional	1.1	1.1	1.1
	Commercial	4.4	4.4	4.5
	Other	0.0	0.0	0.0
	Total users (millions)	**10.4**	**10.3**	**10.3**
	Users that are producers of electricity (no.)	0	0	4,832
United Kingdom	Residential	93.8	93.9	93.9
	Industrial	2.0	2.1	2.1
	Institutional	0.1	0.1	0.1
	Commercial	4.1	3.9	3.9
	Other	0.0	0.0	0.0
	Total users (millions)	**3.0**	**3.1**	**3.2**
	Users that are producers of electricity (no.)	67,913	66,264	64,936
United States	Residential	88.2	88.2	87.7
	Industrial	0.3	0.3	0.3
	Institutional	0.0	0.0	0.0
	Commercial	10.6	10.6	11.8
	Other	0.9	0.9	0.2
	Total users (millions)	**2.3**	**2.2**	**1.6**
	Users that are producers of electricity (no.)	12,268	3,776	13,581
Brazil	Residential	87.6	87.4	87.5
	Industrial	0.3	0.3	0.3
	Institutional	1.2	1.2	1.0
	Commercial	6.6	6.6	6.7
	Other	4.3	4.5	4.5
	Total users (millions)	**13.8**	**13.6**	**13.4**
	Users that are producers of electricity (no.)	6,900	2,033	277
Rest of countries	Residential	0	0	0
	Industrial	0	0	0
	Institutional	0	0	0
	Commercial	0	0	0
	Other	0	0	0
	Total users (millions)	**0**	**0**	**0**
	Users that are producers of electricity (no.)	0	0	0
Iberdrola total	**Residential**	**90.2**	**90.1**	**90.2**
	Industrial	**0.9**	**1.0**	**1.0**
	Institutional	**0.9**	**1.0**	**0.9**
	Commercial	**5.9**	**5.8**	**5.8**
	Other	**2.1**	**2.1**	**2.1**
	Total users (millions)	**29.5**	**29.2**	**28.5**
	Users that are producers of electricity (no.)	**87,081**	**72,073**	**83,626**

		Power lines (Km)					
		Transmission			Distribution		
		2018	2017	2016	2018	2017	2016
Spain	Areas	0	0	0	161,754	155,589	155,317
	Underground	0	0	0	107,885	112,981	112,259
	Total	**0**	**0**	**0**	**269,639**	**268,570**	**267,576**
United Kingdom	Areas	3,752	3,636	3,637	38,599	38,679	38,718
	Underground	642	404	352	66,964	66,541	66,111
	Total	**4,394**	**4,040**	**3,989**	**105,563**	**105,220**	**104,829**
United States	Areas	13,334	30,620	30,835	139,962	122,884	102,431
	Underground	602	1,557	604	16,185	14,899	14,463
	Total	**13,936**	**32,177**	**31,439**	**156,147**	**137,783**	**116,894**
Brazil	Areas	679	13,832	13,560	622,625	594,322	578,674
	Underground	0	38	31	689	629	452
	Total	**679**	**13,870**	**13,591**	**623,314**	**594,951**	**579,126**
Rest of countries	Areas	0	0	0	0	0	0
	Underground	0	0	0	0	0	0
	Total	**0**	**0**	**0**	**0**	**0**	**0**
Iberdrola total	**Areas**	**17,765**	**48,088**	**48,032**	**962,940**	**911,474**	**875,140**
	Underground	**1,244**	**1,999**	**987**	**191,723**	**195,050**	**193,285**
	Total	**19,009**	**50,087**	**49,019**	**1,154,663**	**1,106,524**	**1,068,425**

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.

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 included, 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 2018, by business and by country, are reflected in the following tables:

Significant locations of operation 2018 by business	
Corporate	17
Wholesale and Retail Business	39
Networks Business	56
Renewables Business	38
[redacted]	

Significant locations of operation 2018 by country	
Spain	33
United Kingdom	31
United States	28
Brazil	40
Mexico	17
Rest of countries	1
[redacted]	

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 the Protection of Human Rights section of Chapter III.5 of this report.

Economic dimension

Sales[117] (net amount in € millions)	2018	2017	2016
Spain	14,282	13,733	13,501
United Kingdom	6,176	5,908	6,524
United States	5,325	5,016	4,948
Brazil	2,346	2,407	1,566
Mexico	5,717	3,430	1,569
Rest of countries	1,229	768	651
Iberdrola consolidated total	**35,075**	**31,262**	**28,759**

Operating costs (€ millions)	2018	2017	2016
Spain	9,510	8,412	8,472
United Kingdom	4,022	4,080	4,621
United States	2,534	2,545	2,474
Brazil	4,389	2,682	1,268
Mexico	1,790	1,999	1,120
Rest of countries	206	728	669
Iberdrola consolidated total	**22,433**	**20,446**	**18,624**

[117] Sales in accordance with the grouping for the segmentation of management.

2018

Economic value generated, distributed and retained[118] (€ millions)				
		2018	2017	2016
Spain	Revenue (sales and other income)	15,310	13,564	14,280
	Operating costs	9,510	8,412	8,457
	Employee remuneration (excluding company social security costs)	806	912	847
	Payments to providers of capital	861	1,365	1,784
	Payments to government administrations	1,170	1,496	1,581
	Community investments (verified according to the LBG Model)	16	20	15
	Economic value retained	2,347	1,359	1,596
United Kingdom	Revenue (sales and other income)	6,351	6,077	6,776
	Operating costs	4,022	4,080	4,607
	Employee remuneration (excluding company social security costs)	427	468	466
	Payments to providers of capital	198	197	231
	Payments to government administrations	377	353	380
	Community investments (verified according to the LBG Model)	15	14	14
	Economic value retained	1,312	965	1,078
United States	Revenue (sales and other income)	5,381	5,337	5,430
	Operating costs	2,534	2,545	2,470
	Employee remuneration (excluding company social security costs)	812	879	806
	Payments to providers of capital	349	501	315
	Payments to government administrations	627	583	596
	Community investments (verified according to the LBG Model)	4	6	4
	Economic value retained	1,055	823	1,239
Brazil	Revenue (sales and other income)	6,003	3,628	1,717
	Operating costs	4,389	2,682	1,266
	Employee remuneration (excluding company social security costs)	291	201	94
	Payments to providers of capital	584	283	119
	Payments to government administrations	164	160	51
	Community investments (verified according to the LBG Model)	18	22	2
	Economic value retained	587	280	185
Mexico	Revenue (sales and other income)	2,709	2,770	1,769
	Operating costs	1,790	1,999	1,119
	Employee remuneration (excluding company social security costs)	36	39	32
	Payments to providers of capital	268	217	189
	Payments to government administrations	136	100	108

[118] The grouping by country corresponds to the registered office of each company and does not necessarily coincide with the segmentation of the information for management.

	Community investments (verified according to the LBG Model)	1	1	1
	Economic value retained	478	414	320
Rest of countries	Revenue (sales and other income)	519	1,338	734
	Operating costs	206	728	669
	Employee remuneration (excluding company social security costs)	15	18	15
	Payments to providers of capital	142	353	54
	Payments to government administrations	22	31	24
	Community investments (verified according to the LBG Model)	0	0	0
	Economic value retained	134	209	(28)
Iberdrola total	**Revenue (sales and other income)**	**36,273**	**32,714**[119]	**30,706**
	Operating costs	**22,433**	**20,446**	**18,588**
	Employee remuneration (excluding company social security costs)	**2,387**	**2,517**	**2,260**
	Payments to providers of capital	**2,402**	**2,916**	**2,692**
	Payments to government administrations	**3,096**	**2,723**	**2,740**
	Community investments (verified according to the LBG Model)	**54**	**63**	**36**
	Economic value retained	**5,901**	**4,049**	**4,390**

[119] Includes Sales in the amount of €31,263 million and Other revenue €1,451 million.

2018

	Financial assistance received (€ millions)	2018	2017	2016
Spain	Capital subsidies	2	10	13
	Operating subsidies	3	6	3
	Investment tax credits	0	0	0
	Production tax credits	0	0	0
	Assistance for other items included in the GRI Protocol	0	0	0
	Total	**5**	**16**	**13**
United Kingdom	Capital subsidies	0	0	0
	Operating subsidies	0	0	0
	Investment tax credits	0	0	0
	Production tax credits	0	0	0
	Assistance for other items included in the GRI Protocol	0	0	0
	Total	**0**	**0**	**0**
United States	Capital subsidies	4	0	0
	Operating subsidies	0	0	0
	Investment tax credits	8	30	0
	Production tax credits	91	90	87
	Assistance for other items included in the GRI Protocol	0	0	0
	Total	**103**	**120**	**0**
Brazil	Capital subsidies	0	0	0
	Operating subsidies	0	0	0
	Investment tax credits	0	0	0
	Production tax credits	0	0	0
	Assistance for other items included in the GRI Protocol	0	0	0
	Total	**0**	**0**	**0**
Mexico	Capital subsidies	0	0	0
	Operating subsidies	0	0	0
	Investment tax credits	0	0	0
	Production tax credits	0	0	0
	Assistance for other items included in the GRI Protocol	0	0	0
	Total	**0**	**0**	**0**
Rest of countries	Capital subsidies	0	0	0
	Operating subsidies	0	0	0
	Investment tax credits	0	0	0
	Production tax credits	0	0	0
	Assistance for other items included in the GRI Protocol	0	0	0
	Total	**0**	**0**	**0**
Iberdrola total	**Capital subsidies**	**6**	**10**	**13**
	Operating subsidies	**3**	**6**	**3**
	Investment tax credits	**8**	**30**	**0**
	Production tax credits	**91**	**90**	**87**
	Assistance for other items included in the GRI Protocol	**0**	**0**	**0**
	Total	**108**	**136**	**103**

Pre tax profit[120] (millions of euros)	2018
Spain	1,618.6
United Kingdom	1,096.9
United States	622.0
Brazil	452.9
Mexico	561.9
Rest of countries	-68.9
Iberdrola consolidated total	**4,283.4**

[120] Includes consolidated results from continuing and discontinued activities.

Tax contribution (€ millions)	2018	2017	2016[121]
Company contributions			
Spain	**1,770**	**1,496**	**1,548**
Corporate income tax	*589*	311	449
Other	*1,181*	1,185	1,099
United Kingdom	**377**	**353**	**380**
Corporate income tax	*74*	50	108
Other	*303*	303	272
United States	**627**	**583**	**584**
Corporate income tax	*-13*	11	9
Other	*640*	572	575
Brazil	**164**	**160**	**126**
Corporate income tax	*93*	86	25
Other	*71*	74	101
Mexico	**136**	**100**	**106**
Corporate income tax	*130*	95	102
Other	*6*	5	4
Rest of countries	**22**	**31**	**24**
Corporate income tax	*14*	22	11
Other	*8*	9	13
Total	**3,096**	**2,723**	**2,768**
Corporate income tax	***887***	**575**	**704**
Other	***2,209***	**2,148**	**2,064**
Contributions due to third party payments			
Spain	1,872	1,761	1,904
United Kingdom	235	168	156
United States	277	292	275
Brazil	2,269	1,997	1,855
Mexico	23	86	101
Rest of countries	167	84	70
Total	**4,843**	**4,388**	**4,361**
Iberdrola consolidated total			
Spain	**3,642**	**3,257**	**3,452**
United Kingdom	**612**	**521**	**536**
United States	**904**	**875**	**859**
Brazil	**2,433**	**2,157**	**1,981**
Mexico	**159**	**186**	**207**
Rest of countries	**189**	**115**	**94**
Total	**7,939**	**7,111**	**7,129**

[121] For better comparability of the 2017 and 2016 information, 100% of the taxes paid by Neoenergia in Brazil during 2016 are included.

Environmental dimension

Energy

Energy consumption within the organization

Energy consumption within the organisation (GJ)	2018	2017	2016
Spain	230,023,199	236,355,590	241,428,586
United Kingdom	20,179,322	30,155,278	47,145,185
United States	10,799,405	10,547,765	11,251,751
Brazil	13,005,615	11,861,813	6,788,139
Mexico	126,533,470	159,609,431	135,538,671
Rest of countries	17,545	17,587	17,873
Total	**400,558,556**	**440,547,464**	**442,170,204**

Energy consumption in buildings (GJ)	2018	2017	2016
Spain	193,679	157,422	165,637
United Kingdom	89,280	109,159	121,327
United States	416,507	346,431	401,236
Brazil	1,719	166,256	46,099
Mexico	8,606	554	911
Rest of countries[122]	1,309	1,146	1,218
Total	**711,101**	**780,969**	**736,428**

System efficiency

Average efficiency[123] at thermal generating facilities (%)	Spain[124]			United Kingdom			United States		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Combined cycle	49.67	49.55	48.28	52	51.10	49.93	N/A	N/A	N/A
Conventional	34.28	34.38	33.00	N/A	0.00	33.00	N/A	N/A	N/A
Cogeneration	63.24	63.26	62.08	N/A	56.00	48.00	48	48.00	47.00

Average efficiency[123] at thermal generating facilities (%)	Brazil			Mexico			Total		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Combined cycle	55	49	49	55	54	53	54	54	52
Conventional	N/A	N/A	N/A	N/A	N/A	N/A	34	34	33
Cogeneration	N/A	0.00	69	57	50	58	56	54	56

[122] Other countries: Greece, Romania and Hungary.
[123] Average of efficiencies weighted by the annual production of each thermal power plant.
[124] Does not include the Puertollano thermosolar plant.

Water

Total water withdrawal by source

303-1

Water use in thermal generation[125] 2018 (hm^3)	Withdrawal			Discharge	
	Total withdrawal	Withdrawal process and standby services	Withdrawal for cooling	Evaporation of water used for cooling	Discharge into receptor environment
Spain	1,535.22	4.56	1,530.67	55.96	1,476
United Kingdom[126]	165.57	0.32	165.25	0.06	167
United States	3.44	3.44	0.00	1.93	2
Brazil	0.52	0.02	0.51	0.00	0.00
Mexico	279.97	3.18	276.79	22.20	254
Total [127]	**1,985**	**12**	**1,973**	**80**	**1,899**

Water consumption at offices and control facilities[128] (m^3)	2018	2017	2016
Spain	55,489	94,239	84,693
United Kingdom	4,496	63,242	93,375
United States	1,181,165	183,256	139,385
Brazil	9,369	1,975	89,576
Mexico	2,002	36,604	1,124
Rest of countries	2,775	5,132	901
Total	**1,255,296**	**384,448**	**409,054**

Biodiversity

Threatened species included in the UICN Red List and national and regional lists

304-4

	IUCN Red List Classification					
	Critically endangered (CR)	Endangered (EN)	Vulnerable (VU)	Near threatened (NT)	Least concern (LC)	Not on UICN List
Spain	3	26	60	5	59	5
United Kingdom	0	0	2	5	21	0
United States - Canada	3	16	19	22	84	7
Brazil	12	31	89	13	13	19
Mexico	0	0	0	1	4	1
Rest of countries	0	1	3	2	66	0
Total	**18**	**74**	**173**	**48**	**247**	**32**

[125] Withdrawal of water at the thermal generation facilities (coal, combined cycle, nuclear and cogeneration)

[126] 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.

[127] 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.

[128] Includes offices, substations and control buildings at wind farms.

Emissions

Direct greenhouse gas emissions. Scope 1 (per GHG Protocol)

305-1

CO_2 emissions (t)	2018	2017	2016
Spain	**4,932,724**	**5,945,175**	**5,268,737**
Generating plants	3,469,461	4,399,869	3,912,787
Cogeneration	1,463,263	1,545,306	1,355,950
United Kingdom	**2,174,241**	**2,900,987**	**4,944,407**
Generating plants	2,156,928	2,882,992	4,927,630
Cogeneration	17,313	17,995	16,777
United States	**991,612**	**965,570**	**1,040,335**
Generating plants	0	0	N/A
Cogeneration	991,612	965,570	1,040,335
Brazil	**1,306,374**	**1,568,890**	**1,739,902**
Generating plants	1,306,374	1,471,816	1,369,047
Cogeneration	0	97,074	370,855
Mexico	**14,929,874**	**15,334,845**	**13,543,565**
Generating plants	13,396,657	14,267,041	12,598,905
Cogeneration	1,533,217	1,067,804	944,660
Total	**24,334,824**	**26,715,466**	**26,536,946**
Generating plants	20,329,419	23,021,718	22,808,369
Cogeneration	4,005,405	3,693,748	3,728,577

Indirect greenhouse gas emissions. Scope 2 (per GHG Protocol)

305-2

Emissions associated with the consumption of energy at offices 2018	CO_2 (t)
Spain	10,645
United Kingdom	6,425
United States	31,877
Brazil	34
Mexico	120
Rest of countries[129]	0
Total	**49,101**

[129] Not taken into account to calculate the Carbon Footprint as it entails less than 0.1% of the internal energy consumption of the group.

NOx, SOx and other significant air emissions

305-7

NO_x emissions (t)	2018	2017	2016
Spain	**7,149**	**12,490**	**12,172**
Generating plants	2,623	4,394	5,013
Cogeneration	4,526	8,096	7,159
United Kingdom	**1,141**	**989**	**5,363**
Generating plants	1,141	989	5,363
Cogeneration	0	0	N/A
United States	**629**	**18**	**152**
Generating plants	0	0	N/A
Cogeneration	629	18	152
Brazil	**221**	**233**	**702**
Generating plants	221	233	233
Cogeneration	0	0	469
Mexico	**3,612**	**2,422**	**2,583**
Generating plants	2,565	1,997	2,325
Cogeneration	1,047	425	258
Total	**12,751**	**16,152**	**20,971**
Generating plants	6.549	7,613	12,934
Cogeneration	6,202	8,539	8,037

Sulphur dioxide (SO_2) emissions (t)	2018	2017	2016
Spain	**3,058**	**4,936**	**3,277**
Generating plants	2,327	3,723	2,744
Cogeneration	731	1,213	533
United Kingdom	**2**	**2**	**3,384**
Generating plants	2	2	3,384
Cogeneration	0	0	N/A
United States	**6**	**5**	**6**
Generating plants	0	0	N/A
Cogeneration	6	5	6
Brazil	**11**	**0**	**23**
Generating plants	11	0	12
Cogeneration	0	0	11
Mexico	**438**	**449**	**398**
Generating plants	393	418	370
Cogeneration	45	31	28
Total	**3,515**	**5,392**	**7,088**
Generating plants	2,733	4,143	6,510
Cogeneration	782	1,249	578

Particulate emissions (t)	2018	2017	2016
Spain	**174**	**375**	**305**
Generating plants	141	298	259
Cogeneration	33	77	46
United Kingdom	**1**	**2**	**88**
Generating plants	1	1	88
Cogeneration	0	1	N/A
United States	**20**	**19**	**19**
Generating plants	0	0	N/A
Cogeneration	20	19	19
Brazil	**0**	**0**	**22**
Generating plants	0	0	0
Cogeneration	0	0	22
Mexico	**691**	**876**	**774**
Generating plants	603	815	720
Cogeneration	88	61	54
Total	**886**	**1,272**	**1,208**
Generating plants	745	1,114	1,067
Cogeneration	141	158	141

Effluents and waste

Total weight of waste by type and disposal method

Hazardous waste generation[130] (t)	Spain			United Kingdom			United States		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Recovered, recycled, reused	4,819	4,328	4,539	3,056	1,600	2,161	358	337	478
Deposited and/or incinerated	2,804	1,256	849	810	562	482	17	425	601
Produced (Total)	7,604	5,564	5,418	3,864	2,214	3,558	375	573	1,183

Hazardous waste generation[130] (t)	Brazil			Mexico			Rest of countries			Total		
	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Recovered, recycled, reused	563	981	140	0	0	0	43	43	35	**8,839**	**7,288**	**7,353**
Deposited and/or incinerated	316	593	76	186	171	126	27	15	15	**4,161**	**3,023**	**2,148**
Produced (Total)	1,069	614	234	186	171	126	70	58	60	**13,169**	**9,193**	**10,579**

[130] Liquid waste has been converted into kg using a density of 1.3 kg/m^3.

