



Annual Financial Report

Iberdrola, S.A.
Financial year 2018

AUDITOR'S REPORT



KPMG Auditores, S.L.
Torre Iberdrola
Plaza Euskadi, 5
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Independent Auditor's Report on the 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 ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Iberdrola, S.A. (the "Company"), which comprise the balance sheet at 31 December 2018, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the financial reporting framework applicable to the entity in Spain (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

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 Annual Accounts* section of our report.

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

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

Key Audit Matters

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

Recoverability of investments in Group companies and associates

See note 10 to the annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>The recoverable amount of investments in Group companies and associates is determined, for those companies in which there is objective evidence of impairment, by applying valuation techniques which often require the exercising of judgement by the Directors and the use of assumptions and estimates. Due to the uncertainty associated with these estimates, it has been considered a relevant aspect of the audit.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▪ Evaluating the design and implementation of the key controls related to the process of calculating the recoverable amount. ▪ Assessing impairment indicators identified by the Company, as well as the methodology and assumptions used to estimate the recoverable amount, contrasting the information contained in the model with the business plans of investees in which indications of impairment exist. ▪ We also involved our specialists to assess the reasonableness of the main assumptions and calculation methods used by the Company. ▪ We also assessed whether the information disclosed in the annual accounts meets the requirements of the financial reporting framework applicable to the Company.

Other information: Directors' Report

Other information solely comprises the 2018 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility as regards the content of the directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels:

- a) A specific level applicable to the 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 directors' report, which consists of assessing and reporting on the consistency of this information with the annual accounts, based on knowledge of the entity 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 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 directors' report includes a reference stating that the information mentioned in section a) above is presented in the consolidated directors' report of the Iberdrola Group to which the Company belongs, that the information from the ACGR, mentioned in the same section, is included in the directors' report and that the rest of the information contained in the directors' report is consistent with that disclosed in the 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 Annual Accounts

The Directors of the Company are responsible for the preparation of the accompanying annual accounts in such a way that they give a true and fair view of the equity, financial position and financial performance of the Company in accordance with the applicable financial reporting framework and, in particular, with the accounting principles and criteria set forth therein, and for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Company's Directors are responsible for 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Annual Accounts

Our objectives are to obtain reasonable assurance about whether the 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 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 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Directors.
- Conclude on the appropriateness of the Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view. We communicate with the audit committee of the Company 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 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 Company'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 Company, we determine those that were of most significance in the audit of the 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 Company_____

The opinion expressed in this report is consistent with our additional report to the Company's audit committee dated 22 February 2019.

Contract Period_____

We were appointed as auditor of the Company 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



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

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Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 27). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.
BALANCE SHEET AT 31 DECEMBER 2018
(In thousands of Euros)

ASSETS	Notes	2018	2017 (*)
Non-current assets		45,619,210	44,744,617
Intangible assets	7	116,102	95,514
Computer software		105,386	86,715
Other intangible assets		10,716	8,799
Property, plant and equipment	8	246,047	221,686
Land and constructions		167,452	167,249
Plant and other PP&E items		45,454	43,515
PP&E under construction and prepayments		33,141	10,922
Investment in group companies and associates		44,138,073	43,895,720
Equity instruments	10	44,074,394	43,795,580
Loans to companies	24.1.a	53,759	84,902
Derivatives	15,24.1.c	9,499	14,817
Other financial assets	24.1.a	421	421
Long-term Investment		83,089	133,135
Equity instruments		412	412
Credits to third parties		5,004	8,583
Derivatives	15	64,391	111,829
Other financial assets		13,282	12,311
Deferred tax assets	18	368,878	389,799
Long term trade receivables	6.2	667,021	8,763
CURRENT ASSETS		1,788,814	1,690,006
Trade and other receivables		204,676	605,877
Trade receivables and rendering of services		2,033	35,972
Customers, group companies and associates	24.1.b	78,190	62,170
Other receivables		3,874	67,321
Personnel		158	159
Current tax assets	18	116,009	440,238
Other tax receivables	18	4,412	17
Investment in group companies and associates		1,368,925	856,814
Loans to companies	24.1.a	29,001	26,880
Derivatives	15,24.1.c	2,112	2,074
Other financial assets	24.1.a	1,337,812	827,860
Current investments		213,875	226,124
Equity instruments		–	1,744
Credits to third parties		590	5,794
Derivatives	15	212,805	181,951
Other financial assets		480	36,635
Current accruals		1,338	1,191
TOTAL ASSETS		47,408,024	46,434,623

(*) The balance sheet at 31 December 2017 is presented for comparison purposes only.
The accompanying Notes are an integral part of the balance sheets at 31 December 2018.



Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 27). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.
Balance sheet at 31 December 2018
(In thousands of Euros)

LIABILITIES	Notes	2018	2017 (*)
EQUITY	11	32,455,276	33,216,241
EQUITY		32,481,022	33,287,122
Capital	11.1	4,798,222	4,738,136
Registered capital		4,798,222	4,738,136
Share premium	11.2	14,667,679	14,667,679
Reserves		4,927,169	6,234,009
Legal and statutory reserves	11.3	968,999	968,999
Other reserves		3,958,170	5,265,010
Treasury shares and own equity investments	11.6	(1,002,272)	(589,380)
Prior years' profit and loss		8,070,225	6,614,050
Prior years' profit and loss		8,070,225	6,614,050
Profit for the year		991,768	1,598,871
Other equity instruments	12	28,231	23,757
VALUATION ADJUSTMENTS	11.7	(25,746)	(70,881)
Hedging instruments		(25,746)	(70,881)
NON-CURRENT LIABILITIES		7,093,137	5,819,415
Non-current provisions		483,297	499,438
Provisions for employee benefits	13.1	254,667	268,490
Other provisions	13.2	228,630	230,948
Long-term liabilities		883,788	1,211,477
Loans and borrowings	14	740,342	993,399
Financial leases	8.14	58,500	60,386
Derivatives	15	77,791	152,075
Other financial liabilities		7,155	5,617
Group companies and associates, non-current	15, 24.1.a, 24.1.c	4,987,933	3,381,868
Deferred tax liabilities	18	738,119	726,632
Current liabilities		7,859,611	7,398,967
Current borrowings		679,699	515,796
Loans and borrowings	14	594,212	375,317
Financial leases	8, 14	2,073	2,010
Derivatives	15	23,715	109,385
Other financial liabilities		59,699	29,084
Group companies and associates, current	15, 24.1.a, 24.1.c	7,062,118	6,730,990
Trade and other payables		117,762	152,149
Suppliers		21,286	15,513
Suppliers, group companies and associates	24.1.b	2,773	710
Other payables		51,561	46,119
Staff (outstanding remunerations)		20,673	20,822
Other tax receivables	18	21,469	68,985
Current accruals		32	32
TOTAL EQUITY AND LIABILITIES		47,408,024	46,434,623

(*) The balance sheet at 31 December 2017 is presented for comparison purposes only.
The accompanying Notes are an integral part of the balance sheets at 31 December 2018.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 27). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.
INCOME STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018
(In thousands of Euros)

	Notes	2018	2017 (*)
CONTINUED OPERATIONS			
Revenue	19.1	2,225,257	2,730,812
Sales		399,094	395,315
Provision of services		560	332
Finance revenue from equity investments in group companies and associates	10, 24.2	1,569,950	2,094,515
Finance revenue from debt securities and other financial instruments of group companies and associates	24.2	21,205	20,248
Income from services rendered to group companies	24.2	234,448	220,402
Work performed by the entity and capitalised	7.8	3,602	2,840
Provisions	19.2	(395,481)	(388,504)
Cost of sales		(395,481)	(388,926)
Works by other companies		–	422
Other operating income		1,310	377
Ancillary income and other operating income		1,199	256
Grants incorporated to income		111	121
Personnel expenses		(139,196)	(151,475)
Wages, salaries and others		(93,572)	(99,835)
Social security costs	19.3	(45,624)	(51,640)
Other operating expenses		(189,178)	(180,444)
External services		(177,594)	(170,222)
Taxes		(9,166)	(7,213)
Losses on, impairment of and change in trade provisions		(21)	29
Other operating expenses		(2,397)	(3,038)
Amortisation and depreciation	7.8	(64,179)	(58,512)
Impairment gains/(losses) on disposal of non-current assets		(2,940)	(258)
Impairment and losses	8	(799)	–
Gains / (losses) on disposals and others		(2,141)	(258)
Impairment gains/(losses) on disposal of financial instruments of group companies and associates	10	(35,441)	(143,477)
Impairment and losses		(35,441)	(145,076)
Gains / (losses) on disposals and others		–	1,599
OPERATING PROFIT		1,403,754	1,811,359
Finance income	19.6	1,866	9,303
from debt securities and other financial instruments in third parties		1,866	9,303
Finance costs	19.5	(277,199)	(293,897)
Due to borrowings from group companies and associates	24.2	(254,833)	(305,626)
Due to third-party borrowings		(7,417)	25,641
Due to provision discount adjustment		(14,949)	(13,912)
Change in fair value of financial instruments	19.7	(195,720)	73,297
Exchange gains/(losses)	19.8	(4,543)	7,219
NET FINANCE COST		(475,596)	(204,078)
PROFIT OF THE YEAR BEFORE TAX		928,158	1,607,281
Income tax	18	63,610	(8,410)
profit for the year FROM CONTINUING OPERATIONS		991,768	1,598,871
PROFIT FOR THE YEAR		991,768	1,598,871

(*) The income statements for the year ended 31 December 2017 is presented for comparison purposes only. The accompanying Notes are an integral part of the income statements for the years ended 31 December 2018.



Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 27). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.