Non hazardous waste generation[131] (t)	Spain			United Kingdom			United States		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Recovered, recycled, reused	74,618	109,727	79,512	70,265	304,434	155,103	4,605	34,097	231,038
Deposited and/or incinerated	71,629	165,443	129,178	195,897	224,698	189,640	64,063	96,988	107,134
Produced (Total)	**146,671**	**277,282**	**208,681**	**266,224**	**589,432**	**387,925**	**69,046**	**131,006**	**338,276**

Non hazardous waste generation[131] (t)	Brazil			Mexico			Rest of countries			Total		
	2018	2017	2016	2018	2017	2016	2018	2017	2016	2018	2017	2016
Recovered, recycled, reused	19,589	1,614	5,179	117	47	0	9	1	0	**294,845**	**449,920**	**470,832**
Deposited and/or incinerated	23,630	38,516	1,346	17,660	17,573	16,449	18	2	3	**247,256**	**543,220**	**443,747**
Produced (Total)	**49,525**	**38,370**	**27,513**	**17,661**	**17,578**	**16,449**	**18**	**3**	**3**	**549,146**	**1,053,671**	**978,847**

[131] Liquid waste has been converted into kg using a density of 1.3 kg/m^3.

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 (%)		
		2018	2017	2016
Spain	Combined cycle	91.94	91.87	89.94
	Conventional thermal	94.28	93.94	85.54
	Cogeneration	96.28	92.65	88.90
	Nuclear	89.31	89.29	85.98
	Hydroelectric	85.59	84.45	86.00
	Wind	97.30	91.87	97.80
United Kingdom	Combined cycle	89.67	88.30	86.63
	Conventional thermal	N/A	N/A	N/A
	Cogeneration	N/A	1.70	82.00
	Nuclear	N/A	N/A	N/A
	Hydroelectric	82.95	87.23	94.00
	Wind	95.80	95.21	95.91
United States	Combined cycle	N/A	N/A	N/A
	Conventional thermal	N/A	N/A	N/A
	Cogeneration	88.05	82.04	90.00
	Nuclear	N/A	N/A	N/A
	Hydroelectric	36.17	36.78	31.21
	Wind	95.40	95.58	N/A
Brazil	Combined cycle	90.95	85.41	86.00
	Conventional thermal	N/A	N/A	N/A
	Cogeneration	N/A	N/A	96.65
	Nuclear	N/A	N/A	N/A
	Hydroelectric	94.75	95.66	93.00
	Wind	97.60	97.34	97.50
Mexico	Combined cycle	91.94	94.95	95.32
	Conventional thermal	N/A	N/A	N/A
	Cogeneration	95.56	72.18	95.17
	Nuclear	N/A	N/A	N/A
	Hydroelectric	N/A	N/A	N/A
	Wind	97.10	96.22	97.50
Rest of countries	Combined cycle	N/A	N/A	N/A
	Conventional thermal	N/A	N/A	N/A
	Cogeneration	N/A	N/A	N/A
	Nuclear	N/A	N/A	N/A
	Hydroelectric	N/A	N/A	N/A
	Wind	97.5	97.61	97.90
Iberdrola total	**Combined cycle**	**90.39**	**90.94**	**89.94**
	Conventional thermal	**94.28**	**93.94**	**85.54**
	Cogeneration	**92.17**	**82.75**	**91.00**
	Nuclear	**89.31**	**89.29**	**85.98**
	Hydroelectric	**86.92**	**86.02**	**86.96**
	Wind	**96.36**	**94.36**	**96.84**

Social dimension

Employment[132]

102-8

Total workforce by employment type, region and gender							
		Full time			Part time		
		2018	2017	2016	2018	2017	2016
Spain	Men	7,852	8,309	8,404	0	4	4
	Women	1,970	1,981	1,986	0	2	1
	Total	**9,822**	**10,290**	**10,390**	**0**	**6**	**5**
United Kingdom	Men	3,670	4,032	4,224	51	62	56
	Women	1,306	1,329	1,407	584	644	686
	Total	**4,976**	**5,361**	**5,631**	**635**	**706**	**742**
United States	Men	4,601	4,664	4,836	1	1	2
	Women	1,838	1,886	1,998	9	10	13
	Total	**6,439**	**6,550**	**6,834**	**10**	**11**	**15**
Brazil	Men	7,746	8,048	7,387	1,050	112	143
	Women	1,924	1,749	1,694	29	187	205
	Total	**9,670**	**9,797**	**9,081**	**1,079**	**299**	**348**
Mexico	Men	909	779	736	0	0	0
	Women	203	164	138	0	1	0
	Total	**1,112**	**943**	**874**	**0**	**1**	**0**
Rest of countries	Men	237	218	133	0	0	0
	Women	98	73	29	0	0	0
	Total	**335**	**291**	**162**	**0**	**0**	**0**
Iberdrola total	**Men**	**26,015**	**26,050**	**25,720**	**1,102**	**179**	**205**
	Women	**7,339**	**7,182**	**7,252**	**622**	**844**	**905**
	Total	**32,354**	**33,232**	**32,972**	**1,724**	**1,023**	**1,110**

[132] As the percentage interests in certain companies may not be 100%, the sums added may not correspond to the total presented due to rounding.

Total workforce by contract type, region and gender							
		Permanent contract			Temporary contract		
		2018	2017	2016	2018	2017	2016
Spain	Men	7,830	8,287	8,368	22	26	40
	Women	1,964	1,975	1,970	6	8	17
	Total	**9,794**	**10,262**	**10,338**	**28**	**34**	**57**
United Kingdom	Men	3,704	4,069	4,255	17	25	25
	Women	1,874	1,958	2,085	16	15	8
	Total	**5,578**	**6,027**	**6,340**	**33**	**40**	**33**
United States	Men	4,594	4,661	4,829	8	4	9
	Women	1,845	1,889	2,001	2	7	10
	Total	**6,439**	**6,550**	**6,830**	**10**	**11**	**19**
Brazil	Men	8,790	8,134	7,379	6	26	151
	Women	1,951	1,929	1,832	2	7	67
	Total	**10,741**	**10,063**	**9,211**	**8**	**33**	**218**
Mexico	Men	690	708	580	219	71	156
	Women	158	141	102	45	24	36
	Total	**848**	**849**	**682**	**264**	**95**	**192**
Rest of countries	Men	232	214	120	5	4	13
	Women	98	73	28	0	0	1
	Total	**330**	**287**	**148**	**5**	**4**	**14**
Iberdrola total	**Men**	**25,840**	**26,073**	**25,531**	**277**	**156**	**394**
	Women	**7,890**	**7,965**	**8,018**	**71**	**61**	**139**
	Total	**33,730**	**34,038**	**33,549**	**348**	**217**	**533**

Total workforce by employment type, gender, age and region 2018			
		Full time	Part time
Spain	**Men**	**7,852**	**0**
	Up to 30 years old	341	0
	Between 31 and 50 years old	4,298	0
	More than 50 years old	3,213	0
	Women	**1,970**	**0**
	Up to 30 years old	100	0
	Between 31 and 50 years old	1,332	0
	More than 50 years old	538	0
	Total	**9,822**	**0**
	Up to 30 years old	**441**	**0**
	Between 31 and 50 years old	**5630**	**0**
	More than 50 years old	**3,751**	**0**
United Kingdom	**Men**	**3,670**	**51**
	Up to 30 years old	590	2
	Between 31 and 50 years old	1,942	23
	More than 50 years old	1,138	26
	Women	**1,306**	**584**
	Up to 30 years old	173	19
	Between 31 and 50 years old	800	472
	More than 50 years old	333	93
	Total	**4,976**	**635**
	Up to 30 years old	**763**	**21**
	Between 31 and 50 years old	**2,742**	**495**
	More than 50 years old	1,471	119
United States	**Men**	**4,601**	**1**
	Up to 30 years old	515	0
	Between 31 and 50 years old	2,136	0
	More than 50 years old	1,950	1
	Women	**1,838**	**9**
	Up to 30 years old	155	0
	Between 31 and 50 years old	875	6
	More than 50 years old	808	3
	Total	**6,439**	**10**
	Up to 30 years old	**670**	**0**
	Between 31 and 50 years old	**3,011**	**6**
	More than 50 years old	**2,758**	**4**
Brazil	**Men**	**7,746**	**1,050**
	Up to 30 years old	2,187	301
	Between 31 and 50 years old	4,782	676
	More than 50 years old	777	73
	Women	**1,924**	**29**
	Up to 30 years old	611	19
	Between 31 and 50 years old	1,194	9
	More than 50 years old	119	1
	Total	**9,670**	**1,079**
	Up to 30 years old	2,798	320

Total workforce by employment type, gender, age and region 2018			
		Full time	Part time
	Between 31 and 50 years old	5,976	685
	More than 50 years old	896	74
Mexico	**Men**	**909**	**0**
	Up to 30 years old	247	0
	Between 31 and 50 years old	587	0
	More than 50 years old	75	0
	Women	**203**	**0**
	Up to 30 years old	82	0
	Between 31 and 50 years old	117	0
	More than 50 years old	4	0
	Total	**1,112**	**0**
	Up to 30 years old	329	0
	Between 31 and 50 years old	704	0
	More than 50 years old	79	0
Rest of countries	**Men**	**232**	**5**
	Up to 30 years old	16	3
	Between 31 and 50 years old	190	1
	More than 50 years old	26	1
	Women	**98**	**0**
	Up to 30 years old	17	0
	Between 31 and 50 years old	73	0
	More than 50 years old	8	0
	Total	**330**	**5**
	Up to 30 years old	33	3
	Between 31 and 50 years old	263	1
	More than 50 years old	34	1
Iberdrola total	**Men**	**25,010**	**1,107**
	Up to 30 years old	3,896	306
	Between 31 and 50 years old	13,935	700
	More than 50 years old	7,179	101
	Women	**7,339**	**622**
	Up to 30 years old	1,138	38
	Between 31 and 50 years old	4,391	487
	More than 50 years old	1,810	97
	Total	**32,349**	**1,729**
	Up to 30 years old	5,034	344
	Between 31 and 50 years old	18,326	1,187
	More than 50 years old	8,989	198

Total workforce by employment type, gender, professional category and region 2018			
		Full time	Part time
Spain	**Men**	**7,852**	**0**
	Management team	405	0
	Middle managers and skilled technicians	3,348	0
	Skilled workers and support personnel	4,099	0
	Women	**1,970**	**0**
	Management team	94	0
	Middle managers and skilled technicians	1,348	0
	Skilled workers and support personnel	528	0
	Total	**9,822**	**0**
	Management team	**499**	**0**
	Middle managers and skilled technicians	**4,696**	**0**
	Skilled workers and support personnel	**4,627**	**0**
United Kingdom	**Men**	**3,670**	**51**
	Management team	108	0
	Middle managers and skilled technicians	2,361	27
	Skilled workers and support personnel	1,201	24
	Women	**1,306**	**584**
	Management team	30	3
	Middle managers and skilled technicians	835	236
	Skilled workers and support personnel	441	345
	Total	**4,976**	**635**
	Management team	**138**	**3**
	Middle managers and skilled technicians	**3,196**	**263**
	Skilled workers and support personnel	**1,642**	**369**
United States	**Men**	**4,601**	**1**
	Management team	41	0
	Middle managers and skilled technicians	1,660	1
	Skilled workers and support personnel	2,900	0
	Women	**1,838**	**9**
	Management team	13	0
	Middle managers and skilled technicians	757	6
	Skilled workers and support personnel	1,068	3
	Total	**6,439**	**10**
	Management team	**54**	**0**
	Middle managers and skilled technicians	**2,417**	**7**
	Skilled workers and support personnel	**3,968**	**3**
Brazil	**Men**	**7,746**	**1,050**
	Management team	75	0
	Middle managers and skilled technicians	1,641	11
	Skilled workers and support personnel	6,030	1,039
	Women	**1,924**	**29**
	Management team	21	0
	Middle managers and skilled technicians	1,094	3
	Skilled workers and support personnel	809	26
	Total	**9,670**	**1,079**
	Management team	96	0

Total workforce by employment type, gender, professional category and region 2018			
		Full time	Part time
	Middle managers and skilled technicians	2,735	14
	Skilled workers and support personnel	6,839	1,065
Mexico	**Men**	**909**	**0**
	Management team	21	0
	Middle managers and skilled technicians	488	0
	Skilled workers and support personnel	400	0
	Women	**203**	**0**
	Management team	6	0
	Middle managers and skilled technicians	173	0
	Skilled workers and support personnel	24	0
	Total	**1,112**	**0**
	Management team	27	0
	Middle managers and skilled technicians	661	0
	Skilled workers and support personnel	424	0
Rest of countries	**Men**	**237**	**0**
	Management team	10	0
	Middle managers and skilled technicians	164	0
	Skilled workers and support personnel	63	0
	Women	**98**	**0**
	Management team	3	0
	Middle managers and skilled technicians	87	0
	Skilled workers and support personnel	8	0
	Total	**335**	**0**
	Management team	13	0
	Middle managers and skilled technicians	251	0
	Skilled workers and support personnel	71	0
Iberdrola total	**Men**	**25,015**	**1,102**
	Management team	660	0
	Middle managers and skilled technicians	9,662	39
	Skilled workers and support personnel	14,693	1,063
	Women	**7,339**	**622**
	Management team	167	3
	Middle managers and skilled technicians	4,294	245
	Skilled workers and support personnel	2,878	374
	Total	**32,354**	**1,724**
	Management team	827	3
	Middle managers and skilled technicians	13,956	284
	Skilled workers and support personnel	17,571	1,437

Total workforce by contract type, gender, age and region			
		Permanent contract	Temporary contract
Spain	**Men**	**7,830**	**22**
	Up to 30 years old	336	5
	Between 31 and 50 years old	4,281	17
	More than 50 years old	3,213	0
	Women	**1,964**	**6**
	Up to 30 years old	98	2
	Between 31 and 50 years old	1,328	4
	More than 50 years old	538	0
	Total	**9,794**	**28**
	Up to 30 years old	**434**	**7**
	Between 31 and 50 years old	**5,609**	**21**
	More than 50 years old	**3,751**	**0**
United Kingdom	**Men**	**3,704**	**17**
	Up to 30 years old	586	6
	Between 31 and 50 years old	1,955	10
	More than 50 years old	1,163	1
	Women	**1,874**	**16**
	Up to 30 years old	189	3
	Between 31 and 50 years old	1,261	11
	More than 50 years old	424	2
	Total	**5,578**	**33**
	Up to 30 years old	**775**	**9**
	Between 31 and 50 years old	**3,216**	**21**
	More than 50 years old	1,587	3
United States	**Men**	**4,594**	**8**
	Up to 30 years old	509	6
	Between 31 and 50 years old	2,134	2
	More than 50 years old	1,951	0
	Women	**1,845**	**2**
	Up to 30 years old	154	1
	Between 31 and 50 years old	880	1
	More than 50 years old	811	0
	Total	**6,439**	**10**
	Up to 30 years old	663	7
	Between 31 and 50 years old	3,014	3
	More than 50 years old	2762	0
Brazil	**Men**	**8,790**	**6**
	Up to 30 years old	2,486	2
	Between 31 and 50 years old	5,455	3
	More than 50 years old	849	1
	Women	**1,951**	**2**
	Up to 30 years old	628	2
	Between 31 and 50 years old	1,203	0
	More than 50 years old	120	0
	Total	**10,741**	**8**
	Up to 30 years old	3,114	4

Total workforce by contract type, gender, age and region			
		Permanent contract	Temporary contract
	Between 31 and 50 years old	6,658	3
	More than 50 years old	969	1
Mexico	**Men**	**690**	**219**
	Up to 30 years old	141	105
	Between 31 and 50 years old	485	103
	More than 50 years old	64	11
	Women	**158**	**45**
	Up to 30 years old	54	28
	Between 31 and 50 years old	100	17
	More than 50 years old	4	0
	Total	**848**	**264**
	Up to 30 years old	195	133
	Between 31 and 50 years old	585	120
	More than 50 years old	68	11
Rest of countries	**Men**	**232**	**5**
	Up to 30 years old	16	3
	Between 31 and 50 years old	190	1
	More than 50 years old	26	1
	Women	**98**	**0**
	Up to 30 years old	17	0
	Between 31 and 50 years old	73	0
	More than 50 years old	8	0
	Total	**330**	**5**
	Up to 30 years old	33	3
	Between 31 and 50 years old	263	1
	More than 50 years old	34	1
Iberdrola total	**Men**	**25,840**	**277**
	Up to 30 years old	4,074	127
	Between 31 and 50 years old	14,500	136
	More than 50 years old	7,266	14
	Women	**7,890**	**71**
	Up to 30 years old	1,140	36
	Between 31 and 50 years old	4,845	33
	More than 50 years old	1,905	2
	Total	**33,730**	**348**
	Up to 30 years old	5,214	163
	Between 31 and 50 years old	19,345	169
	More than 50 years old	9,171	16

Total workforce by contract type, gender, professional category and region 2018			
		Permanent contract	Temporary contract
Spain	**Men**	**7,830**	**22**
	Management team	405	0
	Middle managers and skilled technicians	3,338	10
	Skilled workers and support personnel	4,087	12
	Women	**1,964**	**16**
	Management team	94	0
	Middle managers and skilled technicians	1,343	5
	Skilled workers and support personnel	527	1
	Total	**9,794**	**28**
	Management team	**499**	**0**
	Middle managers and skilled technicians	**4,681**	**15**
	Skilled workers and support personnel	**4,614**	**13**
United Kingdom	**Men**	**3,704**	**17**
	Management team	108	0
	Middle managers and skilled technicians	2,371	17
	Skilled workers and support personnel	1,225	0
	Women	**1,874**	**16**
	Management team	33	0
	Middle managers and skilled technicians	1,058	13
	Skilled workers and support personnel	783	3
	Total	**5,578**	**33**
	Management team	**141**	**0**
	Middle managers and skilled technicians	**3,429**	**30**
	Skilled workers and support personnel	**2,008**	**3**
United States	**Men**	**4,594**	**8**
	Management team	41	0
	Middle managers and skilled technicians	1,661	0
	Skilled workers and support personnel	2,892	8
	Women	**1,845**	**2**
	Management team	13	0
	Middle managers and skilled technicians	762	1
	Skilled workers and support personnel	1,070	1
	Total	**6,439**	**10**
	Management team	**54**	**0**
	Middle managers and skilled technicians	**2,423**	**1**
	Skilled workers and support personnel	**3,962**	**9**
Brazil	**Men**	**8,790**	**6**
	Management team	75	0
	Middle managers and skilled technicians	1,650	2
	Skilled workers and support personnel	7,065	4
	Women	**1,951**	**2**
	Management team	21	0
	Middle managers and skilled technicians	1,096	1
	Skilled workers and support personnel	834	1
	Total	**10,741**	**8**
	Management team	**96**	**0**