Statement of changes in equity for the year ended 31 December 2018

(In thousands of Euros)

A) Statement of recognised income and expense for the years ended 31 December 2018

	Notes	2018	2017 (*)
Profit for the year		991,768	1,598,871
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY			
Cash flow hedges	11.7	37,820	9,273
From actuarial gains and losses and other adjustments	13.1.a	4,018	50,169
Tax effect		(10,460)	(14,861)
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		31,378	44,581
AMOUNTS TRANSFERRED to the income statement			
Cash flow hedges	11.7	22,360	20,361
Tax effect	11.7	(5,590)	(5,090)
TOTAL AMOUNTS TRANSFERRED to the income statement		16,770	15,271
TOTAL RECOGNISED INCOME AND EXPENSE		1,039,916	1,658,723

(*) The balance sheet at 31 December 2017 is presented for comparison purposes only.

The accompanying Notes are an integral part of the statement of recognised income and expense for the years ended 31 December 2018.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 27). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.

B) Statement of changes in equity for the years ended 31 December 2018

(In thousands of Euros)

	Share (Note 11.1.)	Share premium (Note 11.2)	Reserves (NotE 11.3,11.4 and 11.5)	Treasury shares and own equity investments (Note 11.6)	Prior years' profit and loss	Profit for the year (Note 3)	Other equity instruments (Note 12)	Unrealised assets and liabilities revaluation reserve (Note 11.7)	TOTAL
OPENING BALANCE 2017 (*)	4,771,559	14,667,679	8,076,130	(1,073,787)	5,400,882	1,410,966	20,971	(93,107)	33,181,293
Total recognised income and expense	–	–	37,626	–	–	1,598,871	–	22,226	1,658,723
Transactions with shareholders or owners									
Share capital decrease	(164,993)	–	(1,115,220)	1,280,176	–	–	–	–	(37)
Scrip issue	131,570	–	(132,403)	–	–	–	–	–	(833)
Acquisition of free allocation rights	–	–	(645,800)	–	–	–	–	–	(645,800)
Distribution of profit	–	–	10,726	–	1,213,168	(1,410,966)	–	–	(187,072)
Transactions with treasury shares or own equity instruments (net)	–	–	2,950	(795,769)	–	–	–	–	(792,819)
Other changes in equity	–	–	–	–	–	–	2,786	–	2,786
CLOSING BALANCE 2017 (*)	4,738,136	14,667,679	6,234,009	(589,380)	6,614,050	1,598,871	23,757	(70,881)	33,216,241
OPENING BALANCE 2018	4,738,136	14,667,679	6,234,009	(589,380)	6,614,050	1,598,871	23,757	(70,881)	33,216,241
Total recognised income and expense	–	–	3,013	–	–	991,768	–	45,135	1,039,916
Transactions with shareholders or owners									
Share capital decrease	(148,780)	–	(1,096,691)	1,245,420	–	–	–	–	(51)
Scrip issue	208,866	–	(209,725)	–	–	–	–	–	(859)
Acquisition of free allocation rights	–	–	(97,899)	–	–	–	–	–	(97,899)
Distribution of profit	–	–	–	–	1,456,175	(1,598,871)	–	–	(142,696)
Transactions with treasury shares or own equity instruments (net)	–	–	(225)	(1,658,312)	–	–	–	–	(1,658,537)
Company reorganisation (Note 10)	–	–	94,687	–	–	–	–	–	94,687
Other changes in equity	–	–	–	–	–	–	4,474	–	4,474
BALANCE AT THE END OF 2018	4,798,222	14,667,679	4,927,169	(1,002,272)	8,070,225	991,768	28,231	(25,746)	32,455,276

(*) The Statement of changes at 31 December 2017 is presented for comparison purposes only.
The accompanying Notes are an integral part of the income statements for the years ended 31 December 2018

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 27). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.

Statement of cash flows for the years ended 31 December 2018

(In thousands of Euros)

	Notes	2018	2017 (*)
Profit of the year before tax		928,158	1,607,281
Adjustments for:		(975,234)	(1,661,136)
amortisation and depreciation	7.8	64,179	58,512
Impairment losses		35,462	145,047
Gains/(losses) from derecognition and disposal of non-current assets		2,940	258
Gains/(losses) from derecognition and disposal of financial instruments		-	(1,599)
Finance income	19.1 19.6	(1,593,021)	(2,124,066)
Finance costs	19.5	277,199	293,897
Exchange gains/(losses)	19.8	4,543	(7,219)
Change in fair value of financial instruments		195,720	(73,297)
Other income and expense		37,744	47,331
Change in working capital		42,438	117,810
Trade and other receivables		76,825	122,913
Trade and other payables		(34,387)	(5,103)
Other cash flows from operating activities		1,572,018	1,749,724
Interest paid		(289,999)	(311,355)
Dividends received		1,564,006	2,107,673
Interest received		16,089	29,009
Income tax (payments) proceeds		341,910	(20,746)
Other (payments) proceeds		(59,988)	(54,857)
CASH FLOWS FROM OPERATING ACTIVITIES		1,567,380	1,813,679
Payments from disposals		(1,738,237)	(493,867)
Group companies and associates	10	(965,761)	(405,763)
Intangible assets	7	(66,364)	(53,149)
Property, plant and equipment	8	(46,869)	(25,475)
Other financial assets		(659,243)	(9,480)
Proceeds from disposals		327,519	1,104,980
Group companies and associates	10	285,215	1,092,473
Property, plant and equipment	8	1,164	101
Other financial assets		41,140	12,406
CASH FLOWS FROM OPERATING ACTIVITIES		(1,410,718)	611,113
Proceeds and payments on equity instruments		(1,612,445)	(916,335)
Proceeds from issues of equity instruments	11.1	(859)	(833)
Share capital decrease	11.1	(51)	(37)
Acquisition of own equity instruments	11.6	(1,672,087)	(1,002,731)
Disposal of own equity instruments	11.6	60,552	87,266
Proceeds and payments on Financial instruments		1,696,378	(675,585)
Issue		7,266,314	5,425,103
Loans and borrowings		77,185	434,094
Payables to group companies and associates		7,178,922	4,987,560
Other payables		10,207	3,449
Redemption and repayment		(5,569,936)	(6,100,688)
Loans and borrowings		(294,074)	(459,578)
Payables to group companies and associates		(5,267,103)	(5,615,107)
Other payables		(8,759)	(26,003)
Dividends paid and payments on other equity instruments		(240,595)	(832,872)
Dividends		(142,696)	(187,072)
Acquisition of free allocation rights	11.1	(97,899)	(645,800)
CASH FLOWS FROM FINANCING ACTIVITIES		(156,662)	(2,424,792)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

(*) The Statement of Cash flow at 31 December 2017 is presented for comparison purposes only.
The accompanying Notes are an integral part of the Cash flow statements for the years ended 31 December 2018..

IBERDROLA, S.A.

Notes to the annual accounts for the year ended at 31 December 2018

1. Activity

Pursuant to article 5 of its by-laws, the corporate purpose of Iberdrola, S.A, (hereinafter IBERDROLA), a company incorporated in Spain is as follows:

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

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

IBERDROLA also provides various services to other Group companies, such as natural gas purchases for the Group's electricity generation plants, IT services and other non-operating, corporate and support services, as well as Group financing, which is managed centrally.

IBERDROLA, individually considered, has no environmental liabilities, expenses, assets, provisions or contingencies that could have a significant effect on its equity, financial position and results. Therefore, no specific environmental disclosures have been included in these notes to the annual accounts.

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

2. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

The annual accounts have been prepared in accordance with the Spanish General Accounting Plan (Plan General de Contabilidad - PGC) approved by Royal Decree 1514/2007, of 16 November, which was amended by Royal Decree 602/2016, of 2 December and prevailing mercantile legislation.

These annual accounts have been prepared by the IBERDROLA's directors and will be submitted for approval at the General Shareholders' Meeting. It is expected that they will be approved without modification.

Unless stated otherwise, the figures in these annual accounts are shown in thousands of euros. The euro is its functional currency.

2.1. True and fair view

The annual accounts have been prepared on the basis of IBERDROLA's auxiliary accounting records, in accordance with prevailing accounting legislation, to give a true and fair view of the equity, financial position and results of IBERDROLA.

The Cash flow statement has been prepared to present fairly the source and application of IBERDROLA's cash and cash equivalents.

IBERDROLA's balance shows as of 31 December 2018 a deficit of working capital (current liabilities exceeding current assets) in the amount of Euros 6,070,797 thousand fully justified by the existence of current debt with group companies and associates in the amount of Euros 7,062,118 thousand. IBERDROLA's directors declare it will be offset by the generation of funds from the IBERDROLA Group's businesses and subsidiary companies' dividends. Moreover, IBERDROLA has undrawn loans in Euros 6,074,361 thousand (Note 14).

On the other hand, IBERDROLA has prepared its consolidated annual accounts in accordance with current legislation, in accordance with International Financial Reporting Standards (IFRS) as approved by the European Union. The main figures in the IBERDROLA Group's 2018 and 2017 Consolidated annual accounts are as follows:

Thousands of Euros	2018	2017
Total assets	113,037,923	110,688,559
Equity		
Parent company	(36,582,199)	(35,509,260)
Non-controlling shares	(5,668,803)	(5,671,380)
perpetual subordinated obligations	(1,725,552)	(1,552,546)
Revenue	(35,075,873)	(31,263,262)
Profit for the year:		
Parent company	(3,014,052)	(2,803,994)
Non-controlling shares	(323,316)	(365,972)

2.2. Comparative information

In accordance with mercantile legislation, for comparative purposes in relation to each item on the balance sheet, income statement, Statement of changes in equity and Statement of cash flow, the figures for the previous year have been provided along with the figures for 2018. The Notes also include quantitative disclosures from the previous year, except when a financial reporting standard specifically establishes that this is not a requirement.

The amounts for services rendered by IBERDROLA to group companies are included in "Net revenue" and correspond to IBERDROLA's ordinary business activities. Said amounts were included in "Other operating income" in the income statement of the annual accounts from previous years (Note 19.1).

3. DISTRIBUTION OF PROFITS

IBERDROLA's board of directors plans to submit for approval at the General Shareholders' Meeting the following distribution of 2018 profit and prior years' profit and loss:

Thousands of Euros	2018
Basis of distribution	
prior years' profit and loss	8,070,225
Profit for 2018	991,768
Total	9,061,993
Distribution:	
To Legal reserves	-
To dividends	Amount to be determined resulting from summing: (a) the total interim dividend and (b) the result of multiplying the complimentary dividend by the total number of shares that the holders have decided to receive as cash remuneration under the framework of the first execution of the Iberdrola scrip dividend system
To prior years' profit and loss	Amount to be determined resulting from deducting amounts earmarked for the legal reserves and dividends from the basis of distribution
Total	9,061,993

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

- (a) Euros 131.426 that were paid out in an interim dividend for 2018 paid on 5 February 2019 to the holders of 870,368,973 IBERDROLA shares that chose to receive their remuneration in cash under the framework of the second execution of the Iberdrola scrip dividend system corresponding to 2017 through the collection of an amount corresponding to the 2018 dividend paid of 0.151 gross euros per share; and
- (b) the amount to be determined by multiplying:
 - (i) the gross amount per share that, in complimentary dividends for 2018, the Company will distribute under the framework of the first execution of the 2019 Iberdrola scrip dividend system (the complimentary dividend); by
 - (ii) the total number of shares that shareholders have chosen to receive the complimentary dividend under the framework of the first execution of the Iberdrola scrip dividend.

On the reporting date of these annual accounts, it is not possible specify 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 issuance 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 first execution of the complimentary dividend as part 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 receiving new free shares corresponding to those free allocation rights.

4. ACCOUNTING POLICIES

4.1 Intangible assets

Intangible assets are measured at acquisition cost or production cost, less any accumulated amortisation and any impairment losses. An intangible asset is recognised only if it is probable that it will generate future economic benefits that will flow to IBERDROLA and the cost of the asset can be measured reliably. The recoverability of intangible assets is analysed when events or changes in circumstances take place that indicate that their carrying amount may not be recovered.

The acquisition price or production cost includes specific and generic finance costs, incurred prior to putting the asset to use for those intangible assets that take more than one year to be ready for use.

Intangible assets are amortised using the straight-line method over their estimated useful life. If the useful life cannot be reliably estimated, the intangible assets will be amortised on a 10 years basis, unless another legal or regulatory provision establishes a different time limit. The amortisation periods and methods are revised annually at year-end and, where appropriate, adjusted prospectively.

Patents, licenses, trademarks and similar

These assets are recognised at acquisition cost and are amortised on a straight line basis throughout the shorter of their period of validity or the period to which they contribute to revenue generation.

Computer software

The costs incurred in connection with the basic computer systems used in the management of IBERDROLA and developed in-house, and the amounts paid for ownership of or the right to use programs are also recorded under the "Intangible assets" heading of the balance sheet. These items are amortised on a straight-line basis over a maximum period of five years from the date on which each application comes into service. Personnel expenses for employees who have worked on IT projects are recognised as an increase in the cost of the projects and recorded with a credit to "Work performed by the entity and capitalised" in the income statement.

4.2 Property, plant and equipment

Items of property, plant and equipment are measured at acquisition or production cost, including the legally permitted revaluations undertaken by IBERDROLA under Royal Decree-law 7/1996, less accumulated depreciation and impairment losses, if any.

The acquisition price or production cost includes specific and generic financial costs incurred prior to putting the asset into use for assets that take more than one year to be ready for use. Also, personnel costs related directly or indirectly to facilities under construction are recognised as an increase in the cost of the projects and recorded with a credit to "Work performed by the entity and capitalised" in the income statement.

Repairs which do not prolong the useful life of the assets and maintenance expenses are charged directly to the income statement as accrued. Expenses incurred for expansion or improvements which increase the productivity or prolong the useful life of the asset are capitalised as an increase in the value of the assets.

Replacements or renewals of complete units are recorded as a greater amount to property, plant and equipment, and the units replaced or renewed are retired from the accounts.

IBERDROLA transfers work under construction to property, plant and equipment in use once the plant starts up.

Leases are classified as finance leases when, based on the analysis of the nature of the agreement and its conditions, reveal that all risks and rewards of ownership of assets under contract have been substantially transferred to IBERDROLA. Therefore, the property acquired with these leases is accounted for by its nature in the property, plant and equipment for an amount equal to the lower of its fair value and the present value of minimum payments set at the beginning of the lease.

The depreciation of the fixed assets included in the balance sheet at 31 December 2018 is based on cost using the straight-line method over the next estimated years of useful life:

	Average years of estimated useful life
Buildings	50
Equipment for IT processes	4 - 8
Other intangible assets	7 - 40

At each financial year-end, IBERDROLA reviews and adjusts, where necessary, the assets' residual values, useful lives and depreciation method, adjusting the criteria followed prospectively as appropriate.

4.3 Impairment of non-current non-financial assets

IBERDROLA assesses, at least annually, whether there is an indication that its non-current non-financial assets may be impaired. If any such indication exists, the asset's recoverable amount is estimated.

An asset's recoverable amount is the higher of fair value less cost to sell, or value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the specific risk to the asset. For assets that do not generate cash inflows that are largely independent of those from other financial assets or groups of assets, the recoverable amount is determined for the cash-generating units to which the asset belongs.

Impairment losses are recognised for all assets or, where appropriate, their cash-generating units, when the carrying amount exceeds the recoverable amount. Impairment losses are recognised in the income statement and, except in the case of goodwill, reversed if there has been a change in the estimates used to determine the asset's recoverable amount. Reversal of an impairment loss is recognised as income in the income statement and only to the extent that the increased carrying amount cannot exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised for the asset.

4.4 Financial instruments

4.4.1 Classification and measurement of financial assets and liabilities

IBERDROLA's financial assets are classified by their measurement as follows:

a) *Loans and receivables*

This heading includes financial assets arising from the sale of goods or rendering of services in the Company's ordinary course of business, as well as non-trade loans, defined as financial assets that are neither equity instruments nor derivatives, with non-commercial origin, with fixed or determinable payments that are not quoted in an active market.

Assets herein are recognised at fair value. After initial recognition, loans and receivables are measured at amortised cost. Interests accrued on these liabilities are recognised in the income statement using the effective interest rate method.

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

b) Equity investments in group companies and associates

This category includes investments in companies in which the entity exercises control (group companies), joint control via by-law resolutions or contractual arrangements with one or more partners (joint ventures), or has significant influence (associates).

Financial liabilities are initially recognised at fair value which, barring evidence to the contrary, is the transaction price. The transaction price is equivalent to the fair value of the consideration received. The initial value includes preferential subscription and similar rights. After the initial measurement, these financial assets are stated at cost, less any accumulated impairment loss.

In the case of non-monetary contributions to a group company for the purpose of a business, the investment is measured at the carrying amount of the delivered assets and liabilities in the consolidated annual accounts on the date the transaction was performed. The Consolidated annual accounts used are those of the major group or subgroup, whose holding is Spanish, which includes the assets and liabilities. In the event the aforementioned annual accounts are not prepared, in accordance with any exemption provided for in the consolidated criteria, the values prior to carrying out the transaction in the Individual annual accounts of the contributing company will be taken.

When these assets must be valued, for derecognition from the balance sheet or other purposes, they are measured using the weighted average cost method by standard groups, understanding that these values have the same rights. When preferential subscription rights or similar are sold or transferred for exercise, the cost of the rights is deducted from the carrying amount of the related assets.

c) Available-for-sale financial assets

Available-for-sale assets are debt securities and equity instruments of other companies that are not classified in any of the preceding categories.

After initial recognition, available-for-sale financial assets are measured at fair value, including any attributable transaction costs incurred to dispose of them. Any gains or losses in fair value are recognised directly in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognised in the income statement. However, impairment losses and exchange gains and losses on monetary financial assets denominated in foreign currency are recognised in the income statement. Interest on these assets, calculated using the effective interest rate method, and dividends accrued are also recognised in the income statement.

Investments in equity instruments whose fair value cannot be determined reliably are shown at cost, less any accumulated impairment losses. When these assets must be valued, for derecognition from the balance sheet or other purposes, they are measured using the weighted average cost method by standard groups. When preferential subscription rights or similar are sold or transferred for exercise, the cost of the rights is deducted from the carrying amount of the related assets. This amount corresponds to the fair value or cost of the rights, calculated in accordance with the measurement of the related financial asset.

d) Assets and liabilities held for trading

IBERDROLA includes in this category derivative financial instruments that do not meet the criteria for hedge accounting according to accounting policies.

Assets and liabilities held for trade are recognised at fair value. The transaction costs directly attributable to purchase or issuing is recognised as an expense in the Income Statement. After initial recognition, available-for-sale financial assets are measured at fair value, including any attributable transaction costs incurred to dispose of them. Any gains or losses in fair value are recognised in the income statement for the year.

e) *Loans and payables*

This heading includes financial assets arising from the sale of goods or rendering of services in the Company's ordinary course of business, as well as non-trade loans, defined as financial assets that are neither equity instruments nor derivatives, with non-commercial origin, with fixed or determinable payments that are not quoted in an active market.