Total workforce by contract type, gender, professional category and region 2018			
		Permanent contract	Temporary contract
	Middle managers and skilled technicians	2,748	3
	Skilled workers and support personnel	7,899	5
Mexico	**Men**	**690**	**219**
	Management team	21	0
	Middle managers and skilled technicians	381	107
	Skilled workers and support personnel	288	112
	Women	**158**	**45**
	Management team	6	0
	Middle managers and skilled technicians	140	33
	Skilled workers and support personnel	12	12
	Total	**848**	**264**
	Management team	27	0
	Middle managers and skilled technicians	521	140
	Skilled workers and support personnel	300	124
Rest of countries	**Men**	**232**	**5**
	Management team	10	0
	Middle managers and skilled technicians	159	5
	Skilled workers and support personnel	63	0
	Women	**98**	**0**
	Management team	3	0
	Middle managers and skilled technicians	87	0
	Skilled workers and support personnel	8	0
	Total	**330**	**5**
	Management team	13	0
	Middle managers and skilled technicians	246	5
	Skilled workers and support personnel	71	0
Iberdrola total	**Men**	**25,840**	**277**
	Management team	660	0
	Middle managers and skilled technicians	9,560	141
	Skilled workers and support personnel	15,620	136
	Women	**7,890**	**71**
	Management team	170	0
	Middle managers and skilled technicians	4,486	53
	Skilled workers and support personnel	3,234	18
	Total	**33,730**	**348**
	Management team	830	0
	Middle managers and skilled technicians	14,046	194
	Skilled workers and support personnel	18,854	154

[redacted]

Personnel covered by a collective bargaining agreement, by region						
	2018		2017		2016	
	No. of Employees	%	No. of Employees	%	No. of Employees	%
Spain	8,582	87.38	9,109	88.47	9,753	93.82
United Kingdom	4,149	73.94	4,219	69.54	4,510	70.77
United States	3,112	48.26	3,146	47.95	3,234	47.22
Brazil	10,735	99.87	9,805	97.12	9,190	97.47
Mexico	294	26.44	203	21.50	241	27.57
Rest of countries	28	8.36	161	55.53	82	50.62
Total	**26,900**	**78.94**	**26,643**	**77.78**	**27,010**	**79.25**

New hires by region, gender and age group							
		Men			Women		
		2018	2017	2016	2018	2017	2016
Spain	By age group	**221**	**252**	**244**	**114**	**64**	**93**
	Up to 30 years old	104	116	121	45	31	35
	Between 31 and 50 years old	106	125	116	68	31	55
	More than 50 years old	11	11	7	1	2	3
	By age group (%)	**2.82**	**3.03**	**2.90**	**5.81**	**3.23**	**4.68**
	Up to 30 years old	30.55	35.26	30.17	45.12	41.89	39.77
	Between 31 and 50 years old	2.47	2.92	2.65	5.14	2.34	4.02
	More than 50 years old	0.34	0.3	0.19	0.19	0.34	0.56
United Kingdom	By age group	**270**	**464**	**261**	**138**	**177**	**81**
	Up to 30 years old	135	141	112	69	59	25
	Between 31 and 50 years old	120	245	109	56	104	52
	More than 50 years old	15	78	40	13	14	4
	By age group (%)	**7.26**	**11.33**	**6.10**	**7.30**	**8.97**	**3.87**
	Up to 30 years old	22.80	23.46	18.51	35.94	30.41	11.9
	Between 31 and 50 years old	6.11	11.84	5.01	4.40	7.76	3.07
	More than 50 years old	1.29	5.48	2.67	3.05	3.2	1.00
United States	By age group	**380**	**322**	**369**	**137**	**148**	**126**
	Up to 30 years old	149	114	141	44	54	37
	Between 31 and 50 years old	187	171	181	74	70	75
	More than 50 years old	44	37	47	19	24	14
	By age group (%)	**8.26**	**6.9**	**7.63**	**7.42**	**13.81**	**10.73**
	Up to 30 years old	28.93	23.17	27.87	28.39	24.86	23.9
	Between 31 and 50 years old	8.75	8.07	8.24	8.40	11.55	6.85
	More than 50 years old	2.26	1.8	2.20	2.34	1.62	0.35
Brazil	By age group	**1,583**	**1,127**	**808**	**272**	**174**	**262**
	Up to 30 years old	840	550	515	169	108	167
	Between 31 and 50 years old	731	559	289	101	64	94
	More than 50 years old	12	18	4	2	2	1
	By age group (%)	**18.00**	**7.81**	**6.27**	**13.93**	**8.99**	**13.80**
	Up to 30 years old	33.76	34.39	22.98	26.83	18.15	28.02
	Between 31 and 50 years old	13.39	7.76	7.89	8.40	5.47	8.30
	More than 50 years old	1.41	2.87	2.00	1.67	1.17	0.59
Mexico	By age group	**184**	**323**	**146**	**51**	**74**	**31**
	Up to 30 years old	114	73	72	39	37	17
	Between 31 and 50 years old	68	210	67	12	36	14
	More than 50 years old	2	40	7	0	1	0
	By age group (%)	**20.24**	**41.46**	**19.84**	**25.12**	**44.85**	**22.46**
	Up to 30 years old	46.15	42.69	39.13	47.56	61.67	44.74
	Between 31 and 50 years old	11.58	38.82	13.7	10.26	36.00	14.74
	More than 50 years old	2.67	59.7	11.11	0.00	20.00	0

New hires by region, gender and age group							
		Men			Women		
		2018	2017	2016	2018	2017	2016
Rest of countries	By age group	**35**	**66**	**13**	**28**	**19**	**0**
	Up to 30 years old	9	18	1	11	6	0
	Between 31 and 50 years old	23	43	9	17	13	0
	More than 50 years old	3	5	3	0	0	0
	By age group (%)	**14.77**	**30.28**	**9.77**	**28.57**	**26.03**	**0**
	Up to 30 years old	47.37	60	11.11	64.71	66.67	0
	Between 31 and 50 years old	12.04	25.75	8.04	23.29	22.41	0
	More than 50 years old	11.11	23.81	25	0.00	0	0
Iberdrola total	By age group	**2,673**	**2,554**	**1,841**	**740**	**656**	**593**
	Up to 30 years old	1,351	1,012	962	377	295	281
	Between 31 and 50 years old	1,235	1,353	771	328	318	290
	More than 50 years old	87	189	108	35	43	22
	By age group (%)	**10.23**	**9.74**	**7.10**	**9.30**	**8.17**	**7.27**
	Up to 30 years old	32.15	26.39	24.9	32.06	27.09	25.66
	Between 31 and 50 years old	8.44	9.65	5.68	6.72	6.5	5.83
	More than 50 years old	1.19	2.26	1.27	1.84	2.1	1.06

Persons leaving the company by region, gender and age group							
		Men			Women		
		2018	2017	2016	2018	2017	2016
Spain	By age group	**682**	**461**	**452**	**130**	**76**	**66**
	Up to 30 years old	11	4	6	5	2	3
	Between 31 and 50 years old	48	99	74	31	36	32
	More than 50 years old	623	358	372	94	38	31
	By age group (%)	**8.69**	**5.55**	**5.38**	**6.58**	**3.83**	**3.32**
	Up to 30 years old	3.23	1.22	1.5	5.01	2.7	3.41
	Between 31 and 50 years old	1.12	2.31	1.69	2.30	2.72	2.34
	More than 50 years old	19.38	9.68	10.23	17.46	6.48	5.83
United Kingdom	By age group	**643**	**346**	**516**	**220**	**214**	**119**
	Up to 30 years old	61	26	33	24	18	9
	Between 31 and 50 years old	194	75	173	86	85	58
	More than 50 years old	388	245	310	110	111	52
	By age group (%)	**17.28**	**8.45**	**12.06**	**11.64**	**10.85**	**5.69**
	Up to 30 years old	10.30	4.33	5.45	12.50	9.28	4.29
	Between 31 and 50 years old	9.87	3.62	7.95	6.76	6.34	4.12
	More than 50 years old	33.33	17.21	20.69	25.82	25.34	10.92
United States	By age group	**453**	**471**	**320**	**186**	**252**	**172**
	Up to 30 years old	38	53	69	20	34	30
	Between 31 and 50 years old	127	137	89	60	61	61
	More than 50 years old	288	281	162	106	157	81
	By age group (%)	**9.84**	**10.10**	**6.61**	**10.07**	**13.29**	**8.55**
	Up to 30 years old	7.38	10.77	13.64	12.90	21.66	18.63
	Between 31 and 50 years old	5.95	6.47	4.05	6.81	6.76	6.42
	More than 50 years old	14.76	13.68	7.59	13.07	18.76	9
Brazil	By age group	**941**	**580**	**544**	**247**	**165**	**184**
	Up to 30 years old	165	137	116	59	51	56
	Between 31 and 50 years old	403	269	219	119	84	76
	More than 50 years old	373	174	209	69	30	52
	By age group (%)	**10.70**	**7.11**	**7.22**	**12.65**	**8.52**	**9.69**
	Up to 30 years old	6.63	6.19	5.38	9.37	8.57	9.4
	Between 31 and 50 years old	7.38	5.56	5.19	9.89	7.18	6.71
	More than 50 years old	43.88	15.68	18.06	57.50	17.54	30.59
Mexico	By age group	**62**	**80**	**95**	**13**	**23**	**18**
	Up to 30 years old	14	20	30	6	7	8
	Between 31 and 50 years old	38	47	55	6	16	10
	More than 50 years old	10	13	10	1	0	0
	By age group (%)	**6.82**	**10.27**	**12.91**	**6.40**	**13.94**	**13.04**
	Up to 30 years old	5.67	11.7	16.3	7.32	11.67	21.05
	Between 31 and 50 years old	6.47	8.69	11.25	5.13	16	10.53
	More than 50 years old	13.33	19.4	15.87	25.00	0	0

Persons leaving the company by region, gender and age group							
		Men			Women		
		2018	2017	2016	2018	2017	2016
Rest of countries	By age group	**45**	**14**	**11**	**20**	**7**	**5**
	Up to 30 years old	4	2	0	3	1	0
	Between 31 and 50 years old	29	11	10	15	6	5
	More than 50 years old	12	1	1	2	0	0
	By age group (%)	**18.99**	**6.25**	**8.27**	**20.41**	**18.92**	**17.24**
	Up to 30 years old	21.05	5.88	0	17.65	33.33	0
	Between 31 and 50 years old	15.18	6.56	8.93	20.55	19.35	20
	More than 50 years old	44.44	4.76	8.33	25.00	0	0
Iberdrola total	By age group	**2,826**	**1,952**	**1,931**	**816**	**737**	**564**
	Up to 30 years old	293	242	254	117	113	106
	Between 31 and 50 years old	839	638	614	317	288	242
	More than 50 years old	1694	1,072	1,063	382	336	216
	By age group (%)	**10.82**	**7.44**	**7.45**	**10.25**	**9.18**	**6.91**
	Up to 30 years old	6.97	6.31	6.58	9.94	10.38	9.68
	Between 31 and 50 years old	5.73	4.55	4.53	6.50	5.88	4.86
	More than 50 years old	23.27	12.8	12.5	20.04	16.45	10.36

Redundancies by region, gender and age group			
		Men	Women
Spain	**By age group**	**13**	**2**
	Up to 30 years old	0	1
	Between 31 and 50 years old	7	0
	More than 50 years old	6	1
	By age group (%)	**0.16**	**0.10**
	Up to 30 years old	0.00	1.00
	Between 31 and 50 years old	0.16	0.00
	More than 50 years old	0.17	0.19
United Kingdom	**By age group**	**8**	**1**
	Up to 30 years old	4	1
	Between 31 and 50 years old	2	0
	More than 50 years old	2	0
	By age group (%)	**0.21**	**0.05**
	Up to 30 years old	0.68	0.52
	Between 31 and 50 years old	0.10	0.00
	More than 50 years old	0.17	0.00
United States	**By age group**	**23**	**22**
	Up to 30 years old	5	2
	Between 31 and 50 years old	12	15
	More than 50 years old	6	5
	By age group (%)	**0.50**	**1.19**
	Up to 30 years old	0.97	1.29
	Between 31 and 50 years old	0.56	1.70
	More than 50 years old	0.31	0.62
Brazil	**By age group**	**617**	**141**
	Up to 30 years old	81	20
	Between 31 and 50 years old	241	57
	More than 50 years old	295	64
	By age group (%)	**7.01**	**7.22**
	Up to 30 years old	3.26	3.17
	Between 31 and 50 years old	4.42	4.74
	More than 50 years old	34.71	53.33
Mexico	**By age group**	**11**	**2**
	Up to 30 years old	3	0
	Between 31 and 50 years old	8	2
	More than 50 years old	0	0
	By age group (%)	**1.21**	**0.99**
	Up to 30 years old	1.21	0.00
	Between 31 and 50 years old	1.36	1.71
	More than 50 years old	0.00	0.00

Redundancies by region, gender and age group			
		Men	Women
Rest of countries	**By age group**	**0**	**0**
	Up to 30 years old	0	0
	Between 31 and 50 years old	0	0
	More than 50 years old	0	0
	By age group (%)	**0.00**	**0.00**
	Up to 30 years old	0.00	0.00
	Between 31 and 50 years old	0.00	0.00
	More than 50 years old	0.00	0.00
Iberdrola total	**By age group**	**672**	**168**
	Up to 30 years old	**93**	**24**
	Between 31 and 50 years old	**270**	**74**
	More than 50 years old	**309**	**70**
	By age group (%)	**2.57**	**2.11**
	Up to 30 years old	**2.21**	**2.04**
	Between 31 and 50 years old	**1.84**	**1.52**
	More than 50 years old	**4.24**	**3.67**

Redundancies by region, gender and professional category			
		Men	Women
Spain	**By professional category**	**13**	**2**
	Management team	3	1
	Middle managers and skilled technicians	8	1
	Skilled workers and support personnel	2	0
	By professional category (%)	**0.16**	**0.10**
	Management team	0.74	1.06
	Middle managers and skilled technicians	0.24	0.07
	Skilled workers and support personnel	0.05	0.00
United Kingdom	**By professional category**	**8**	**1**
	Management team	0	0
	Middle managers and skilled technicians	2	0
	Skilled workers and support personnel	6	1
	By professional category (%)	**0.21**	**0.05**
	Management team	0.00	0.00
	Middle managers and skilled technicians	0.08	0.00
	Skilled workers and support personnel	0.49	0.13
United States	**By professional category**	**23**	**22**
	Management team	1	0
	Middle managers and skilled technicians	9	14
	Skilled workers and support personnel	13	8
	By professional category (%)	**0.50**	**1.19**
	Management team	2.44	0.00
	Middle managers and skilled technicians	0.54	1.83
	Skilled workers and support personnel	0.45	0.75
Brazil	**By professional category**	**617**	**141**
	Management team	9	1
	Middle managers and skilled technicians	142	78
	Skilled workers and support personnel	466	62
	By professional category (%)	**7.01**	**7.22**
	Management team	12.00	4.76
	Middle managers and skilled technicians	8.60	7.11
	Skilled workers and support personnel	6.59	7.43
Mexico	**By professional category**	**11**	**2**
	Management team	0	0
	Middle managers and skilled technicians	10	2
	Skilled workers and support personnel	1	0
	By professional category (%)	**1.21**	**0.99**
	Management team	0.00	0.00
	Middle managers and skilled technicians	2.05	1.16
	Skilled workers and support personnel	0.25	0.00

Redundancies by region, gender and professional category			
		Men	Women
Rest of countries	**By professional category**	**0**	**0**
	Management team	0	0
	Middle managers and skilled technicians	0	0
	Skilled workers and support personnel	0	0
	By professional category (%)	**0.00**	**0.00**
	Management team	0.00	0.00
	Middle managers and skilled technicians	0.00	0.00
	Skilled workers and support personnel	0.00	0.00
Iberdrola total	**By professional category**	**672**	**168**
	Management team	13	2
	Middle managers and skilled technicians	171	95
	Skilled workers and support personnel	488	71
	By professional category (%)	**2.57**	**2.11**
	Management team	**1.97**	**1.18**
	Middle managers and skilled technicians	**1.76**	**2.09**
	Skilled workers and support personnel	**3.09**	**2.18**

Average seniority of workforce by region (years)	2018
Spain	19.64
United Kingdom	15.90
United States	14.07
Brazil	7.78
Mexico	6.05
Rest of countries	6.32
Iberdrola total	**13.66**

[redacted]

Benefits offered[133]	2018					
	Life insurance	Medical insurance	Disability insurance	Maternity/paternity leave	Pension fund	Shares
Spain	All	All	All	All	All	N/A
United Kingdom	All	All	N/A	All	All	All
United States	All	All	Full-time	All	All	N/A
Brazil	All [134]	All[135]	All	All[136]	All	All[137]
Mexico	Full-time	Full-time	All	All	Full-time	Full-time

[133] All: Applies to both full-time and part-time employees.
[134] Valid for all employees (excluding non-executive employees of Elektro), including officers, interns and trainees
[135] Excluding interns.
[136] Maternity/paternity leave (employees covered by collective bargaining agreement).
[137] Elektro executives. (The share programme was paid in cash, the last delivery will occur in March 2019. There is no new programme contemplating the grant of shares).

Leaves from and returns to work due to maternity/paternity, by region and gender									
	Men			Women			Total		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Employees entitled to parental leave									
Spain	7,852	8,313	8,408	1,970	1,983	1,987	9,822	10,296	10,395
United Kingdom	3,721	4,094	4,280	1,890	1,973	2,093	5,611	6,067	6,373
United States	4,602	4,665	4,838	1,847	1,896	2,011	6,449	6,561	6,849
Brazil	8,796	8,160	7,530	1,953	1,936	1,899	10,749	10,096	9,429
Mexico	909	779	736	203	165	138	1,112	944	874
Rest of countries	237	218	133	98	73	29	335	291	162
Total	**26,117**	**26,299**	**25,295**	**7,961**	**8,026**	**8,157**	**34,078**	**34,255**	**34,082**
Employees taking parental leave									
Spain	21	31	276	130	145	158	151	176	434
United Kingdom	36	39	26	147	130	151	183	169	177
United States	0	0	0	53	48	125	53	48	125
Brazil	370	274	132	98	105	18	468	379	150
Mexico	10	0	0	12	9	10	22	9	10
Rest of countries	4	1	0	4	3	1	8	4	1
Total	**441**	**345**	**434**	**444**	**440**	**463**	**885**	**785**	**897**
Employees that returned to work after parental leave ended									
Spain	21	29	N/Av.	126	114	N/Av.	147	143	N/Av.
United Kingdom	36	39	N/Av.	73	73	N/Av.	109	112	N/Av.
United States	76	0	N/Av.	53	48	N/Av.	129	48	N/Av.
Brazil	369	290	N/Av.	98	103	N/Av.	467	393	N/Av.
Mexico	10	4	N/Av.	12	10	N/Av.	22	14	N/Av.
Rest of countries	4	1	N/Av.	4	1	N/Av.	8	2	N/Av.
Total	**516**	**363**	**N/AV.**	**366**	**349**	**N/AV.**	**871**	**712**	**N/AV.**
Employees that returned to work after parental leave ended that were still employed 12 months after their return to work.									
Spain	20	28	N/Av.	132	114	N/Av.	152	142	N/Av.
United Kingdom	40	28	N/Av.	68	80	N/Av.	108	108	N/Av.
United States	73	41	N/Av.	49	137	N/Av.	122	178	N/Av.
Brazil	230	226	N/Av.	76	74	N/Av.	306	300	N/Av.
Mexico	10	4	N/Av.	12	6	N/Av.	22	10	N/Av.
Rest of countries	0	1	N/Av.	0	0	N/Av.	0	1	N/Av.
Total	**373**	**328**	**N/AV.**	**337**	**411**	**N/AV.**	**710**	**739**	**N/AV.**
Return to work rate									
Spain	100	93.55	N/Av.	97.41	78.62	N/Av.	97.76	86.08	N/Av.
United Kingdom	100	100.00	N/Av.	49.66	56.15	N/Av.	59.56	78.08	N/Av.
United States	N/A	N/A	N/Av.	100.00	100.00	N/Av.	100.00	100.00	N/Av.
Brazil	99.73	105.84	N/Av.	100.00	98.10	N/Av.	99.57	101.97	N/Av.
Mexico	100.00	100.00	N/Av.	100.00	111.11	N/Av.	100.00	55.56	N/Av.
Rest of countries	100.00	100.00	N/Av.	100.00	33.33	N/Av.	100.00	66.67	N/Av.
Total	**117.01**[138]	**105.22**	**N/AV.**	**82.34**	**79.32**	**N/AV.**	**99.61**	**92.27**	**N/AV.**

[138] Greater than 100% because employees who were entitled to leave in 2017 returned to work in 2018

		Employees eligible to retire in the next 5 years					
		By professional category (no.)			By professional category (%)		
		2018	2017	2016	2018	2017	2016
Spain	Management team	55	55	46	11.06	11.11	11.31
	Middle managers and skilled technicians	344	396	303	7.33	8.38	6.18
	Skilled workers and support personnel	658	850	606	14.22	16.74	12.53
	Total	**1,057**	**1,301**	**955**	**10.76**	**12.64**	**9.56**
United Kingdom	Management team	2	5	6	1.42	3.6	5.04
	Middle managers and skilled technicians	173	222	300	5.00	11.84	12.20
	Skilled workers and support personnel	224	286	320	11.14	13.83	14.66
	Total	**399**	**513**	**626**	**7.11**	**10.32**	**10.80**
United States	Management team	14	80	36	25.93	49.08	39.88
	Middle managers and skilled technicians	834	1,109	685	34.41	40.56	32.00
	Skilled workers and support personnel	1,573	1,553	726	39.61	42.39	29.78
	Total	**2,421**	**2,742**	**1,447**	**37.54**	**41.79**	**30.96**
Brazil	Management team	7	13	2	7.29	14.13	7.14
	Middle managers and skilled technicians	153	379	666	5.57	13.51	1.37
	Skilled workers and support personnel	222	571	383	2.81	7.93	0.30
	Total	**382**	**963**	**1,051**	**3.55**	**9.54**	**1.17**
Mexico	Management team	1	2	2	3.7	7.14	1.09
	Middle managers and skilled technicians	21	25	14	3.18	4.27	2.14
	Skilled workers and support personnel	*5*	*4*	3	*1.18*	*1.21*	*1.65*
	Total	**27**	**31**	**19**	**2.43**	**3.28**	**1.78**
Rest of countries	Management team	2	2	1	15.38	18.18	9.09
	Middle managers and skilled technicians	2	2	1	0.8	0.95	0.47
	Skilled workers and support personnel	0	0	0	0	0	0.00
	Total	**4**	**4**	**2**	**1.19**	**1.37**	2.90
Iberdrola total	**Management team**	**81**	**157**	**93**	**9.78**	16.92	15.63
	Middle managers and skilled technicians	**1,527**	**2,133**	**1,969**	**10.72**	16.89	13.67
	Skilled workers and support personnel	**2,682**	**3,264**	**2,038**	**14.11**	17.50	15.58
	Total	**4,290**	**5,554**	**4,100**	**12.59**	**16.22**	14.71

Employees eligible to retire in the next 10 years		By professional category (no.)			By professional category (%)		
		2018	2017	2016	2018	2017	2016
Spain	Management team	135	149	120	27.11	30.10	25.86
	Middle managers and skilled technicians	824	931	809	17.54	19.70	16.83
	Skilled workers and support personnel	1,607	1,845	1,689	34.73	36.34	33.94
	Total	**2,566**	**2,925**	**2,618**	**26.12**	**28.41**	**25.70**
United Kingdom	Management team	29	28	29	20.57	20.14	22.30
	Middle managers and skilled technicians	611	713	823	17.66	32.49	33.32
	Skilled workers and support personnel	518	646	739	25.76	31.95	36.49
	Total	**1,158**	**1,387**	**1,591**	**20.64**	**26.22**	**26.85**
United States	Management team	15	94	80	27.78	57.67	53.99
	Middle managers and skilled technicians	1,027	1,488	1,263	42.37	54.43	43.60
	Skilled workers and support personnel	1,984	2,032	1,451	49.96	55.46	40.23
	Total	**3,026**	**3,614**	**2,794**	**46.92**	**55.08**	**41.98**
Brazil	Management team	8	24	7	8.33	17.86	21.43
	Middle managers and skilled technicians	212	484	905	7.71	5.46	4.27
	Skilled workers and support personnel	318	959	634	4.02	6.06	4.85
	Total	**538**	**1,467**	**1,546**	**5.01**	**6.04**	**4.98**
Mexico	Management team	6	5	5	22.22	26.09	5.43
	Middle managers and skilled technicians	61	32	26	9.23	17.25	6.24
	Skilled workers and support personnel	22	20	15	5.19	13.32	7.13
	Total	**89**	**57**	**46**	**8**	**14.53**	**6.86**
Rest of countries	Management team	4	1	1	30.77	9.09	9.09
	Middle managers and skilled technicians	10	4	2	3.98	1.90	0.47
	Skilled workers and support personnel	3	0	0	4.23	0.00	0.00
	Total	**17**	**5**	**3**	**5.07**	**7.25**	**2.90**
Iberdrola total	Management team	**197**	**301**	**242**	**23.77**	**32.44**	**31.02**
	Middle managers and skilled technicians	**2,745**	**3,652**	**3,828**	**19.27**	**24.88**	**25.72**
	Skilled workers and support personnel	**4,452**	**5,502**	**4,528**	**23.42**	**29.50**	**31.73**
	Total	**7,394**	**9,455**	**8,598**	**21.70**	**27.60**	**28.96**

Workplace Health and Safety

Employees represented on health and safety committees, by region (%)	2018	2017	2016
Spain	97.50	96.88	95.89
United Kingdom	100.00	100.00	94.68
United States	100.00	100.00	99.40
Brazil	100.00	100.00	90.76
Mexico	100.00	100.00[139]	100.00
Rest of countries	31.94	37.46	66.05
Iberdrola total	**98.61**	**98.53**	**95.70**

Number of accidents by region and gender				
		2018	2017	2016
Spain	Men	88	69	83
	Women	5	13	8
	Total	**93**	**82**	**91**
United Kingdom	Men	47	61	74
	Women	11	31	27
	Total	**58**	**92**	**101**
United States	Men	161	176	154
	Women	13	33	20
	Total	**174**	**209**	**174**
Brazil	Men	66	69	89
	Women	7	0	10
	Total	**73**	**69**	**99**
Mexico	Men	1	1	6
	Women	0	2	0
	Total	**1**	**3**	**6**
Rest of countries	Men	0	0	1
	Women	0	0	0
	Total	**0**	**0**	**1**
Iberdrola total	**Men**	**363**	**376**	**407**
	Women	**36**	**79**	**65**
	Total	**399**	**455**	**472**

[139] There has been a recalculation of the data from 2016 and 2017, including the Renewables and Engineering businesses.

Number of accidents by type, region and gender										
		Men			Women			Total		
	Accident types	2018	2017	2016	2018	2017	2016	2018	2017	2016
Spain	Fatal	0	0	0	0	0	0	0	0	0
	With leave	23	24	25	1	0	1	24	24	26
	Without leave	65	58	58	4	0	7	69	58	65
United Kingdom	Fatal	0	0	0	0	0	0	0	0	0
	With leave	6	3	7	0	0	0	6	3	7
	Without leave	41	58	67	11	31	27	52	89	94
United States	Fatal	0	0	0	0	0	0	0	0	0
	With leave	35	40	38	3	3	8	38	43	46
	Without leave	126	136	116	10	30	12	136	166	128
Brazil	Fatal	0	0	0	0	0	0	0	0	0
	With leave	11	34	23	1	0	3	12	34	26
	Without leave	55	35	66	6	0	7	61	35	73
Mexico	Fatal	0	0	0	0	0	0	0	0	0
	With leave	0	0	2	0	0	0	0	0	2
	Without leave	1	1	4	0	2	0	1	3	4
Rest of countries	Fatal	0	0	0	0	0	0	0	0	0
	With leave	0	0	1	0	0	0	0	0	1
	Without leave	0	0	0	0	0	0	0	0	0
Iberdrola total	Fatal	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	With leave	**75**	**101**	**96**	**5**	**3**	**12**	**80**	**104**	**108**
	Without leave	**288**	**265**	**311**	**31**	**76**	**53**	**319**	**341**	**364**

Accident rate by region[140]		2018	2017	2016
Spain	Number of fatalities - company	0	0	0
	Number of fatalities - subcontractor	0	1	1
	Number of lost days	1,788	1,558	998
	Injury rate	1,65	1.77	1.87
	Occupational disease rate (ODR)	0.01	0.00	0.01
	Severity indices	0.12	0.11	0.06
United Kingdom	Number of fatalities - company	0	0	0
	Number of fatalities - subcontractor	0	1	0
	Number of lost days	154	214	164
	Injury rate	0,64	0.28	0.61
	Occupational disease rate (ODR)	0.00	0.02	0.00
	Severity indices	0.02	0.02	0.02
United States	Number of fatalities - company	0	0	0
	Number of fatalities - subcontractor	0	1	0
	Number of lost days	1,518	2,141	1,274
	Injury rate	2.97	3.27	3.49
	Occupational disease rate (ODR)	0.00	0.08	0.00
	Severity indices	0.12	0.16	0.10
Brazil	Number of fatalities - company	0	0	0
	Number of fatalities - subcontractor	3	10	0
	Number of lost days	469	461	326
	Injury rate	0.58	1.99	1.48
	Occupational disease rate (ODR)	0.01	0.01	0.01
	Severity indices	0.02	0.03	0.02
Mexico	Number of fatalities - company	0	0	0
	Number of fatalities - subcontractor	0	0	0
	Number of lost days	0	0	105
	Injury rate	0.00	0.00	1.37
	Occupational disease rate (ODR)	0.00	0.00	0.00
	Severity indices	0.00	0.08	0.07
Rest of countries	Number of fatalities - company	0	0	0
	Number of fatalities - subcontractor	0	0	0
	Number of lost days	0	0	10
	Injury rate	0.00	0.00	3.22
	Occupational disease rate (ODR)	0.00	0.00	0.00
	Severity indices	0.00	0.00	0.03
Iberdrola total	**Number of fatalities - company**	**0**	**0**	**0**
	Number of fatalities - subcontractor	**3**	**13**	**1**
	Number of lost days	**3,929**	**4,374[141]**	**2,877**
	Frequency ratio	**1,37**	**1.75**	**1.82**
	Occupational disease rate (ODR)	**0.01**	**0.02**	**0.01**
	Severity index	**0.07**	**0.07**	**0.05**

[140] Methodology for calculating the indicators:
- Injury rate (IR) = (number of accidents with leave*1,000,000)/hours worked.
- Occupational disease rate (ODR) = (number of occupational disease cases/hours worked)*200,000.
- Severity index = (calendar days lost per accident, as from first day of leave/hours worked)*1,000.

[141] In 2017 there was a lower number of accidents with leave but a higher mayor number of lost days.

Absenteeism by region and gender										
		Men			Women			Total		
		2018	2017	2016	2018	2017	2016	2018	2017	2016
Spain	Number of sick leaves per year	1,275	1,381	1,486	464	545	654	**1,739**	**1,926**	**2,140**
	Lost days	48,243	67,341	66,689	16,001	23,650	25,450	**64,244**	**90,991**	**92,139**
	Lost hours	426,189	N/Av.	N/Av.	128,185	N/Av.	N/Av.	**554,995**	N/Av.	N/Av.
United Kingdom	Number of sick leaves per year	1,407	1,443	1,632	928	1,047	1,144	**2,335**	**2,490**	**2,776**
	Lost days	26,232	26,491	29,835	19,173	19,986	23,081	**45,405**	**46,477**	**52,916**
	Lost hours	193,746	N/Av.	N/Av.	126,185	N/Av.	N/Av.	**319,931**	N/Av.	N/Av.
United States	Number of sick leaves per year	3,523	3,587	3,147	1,616	1,721	1,653	**5,139**	**5,308**	**4,800**
	Lost days	21,831	20,848	21,924	13,081	13,173	14,350	**34,912**	**34,021**	**36,274**
	Lost hours	187,661	N/Av.	N/Av.	94,199	N/Av.	N/Av.	**281,860**	N/Av.	N/Av.
Brazil	Number of sick leaves per year	3,088	886	3,833	1,586	666	2,029	**4,674**	**1,552**	**5,862**
	Lost days	12,228	11,155	11,900	8,444	6,199	6,213	**20,672**	**17,354**	**18,113**
	Lost hours	293,472	N/Av.	N/Av.	202,656	N/Av.	N/Av.	**496,128**	N/Av.	N/Av.
Mexico	Number of sick leaves per year	78	123	116	16	48	37	**94**	**171**	**153**
	Lost days	1,078	120	87	240	62	110	**1,318**	**182**	**197**
	Lost hours	8,596	N/Av.	N/Av.	1,914	N/Av.	N/Av.	**10,510**	N/Av.	N/Av.
Rest of countries	Number of sick leaves per year	0	0	3	0	0	0	**0**	**0**	**3**
	Lost days	0	0	26	0	0	0	**0**	**0**	**26**
	Lost hours	0	N/Av.	N/Av.	0	N/Av.	N/Av.	**0**	N/Av.	N/Av.
Iberdrola total	Number of sick leaves per year	9,371	7,420	10,217	4,610	4,610	5,517	**13,981**	**11,447**	**15,734**
	Lost days	109,612	125,955	130,461	56,939	62,279	69,204	**166,551**	**189,025**	**199,665**
	Lost hours	1,109,664	N/Av.	N/Av.	553,760	553,800	N/Av.	**1,663,424**	N/Av.	N/Av.

Absenteeism rate (AR) by region[142]			
	2018	2017	2016
Spain	6,842.97[143]	N/Av.	N/Av.
United Kingdom	6,667.40	6,989.38	7,234.95
United States	4,361.44	4,135.13	4,468.46
Brazil	1,898.90	1,626.70	1,651.9
Mexico	1.658.48[144]	N/Av.	N/Av.
Rest of countries	0.00	0.00	189.54
Iberdrola total	**4,615.21**	**N/AV.**	**N/AV.**

[142] Methodology for calculating the indicators (per GRI standard):

- Absenteeism rate (AR) = (missed days due to absenteeism, as from first day of leave/days worked)*200,000.

[143] The data for Spain and Mexico has been recalculated due to a change in methodology, the information for 2016 and 2017 cannot be recalculated due to a lack of data. Therefore, the information for Spain, Mexico and Iberdrola total is not comparable.

[144] The calculation standard has been revised in 2018.

Training and education

Total number of training hours by professional category, region and gender										
		Men			Women			Total		
	Professional category	2018	2017	2016	2018	2017	2016	2018	2017	2016
Spain	Management team	11,875	12,752	12,910	3,165	2,952	3,299	**15,040**	**15,704**	**16,209**
	Middle managers and skilled technicians	171,725	150,887	152,006	69,776	52,992	59,571	**241,501**	**203,879**	**211,577**
	Skilled workers and support personnel	190,787	197,645	207,328	10,065	11,593	11,961	**200,852**	**209,238**	**219,289**
	Total workforce	**374,387**	**361,284**	**372,244**	**83,006**	**67,537**	**74,831**	**457,393**	**428,821**	**447,075**
United Kingdom	Management team	1,981	3,061	3,510	786	1,200	141	**2,767**	**4,261**	**3,651**
	Middle managers and skilled technicians	49,282	64,319	84,433	12,702	15,282	7,589	**61,984**	**79,601**	**92,022**
	Skilled workers and support personnel	93,238	88,230	51,319	2,683	6,141	5,279	**95,921**	**94,371**	**56,598**
	Total workforce	**144,501**	**155,610**	**139,262**	**16,171**	**22,623**	**13,009**	**160,672**	**178,233**	**152,271**
United States	Management team	574	1,036	1,576	269	540	587	**843**	**1,576**	**2,163**
	Middle managers and skilled technicians	31,256	42,425	50,698	14,168	13,524	25,100	**45,424**	**55,949**	**75,798**
	Skilled workers and support personnel	107,581	154,129	212,079	35,164	27,443	89,160	**142,745**	**181,572**	**301,239**
	Total workforce	**139,411**	**197,590**	**264,353**	**49,601**	**41,507**	**114,847**	**189,012**	**239,097**	**379,200**
Brazil	Management team	2,534	2,354	1,186	766	400	217	**3,300**	**2,754**	**1,403**
	Middle managers and skilled technicians	75,946	64,789	132,450	51,748	40,535	33,231	**127,694**	**105,324**	**165,681**
	Skilled workers and support personnel	481,863	412,476	156,809	63,551	50,193	13,622	**545,414**	**462,669**	**170,431**
	Total workforce	**560,343**	**479,619**	**290,445**	**116,065**	**91,128**	**47,070**	**676,408**	**570,747**	**337,515**
Mexico	Management team	2,433	1,968	544	883	117	522	**3,316**	**2,085**	**1066**
	Middle managers and skilled technicians	42,641	28,982	19,703	15,620	8,542	3,709	**58,261**	**37,524**	**23,412**
	Skilled workers and support personnel	40,204	40,328	20,745	552	1,122	1,159	**40,756**	**41,450**	**21,904**
	Total workforce	**85,278**	**71,278**	**40,992**	**17,055**	**9,781**	**5,390**	**102,333**	**81,059**	**46,382**
Rest of countries	Management team	107	306	8	2	16	0	109	**322**	**8**
	Middle managers and skilled technicians	1,077	4,436	1254	237	1,198	280	1,314	**5,634**	**1,534**
	Skilled workers and support personnel	363	3,000	980	62	198	29	425	**3,198**	**1,009**
	Total workforce	**1,547**	**7,742**	**2,242**	**301**	**1,412**	**309**	**1,848**	**9,154**	**2,551**
Iberdrola total	Management team	**19,504**	**21,477**	**19,734**	**5,871**	**5,225**	**4,766**	**25,375**	**26,702**	**24,500**
	Middle managers and skilled technicians	**371,927**	**355,838**	**440,544**	**164,251**	**132,073**	**129,480**	**536,178**	**487,911**	**570,024**
	Skilled workers and support personnel	**914,036**	**895,808**	**649,260**	**112,077**	**96,690**	**121,210**	**1,026,113**	**992,498**	**770,470**
	Total workforce	**1,305,467**	**1,273,123**	**1,109,538**	**282,199**	**233,988**	**255,456**	**1,587,666**	**1,507,111**	**1,364,994**

Average hours of training per employee trained, broken down by professional category, region and gender