Financial liabilities are initially recognised at fair value which, barring evidence to the contrary, is the transaction price. The transaction price is equivalent to the fair value of the consideration received. Directly attributable transaction costs are included in the initial measurement of financial liabilities. After initial recognition, financial liabilities included in this category are subsequently measured at amortised cost. Interests accrued on these liabilities are recognised in the income statement using the effective interest rate method.

However, trade payables maturing in less than a year without a contractual interest rate, as well as amounts required by third parties for stakes expected to be paid in the short term, are measured both initially and subsequently at nominal value when the impact of not discounting cash flows is not material.

4.4.2. Interest and dividends received on financial assets

Interest and dividends accrued on financial assets after acquisition are recognised as income in the income statement. Interest is recognised using the effective interest rate method and dividends when the right to receive the payment is established.

When dividends paid explicitly from profits obtained prior to the acquisition date exceed profits generated by the investee since the acquisition, these dividends are not recognised as income, but are rather deducted from the carrying amount of the investment.

4.4.3. Impairment of non-financial assets

IBERDROLA assesses regularly whether a financial asset or group of financial assets are impaired.

a) *Loans and receivables*

If there is objective evidence that an impairment loss on an asset or group of assets carried at amortised cost has been incurred, due to an event or series of events that have occurred after initial recognition and that lead to a reduction or delay in the estimated future cash flows, the carrying amount of the asset or group of assets is corrected.

The amount of the impairment loss on these financial assets is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. For variable-rate financial assets, the effective interest rate at the year-end annual accounts date based on the contractual terms is used. Impairment losses on a group of financial assets are calculated using models based on statistical formulas or methods.

Impairment losses and reversals, when the amount of the losses declines because of a subsequent event, are recognised as an expense or income, respectively, in the income statement. An impairment loss may be reversed up to the carrying amount of the asset recognised at the date of reversal whether no impairment loss had been recognised previously.

b) *Equity investments in group companies and associates*

When there is objective evidence that the carrying amount of an investment cannot be recovered, it is adjusted accordingly.

The amount of the loss is measured as the difference between the carrying amount of the investment and its recoverable amount. Recoverable amount is the higher of the fair value less costs to sell and the present value of the estimated future cash flows. Unless there is better evidence of the recoverable amount of the investment, the estimate of impairment of this asset class is based on the equity of the investee (net consolidated equity), adjusted for unrealised gains at the date of measurement.

The impairment losses and, where appropriate, their reversals are recognized as an expense or income, respectively, in the income statement. An impairment loss may be reversed up to the carrying amount of the asset recognised at the date of reversal had no impairment loss been recognised previously.

c) *Available-for-sale financial assets*

IBERDROLA considers objective evidence of impairment to be a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost. To this end, for available-for-sale financial assets, a significant or prolonged decline in the fair value (stock market value for listed instruments) is considered to be a 40% fall for at least 3 months or a loss of value below purchase price for at least 18 months. When the fair value is regained, the 18-month period must again be completed, provided it is not a momentary or insignificant event.

4.4.4. Derecognition of financial assets

IBERDROLA derecognises a financial asset, or part of a financial asset, when the contractual rights to receive cash flows from the asset have expired or are transferred, and it has transferred substantially all the risks and rewards incidental to its ownership. This is assessed by comparing IBERDROLA's exposure to the change in the amounts and schedule of net cash flows from the transferred asset before and after the transfer.

If IBERDROLA has neither transferred nor retained substantially all the risks and rewards of the financial asset, the financial asset is derecognised when it has not retained control of the asset, which is determined based on the transferee's ability to transfer the asset. If IBERDROLA retains control of the asset, it continues to recognise the asset at the amount of the company's exposure to changes in the fair value of the transferred asset; that is, to the extent of its continuing involvement, and recognises the related liability.

When the financial asset is derecognised, the difference between the consideration received less directly attributable transaction costs, taking into account any new asset acquired less any liability assumed, and the carrying amount of the financial asset plus any cumulative amounts recognised directly in equity determines the related gain or loss and is recognised in the income statement in the year.

IBERDROLA does not derecognise financial assets and recognises a financial liability at the amount received in return in transfers of financial assets where it has retained substantially all the risks and benefits inherent to ownership.

4.4.5. Derecognition of financial liabilities

IBERDROLA derecognises a financial liability when the obligation is discharged.

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. The difference between the carrying amount of the financial liability or part of the financial liability and the amount paid to extinguish the liability, including attributable transaction costs and any asset transferred other than cash or liability assumed, is recognised in the income statement for the period.

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 or 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 the debt instrument is replaced by another on terms that are not substantially different, the original financial liability is not derecognised in the balance sheet, and the carrying amount is adjusted for the fees paid. 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.

4.4.6. *Derivative financial instruments and hedging*

Derivative financial instruments are initially recognised at fair value in the balance sheet, which coincides with acquisition cost, and subsequently remeasured at fair value as necessary. Any gains or losses arising from changes in fair value on derivatives are recognised directly in the income statement except for those designated as cash flow hedges, in which case the changes in fair value are temporarily recognised in equity.

At the beginning of each hedge relationship, IBERDROLA formally designates and documents the relationship. The documentation includes the beginning and ending date of the hedging, the identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how it assesses the instrument's effectiveness. In addition, hedges are assessed periodically to determine that they are highly effective both prospectively and retrospectively.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

a) *Fair value hedges*

A hedge of the exposure to changes in the fair value of a recognised asset or liability or firm commitment.

Changes in the fair value of the derivative financial instruments designated as a hedge and changes in the fair value of a hedged item due to the hedged risk are recognised with a charge or credit to the same heading of the income statement.

b) *Cash flow hedges*

Cash flow hedges: a hedge of the exposure to variability in cash flows that is either attributable to a specific risk associated with a recognised asset or liability or a highly probable forecast transaction as well as the change of the foreign currency risk in a firm commitment.

The effective portion of the gain or loss on the hedging instrument determined as effective is recognised temporarily in equity. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss. When the hedged relates to a forecast transaction that leads to the recognition of a non-financial asset or liability, the amounts taken to equity are transferred to the cost of the asset acquired or liability assumed. The part of the hedge considered ineffective is recorded in the Income Statement.

c) *Hedge of net investment in foreign operations*

Hedges of investments in foreign companies are treated as fair value hedges for the foreign currency component.

The value variations of the hedging instrument or exchange rate differences associated with the monetary amount used as the hedging instrument are entered in the Income Statement. The value variations of the investments associated with the underlying amount in foreign currency are entered in the Income Statement.

Discontinuation of hedges

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

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.
 - finally, the fair value of contracts to trade non-financial items falling under the scope of IAS 39 is calculated on the basis of the best estimate of future price curves for the underlying non-financial items at the year end of the consolidated 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.

4.4.7. Contracts to buy or sell non-financial items

IBERDROLA 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 of 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 IBERDROLA's purchase, sale or usage requirements.

Contracts to buy or sell non-financial items to which the treatment described in the previous paragraph does not apply are designated as "own-use contracts" and are recognised as IBERDROLA receives or delivers the rights or obligations originating from thereunder.

4.5 Cash and cash equivalents

This heading includes cash, bank current accounts, short-term deposits and purchases of assets under resale agreements which meet the following criteria:

- They are readily convertible to cash.
- They mature within less than three months from the acquisition date.
- The risk of change in value is insignificant.
- They are part of the IBERDROLA's standard cash management policy.

In terms of the Statement of cash flow, occasional bank overdrafts used as part of the IBERDROLA's cash management strategy are recognised as a decrease in cash and cash equivalents.

4.6 Treasury shares

Treasury shares held by IBERDROLA at the balance sheet date under the "Equity - Treasury shares and own equity investments" heading are measured at acquisition cost.

Gains and losses produced by the sale of treasury shares by the companies are recognised in the "Reserves - Other reserves" heading in the balance sheet.

4.7 Post-employment and other benefits

Contributions to defined contribution post-employment benefit plans are registered as an expense under the "personnel costs" heading in the income statement on an accrual basis.

In the case of defined benefit plans, IBERDROLA's policy is to recognise the related expense on an accrual basis over the working lives of the employees based on actuarial studies by independent experts using the projected unit credit method to measure the obligation accrued at the end of the period. Any actuarial gains and losses are recognised under "Reserves - Other reserves" when they arise. The provision recognised under this concept represents the present value of the defined benefit obligation reduced by the fair value of the related plans.

When the fair value of the assets exceeds the present value of the obligation, the net asset is not recognised in the balance sheet unless it is virtually certain that it will be recovered by IBERDROLA.

4.8 Collective redundancy procedures and other early retirement plans for employees

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

IBERDROLA has labour force reduction plans in progress which guarantee those benefits will be received throughout the pre-retirement period.

IBERDROLA recognises the full amount of the expenditure relating to these plans when the obligation is incurred by performing the appropriate actuarial studies to calculate the present value of the actuarial obligation at year-end. The actuarial gains and losses disclosed each year are recognised in the income statement for that year.

4.9 Termination benefits

Under current labour legislation, IBERDROLA is required to pay compensation to terminated employees under certain conditions.

4.10 Share-based employee compensation

The delivery of IBERDROLA shares to employees as compensation for their services is recognised under "Personnel expenses" in the income statement as the workers perform the remunerated services, with a credit to equity under "Other reserves" in the balance sheet at the fair value of the equity instruments on the grant date, defined as the date when IBERDROLA and its employees reach an agreement establishing the terms of the share grant.

If remuneration based on equity instruments is paid in the amount booked as "personnel expenses" in the consolidated income statement is credited to "Long term debts – Other Financial 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.

4.11 Contingent Provisions assets and liabilities

IBERDROLA's policy, based on its best estimates, recognises provisions for contingencies and expenses to cover probable or certain quantifiable third-party liabilities arising from litigation in progress or from indemnity payments, obligations or unpaid expenses of an undetermined amount, and collateral and other similar guarantees provided by the company. A provision is recognised when the liability or obligation arises, with a charge to the heading in the income statement in accordance with 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 income statement.

Provisions are recognised in the balance sheet when IBERDROLA has a present obligation (legal or contractual disposition, implicit or tacit liability) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

In addition, contingent liabilities are understood as possible liabilities resulting from past events, the materialisation of which is conditioned by expected future events that are not under the control of IBERDROLA, as well as current liabilities resulting from past events, for which there is a low probability of outflow of resources for their settlement or that cannot be valued reliably. These contingent liabilities are not subject to the accounting record, but are detailed in the Report when an outflow of resources is possible.

Contingent assets will only be recognised when they can be verified as virtually correct.

4.12 Foreign currency transactions

Transactions in foreign currency are initially recorded at the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date. All translation differences, gains and losses, originated in this process, including those arising from the settlement of balance sheet items, are taken to the income statement for the year.

4.13 Income tax expense

IBERDROLA files Consolidated Tax Returns with certain Group companies.

Income tax expense for the year is calculated as the sum of the current tax expense derived by applying the current tax rate to the tax base for the year, after taking into account all applicable tax credits and relief, and the change in deferred tax assets and liabilities recognised. Deductions and credit taxes are registered in the companies in which they have been generated.

Income tax expense is recognised in the income statement except when it relates directly to items recognised in equity, in which case it is recognised also in this heading.

Current Income tax assets and liabilities are measured at the amount expected to be recovered from tax receivables and paid to tax payables. The tax rates used are those that are enacted at the balance sheet date, including any tax adjustments from previous years.

Deferred Income tax is accounted using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the annual accounts.

IBERDROLA recognises deferred tax liabilities for all taxable temporary differences unless the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affected neither accounting profit nor taxable profit or loss.

IBERDROLA recognises deferred income tax assets for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that IBERDROLA will have taxable profit available against which these can be utilised, in a maximum period of 10 years, except when the deferred income tax relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

At the end of each year, IBERDROLA reviews the deferred tax assets recognised at the balance sheet date and those that have not been recognised previously. Based on this review, IBERDROLA derecognises a previously recognised asset if it is no longer probable that it will be recovered or recognises a deferred tax asset not previously recorded only if it is probable that IBERDROLA will have sufficient taxable profit available for it to be utilised.

Unless there is evidence to the contrary, it is not considered likely that the tax group will have future tax gains if future recovery is expected in more than ten years from the reporting date. Nonetheless, it is considered likely that the tax group will have sufficient tax gains to recover deferred tax assets, provided there are taxable temporary differences that may be reverted in the same year as the expected reversion of deductible temporary differences or in years in which a tax loss, due to a deductible temporary difference, can be compensated with previous or subsequent gains.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply at the time of the reversal based on tax laws enacted and on how it reasonably expects to recover the deferred tax asset or settle the deferred tax liability. Changes to the carrying amounts of deferred income tax assets and liabilities are recognised in the income statement, except where the related deferred tax assets and liabilities are recognised directly in equity.

Deferred tax assets and liabilities are measured without taking into account the impact of the time value of money.

4.14 Classification of current and non-current assets and liabilities

Assets and liabilities are classified in the balance sheet as current and non-current. Accordingly, assets and liabilities are classified as current when they are associated with IBERDROLA's operating cycle and are going to be sold, consumed, realised or settled within one year.

4.15 Income and expense

Income and expenses are recognised at the moment that the goods or services represented by them take place, regardless of when actual payment or collection occurs.

Income from the sale of goods and rendering of services is recognised at the fair value of the counterparty received or to be received, derived from them, less the amount of any discount, price reduction or similar granted by the company, as well as the indirect taxes levied on the transactions which can be passed on to third parties.

Income is recognised based on the economic substance of the transaction and is recognised when all of the following conditions are met:

- IBERDROLA has transferred the significant risks and rewards of ownership of the goods to the buyer, regardless of the legal title.
- IBERDROLA does not maintain managerial involvement to the extent usually associated with ownership and effective control over the goods.
- The amount of the income can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to IBERDROLA.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

In addition, income from the rendering of services is recognised when the outcome of the transaction can be estimated reliably, taking into account the stage of completion at the reporting date. When the outcome of the transaction involving the rendering of services cannot be estimated reliably, income should be recognised but only to the extent of the expenses recognised that are deemed recoverable.

As a holding of the IBERDROLA Group, IBERDROLA includes dividends and accrued income from the financing granted to subsidiaries under the "Net revenue" heading in the income statement.

4.16 Related party transactions

Related party transactions are accounted for pursuant the abovementioned valuation standards.

5. FINANCIAL RISK MANAGEMENT

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

In particular, the financing and financial risk policy of the IBERDROLA Group approved by the board of directors identifies the risk factors described below which may have an impact on the Company. 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.

The Company carries out its business activities indirectly, through the ownership of shares or equity interests in other companies (subholding companies, and in turn these through their head of business companies) with a growing presence abroad. The corporate structure and governance recognises the Group's multinational nature.

Interest rate risk

There is exposure to the risk of fluctuations in interest rates affecting cash flows and fair value in respect of items in the statement of financial position.

In order to adequately manage and limit this risk, the desired yearly structure of the debt between fixed and floating interest rate is determined. From time to time, 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 taking into account hedges via derivatives, is as follows:

Thousands of Euros	2018	2017
Fixed interest rate	744,286	927,019
Floating interest rate	650,841	504,093
Total	1,395,127	1,431,112

The debt structure at 31 December 2018 and 2017, after taking into account hedges via derivatives, is as follows:

Thousands of Euros	2018	2017
Fixed interest rate	478,259	1,145,363
Floating interest rate	11,564,208	8,952,897
Total	12,042,467	10,098,260

The reference interest rates for the floating rate borrowings are basically Euribor, Libor- Sterling Pound

Exchange rate risk

As IBERDROLA's functional currency is the Euro, fluctuations in the value of the currencies, (mainly the Sterling Pound, US Dollar and the Brazilian Real) in which borrowings are instrumented and transactions are made, with respect to the Euro, may have an impact on the finance cost, profit for the year and equity.

IBERDROLA ensures that all its economic flows are carried out in Euros, provided that this is possible and economically viable and efficient, through the use of derivatives if not.

The impact of exchange rate variations in investments in foreign subsidiaries is mitigated by keeping debt in foreign currency as well as through the use of financial derivatives.

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 with a global focus to ensure that it can meet its payment obligations without having to obtain financing under unfavourable terms. For this purpose, various management measures are used, such as the arrangement of committed credit facilities of sufficient amount, term and flexibility, diversification of the hedge of financing needs through access to different markets and geographical areas, and diversification of the maturities of the debt issued (Note 14).

The figures relating to IBERDROLA's debt performance are included in Note 14 to the annual accounts.

As indicated in Note 14, at 31 December 2018 IBERDROLA had undrawn loans and credit facilities of approximately Euros 6,074,361 thousand.

Credit risk

The IBERDROLA Group is exposed to the credit risk arising from the possibility that counterparties (customers, suppliers, financial institutions, partners, etc.) might fail to comply with contractual obligations either for risk of winding-up or of replacement. Credit risk is managed and limited in accordance with the type of transaction and the credit worthiness of the counterparty. Specifically, there is a corporate credit risk policy which establishes criteria for admission, approval systems, authorisation levels, qualification tools, exposure measurement methodologies, exposition limits, mitigation tools, etc.

In the case of IBERDROLA, receivable accounts do not have a relevant credit risk since the activity as a holding company of the Group is centred on services provided to other Group companies. Regarding other exposure (counterparties in transactions with derivatives, placement of cash surpluses, sale transactions involving energy and guarantees received from third parties), in 2018 and 2017 there have been no material non-payments or losses.

6. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

6.1 Accounting estimates

Certain assumptions and estimates were made by IBERDROLA in the preparation of these annual accounts. The main matters subject to estimate in the preparation of these annual accounts are as follows:

- Provision for pensions and similar commitments:

At each year-end, IBERDROLA estimates the current actuarial provision required to cover obligations relating to pension plans, and other similar commitments to its employees. In the preparation of these estimates, IBERDROLA receives advice from independent actuaries (Notes 4.7 and 4.8).

- Impairment of investments in group companies and associates

As described in Note 4.3, IBERDROLA, in accordance with applicable accounting regulations, tests the investments that require testing for impairment annually. Specific tests are also conducted if indications of impairment are detected. These impairment tests require the estimate of the future evolution of the business and the most appropriate discount rate in each case. IBERDROLA believes its estimates in this case are appropriate and consistent with the current market situation.

- Provisions for contingencies and expenses:

As described in Note 4.11, IBERDROLA recognises provisions to cover present obligations arising from past events. For this purpose, it must assess the outcome of certain procedures of a legal or other nature that are ongoing at the date of authorization for issue of these annual accounts based on the best information available.

Although these estimates were made on the basis of the best information available at the date of authorization for issue of these annual accounts, future events may require adjustments (upwards or downwards) in coming years, changes in estimates would be applied prospectively, recognising the effects of the change in estimates in the future periods.

6.2 Sources of uncertainty

There are certain aspects that, at the date of authorization for issue of these annual accounts, constitute a source of uncertainty concerning the accounting impact that they might have in future periods.

The main uncertainties are the following:

- 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 of 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.

- At the reporting date of these annual accounts, Brexit has not had a negative impact on group activities. However, the final outcome of the process is subject to a high degree of uncertainty, which could have an adverse impact on the financial conditions in the United Kingdom and/or the European market as a whole, as well as contributing to lack of stability in global financial markets and currencies, including the volatility of the Euro. In response to the Brexit risks that may arise, IBERDROLA keeps monitoring the evolution of financial markets in order to adopt the appropriate hedging measures.
- Note 18 of these annual accounts describes the principal contingent liabilities of IBERDROLA, 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.