		Men			Women			Total		
	Professional category	2018	2017	2016	2018	2017	2016	2018	2017	2016
Spain	Management team	29.98	14.83	36.37	34.77	36.44	45.19	**30.88**	**16.69**	**37.87**
	Middle managers and skilled technicians	51.80	42.96	47.00	52.26	40.42	47.77	**51.93**	**42.27**	**47.22**
	Skilled workers and support personnel	45.87	44.52	45.64	19.31	20.23	21.51	**42.91**	**41.75**	**43.01**
	Total workforce	**47.57**	**41.00**	**45.77**	**42.62**	**34.37**	**39.91**	**46.59**	**39.79**	**44.67**
United Kingdom	Management team	17.38	28.34	39.89	24.56	41.38	14.10	**18.95**	**31.10**	**37.26**
	Middle managers and skilled technicians	18.74	25.04	39.02	11.68	14.50	18.93	**16.68**	**21.97**	**35.88**
	Skilled workers and support personnel	69.89	60.39	40.28	3.41	6.82	15.35	**45.18**	**39.95**	**34.98**
	Total workforce	**35.43**	**37.61**	**39.50**	**8.48**	**11.40**	**17.23**	**26.84**	**29.11**	**35.57**
United States	Management team	12.75	9.17	15.92	14.95	10.19	15.05	**13.38**	**9.49**	**15.67**
	Middle managers and skilled technicians	17.60	20.30	27.27	17.51	11.65	22.86	**17.57**	**17.21**	**25.63**
	Skilled workers and support personnel	35.93	48.05	75.10	31.51	30.73	112.29	**34.73**	**44.28**	**83.26**
	Total workforce	**28.95**	**36.52**	**55.28**	**25.53**	**19.70**	**59.48**	**27.97**	**31.80**	**56.49**
Brazil	Management team	35.69	34.62	40.90	42.56	25.00	27.13	**37.08**	**32.79**	**37.92**
	Middle managers and skilled technicians	44.03	36.28	40.60	45.51	35.40	30.74	**44.62**	**35.93**	**38.15**
	Skilled workers and support personnel	66.17	65.37	44.64	73.38	62.43	28.20	**66.94**	**65.04**	**42.65**
	Total workforce	**61.73**	**58.75**	**42.69**	**57.43**	**46.38**	**29.94**	**60.94**	**56.35**	**40.30**
Mexico	Management team	90.11	70.29	36.27	126.11	29.25	174.00	**97.54**	**65.16**	**59.20**
	Middle managers and skilled technicians	93.72	69.17	78.19	94.66	64.71	67.45	**93.97**	**68.10**	**76.26**
	Skilled workers and support personnel	126.43	139.06	103.21	32.45	43.15	231.80	**121.66**	**131.17**	**106.33**
	Total workforce	106.60	96.71	87.59	90.24	60.38	85.56	**103.47**	**90.17**	**87.35**
Rest of countries	Management team	6.66	25.50	8.00	0.51	5.33	0	**5.69**	**21.47**	**8.00**
	Middle managers and skilled technicians	4.66	19.20	10.63	2.67	12.61	17.50	**4.11**	**17.28**	**11.45**
	Skilled workers and support personnel	3.91	12.35	6.58	4.80	22.00	4.83	**4.02**	**12.69**	**6.51**
	Total workforce	4.55	15.93	8.37	2.87	13.20	14.05	**4.15**	**15.44**	**8.80**
Iberdrola total	**Management team**	**29.15**	**18.06**	**33.74**	**34.73**	**28.09**	**35.82**	**30.28**	**19.42**	**34.11**
	Middle managers and skilled technicians	**36.71**	**33.55**	**40.66**	**35.54**	**26.96**	**33.23**	**36.34**	**31.47**	**38.71**
	Skilled workers and support personnel	**56.49**	**56.16**	**51.92**	**33.74**	**30.16**	**55.40**	**52.62**	**51.81**	**52.44**
	Total workforce	**48.38**	**45.88**	**46.33**	**34.78**	**28.23**	**41.08**	**45.24**	**41.82**	**45.25**

Employees receiving performance reviews by region, professional category and gender (%)

		Men			Women			Total		
	Professional category	2018	2017	2016	2018	2017	2016	2018	2017	2016
Spain	Management team	87.68	97.55	100	84.97	90.80	97.50	87.17	96.36	29.39
	Middle managers and skilled technicians	87.61	94.58	95.84	84.56	93.66	93.41	86.73	94.31	100
	Skilled workers and support personnel	96.14	95.42	94.64	96.44	92.86	92.82	96.17	95.12	74.37
	Total	**92.06**	**95.18**	**95.49**	**87.76**	**93.29**	**94.67**	**91.20**	**94.80**	**95.33**
United Kingdom	Management team	100	100	98.20	96.97	100	100	99.29	100	98.56
	Middle managers and skilled technicians	99.83	100	99.42	100	100	100	99.94	100	99.61
	Skilled workers and support personnel	99.76	100	100	99.62	100	100	99.70	100	100
	Total	**99.81**	**100**	**99.60**	**99.89**	**100**	**100**	**99.84**	**100**	**99.75**
United States	Management team	97.56	99.11	100	100	98.04	100	98.15	98.77	100
	Middle managers and skilled technicians	97.05	98.90	99.57	97.12	98.72	99.54	97.07	98.83	99.56
	Skilled workers and support personnel	16.14	13.42	13.00	34.08	13.69	16.28	20.98	13.48	13.76
	Total	**48.07**	**47.03**	**48.08**	**60.58**	**61.34**	**63.45**	**50.22**	**51.17**	**52.59**
Brazil	Management team	77.33	61.64	92.31	52.38	47.37	100	71.88	58.70	96.88
	Middle managers and skilled technicians	89.35	92.78	100	88.33	90.56	86.85	88.94	91.91	98.86
	Skilled workers and support personnel	75.71	81.48	85.64	75.21	86.01	91.06	75.66	81.99	86.34
	Total	**78.29**	**83.66**	**93.60**	**82.33**	**88.22**	**88.31**	**79.02**	**84.54**	**92.53**
Mexico	Management team	100	100	4.55	100	100	33.33	100	100	8.00
	Middle managers and skilled technicians	100	100	69.62	100	100	73.64	100	100	70.45
	Skilled workers and support personnel	100	100	15.54	100	100	36.00	100	100	17.13
	Total	**100**	**100**	**45.92**	**100**	**100**	**65.94**	**100**	**100**	**49.08**
Rest of countries	Management team	80.00	75.00	66.67	100	100	100	84.62	81.82	75.00
	Middle managers and skilled technicians	90.85	62.16	61.33	82.76	61.90	27.27	88.05	62.09	53.61
	Skilled workers and support personnel	98.41	22.58	28.85	100	28.57	60.00	98.59	23.19	31.58
	Total	**92.41**	**51.38**	**48.87**	**84.69**	**60.27**	**37.93**	**90.15**	**53.61**	**46.91**
Iberdrola total	**Management team**	**89.41**	**94.57**	**97.11**	**85.22**	**90.10**	**98.14**	**88.55**	**95.92**	**97.31**
	Middle managers and skilled technicians	**93.21**	**96.20**	**98.23**	**91.82**	**95.23**	**94.31**	**92.77**	**96.76**	**97.09**
	Skilled workers and support personnel	**72.64**	**74.91**	**73.13**	**71.25**	**72.15**	**72.95**	**72.40**	**74.09**	**73.10**
	Total	**80.70**	**83.58**	**85.13**	**83.28**	**86.00**	**86.18**	**81.30**	**84.15**	**85.38**

Diversity and equal opportunity

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										
		Men			Women			Total		
	Professional category	2018	2017	2016	2018	2017	2016	2018	2017	2016
Spain	Management team	405	408	424	94	87	80	499	495	504
	Middle managers and skilled technicians	3,348	3,430	3,435	1,348	1,294	1,308	4,696	4,724	4,743
	Skilled workers and support personnel	4,099	4,475	4,549	528	602	599	4,627	5077	5,148
	Total	**7,852**	**8,313**	**8,408**	**1,970**	**1,983**	**1,987**	**9,822**	**10,296**	**10,395**
United Kingdom	Management team	108	111	111	33	28	28	141	139	139
	Middle managers and skilled technicians	2,388	2,547	2,576	1,071	1,068	1,054	3,459	3,615	3,630
	Skilled workers and support personnel	1,225	1,436	1,593	786	877	1,011	2,011	2,313	2,604
	Total	**3,721**	**4,094**	**4,280**	**1,890**	**1,973**	**2,093**	**5,611**	**6,067**	**6,373**
United States	Management team	41	112	104	13	51	42	54	163	146
	Middle managers and skilled technicians	1,661	1,722	1,856	763	1,012	1,097	2,424	2,734	2,953
	Skilled workers and support personnel	2,900	2,831	2,878	1,071	833	872	3,971	3,664	3,750
	Total	**4,602**	**4,665**	**4,838**	**1,847**	**1,896**	**2,011**	**6,449**	**6,561**	**6,849**
Brazil	Management team	75	73	26	21	19	6	96	92	32
	Middle managers and skilled technicians	1,652	1,704	3,360	1,097	1,102	1,278	2,749	2,806	4,638
	Skilled workers and support personnel	7,069	6,383	4,144	835	815	615	7,904	7,198	4,759
	Total	**8,796**	**8,160**	**7,530**	**1,953**	**1,936**	**1,899**	**10,749**	**10,096**	**9,429**
Mexico	Management team	21	24	22	6	4	3	27	28	25
	Middle managers and skilled technicians	488	454	418	173	132	110	661	586	528
	Skilled workers and support personnel	400	301	296	24	29	25	424	330	321
	Total	**909**	**779**	**736**	**203**	**165**	**138**	**1,112**	**944**	**874**
Rest of countries	Management team	10	8	6	3	3	2	13	11	8
	Middle managers and skilled technicians	164	148	75	87	63	22	251	211	97
	Skilled workers and support personnel	63	62	52	8	7	5	71	69	57
	Total	**237**	**218**	**133**	**98**	**73**	**29**	**335**	**291**	**162**
Iberdrola total	**Management team**	**660**	**736**	**693**	**170**	**192**	**161**	**830**	928	854
	Middle managers and skilled technicians	**9,701**	**10,005**	**11,720**	**4,539**	**4,671**	**4,869**	14,240	14,676	16,589
	Skilled workers and support personnel	**15,756**	**15,488**	**13,512**	**3,252**	**3,163**	**3,127**	19,008	18,651	16,639
	Total	**26,117**	**26,229**	**25,925**	**7,961**	**8,026**	**8,157**	**34,078**	**34,255**	**34,082**

Total workforce by region, gender and professional category (%)										
		Men			Women			Total		
	Professional category	2018	2017	2016	2018	2017	2016	2018	2017	2016
Spain	Management team	4%	4%	4%	1%	1%	1%	5%	5%	5%
	Middle managers and skilled technicians	34%	33%	33%	14%	13%	12%	48%	46%	46%
	Skilled workers and support personnel	42%	43%	44%	5%	6%	6%	47%	49%	50%
	Total	**80%**	**81%**	**81%**	**20%**	**19%**	**19%**	**100%**	**100%**	**100%**
United Kingdom	Management team	2%	2%	2%	1%	0%	0%	3%	2%	2%
	Middle managers and skilled technicians	42%	42%	40%	19%	18%	17%	61%	60%	57%
	Skilled workers and support personnel	22%	24%	25%	14%	14%	16%	36%	38%	41%
	Total	**66%**	**67%**	**67%**	**34%**	**33%**	**33%**	**100%**	**100%**	**100%**
United States	Management team	1%	2%	2%	0%	1%	1%	1%	2%	2%
	Middle managers and skilled technicians	25%	26%	27%	12%	15%	16%	37%	42%	43%
	Skilled workers and support personnel	45%	43%	42%	17%	13%	12%	62%	56%	55%
	Total	**71%**	**71%**	**71%**	**29%**	**29%**	**29%**	**100%**	**100%**	**100%**
Brazil	Management team	1%	1%	0%	0%	0%	0%	1%	1%	0%
	Middle managers and skilled technicians	15%	17%	36%	10%	11%	14%	25%	28%	49%
	Skilled workers and support personnel	66%	63%	44%	8%	8%	7%	74%	71%	50%
	Total	**82%**	**81%**	**80%**	**18%**	**19%**	**20%**	**100%**	**100%**	**100%**
Mexico	Management team	2%	3%	3%	0%	0%	0%	2%	3%	3%
	Middle managers and skilled technicians	44%	48%	48%	16%	14%	12%	60%	62%	60%
	Skilled workers and support personnel	36%	32%	34%	2%	3%	3%	38%	35%	37%
	Total	**82%**	**83%**	**84%**	**18%**	**17%**	**16%**	**100%**	**100%**	**100%**
Rest of countries	Management team	3%	3%	4%	1%	1%	1%	4%	4%	5%
	Middle managers and skilled technicians	49%	51%	46%	26%	22%	14%	75%	73%	60%
	Skilled workers and support personnel	19%	21%	32%	2%	2%	3%	21%	24%	35%
	Total	**71%**	**75%**	**82%**	**29%**	**25%**	**18%**	**100%**	**100%**	**100%**
Iberdrola total	**Management team**	**2%**	**2%**	**2%**	**0%**	**1%**	**0%**	**2%**	**3%**	**3%**
	Middle managers and skilled technicians	**29%**	**29%**	**35%**	**13%**	**14%**	**14%**	**42%**	**43%**	**49%**
	Skilled workers and support personnel	**46%**	**45%**	**40%**	**10%**	**9%**	**9%**	**56%**	**54%**	**49%**
	Total	**77%**	**77%**	**76%**	**23%**	**23%**	**24%**	**100%**	**100%**	**100%**

Total workforce by region, gender and age										
		Men			Women			Total		
	Age	2018	2017	2016	2018	2017	2016	2018	2017	2016
Spain	Up to 30 years old	341	329	401	100	74	88	441	403	489
	Between 31 and 50 years old	4,298	4,284	4,370	1,332	1,323	1,367	5,630	5,607	5,737
	More than 50 years old	3,213	3,700	3,637	538	586	532	3,751	4286	4,169
	Total	**7,852**	**8,313**	**8,408**	**1,970**	**1,983**	**1,987**	**9,822**	**10,296**	**10,395**
United Kingdom	Up to 30 years old	592	601	605	192	194	210	784	795	815
	Between 31 and 50 years old	1,965	2,069	2,177	1,272	1,341	1,407	3,237	3,410	3,584
	More than 50 years old	1,164	1,424	1,498	426	438	476	1,590	1,862	1,974
	Total	**3,721**	**4,094**	**4,280**	**1,890**	**1,973**	**2,093**	**5,611**	**6,067**	**6,373**
United States	Up to 30 years old	515	492	506	155	157	161	670	649	667
	Between 31 and 50 years old	2,136	2,119	2,197	881	902	950	3,017	3,021	3,147
	More than 50 years old	1,951	2,054	2,135	811	837	900	2,762	2,891	3,035
	Total	**4,602**	**4,665**	**4,838**	**1,847**	**1,896**	**2,011**	**6,449**	**6,561**	**6,849**
Brazil	Up to 30 years old	2,488	2,212	2,155	630	595	596	3,118	2,807	2,751
	Between 31 and 50 years old	5,458	4,838	4,218	1,203	1,170	1,133	6,661	6,008	5,351
	More than 50 years old	850	1,110	1,157	120	171	170	970	1,281	1,327
	Total	**8,796**	**8,160**	**7,530**	**1,953**	**1,936**	**1,899**	**10,749**	**10,096**	**9,429**
Mexico	Up to 30 years old	247	171	184	82	60	38	329	231	222
	Between 31 and 50 years old	587	541	489	117	100	95	704	641	584
	More than 50 years old	75	67	63	4	5	5	79	72	68
	Total	**909**	**779**	**736**	**203**	**165**	**138**	**1,112**	**944**	**874**
Rest of countries	Up to 30 years old	19	30	9	17	9	2	36	39	11
	Between 31 and 50 years old	191	167	112	73	58	25	264	225	137
	More than 50 years old	27	21	12	8	6	2	35	27	14
	Total	**237**	**218**	**133**	**98**	**73**	**29**	**335**	**291**	**162**
Iberdrola total	**Up to 30 years old**	**4,202**	**3,835**	**3,859**	**1,176**	**1,089**	**1,095**	**5,378**	**4,924**	**4,954**
	Between 31 and 50 years old	**14,635**	**14,018**	**13,564**	**4,878**	**4,894**	**4,977**	**19,513**	**18,912**	**18,541**
	More than 50 years old	**7,280**	**8,376**	**8,502**	**1,907**	**2,043**	**2,085**	**9,187**	**10,419**	**10,587**
	Total	**26,117**	**26,229**	**25,925**	**7,961**	**8,026**	**8,157**	**34,078**	**34,255**	**34,082**

Total workforce by region, gender and age (%)										
		Men			Women			Total		
	Age	2018	2017	2016	2018	2017	2016	2018	2017	2016
Spain	Up to 30 years old	3%	3%	4%	1%	1%	1%	4%	4%	5%
	Between 31 and 50 years old	44%	42%	42%	14%	13%	13%	58%	54%	55%
	More than 50 years old	33%	36%	35%	5%	5%	5%	38%	42%	40%
	Total	**80%**	**81%**	**81%**	**20%**	**19%**	**19%**	**100%**	**100%**	**100%**
United Kingdom	Up to 30 years old	11%	10%	9%	3%	3%	3%	14%	13%	13%
	Between 31 and 50 years old	35%	34%	34%	23%	22%	22%	58%	56%	56%
	More than 50 years old	21%	24%	24%	8%	7%	8%	28%	31%	31%
	Total	**66%**	**67%**	**67%**	**34%**	**33%**	**33%**	**100%**	**100%**	**100%**
United States	Up to 30 years old	8%	8%	8%	2%	2%	2%	10%	10%	10%
	Between 31 and 50 years old	33%	32%	32%	14%	14%	14%	47%	46%	46%
	More than 50 years old	30%	31%	31%	13%	13%	13%	43%	44%	44%
	Total	**71%**	**71%**	**71%**	**29%**	**29%**	**29%**	**100%**	**100%**	**100%**
Brazil	Up to 30 years old	23%	22%	23%	6%	6%	6%	29%	28%	29%
	Between 31 and 50 years old	51%	48%	45%	11%	11%	12%	62%	60%	57%
	More than 50 years old	8%	11%	12%	1%	2%	2%	9%	13%	14%
	Total	**82%**	**81%**	**80%**	**18%**	**19%**	**20%**	**100%**	**100%**	**100%**
Mexico	Up to 30 years old	22%	18%	21%	7%	6%	4%	29%	24%	25%
	Between 31 and 50 years old	53%	57%	56%	11%	11%	11%	64%	68%	67%
	More than 50 years old	7%	7%	7%	0%	1%	1%	7%	8%	8%
	Total	**82%**	**83%**	**84%**	**18%**	**17%**	**16%**	**100%**	**100%**	**100%**
Rest of countries	Up to 30 years old	6%	10%	6%	5%	3%	1%	11%	13%	7%
	Between 31 and 50 years old	57%	58%	69%	22%	20%	15%	79%	77%	85%
	More than 50 years old	8%	7%	8%	2%	2%	1%	10%	9%	9%
	Total	**71%**	**75%**	**82%**	**29%**	**25%**	**18%**	**100%**	**100%**	**100%**
Iberdrola total	**Up to 30 years old**	**12%**	**11%**	**11%**	**3%**	**3%**	**3%**	**15%**	**14%**	**15%**
	Between 31 and 50 years old	**43%**	**41%**	**40%**	**14%**	**14%**	**15%**	**57%**	**55%**	**54%**
	More than 50 years old	**22%**	**25%**	**25%**	**6%**	**6%**	**6%**	**28%**	**30%**	**31%**
	Total	**77%**	**77%**	**76%**	**23%**	**23%**	**24%**	**100%**	**100%**	**100%**

Breakdown of Board of Directors by gender and age group						
Number of members of the Board	2018		2017		2016	
	no.	%	no.	%	no.	%
Men						
Up to 30 years old	0	0%	0	0%	0	0%
Between 31 and 50 years old	1	7%	1	7%	1	7%
More than 50 years old	8	57%	8	57%	8	57%
Women						
Up to 30 years old	0	0%	0	0%	0	0%
Between 31 and 50 years old	1	7%	1	7%	2	14%
More than 50 years old	4	29%	4	29%	3	21%

Supplier social assessment

Volume of general procurement purchases in countries considered to be at risk (%)	2018
Brazil	17.33
Mexico	8.56

Volume of fuel purchases in countries considered to be at risk (%)	2018
Brazil	3
Mexico	37
Others (Colombia + Algeria + Nigeria + Peru + Trinidad and Tobago)	11

The standards used to identify countries at risk are the same as those described in the "Protection of Human Rights" section of Chapter "II.5. Contribution to the well-being of our communities" of this report.

Access to electricity

Residential disconnections of electricity for non payment by region (no.)		2018	2017	2016
Spain	Paid up to 48 h after disconnection	37,428	24,811	103,802
	Paid between 48 h and one week after disconnection	3,166	1,942	11,473
	Paid between one week and one month after disconnection	4,146	2,212	14,963
	Paid between one month and one year	2,131	1,095	11,465
	Paid after more than one year	0	0	0
	Outstanding and unclassified	0	0	0
	Total	**46,871**	**30,060**	**141,703**
United Kingdom	Paid up to 48 h after disconnection	0	0	0
	Paid between 48 h and one week after disconnection	0	0	0
	Paid between one week and one month after disconnection	0	0	0
	Paid between one month and one year	0	0	0
	Paid after more than one year	0	0	0
	Outstanding and unclassified	0	0	0
	Total	**0**	**0**	**0**
United States[145]	Paid up to 48 h after disconnection	62,878	40,229	64,437
	Paid between 48 h and one week after disconnection	35,675	7,487	9,004
	Paid between one week and one month after disconnection	3,181	3,441	4,299
	Paid between one month and one year	1,805	1,723	2,221
	Paid after more than one year	0	0	0
	Outstanding and unclassified	0	0	0
	Total	**103,539**	**52,880**	**79,961**
Brazil	Paid up to 48 h after disconnection	1,170,543	1,239,946	1,014,227
	Paid between 48 h and one week after disconnection	214,718	227,007	217,099
	Paid between one week and one month after disconnection	231,919	221,001	195,483
	Paid between one month and one year	193,486	178,323	174,818
	Paid after more than one year	8	7	0
	Outstanding and unclassified	0	0	48,606
	Total	**1,810,674**	**1,868,284**	**1,650,233**
Iberdrola total	Paid up to 48 h after disconnection	1,270,849	1,304,986	1,182,466
	Paid between 48 h and one week after disconnection	253,559	236,436	237,576
	Paid between one week and one month after disconnection	239,246	226,654	214,745
	Paid between one month and one year	197,422	181,141	188,504
	Paid after more than one year	8	7	0
	Outstanding and unclassified	0	0	48,606
	Total	**1,961,084**	**1,949,224**	**1,871,897**

[145] The 2016 and 2017 data do not include the U.S. subsidiary UI.

Residential reconnections of electricity following payment of unpaid bills, by region (no.)		2018	2017	2016
Spain	Less than 24 h after payment	46,234	28,784	139,706
	Between 24 h and one week after payment	760	803	3,537
	More than one week after payment	141	141	173
	Unclassified	0	0	0
	Total	**47,136**	**29,728**	**143,416**
United Kingdom	Less than 24 h after payment	0	0	0
	Between 24 h and one week after payment	0	0	0
	More than one week after payment	0	0	0
	Unclassified	0		0
	Total	**0**	**0**	**0**
United States	Less than 24 h after payment	38,322	42,560	43,262
	Between 24 h and one week after payment	3,324	4,180	5,663
	More than one week after payment	0	7,082	5,296
	Unclassified	0	0	0
	Total	**48,440**	**53,822**	**54,221**
Brazil	Less than 24 h after payment	1,555,944	1,541,234	1,378,234
	Between 24 h and one week after payment	158,660	179,797	182,132
	More than one week after payment	117,787	109,172	96,599
	Unclassified	0	0	14,634
	Total	**1,832,391**	**1,830,203**	**1,671,599**
Iberdrola total	Less than 24 h after payment	1,640,500	1,612,578	1,561,202
	Between 24 h and one week after payment	162,744	184,780	191,332
	More than one week after payment	124,722	116,395	102,068
	Unclassified	0	0	14,634
	Total	**1,927,966**	**1,913,753**	**1,869,236**

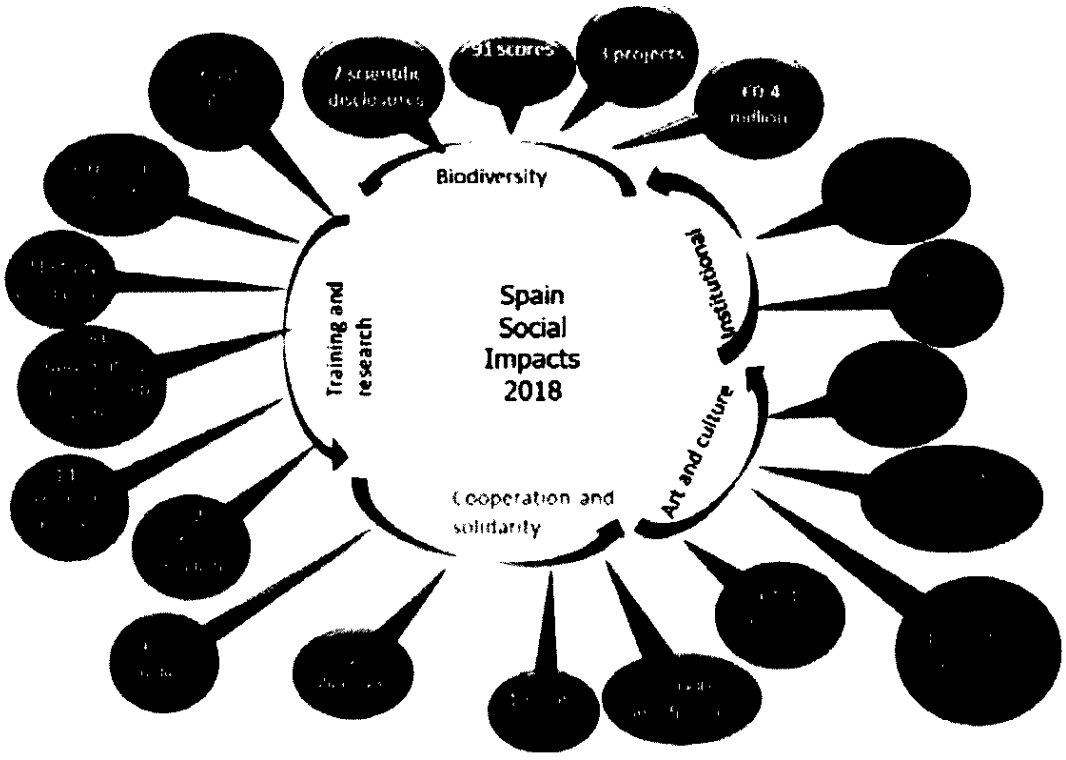
Iberdrola's contribution to the community

Outputs and impacts

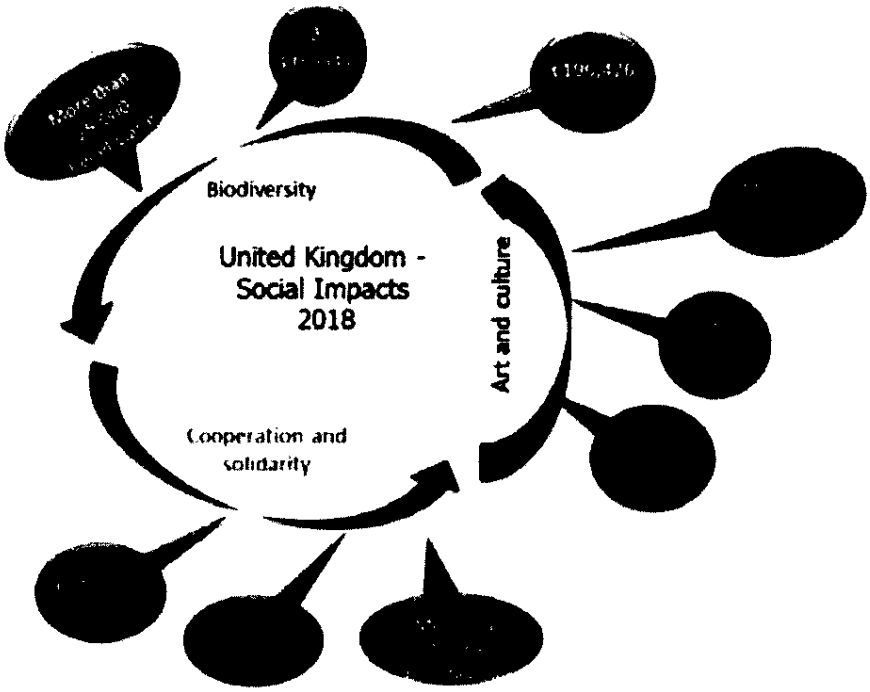
Iberdrola has been measuring the results achieved by its community support programmes using various parameters. Iberdrola's foundations are applying a methodology adapted from LBG to measure outputs and impacts for its most important programmes and projects.

The charts below show the results and achievements by country during 2018:

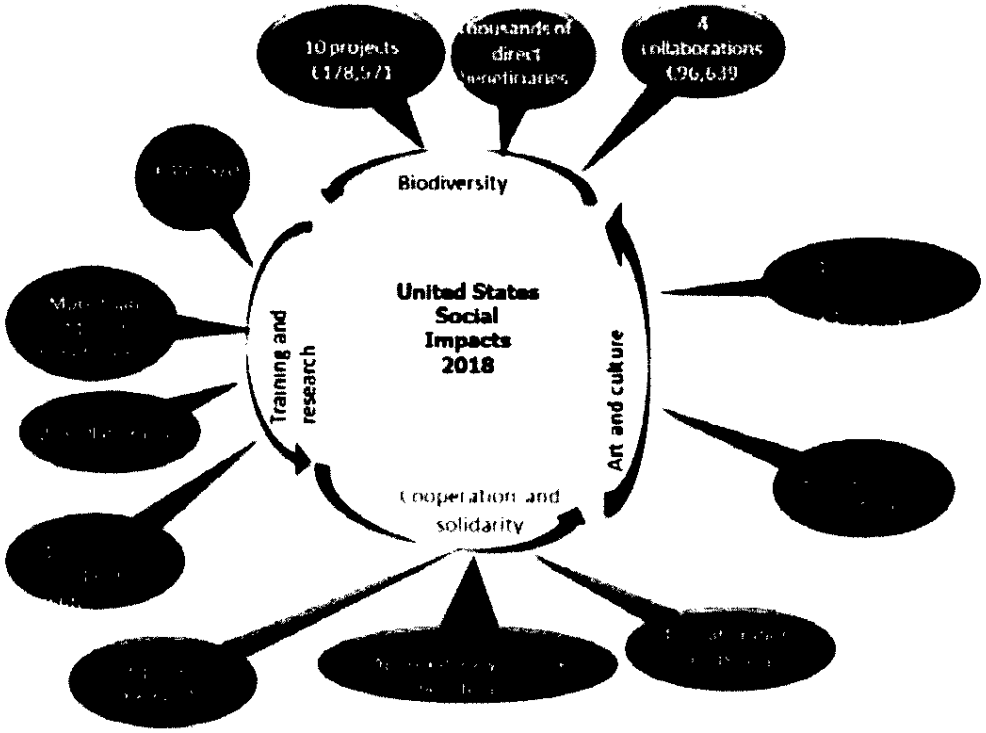
FUNDACION IBERDROLA ESPAÑA - Results in areas of activity in 2018 (€)



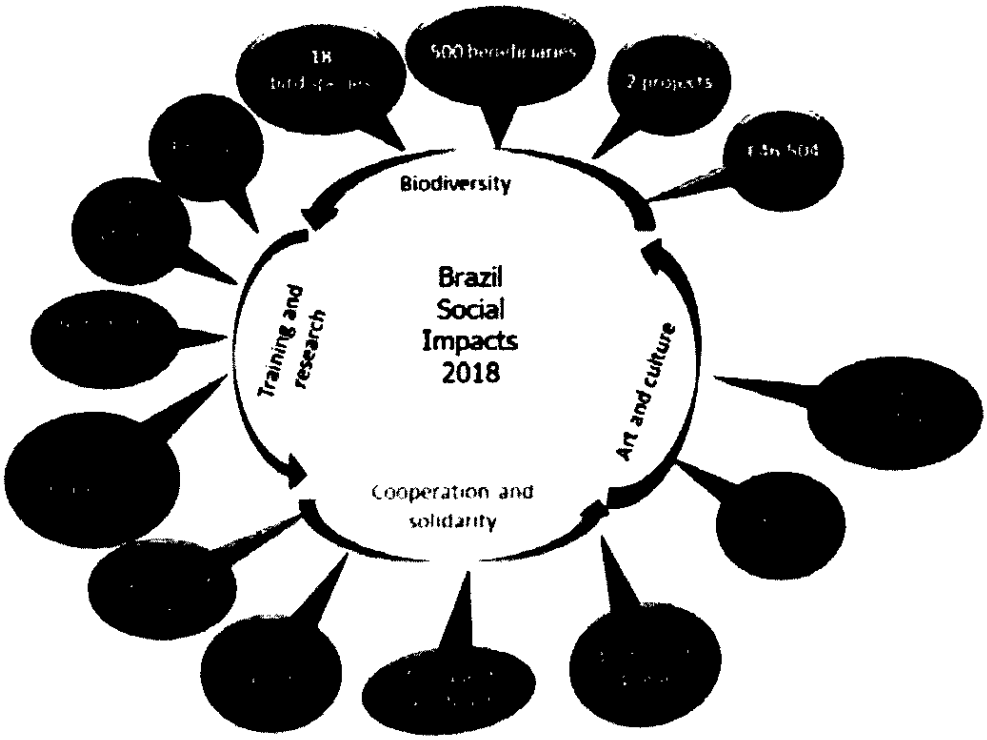
ScottishPower FOUNDATION: Results in areas of activity in 2018 (€)



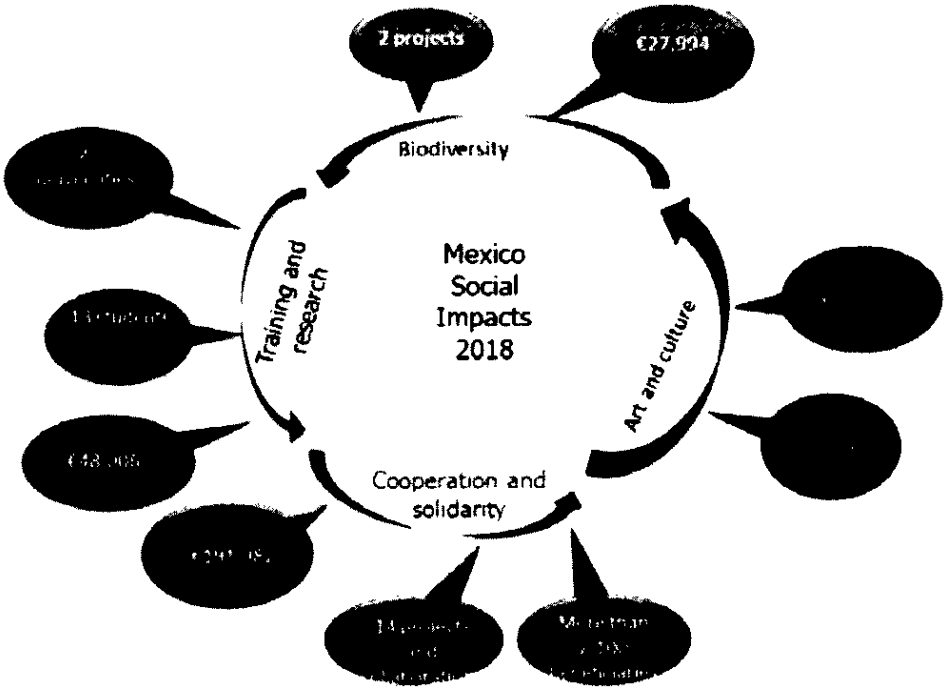
AVANGRID FOUNDATION - Results in areas of activity in 2018 (€)



INSTITUTO NEOENERGIA BRASIL - Results in areas of activity in 2018 (€)

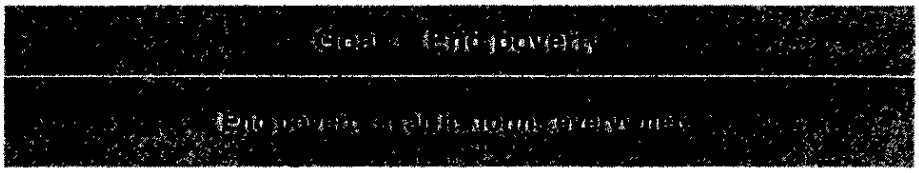


FUNDACION IBERDROLA MEXICO - Results in areas of activity in 2018 (€)



Annex 2: Iberdrola's Contribution to the SDGs and Targets of the 2030 Agenda

The information regarding the company's contribution to SDGs 7 and 13 is contained in the "Our main focus" section of Chapter I.2.



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.

During the construction and operation of its facilities, Iberdrola also 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.

Target	*GRI Indicator*	*Description*	*Pag.*
1.2.- By 2030, **reduce at least by half the proportion of men, women and children of all ages living in poverty** in all its dimensions according to national definitions.	202-1	Ratios of entry level wage to local minimum wage.	97
	203-2	Significant indirect economic impacts.	79
1.4.- By 2030, **ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources**, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.	413-1	Local community engagement, impact assessments and development programmes.	217

One third of the food we produce is wasted on the world scale. Approximately 1,300 million tons of food are thrown into the trash each year. While food is thrown away in some countries, the reality is different in others: 815 million people (11% of the world population) suffers from malnutrition. 155 million of them are children less than 5 years old, who suffer delayed growth as a result of chronic malnutrition.

Changes in the system for cultivation and for sustainably feeding the population, ending malnutrition, ensuring sustainability in the production systems and doubling small-scale productivity and income are some of the targets proposed by the United Nations to end hunger.

At Iberdrola, our donations of primary products needed by groups at risk of exclusion are collected from various points at the work centres. Everything collected is distributed to needy families and people with limited resources by various local associations like Cáritas, Banco de Alimentos, Red Acoge and Casa de la Caridad, as well as directly by our volunteers. We have already distributed 27 tons of donations since we began the Operation in 2012.