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

7. INTANGIBLE ASSETS

The detail and movements in the items comprising "Intangible assets" in 2018 and 2017 are as follows:

Thousands of Euros	Balance at 01.01.2017	Additions and allowances	Balance at 31.12.2017	Additions and allowances	Decreases, disposals or reductions	Balance at 31.12.2018
Cost						
Patents, licenses, trademarks and similar	157	–	157	–	–	157
Computer software	566,631	47,484	614,115	57,382	(1,489)	670,008
Other intangible assets	15,194	5,665	20,859	8,982	–	29,841
	581,982	53,149	635,131	66,364	(1,489)	700,006
Accumulated depreciation						
Patents, licenses, trademarks and similar	(157)	–	(157)	–	–	(157)
Computer software	(491,168)	(36,232)	(527,400)	(37,435)	213	(564,622)
Other intangible assets	(7,416)	(4,644)	(12,060)	(7,065)	–	(19,125)
	(498,741)	(40,876)	(539,617)	(44,500)	213	(583,904)
Net value	83,241	12,273	95,514	21,864	(1,276)	116,102

In 2018 and 2017, personnel costs of the personnel who have worked on computer systems projects and have been capitalised in the cost of these projects amounted to Euros 3,380 and Euros 2,630 thousand, respectively.

At 31 December 2018 and 2017 there are no intangible assets securing bank loans.

The amounts for intangible assets acquired from group companies and associates at 31 December 2018 and 2017 are Euros 387 and Euros 629 thousand, respectively.

In 2018 and 2017, no intangible assets were sold to group companies.

IBERDROLA does not have intangible assets whose rights may be exercised outside of Spain in 2018 and 2017.

Fully amortised intangible assets amounted to Euros 130,465 thousand at 31 December 2018 (Euros 118,952 thousand at 31 December 2017).

At 31 December 2018 IBERDROLA's firm commitments to acquire intangible assets amounted to Euros 5,067 thousand (Euros 25,866 thousand at 31 December 2017). At 31 December 2018 and 2017 there were no firm commitments to sell intangible assets.

The expenses incurred in due to research and development activities amount to Euros 23,851 thousand in 2018 and Euros (24.387 thousand in 2017).

8. PROPERTY, PLANT AND EQUIPMENT

The detail and movements of the balances of the “Property, plant and equipment” in 2018 and 2017 are as follows:

Thousands of Euros	Balance at 01.01.2018	Additions and allowances	Transfers	Decreases, disposals or reductions	Balance at 31.12.2018
Cost					
Land	59,496	–	–	–	59,496
Buildings	131,311	2,867	–	–	134,178
Technical installations	494	–	19	–	513
Others in use	326,050	18,932	3	–	344,985
Total PP&E in use	517,351	21,799	22	–	539,172
Electricity plant under construction	97	884	(22)	(2,030)	(1,071)
Prepayments and other PP&E under construction	10,825	24,186	–	–	35,011
Total cost	528,273	46,869	–	(2,030)	573,112
Accumulated depreciation					
Buildings	(23,558)	(2,664)	–	–	(26,222)
Technical installations	(36)	(36)	–	–	(72)
Others in use	(282,993)	(16,979)	–	–	(299,972)
Total accumulated depreciation of PP&E	(306,587)	(19,679)	–	–	(326,266)
Electricity plant under construction	–	(799)	–	–	(799)
Total accrual for impairment	–	(799)	–	–	(799)
Total net cost	221,686	26,391	–	(2,030)	246,047

Thousands of Euros	Balance at 01.01.2017	Additions and allowances	Transfers	Decreases, disposals or reductions	Balance at 31.12.2017
Cost					
Land	59,476	20	–	–	59,496
Buildings	129,122	2,189	–	–	131,311
Technical installations	453	–	41	–	494
Others in use	310,014	16,036	–	–	326,050
Total PP&E in use	499,065	18,245	41	–	517,351
Electricity plant under construction	56	82	(41)	–	97
Prepayments and other PP&E under construction	4,036	7,148	–	(359)	10,825
Total cost	503,157	25,475	–	(359)	528,273
Accumulated depreciation					
Buildings	(20,939)	(2,619)	–	–	(23,558)
Technical installations	(4)	(32)	–	–	(36)
Others in use	(268,008)	(14,985)	–	–	(282,993)
Total accumulated depreciation of PP&E	(288,951)	(17,636)	–	–	(306,587)
Total net cost	214,206	7,839	–	(359)	221,686

During the years 2018 and 2017, IBERDROLA has not capitalised finance cost as additions to tangible assets.

In 2018 and 2017, personnel costs directly or indirectly related to construction in progress and capitalised in the cost of those assets, amounted to Euros 222 and Euros 210 thousand, respectively.

During 2018, no tangible assets with a carrying amount have been acquired from group companies and associates (Euros 21 thousand in 2018). In 2018 and 2017, no property, plant and equipment assets were sold to group companies.

IBERDROLA owned no Property, plant and equipment outside the Spanish territory in 2018 and 2017.

At 31 December 2018, IBERDROLA had fully depreciated property, plant and equipment in use with a cost value of Euros 251,071 thousand, of which no amount corresponds to buildings. At 31 December 2017, the amount of Property, plant and equipment fully depreciated and in use amounted to Euros 245,241 thousand, of which none corresponded to building.

At 31 December 2018 and 2017 IBERDROLA had tangible assets securing bank loans.

At 31 December 2018 and 2017, Property, plant and equipment include Euros 87,809 thousand and Euros 88,846 thousand, respectively, corresponding mainly to the carrying amount of the land and building in IBERDROLA's Madrid head office which is held under a finance lease. The amount for which the asset was recognised initially amounted to Euros 104,133 thousand corresponding to the present value of the minimum future payments to be made.

The information related to the minimum payments on the financial lease at 31 December 2018 is as follows:

Thousands of Euros	2018
2019	4,100
2020	4,100
2021	4,100
2022	4,100
2023	4,100
From 2024 onwards	65,105
Total	85,605

Thousands of Euros	2018
Financial Cost	25,032
Present value of the payments	60,573
Total	85,605

The present value is recognised under “Non-current borrowings-financial lease creditors” and “Current borrowings-financial lease creditors” in the balance sheet.

At 31 December 2018 IBERDROLA has firm commitments to acquire Property, plant and equipment amounting to Euros 15,900 thousand (Euros 34,246 thousand at 31 December 2017).

9. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

At 31 December 2018 and 2017 the carrying value of each category of financial asset and liabilities, except for equity investments in group companies and associates, trade and other receivables, trade and other payables, and cash, is as follows:

Long-term financial assets								
Thousands of Euros	Equity instruments		Loans and receivables		Derivatives		Total	
Categories	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Assets held for trading	–	–	–	–	25,454	25,420	25,454	25,420
Loans and receivables	–	–	72,466	106,217	–	–	72,466	106,217
Ready for sale assets valued at cost	412	412	–	–	–	–	412	412
Hedge derivatives	–	–	–	–	48,436	101,226	48,436	101,226
Total	412	412	72,466	106,217	73,890	126,646	146,768	233,275

Short-term financial assets								
Thousands of Euros	Equity instruments		Loans and receivables		Derivatives		Total	
Categories	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Assets held for trading	–	1,744	–	–	3,742	3,990	3,742	5,734
Loans and receivables	–	–	1,369,221	898,360	–	–	1,369,221	898,360
Hedge derivatives	–	–	–	–	211,175	180,035	211,175	180,035
Total	–	1,744	1,369,221	898,360	214,917	184,025	1,584,138	1,084,129

Thousands of Euros	Long-term financial liabilities							
	Loans and borrowings		Derivatives ⁽¹⁾		Other ⁽²⁾		Total	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Liabilities held for trading	–	–	3,258	385	–	–	3,258	385
Loans and payables	798,842	1,053,785	–	–	4,988,134	3,373,610	5,786,976	4,427,395
Hedge derivatives	–	–	81,487	165,565	–	–	81,487	165,565
Total	798,842	1,053,785	84,745	165,950	4,988,134	3,373,610	5,871,721	4,593,345

Thousands of Euros	Long-term financial liabilities							
	Loans and borrowings		Derivatives ⁽¹⁾		Other ⁽²⁾		Total	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Liabilities held for trading	–	–	(363)	1,095	–	–	(363)	1,095
Loans and payables	596,285	377,327	–	–	7,121,219	6,759,383	7,717,504	7,136,710
Hedge derivatives	–	–	24,708	109,013	–	–	24,708	109,013
Total	596,285	377,327	24,345	110,108	7,121,219	6,759,383	7,741,849	7,246,818

(1) Includes derivatives with group companies and associates.

(2) Except for derivatives with group companies and associates.



10. INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

Details in “Investments in group companies and associates” during 2018 and 2017 are as follows:

Thousands of Euros	Balance at 01.01.2018	Company reorganisation	Additions and allowances	Decreases, disposals or reversals	Valuation of net investment hedges	Balance at 31.12.2018
Investments in group companies	44,022,885	94,687	299,940	–	(80,372)	44,337,140
Investments in associates	781	–	–	–	–	781
Valuation adjustments group companies and associates	(228,086)	–	(36,955)	1,514	–	(362,245)
Total	43,795,580	94,687	262,985	1,514	(80,372)	43,975,676

Thousands of Euros	Balance at 01.01.2017	Additions and allowances	Decreases, disposals or reversals	Valuation of net investment hedges	Balance at 31.12.2017
Investments in group companies	44,781,996	–	(357,090)	(402,021)	44,022,885
Investments in associates	781	–	–	–	781
Valuation adjustments group companies and associates	(83,010)	(188,372)	43,296	–	(228,086)
Total	44,699,767	(188,372)	(313,794)	(402,021)	43,795,580

The IBERDROLA Group companies and associates and data relating thereto at 31 December 2018 and 2017 are as follows:

Thousands of Euros										
Company	Registered office	Currency	Market capitalisation at 31.12.2018	Activity	Percentage of ownership at 12.31.2018	Carrying amount 2018	Share	Reserves	Profit/(Loss)	Dividends received in 2018
Iberdrola España, S.A.U. ⁽¹⁾	Bilbao	EUR	–	Holding	100%	9,548,580	2,921,234	9,666,182	1,366,992	1,200,952
Iberdrola Participaciones, S.A.U. ⁽²⁾	Madrid	EUR	–	Holding	100%	2,279,554	60	2,102,690	(30,335)	–
Iberdrola Energía, S.A.U. ⁽²⁾	Madrid	EUR	–	Holding	100%	2,263,426	1,477,831	774,645	164,973	–
Hidro I, S.L.U. ⁽²⁾	Madrid	EUR	–	Holding	100%	1,173,016	394,973	1,890,843	407,039	–
Iberdrola Financiación, S.A.U.	Bilbao	EUR	–	Financial – Instrumental	100%	1,953,317	2,000,060	(88,260)	(57,202)	–
Scottish Power Investments, Ltd. ⁽²⁾	United Kingdom	GBP	–	Holding	100%	14,256,282	1,201	14,319,230	726,923	–
Avangrid, Inc. ⁽²⁾	USA	USD	13,540,235	Holding	81.5%	11,253,527	2,297	16,496,372	528,574	368,998
Scottish Power Overseas Holdings, Ltd. ⁽²⁾	United Kingdom	GBP	–	Energy	100%	106,554	–	102,458	4,096	–
Iberdrola Finanzas, S.A.U.	Bilbao	EUR	–	Financial – Instrumental	100%	100,061	100,061	27,049	(727)	–
Iberdrola International, B.V.	Holland	EUR	–	Financial – Instrumental	100%	388	388	7,185	6,035	–
Iberdrola Inversiones 2010, S.A.U. ⁽²⁾	Bilbao	EUR	–	Holding	100%	160,180	144,010	24,883	1,184	–
Iberdrola Energía Internacional, S.L. ⁽²⁾	Bilbao	EUR	–	Holding	100%	969,478	60	959,318	74,462	–
Other companies	-	-	-	-	-	10,031	–	–	–	–
Total						44,074,394				1,569,950

Thousands of Euros										
Company	Registered office	Currency	Market capitalisation at 31.12.2017	Activity	Percentage of ownership at 12.31.2017	Carrying amount 2017	Share	Reserves	Profit/(Loss)	Dividends received in 2017
Iberdrola España, S.A.U. ⁽¹⁾	Bilbao	EUR	–	Holding	100%	10,434,812	3,245,816	7,594,005	967,354	1,443,090
Iberdrola Participaciones, S.A.U. ⁽²⁾	Madrid	EUR	–	Holding	100%	2,306,833	60	2,297,445	42,480	–
Iberdrola Energía, S.A.U. ⁽²⁾	Madrid	EUR	–	Holding	100%	2,263,426	1,477,831	993,700	117,996	240,577
HidroIa I, S.L.U. ⁽²⁾	Madrid	EUR	–	Holding	100%	867,330	285,409	1,268,433	298,629	7,152
Iberdrola Financiación, S.A.U.	Bilbao	EUR	–	Financial – Instrumental	100%	1,962,993	2,000,060	24,186	15,472	–
Scottish Power Investments, Ltd. ⁽²⁾	United Kingdom	GBP	–	Holding	100%	14,289,123	1,201	13,630,910	420,229	–
Avangrid, Inc. ⁽²⁾	USA	USD	13,051,239	Holding	81.5%	11,295,363	2,297	14,744,291	1,588,381	392,696
Scottish Power Overseas Holdings, Ltd. ⁽²⁾	United Kingdom	GBP	–	Energy	100%	105,040	–	240,601	(135,560)	–
Iberdrola Finanzas, S.A.U.	Bilbao	EUR	–	Financial – Instrumental	100%	100,061	100,061	28,221	(1,172)	–
Iberdrola International, B.V.	Holland	EUR	–	Financial – Instrumental	100%	388	388	345	6,683	8,000
Iberdrola Inversiones 2010, S.A.U. ⁽²⁾	Bilbao	EUR	–	Holding	100%	160,180	144,010	23,733	1,150	–
Other companies	-	-	–	–	–	10,031	–	–	–	3,000
Total						43,795,580				2,094,515

(1) Holding companies. The information regarding Capital, Reserves and Earnings for financial years 2018 and 2017 are presented in consolidated form in accordance with International financial reporting standards.

(2) Holding companies. The information regarding Capital, Reserves and Earnings for financial years 2018 and 2017 are presented in consolidated form in accordance with International financial reporting standards, as adopted by the European Union.

Significant transactions in 2018 and 2017

The main transactions carried out in 2018 and 2017 involving equity stakes held by IBERDROLA were as follows:

- On 15 June 2018 IBERDROLA purchased the company “Deckard Solutions, S.L.” (later renamed “Iberdrola Energy Internacional S.L.”) for Euros 4 thousand. Subsequently, on 30 July 2018 IBERDROLA executed as a public document the transfer of the stake in Iberdrola Renovables Internacional S.L. to Iberdrola Internacional S.L., by means of the partial spin-off of the company Iberdrola España, S.A.U. IBERDROLA has recognised a credit of Euros 94,687 thousand under “Other reserves” in the balance sheet due to the difference between transferred stock and carrying amount of the equity transferred in the Group’s consolidated annual accounts (Note 4.4.1.b).
- On 3 October 2018 IBERDROLA increased Hidrola I, S.L.U.’s share capital in Euros 299,936 thousand in total, distributed in Euros 109,564 thousand in share capital and Euros 190,372 thousand in premium fee.
- On 27 April 2017, the IBERDROLA Group sold its shareholding in Amara, S.A.U. for Euros 8 million. The sale generated an excess of Euros 1,583 thousand, recognised under the “Impairment gains/(losses) on disposal of financial instruments of group companies and associates” heading in the 2017 income statement.
- On 4 April 2017, Hidrola I, S.L.U. approved the distribution of a dividend to be paid from the share premium in the amount of Euros 360,317 million, of which Euros 353,165 thousand have been recorded by reducing the book value of the investment recorded under “Long-term Investments in group companies and associates - Equity instruments” since it does not derive from results generated after its constitution (Note 4.4.2.).

Moreover, at 31 December 2018 and 2017 AVANGRID’s market value was lower than the carrying amount. This was considered as a sign of impairment by the members of the board of directors, so they carried-out an impairment test.

The fundamental hypotheses from the analysis were the following:

- a) Assumptions used in the regulated business:
 - Regulated income: approved income was used for years in which it was available, while for subsequent periods regulation set actualization mechanisms of such income, and these were applied in line with the estimated costs of the corresponding cash-generating units.
 - Investment: the projections were based on investment plans consistent with the expected demand growth in each concession and with the estimate of future income used.
 - Operation and maintenance costs: the best estimation available of the performance of the operation and maintenance cost was used, which is in line with the income assumed to be received in each year.
- b) Assumptions used in the renewables business:
 - Facilities’ production: the operation hours of each plant were consistent with their historical output. In this respect, the long-term predictability of wind output was taken into account, which was also covered by regulatory mechanisms that enabled wind farms to produce whenever meteorological and network conditions allowed it.
 - Given that most of the wind farms in the United States had signed fixed-price sale agreements, the prices used were the ones set out in such agreements.
 - An estimate was made on the regulation that will apply to the facilities in the United States whose construction will start from 31 December 2019 onwards.

- Investment: the projections were based on the best information available about the plants that were expected to be put into operation in the next years, taking into account the fixed prices stated in the contracts to buy wind turbines from various suppliers as well as the technical and financial capacity of the IBERDROLA Group to successfully fulfil the planned projects.
- Operation and maintenance costs: the prices set in land leases and maintenance agreements for the useful life of the facilities were used.

The forecast period of future cash flows was of 10 years for the regulated business (being for 2018 and 2017 1% the growth nominal rate used to extrapolate these projections beyond the reporting period) and the remaining useful life of the assets for the rest of businesses.

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

The risk-free rate corresponded to 10-year Treasury bonds issued in the market, with sufficient depth and solvency.

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

The discount rates before taxes used for the impairment test were between 5.48% and 7.49% (in 2017, between 5.48% and 7.58%) based on the businesses that were part of AVANGRID.

After the analysis on the recoverability of its assets, IBERDROLA concluded that it was not necessary to record any write-offs at 31 December 2018 and 2017.

11. EQUITY

11.1 Registered capital

Changes in 2018 and 2017 in the different items of share capital of IBERDROLA are as follows:

	Date recorded Companies Registry	% Capital	Number of actions	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
Share capital decrease	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
Share capital decrease	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 bonus share issues taken place in 2018 and 2017 correspond to the different execution approved by the General Shareholders' Meeting through which the Iberdrola Flexible Dividend system is implemented.

In 2017 IBERDROLA changed the framework of the second Iberdrola flexible dividend programme, adding a fourth additional option to the traditional three options. As a result, shareholders could choose among:

- a) receiving their remuneration in free allocation right shares;
- b) Transferring in part or in whole the free allocation rights to the market;
- c) Transferring in part or in whole the free allocation rights to the Company at a fixed guaranteed price by virtue of a purchase undertaking by the Company, or
- d) Receiving their remuneration in cash, collecting an amount for the dividends corresponding to 2017.