4,222 kg were collected in Spain and Portugal and 1,897 kg in Mexico at 11 work centres during 2018. Employees also participated in volunteer initiatives to distribute food at soup kitchens

Target	*GRI Indicator*	*Description*	*Pag.*
2.3.- By 2030, **double the agricultural productivity and incomes of small-scale food producers**, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment.	411-1	Total number of incidents of violations involving rights of indigenous people.	210
	LBG	LBG contribution.	222
2.a.- **Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research** and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity in developing countries, in particular least developed countries.	203-1	Development and impact of infrastructure investments and services supported.	81
	203-2	Significant indirect economic impacts.	79

Iberdrola has an *Occupational Safety and Health Policy* approved by the Board of Directors, which describes the principles that should guide the behaviour of the group's companies in this area. It also has a Global Occupational Safety and Health System, which is aligned with said policy and with the strictest of international standards, and incorporates the group's best practices from all of the countries where it has a presence.

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.

The company has a health and safety organisational structure created within a Prevention Area, within the Human Resources Division, in most countries. The companies of the group also 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.

As regards protection of the environment, leadership in the development of clean energy and respect for the environment being significant aspects of our business model, a competitive element that distinguishes us in the industry as one of the leading companies worldwide.

Iberdrola supports this vision in a benchmark Environmental Management System for all organisations of the group. This system allows for alignment of the environmental dimension within the group's sustainability model, 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.

Target	*GRI Indicator*	*Description*	*Pag.*
3.4.- By 2030, **reduce by one third premature mortality from non-communicable diseases** through prevention and treatment and promote mental health and well-being.	403-1	Employees represented on health and safety committees, by region (%).	109
	Own indicator	Programmes and projects relating to healthy living habits, balanced meals.	107
	305-1	Direct greenhouse gas emissions. Scope 1 (per GHG Protocol).	152
	305-2	Indirect greenhouse gas emissions. Scope 2 (per GHG Protocol).	153
3.9.- By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination.	305-6	Emissions of ozone-depleting substances.	158
	305-7	NOx, SOx and other significant air emissions.	157
	306-2	Total weight of waste by type and disposal method.	164

Iberdrola has a *Knowledge Management Policy*, approved by the Board of Directors, the objective of which is to disseminate and share knowledge within the company, encouraging continuous 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 Stakeholders. At Iberdrola, learning is thus permanent, ongoing and aligned with the strategy of the group.

At Iberdrola, specific programmes are designed to equip its 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.

Target	*GRI Indicator*	*Description*	*Pag.*
	404-1	Average hours of training per employee trained by gender.	118
4.3.- By 2030, ensure **equal access** for all women and men to affordable and quality technical, vocational and tertiary education, including university.	Own indicator	*Iberdrola U* programme.	96
4.4.- By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship.	404-1 Shift of SDG indicator C040501	Average hours of training per employee trained.	118
	404-2	Programmes for skills management and lifelong learning.	116

Goal 5: Gender equality

Achieve gender equality and empower all women and girls

The development of labour relations based on equal opportunity, non-discrimination and respect for diversity are key goals in Iberdrola's *Human Resources Framework Policy*. The company also has an *Equal Opportunity and Reconciliation Policy*, which strengthens the commitments to equal treatment between men and women.

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.

Iberdrola has appropriate procedures in place to prevent any discrimination for reasons of gender, marital status, pregnancy, sexual orientation or other any 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.

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.

Target	*GRI Indicator*	*Description*	*Pag.*
5.1.- **End all forms of discrimination against all women and girls** everywhere.	401-3	Return to work and retention rates after parental leave, by gender.	127
	404-1	Average hours of training per employee trained by gender.	118
	405-1	Composition of governance bodies and employees	376
	405-2	Ratio of basic salary and remuneration of women to men.	126
	406-1	Incidents of (gender) discrimination.	210
5.4.- **Recognize and value unpaid care and domestic work** through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate.	401-3	Return to work and retention rates after parental leave, by gender.	127
	102-22 Shift of indicators C050501 and C050502 from SDGs	Composition of the highest governance body and its committees.	32
5.5.- Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.	102-24	Selection and nomination of the members of the highest governance body.	256

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.

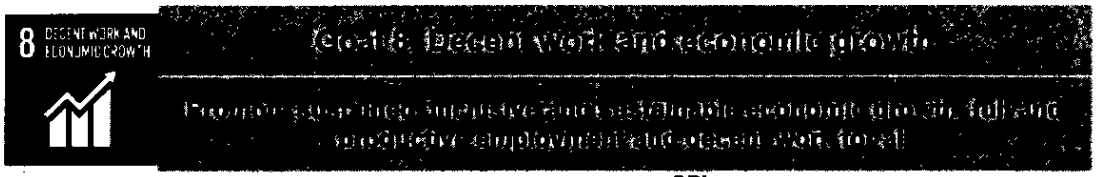
– Avoiding withdrawal of water in water-stressed areas.

– 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.

During their respective life cycles, generation, transmission, distribution and sales activities cause interactions with various ecosystems, landscapes and species. For this reason, Iberdrola has a Biodiversity Policy establishing a commitment to progress in developing methods of analysis of effects and actions for the preservation of biodiversity into the planning and subsequent implementation of their activities.

Target	*GRI Indicator*	*Description*	*Pag.*
6.3.- By 2030, **improve water quality by reducing pollution**, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.	303-3	Water recycled and reused (% of water used that is returned to the ecosystem in optimum conditions).	161
	303-3	Water recycled and reused (% of water used that comes from waste water).	161
	306-1	Total water discharge by quality and destination.	163
	306-2	Total weight of waste by type and disposal method (hazardous and non-hazardous).	164
	306-3	Significant spills.	178
6.4.- By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.	303-1	Total water withdrawal by source (use and source of water).	159
	Shift of indicator C060402 (hydraulic stress level)		
	303-3	Water recycled and reused.	161
	306-1	Total water discharge by quality and destination.	163
6.6 By 2020, **protect and restore water-related ecosystems**, including mountains, forests, wetlands, rivers, aquifers and lakes.	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.	163



The policies defined for the management of human resources (*Human Resources Framework Policy, Recruitment and Selection Policy, Knowledge Management Policy, Equal Opportunity and Reconciliation Policy, Occupational Safety and Health Policy*) 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 principles of ethics and integrity.

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. 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

Target	*GRI Indicator*	*Description*	*Pag.*
8.1.- Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries.	201-1	Direct economic value generated and distributed.	334
8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors.	Own indicator	Investments in Innovation.	194
	Own indicator	Research agreements with universities, technology centres, etc.	96
8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.	204-1	Spending on local suppliers.	244
8.4.- **Improve progressively, through 2030, global resource efficiency in consumption and production** and endeavour to decouple economic growth from environmental degradation, in accordance with the 10-Year Framework of Programmes on Sustainable Consumption and Production, with developed countries taking the lead.	301-1	Materials used for power generation.	142
	301-2	Percentage of materials used that are recycled.	146
	302-4	Reduction of energy consumption (efficiency).	143
	302-5	Energy savings of green products and services.	146
	303-3	Water recycled and reused.	161
	Own indicator	Corporate Environmental Footprint.	136
8.5.- By 2030, **achieve full and productive employment and decent work for all women and men**, including for young people and persons with disabilities, and equal pay for work of equal value.	102-8	Information on employees by gender, employment type and contract type.	28
	202-1 Shift of indicator C080501 from SDG	Ratios of entry level wage to local minimum wage.	97
8.6.- By 2020, substantially reduce the proportion of youth not in employment, education or training.	401-1	New employee hires and employee turnover (by age and region).	357
8.7.- Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and	408-1	Operations and suppliers identified as having significant risk for incidents of child labour.	206
	409-1	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour.	206

Enterprises, the International Labour Organization's Social Policy and the Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy. 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 company also has other tools approved by the Board, such as the *Code of Ethics*, which governs the behaviour of all directors, including individuals appointed by corporate directors to represent them in the position, professionals and suppliers of the companies of the group, establishing control measures as well as disciplinary measures in the event of noncompliance, which must be expressly accepted to by all suppliers and is included as an annex to the respective contracts.	by 2025 end child labour in all its forms.	102-41 Shift of indicator C080802 from SDG.	Employees covered by collective bargaining agreements.	101
		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.	206
		403-1	Employees represented on formal health and safety committees (management/employees).	369
	8.8.- **Protect labour rights and promote safe and secure working environments** for all workers, including migrant workers, in particular women migrants, and those in precarious employment.			
		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.	369

Goal 9: Industry, innovation and infrastructure

Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

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.

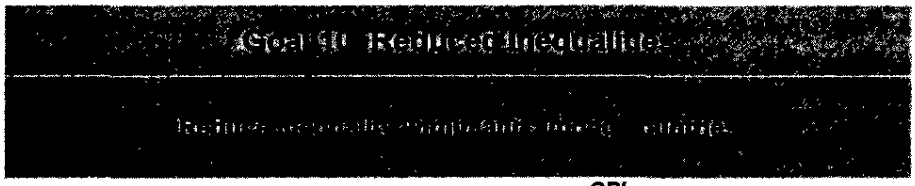
Analysts describe a global scenario characterised by an increase in energy demand, tied to a need to reduce CO_2 emissions. Estimates call for high growth in demand in the medium and long term in emerging countries and moderate growth in the developed world. In any event, this energy transition will require extremely large investments in renewable generation facilities, in smart grids and in efficient storage; all accompanied by greater digitalization 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 digitalization. The strategic pillars defined by the company are profitable growth, operational excellence, customer-focused operations, the optimisation of capital, and innovation.

Specifically, innovation is Iberdrola's primary tool for ensuring the company's sustainability, efficiency and competitiveness, based on:

– Disruptive technologies.
– Digitalization and automation in all businesses and processes.
– Innovation with start-ups, entrepreneurs and suppliers.
– Culture of innovation and talent.

Target	*GRI Indicator*	*Description*	*Pag.*
9.1.- **Develop quality, reliable, sustainable and resilient infrastructure**, including regional and trans-border infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.	203-1	Development and impact of infrastructure investments and services supported.	81
	EU4	Transmission and distribution lines Annual evolution.	331
9.4.- By 2030, **upgrade infrastructure and retrofit industries to make them sustainable**, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.	Own indicator	Installed capacity from renewable sources (MW).	326
	Shift indicator C090401 from SDG	CO_2 emissions by MWh.	152
9.5.- **Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries**, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending.	Own indicator	Amount dedicated to R&D+i activities.	194
	Own indicator	Agreements with universities and with scientific and technical organisations to improve facilities.	96
9.a.- **Facilitate sustainable and resilient infrastructure development in developing countries** through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States.	Own indicator	Subsidies for the electrification of underdeveloped or developing countries ("Electricity for All" programme).	202



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.

The main goals in this area currently focus 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.

Target	*GRI Indicator*	*Description*	*Pag.*
Target 10.2. By 2030, empower and promote the social, *economic and* political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status.	Own indicator	Inclusion of people with disabilities in the workforce *(no.)*.	128
	Own indicator	Volunteer activities to reduce inequality.	226
10.3.- **Ensure equal opportunity and reduce inequalities of outcome**, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard.	102-8	Information on employees and other workers (changes in workforce by gender, and type of employment and contract).	28
	401-1	New employee hires and employee turnover (by age and region) Evolution of the workforce.	357
	404-3	Employees receiving regular performance and career development reviews.	375
	405-2	Ratio of basic salary and remuneration of women to men.	126
	406-1	Incidents of discrimination.	210
10.b.- **Encourage official development assistance and financial flows**, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes.	203-2	Significant indirect economic impacts (Investments in developing countries).	79
	204-1	Spending on local suppliers.	244

Goal 11: Sustainable cities and communities

Iberdrola has developed 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 *Sustainable Management Policy*, approved by the Board of Directors.

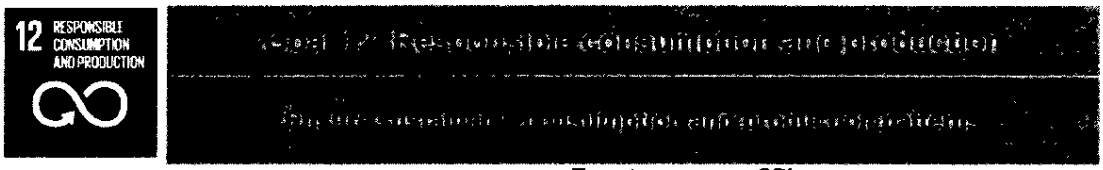
The inclusive nature of the programme involves employees, the business activity, customers and suppliers, covering approximately 23 specific actions in which the company seeks to strengthen its wager on sustainability.

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 initiative, the local emission of 244 t CO_{2e} 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.

Iberdrola's efforts to protect cultural heritage focus on the areas of preservation and restoration thereof, including specific activities in order for these projects to drive local development and sustainable tourism.

Target	*GRI Indicator*	*Description*	*Pag.*
11.2.- By 2030, **provide access to safe**, affordable, accessible and sustainable **transport systems** for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.	Own indicator	Promotion of the electric vehicle.	156
11.4.- Strengthen efforts to protect and safeguard the world's cultural and natural heritage.	Shift indicator C110401 from SDG	LBG contribution to SDG 11.	222
11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management.	305-1	Direct greenhouse gas emissions. Scope 1 (per GHG Protocol).	152
	305-2	Indirect greenhouse gas emissions. Scope 2 (per GHG Protocol).	153
	305-6	Emissions of ozone-depleting substances.	158
	305-7	NOx, SOx and other significant air emissions.	157



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.

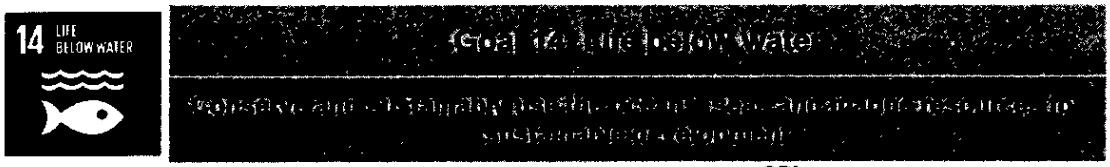
– As an energy consumer, Iberdrola promotes the on-going improvement of energy efficiency across all its activities (offices and building, vehicles, water, mobility, employee awareness, etc.).

– 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.

As to information and labelling of electricity sold, Iberdrola is governed by the regulatory requirements established in each of the countries in which it does business. In Spain, the company 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. In the United Kingdom, ScottishPower also reports the origin of its energy and the environmental impact thereof. New customers receive this information as part of their Welcome Cycle communications, and existing customers receive this information in each invoice or notice, in accordance with the guarantees of origin rules established by Ofgem. There is no obligation to label electricity in the United States or Brazil.

Iberdrola provides additional information as may be of help for consumers to make a more rational, efficient and safe use of these products.

Target	*GRI Indicator*	*Description*	*Pag.*
12.2.- By 2030, achieve the sustainable management and efficient use of natural resources.	302-3	Energy intensity.	141
	302-4	Reduction of energy consumption.	143
	302-5	Reductions in energy requirements of products and services.	146
	303-3	Water recycled and reused.	161
	Shift indicator C120201 from SDG	Corporate environmental footprint.	136
12.4 .- By 2020, **achieve the environmentally sound management of chemicals and all wastes** throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.	306-1	Total water discharge by quality and destination.	163
	306-3	Significant spills.	178
12.5.- By 2030, **substantially reduce waste generation** through prevention, reduction, recycling and reuse.	301-2	Level of reuse and recycling of materials.	140
	306-2	Total weight of waste by type and disposal method.	164
12.6.- Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.	Own indicator	Publication of Statement of Non-Financial Information. Sustainability Report.	8
12.8.- By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature.	Own indicator	Awareness-raising activities regarding climate change and renewable energy.	149



The oceans cover three quarters of the surface area of the Earth and 40% of this large mass of salt water is seriously affected as a result of human activity. According to the UN, water is deteriorating due to pollution and the accumulation of organic waste: each year close to 12 million tons of plastic end up in the sea.

Beyond the serious environmental consequences of these practices, the economic and social development of our planet is also being seriously affected: more than 3,000 million people depend directly on marine and coastal biodiversity to survive (UN).

Given this situation, Iberdrola adopts the newest technologies in order to protect undersea life in the areas around its facilities. It has engaged in various initiatives to preserve marine life around the offshore wind farms, as well as the insulation of undersea cables and noise mitigation for mammals.

Among the more noteworthy activities, in 2018 ScottishPower developed the *Dolphin Watch* project, with disclosure and awareness-raising activities for the population, given them the opportunity to see bottlenose dolphins in their natural habitat, establishing a long-lasting connection with marine fauna.

Target	*GRI Indicator*	*Description*	*Pag.*
14.1.- By 2025, prevent and **significantly reduce marine pollution** of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.	306-1	Total water discharge by quality and destination.	163
	306-3	Significant spills.	178
14.2.- By 2020, **sustainably** manage and **protect marine and coastal ecosystems** to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans.	304-1	Operational sites owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	172
	304-2	Significant impacts of activities, products and services on biodiversity.	169
	304-3	Habitats protected or restored.	174
	305-1	Direct greenhouse gas emissions. Scope 1 (per GHG Protocol).	152
	305-2	Indirect greenhouse gas emissions. Scope 2 (per GHG Protocol).	153
14.3.- Minimize and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels.	305-4	Intensity of GHG emissions.	151
	305-5	Reduction of GHG emissions.	155
	305-7	NOx, SOx and other significant air emissions.	157

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.

– 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.

Target	*GRI Indicator*	*Description*	*Pag.*
15.1.- By 2020, **ensure the conservation, restoration and sustainable use** of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements.	304-1	Operational sites owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	172
	304-2	Significant impacts of activities, products and services on biodiversity.	169
	304-3	Habitats protected or restored.	174
15.5.- **Take urgent and significant action to reduce the degradation of natural habitats**, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species.	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.	173
	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.	163
15.a.- Mobilize and **significantly increase financial resources from all sources** to conserve and sustainably use biodiversity and ecosystems.	Own indicator	LBG contribution to SDG 15.	222

Goal 16: Peace, justice and strong institutions

Promote peaceful and inclusive societies

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.

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 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.

The company also has a *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.

Target	*GRI Indicator*	*Description*	*Pag.*
16.5 Substantially reduce corruption and bribery in all their forms.	205-1	Business units assessed for risks related to corruption	271
	205-2	Training and communication on anti-corruption policies and procedures	278
	205-3	Incidents of corruption.	281
	415-1	Contributions to political parties or to related institutions.	294
16.6.- Develop effective, accountable and transparent institutions at all levels.	102-23	State whether the chair of the highest governance body is also an executive officer and the reasons for this arrangement.	33
	102-25	Processes for the highest governance body to avoid conflicts of interest.	314
	102-21	Consulting stakeholders on economic, environmental and social topics.	257
16.7.- Ensure responsive, inclusive, participatory and representative decision-making at all levels.	102-24	Selection and nomination of the members of the highest governance body.	256
	102-29	Identifying and managing economic, environmental and social impacts.	258
	102-37	Stakeholders' involvement in remuneration.	261
16.b.- Promote and enforce non-discriminatory laws and policies for sustainable development.	406-1 Shift indicator C200204 from SDG	Incidents of discrimination.	210

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".

Especially noteworthy is the **Chair for the Sustainable Development Goals**: since its creation in 2014, the Iberdrola/UPM Chair has engaged in numerous activities to strengthen the university/company relationship model that can face the challenges of the international sustainability agenda. After the approval of the Sustainable Development Goals in 2015, the Universidad Politécnica de Madrid and Iberdrola have focused their activity on contributing to meeting these Goals. This department is configured as a space for shared learning and support for the implementation of the SDGs.

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. 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 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.

Target	*GRI Indicator*	*Description*	*Pag.*
17.1.- Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection.	Own indicator	Tax contribution.	284
17.3.- Mobilize additional financial resources for developing countries from multiple sources.	203-2	Significant indirect economic impacts.	79
	204-1	Spending on local suppliers.	244
17.16.- Enhance the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the Sustainable Development Goals in all countries, in particular developing countries.	Own indicator	Participation in seminars, events and workshops to share best practices on SDGs	53
	Own indicator	Performance of international cooperation projects together with other players.	52
	Own indicator	SDG training and awareness-raising activities for employees, suppliers and other Stakeholders.	41
17.17.- Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.	Own indicator	Number of volunteer activities performed.	226
17.19.- Build on existing initiatives to develop measurements of progress on sustainable development.	Own indicator	Annual publication of Statement of Non-Financial Information. Sustainability Report.	8

Annex 3: Report on Green Financing Returns

Iberdrola has issued a total of 11 *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	2.500%
XS1398476793	21 Apr-16	Iberdrola International	Public	Senior	1,000	Apr-26	1.125%
XS1490726590	15-Sep-16	Iberdrola International	Public	Senior	700	Sep-25	0.375%
XS1527758145	07-Dec-16	Iberdrola Finanzas	Public	Senior	750	Mar-24	1.000%
XS1564443759	20-Feb-2017 (extended on 22-Jun-2017)	Iberdrola Finanzas	Private	Senior	250	Feb-24	Euribor 3 M + 0.670%
XS1575444622	07-Mar-17	Iberdrola Finanzas	Public	Senior	1,000	Mar-25	1.000%
XS1682538183	13-Sept-17	Iberdrola Finanzas	Public	Senior	750	Sep-27	1.250%
XS1721244371	22-Nov-17	Iberdrola International	Public	Subordinate	1,000	Perpetual	1.875%
XS1797138960	26-Mar-18	Iberdrola International	Public	Subordinate	700	Perpetual	2.625%
XS1847692636	28-Jun-18	Iberdrola Finanzas	Public	Senior	750	Oct-26	1.250%
XS1924319301	21-Dec-18	Iberdrola Finanzas	Private	Senior	44[146]	Dec-25	3.724%

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 that received the proceeds of this bond, as well as the environmental benefits achieved therefrom, are described in Avangrid's *Sustainability Report 2018*.

In April 2018 Iberdrola México, a 100%-owned subsidiary of Iberdrola, also obtained a *green* bank loan with a number of international financial institutions in the amount of 400 million U.S. dollars, which was used to refinance the company's renewable assets in Mexico.

The proceeds of all of these transactions have been used to fund the refinancing of investments in projects that met certain environmental and sustainable development 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 financing instruments. 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 sustainable development 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.

[146] USD 50 million nominal value.

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 financings, 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 issues, together with the eligibility standards, are described in the *Second Party Opinion* corresponding to each *green* transaction. In the case of the bonds[147], 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.

[147] Excludes the loans, as they are private contracts between a limited number of parties.

➢ 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)[148]
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	29
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	1
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	Bordecorex Norte	Spain	2006	44	7
Renewables	Onshore wind	Cerro Blanco	Spain	2006	42	3
Renewables	Onshore wind	Grijota	Spain	2006	5	4
Renewables	Onshore wind	Cabezuelo	Spain	2006	30	22
Renewables	Onshore wind	Mark Hill	United Kingdom	2011	56	12
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	30
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

[148] 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
TOTAL	**750**

- **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[149]	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[150]**

Installed capacity attributable to the bond (MW)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)[151]
478	1,000	220,493

[149] Takes data from 2011 and 2012 in order to allow for identification of profits from investments made.

[150] 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.

[151] Emissions avoided, reported throughout this Annex 2: *Report on green financing returns*, have been calculated as a product of 2018 production attributable to the bond and the emission factor for the country in which the assets are geographically located. Sources: REE, DEFRA, Eurostat 2016 (January 2019) Greenhouse gas emissions by source sector (source EEA): http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do.

➢ 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)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)
736	1,384	324,862

➢ 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)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)
403	805	227,687

➢ 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	37
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	**750**

▪ Sustainability indicators

Installed capacity attributable to the bond (MW)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)
540	1,128	247,033

➢ 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	44	24
Renewables	Onshore wind	Cerro Higuera	Spain	2009	38	30
Renewables	Solar	Puertollano	Spain	2009	50	36
Renewables[152]	Onshore wind	Venta III	Mexico	2012	103	49
Renewables[129]	Onshore wind	Dos Arbolitos	Mexico	2015	70	42

- **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	**250**

- **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)
165	237	63,533

[152] As a result of the sale of the interest of Iberdrola Renovables Castilla-La Mancha, S.A. (Sociedad Unipersonal) in the capital of Iberdrola Energía Solar de Puertollano, S.A., this asset replaces the prior one effective 1 December 2018. The time that each asset has been assigned to the transaction during the year has been taken into account to calculate production and CO_2 avoided attributable to the bond.

➢ 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)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)
340	794	313,010

➢ 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)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)
279	587	223,618

➢ 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)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)
648	1,309	370,542

➢ March 2018 Bond (ISIN code XS1797138960) (hybrid)

- **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Offshore wind	EAST ANGLIA	United Kingdom	2020	714	225

- **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	700,000

- **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)
225	0	0

➢ June 2018 Bond (ISIN code XS1847692636)

- **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Offshore wind	EAST ANGLIA	United Kingdom	2020	714	241

- **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	**750,000**

- **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)
241	0	0

➢ December 2018 Bond (ISIN code XS1924319301)

▪ Assets allocated

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Dos Arbolitos	Mexico	2015	70	25

▪ Total amount invested by area

Area	Investment allocated to the bond (€M)
Renewables	44,000

▪ Sustainability indicators

Installed capacity attributable to the bond (MW)	2018 output attributable to the bond (GWh)	CO_2 avoided due to the bond (Tm)
25	81	46,874

➢ **April 2018 loan (Iberdrola Mexico)**

- **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the loan (MW)
Renewables	Onshore wind	VENTOSA	Mexico	2009	101.9	101.9
Renewables	Onshore wind	BII NEE STIPA	Mexico	2010	26.35	26.35
Renewables	Onshore wind	VENTA III	Mexico	2012	102.85	54

- **Total amount invested by area**

Area	Investment allocated to the bond (€M)
Renewables	325,000[153]

- **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2018 output attributable to the loan (GWh)	CO_2 avoided due to the loan (Tm)
182	483	281,236

[153] Exchange rate used €1 = $1.23 (April 2018).

External Independent Assurance Report on Green Financing

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This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT ASSURANCE REPORT

To the Management of Iberdrola S.A.:

We have carried out our work to provide a limited assurance on the information related to (re)financed project of the Green Bonds in 2014, 2016,2017 and 2018 (ISIN XS1057055060, ISIN XS1398476793, ISIN XS1490726590, ISIN XS1527758145, ISIN XS1564443759, ISIN XS1575444622, ISIN XS1682538183, ISIN XS1721244371, ISIN XS1797138960, ISIN XS1847692636 and ISIN XS1924319301) issued by Iberdrola International B.V. and Iberdrola Finanzas, S.A.U. (hereinafter, "the Bonds"), as well as the subscription of a green bank loan by Iberdrola Mexico contained in the "Annex 3: Report on green financing returns" of the 2018 Statement of Non Financial Information – Sustainability Report of Iberdrola, S.A. and its subsidiaries (hereinafter, "Iberdrola") for the year ended 31 December 2018, and prepared in accordance with the "Iberdrola Framework for Green Financing" document (hereinafter, "the Framework"), available in the web page https://www.iberdrola.com/shareholders-investors/investors/fixed-income/information-related-to-green-bonds.

The aspects of the information subject of our review are the following:

- The application of the eligibility criteria in the projects financed by the Bonds described in the Framework, and the final list of assets or projects re(financed).

- The allocation of the funds obtained through the Bonds to the assets or projects financed by them and that the capital invested in the refinanced assets or projects is attributable to the Bonds.

- The verification that the sustainability indicators are prepared in accordance with their calculation methodology, defined in the mentioned Annex 3, including the description of material exceptions.

- Verification that the information related to the "controversies" referred to in Annex 3, is included in the "Second Party Opinion" of those public bond issued, as indicated in "the Framework",at the time of the issuance of the Bonds published on the website https://www.iberdrola.com/shareholders-investors/investors/fixed-income/information-related-to-green-bonds.

Responsibility of Management

Management of Iberdrola is responsible for the preparation, content and presentation of the "Annex 3: Report on green financing returns", in accordance with the requirements included in the Framework in which the eligibility criteria of the projects, the allocation of funds, the sustainability indicators and the information related to the "controversies" are described.

Management's responsibility includes establishing, implementing and maintaining the internal control required to ensure that the information included in the "Annex 3: Report on green financing returns" is free from any material misstatement due to fraud or error.

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Management of Iberdrola is also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the mentioned Annex 3, is obtained.

Our responsibility

Our responsibility is to issue a limited assurance report based on the procedures that we have carried out and the evidence obtained. Our limited assurance engagement was done in accordance with the International Standard on Assurance Engagements 3000 (Reviewed) "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC).

The scope of a limited assurance engagement is substantially less extensive than the scope of a reasonable assurance engagement and thus, less security is provided.

The procedures that we have carried out are based on our professional judgment and have included consultations, observation of processes, document inspection, analytical procedures and random sampling test. The general procedures employed are described below:

- Meetings with Iberdrola's personnel from various departments who have been involved in the preparation of the "Annex 3: Report on green financing returns" of the 2018 Statement of Non Financial Information – Sustainability Report in order to know the characteristics of the projects (re)financed by the Bonds, the internal management procedures and systems in place, the data collection process and the environment control.

- Verification of the application of the eligibility criteria, described in the Framework, for the selection of projects (re)financed by the Bonds.

- Analysis of the procedures used for gathering and validating the information and data presented in the sustainability indicators included in the "Annex 3: Report on green financing returns" of the 2018 Statement of Non Financial Information – Sustainability Report.

- Verification of the traceability of the funds obtained through the Bonds to finance projects and verification that the investments undertaken by Iberdrola in the projects refinanced have been made in accordance with the Framework criteria.

- Verification that the information related to the "controversies" referred to in Annex 3 is included in the "Second Party Opinion" for the public Green Bonds issued.

- Verification through random sampling tests revisions and substantive tests of the information related to sustainability indicators. We have also verified whether they have been appropriately compiled from the data provided by Iberdrola´s sources of information.

- Obtainment of a management representation letter from the Directors.

Our Independence and Quality Control

We have fulfilled our work in accordance with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants of the International Ethics Standard Board for Accountants (IESBA), which are based on basic principles of integrity, objectivity, professional competence and diligence, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and thus employs an exhaustive quality control system which includes documented policies and procedures on the compliance of ethical requirements, professional standards, statutory laws and applicable regulations.

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Limited and moderate assurance conclusion

As a result of the procedures carried out and the evidence obtained, no matters have come to our attention which may lead us to believe that:

- The list of assets or projects financed by the Bonds included in Annex 3 does not comply, in all its significant aspects, with the eligibility criteria described in the Framework.

- The funds obtained through the Bonds have not been assigned to the assets or projects financed by them and that the capital invested in the refinanced assets or projects is not attributable to the Bonds.

- The sustainability indicators contain significant errors or have not been prepared, in all their significant aspects, in accordance with what is indicated in the Framework and as indicated in Annex 3 in relation to its calculation.

- The "controversies" referred to in the Annex 3, have not been included in the "Second Party Opinion" at the time of issuance of public Green Bonds.

Use and distribution

Our report is only issued to the Management of Iberdrola, in accordance with the terms and conditions of our engagement letter. We do not assume any liability to third parties other than Iberdrola's Management.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Pablo Bascones

22 February 2019

Annex 4: External Independent Assurance Report on the Sustainability Report

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This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT VERIFICATION REPORT

To the shareholders Iberdrola, S.A.:

Pursuant to Article 49 of the Code of Commerce, we have verified, under a limited assurance scope, the accompanying Statement of Non-Financial Information –Sustainability Report attached ("SNFI") for the year ended 31 December 2018 of Iberdrola, S.A. and subsidiaries (Iberdrola or the Group or the Company) which forms part of Iberdrola's 2018 Consolidated Directors' Report.

The content of the SNFI includes additional information to that required by current commercial legislation on non-financial reporting which has not been covered by our verification work. In this respect, our work has been restricted solely to verifying the information identified in the tables included in the section "III About this report: Statement of Non-Financial Information and GRI Content Index" " in the accompanying SNFI.

Likewise, we have carried out a moderate assurance engagement of the application of the principles of inclusivity, materiality and responsiveness, related to the information included in the section "Stakeholder engagement" of the SNFI attached, in accordance with the provisions of the 2008 Accountability Principles Standard AA1000 (AA1000APS) issued by AccountAbility.

Responsibility of the Board of Directors

The preparation of the SNFI included in Iberdrola's Consolidated Directors' Report, and the content thereof are the responsibility of the Board of Directors of Iberdrola, S.A.. The SNFI has been drawn up in accordance with the provisions of current commercial legislation and with the Sustainability Reporting Standards of the Global Reporting Initiative ("GRI Standards") in accordance with the Comprehensive Option, and Electric Utilities Sector Disclosures of the GRI Guidelines version G4 (hereinafter, Electric Utilities Sector Disclosures), in line with the details provided for each matter in the table included in the section " III About this report: Statement of Non-Financial Information and GRI Content Index" included in SNFI's Annex.

This responsibility also includes the design, implementation and maintenance of the internal control that is considered necessary to ensure SNFI is free from material misstatement, due to fraud or error.

The directors of Iberdrola, S.A. are also responsible for ensuring the definition, implementation, adaptation and maintenance of the management systems from which the information required to prepare the SNFI is obtained, and also for the application of AA10000APS (2008) principles.

Our independence and quality control

We have complied with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants ("IESBA") which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies the International Standard on Quality Control 1 (ISQC 1) and therefore has in place a global quality control system which includes documented policies and procedures related to compliance with ethical requirements, professional standards and applicable legal and regulatory provisions.

The engagement team has been formed by professionals specialising in non-financial information reviews and specifically in information on economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance verification report based on the work carried out in relation solely to fiscal year 2018. The data relating to previous years were not subject to the verification envisaged in current commercial legislation. Our work has been carried out in accordance with the requirements laid down in the current International Standard on Assurance Engagements 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 Revised) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC) and with the Guidelines for verification engagements on non-financial statements issued by the Spanish Institute of Auditors ("Instituto de Censores Jurados de Cuentas de España"). We have also carried out our moderate assurance engagement (type 2) in accordance with the 2008 AA1000 Assurance Standard (AA1000AS) issued by AccountAbility.

In a limited assurance engagement, the procedures performed vary in terms of their nature and timing of execution, and are more restricted than those carried out in a reasonable assurance engagement. Accordingly, the assurance obtained is substantially lower.

Our work has consisted of posing questions to Management and several Iberdrola's units that were involved in the preparation of the SNFI, in the review of the processes for compiling and validating the information presented in the SNFI and in the application of certain analytical procedures and review sampling tests, as described below:

- Meetings with Iberdrola personnel to ascertain the business model, policies and management approaches applied and the main risks related to these matters, and to obtain the information required for the external review.

- Analysis of the scope, relevance and integrity of the content included in the SNFI based on the materiality analysis carried out by Iberdrola and described in the "III About this report: Defining Report Content. Materiality Analysis" section, and considering the content required under current commercial legislation.

- Analysis of the procedures used to compile and validate the information presented in SNFI for 2018.

- Review of information concerning risks, policies and management approaches applied in relation to material issues presented in the SNFI for 2018.

- Analysis of the documentation and actions related to the application of the inclusivity, materiality and responsiveness principles of the AA1000APS (2008).

- Verification, through sample testing, of the information relating to the content of the SNFI for 2018 and its adequate compilation using data supplied by Iberdrola's information sources.

- Obtainment of a management representation letter from the Company.

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Conclusions

Based on the procedures performed and the evidence we have obtained, no matters have come to our attention which may lead us to believe that:

- Iberdrola's SNFI for the year ended 31 December 2018 has not been prepared, in all of their significant matters, in accordance with the provisions of current commercial legislation and with the GRI Standards in accordance with the Comprehensive Option, and Electric Utilities Sector Disclosures, in line with the details provided for each matter in the table included in the section "III About this report: Statement of Non-Financial Information and GRI Content Index" in the accompanying SNFI.

- The information included in the section "Stakeholder engagement" of the Iberdrola's SNFI, regarding the application of the principles of inclusivity, materiality and responsiveness, has not been prepared, in all of their significant matters, in accordance with the provisions of the AA1000APS (2008).

Recommendations

Regarding the observations and recommendations for improvements that have come to our attention during our assurance engagement, set out below is a summary of the main recommendations regarding improvements to the application of the AA1000APS (2008) principles of inclusivity, *materiality and responsiveness, which do not alter our limited or moderate assurance conclusions* given in this report.

Inclusivity

Iberdrola, as a company committed to the promotion and improvement of the relationship with its stakeholders, approved in 2016 its Stakeholder Engagement Model as a procedure for Iberdrola Group to establish relations with the stakeholders in the same way, understanding the particularities and singularities of each country and business.

In 2018, following the global implementation of the Model in the 8 stakeholders and in the 3 businesses of the five reference countries, progress was made in identifying Substakeholders within the 8 stakeholders and the existing engagement channels with these subgroups. Likewise, the Substakeholders have been prioritised according to their impact/influence on the Company, their alignment with the Company and their social influence.

In this respect, it is recommended to advance in the alignment between the priority of the Substakeholders and the engagement channels used with them, exploring differential and innovative engagement channels with the most priority Substakeholders. In addition, as a good practice, it is recommended to include in the Statement of Non-financial Information - Sustainability Report more information on how the participation of Stakeholders in the Company's decisions is promoted and favoured throughout the year.

Materiality

Compared to the previous year, this time the relevant issues have been prioritised taking into account their risk and opportunity and the main trends have been detected, both for Stakeholders and for businesses.

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In addition, in 2018 a first alignment exercise was carried out between the relevant issues identified at subgroup, country and business level through the Iberdrola Model and global materiality analysis, to ensure the capture of the same relevant issues and identify possible differences. In the future, it is recommended to deepen this alignment exercise, especially in relation to the priority of the relevant issues, ensuring the capture of the real expectations of stakeholders and contrasting with them the priority of each of them.

Responsiveness

Iberdrola, in its Statement of Non-financial Information - Sustainability Report 2018, reflects the way in which the Model is able, through its ten phases, to respond in a systematic and unified manner for the entire organization to the expectations of its Stakeholders in time and form according to its priority. In this sense, it is recommended that the responses to stakeholder expectations are monitored through objective and measurable indicators that allow their adaptation to the needs of the Stakeholders to be evaluated and that these are increasingly integrated into the definition of these responses.

Use and distribution

This report has been drawn up in response to the requirement laid down in current Spanish commercial legislation and therefore might not be suitable for other purposes or jurisdictions.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by
Pablo Bascones

22 February, 2019

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Contact point for questions regarding the report

General questions regarding this report may be addressed to Iberdrola's Social Responsibility Division at C/ Tomás Redondo, 1 - 28033 Madrid – Spain, or via responsabilidad_social@iberdrola.es.

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.

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.