In 2018, with the implementation of the first settlement of the Iberdrola flexible dividend, the option to transfer the free allocation rights to the Company at a fixed price was eliminated. The other three options remained. The same characteristics have been maintained for the second settlement of the Iberdrola flexible dividend. IBERDROLA's board of directors will submit to the General Shareholders' Meeting for approval (Note 3).

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

	Free of charges allocation rights		Rights waived ⁽¹⁾
	Number	Thousands of Euros	Number
Free capital increase			
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, on 24 May 2017 and 21 June 2018, capital decreases were performed by redeeming treasury shares already held, as approved by the shareholders at their General Meeting held on 31 March 2017 and 13 April 2018, respectively, through the amortisation of treasury stock.

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

IBERDROLA's shares are listed for trading on the Spanish electronic trading system (Mercado Continuo Español), and included in the IBEX-35 and European Eurostoxx-50 index.

Major shareholders

Since IBERDROLA's shares are represented by the book-entry system, the exact stakes held by its shareholders are not known. The table below summarises major direct and indirect shareholdings in the share capital of IBERDROLA at 31 December 2018 and 2017, as well as the holdings of financial instruments disclosed by the owners of these stakes in compliance with the Royal Decree 1362/2007 of 19 October. This information is based on filings by the owners of the shares in the official registers of the National Securities Market Commission (hereinafter, Comisión Nacional del Mercado de Valores - CNMV) or the company's annual accounts or press releases, and it is presented in the 2018 IBERDROLA Group's Annual Corporate Governance Report.

IBERDROLA treats as a "significant shareholder" any shareholder who exerts a significant influence on the company's financial and operating decisions. "Significant influence" is defined as having at least one director on the board. This also applies to those significant shareholders whose ownership interest in the company enables them to exercise the proportional representation system. Therefore, the company treats Qatar Investment Authority as significant shareholder, being the only shareholder who satisfied that condition as of 31 December 2018 and 2017.

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

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

Holder	% of voting rights 2017			Financial instruments	Directors in IBERDROLA
	Direct	Indirect	Total		
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, the breakdown of other companies having at 31 December 2018 and 2017 direct or indirect voting rights higher than 3% of the share capital are as follows:

Holder	% of voting rights 2018			% of voting rights 2017		
	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

At 31 December 2018, the direct and indirect stakes in the capital of IBERDROLA held by the members of the board of directors are as follows:

Directors	Number of shares			
	Direct	Indirect	Total	%
José Ignacio Sánchez Galán	6,113,855	3,660,651	9,774,506	0.153
Inés Macho Stadler	66,326	–	66,326	0.001
Iñigo Víctor De Oriol Ibarra	1,226,688	–	1,226,688	0.019
Samantha Barber	1,900	–	1,900	–
María Helena Antolín Raybaud	3,339	–	3,339	–
Angel Jesús Acebes Paniagua	6,559	–	6,559	–
Georgina Yamilet Kessel Martínez	6,456	–	6,456	–
Denise Mary Holt	556	–	556	–
José Walfredo Fernández	–	–	–	–
Manuel Moreu Munaiz	24,372	24,372	48,744	0.001
Xabier Sagredo Ormaza	–	–	–	–
Juan Manuel González Serna	43,663	385,207	428,870	0.007
Francisco Martínez Córcoles	424,354	–	424,354	0.007
Anthony Luzzato Gardner	–	–	–	–
Total	7,918,068	4,070,230	11,988,298	0.188

Direct and indirect shareholdings of members of the board of directors at the date of authorization for issue of these annual accounts are set out in section A.3. of the Annual corporate governance report.

Powers delegated by the General Shareholders' Meeting

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

- increase share capital in the terms and to the limits stipulated in Article 297.1 b) of the Spanish Companies 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, 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.

11.2 Share premium

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

11.3 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, amounting to Euros 968,999 thousand, can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

11.4 Revaluation reserves

This reserve, amounting to Euros 28,002 thousand included in the balance sheet of the 1996 annual accounts, arose as a result of the revaluation of property, plant and equipment made by IBERDROLA pursuant to Royal Decree-Law 7/1996 of 7 June (Note 4.2).

This reserve may be used, tax free, to offset accumulated losses from previous years, as well as losses incurred in the current or future years and to increase capital. From 1 January 2007, it can be allocated to unrestricted reserves, provided that the capital gain has been realized. The surplus will be deemed to have been realised on the portion on which depreciation has been taken for accounting purposes or if the revalued assets have been transferred or derecognised. If the balance of this account was used in any way other than as specified in the Royal Decree-law 7/1996, it would be subject to tax.

11.5 Redeemed capital reserve

In 2018, the capital reduction was carried out by redeeming treasury stock, lowering its share capital by Euros 148,780 thousand and voluntary reserves by Euros 1,245,471 thousand, carrying out the resolution approved by the shareholders at their General Meeting held on 13 April 2018.

In accordance with article 335.c of the Revised Text of the Spanish Companies Act, IBERDROLA has a restricted "Redeemed capital reserve" of Euros 837,903 thousand, equivalent to the par value of the reduced share capital.

11.6 Treasury shares

The Company buys and sells treasury shares in accordance with the prevailing law and the resolutions of the General Shareholders Meeting. Such transactions include purchases and sales of company shares and derivatives thereon.

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 Stock	135,985,344	873,065	75,710,149	507,175
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	155,618,169	1,002,272	88,137,920	589,380

a) Treasury Stock

Movements in treasury shares during 2018 and 2017 were as follows:

	No. of shares	Thousands of Euros
Balance at 01.01.2017	151,224,777	868,936
Additions	154,508,438	1,002,731
Share capital decrease	(219,990,000)	(1,280,176)
Disposals	(11,929,704)	(74,937)
Iberdrola scrip dividend (1)	1,896,638	–
Iberdrola scrip dividend (2)	–	(9,379)
Balance at 31.12.2017	75,710,149	507,175
Additions	266,442,793	1,672,087
Share capital decrease	(198,374,000)	(1,245,420)
Disposals	(7,798,715)	(49,733)
Iberdrola scrip dividend (1)	5,117	–
Iberdrola scrip dividend (2)	–	(11,044)
Balance at 31.12.2018	135,985,344	873,065

(1) Shares received

(2) Free of charges allocation rights disposed.

The profit obtained by IBERDROLA in 2018 and 2017 due to the disposal of treasury stock amounted to a loss of Euros 225 thousand and profit of Euros 2,950 thousand, respectively, recognised under "Other reserves" in the balance sheet.

b) Derivatives settled by physical delivery

IBERDROLA has recognised the transaction directly in equity under the heading "Treasury shares and own equity investments" and the obligation to buy back the shares under the "Long-term and short-term liabilities - Bank borrowings" heading in the balance sheet.

– Total return swaps

IBERDROLA has also arranged a swaps on treasury shares with the following features: during the life of the contract IBERDROLA will pay the financial entity the 3-month Euribor plus a spread on the underlying notional and will receive the corresponding dividends with respect 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:

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

2017	No. of shares	Strike price	Maturity date	Interest rate	Thousands of Euros
Total Return Swap	6,000,000	6.941	24/07/2018	Euribor 3 months +	41,646
Total	6,000,000	-			41,646

- Accumulators

The IBERDROLA Group holds several purchase accumulators on treasury shares.

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

The accumulation mechanism is as follows:

- when the spot price is below the strike price, two units of the underlying instrument are accumulated;
- when the spot price is between the strike price and the knockout level, only one unit of the underlying instrument 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 - 18/07/2018	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).

11.7 Unrealised gains/(losses) reserve

Movements in this reserve in 2018 and 2017 due to impairment of available-for-sale financial assets and derivatives classified as cash-flow hedges are as follows:

Thousands of Euros	01.01.2018	Change in fair value and others	Amounts allocated to income	31.12.2018
Cash flow hedges				
Interest rate swaps	(94,515)	37,820	22,360	(34,335)
Tax effect	23,634	(9,455)	(5,590)	8,589
Total	(70,881)	28,365	16,770	(25,746)

Thousands of Euros	01.01.2017	Change in fair value and others	Amounts allocated to income	31.12.2017
Cash flow hedges				
Interest rate swaps	(124,149)	9,273	20,361	(94,515)
Tax effect	31,042	(2,318)	(5,090)	23,634
Total	(93,107)	6,955	15,271	(70,881)

Details of the years in which this reserve is expected to affect the income statement are as follows:

Thousands of Euros	2019	2020	2021	2022	2023 onwards	Total
Cash flow hedges						
Interest rate swaps	(10,416)	(10,038)	(7,752)	(2,325)	(3,804)	(34,335)
Tax effect	2,539	2,511	1,939	582	1,018	8,589
Total	(7,877)	(7,527)	(5,813)	(1,743)	(2,786)	(25,746)

12. SHARE-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 and 2016 Strategic Bonus on determining that 93.20% of the objectives had been met.

Given this situation, and having confirmed the bases underlying the delivery of the shares corresponding to the first settlement, in the second half of 2017 and the first quarter of 2018 the first and second of the three annual payments were carried out via the delivery of 1,729,342 and 1,595,056 shares. These shares included those delivered to executive directors (Note 21) and to senior management (Note 23).

The heading "personnel expenses" of the consolidated income statement for 2018 and 2017 includes a charge of Euros 5,431 and 14,121 thousand respectively corresponding to the amount accrued for this incentive plan, which has been recorded with charge and debit to the sub-headings "Other reserves".

2017-2019 Strategic Bonus Programme

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

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.

Details of the shares granted in 2018 and 2017 are as follows:

No. Of shares	
Balance at 01.01.2017	-
Additions	6,915,000
Balance at 31.12.2017	6,915,000
Additions	120,000
Derecognitions	(180,000)
Other	(15,000)
Saldo a 31.12.2018	6,840,000

"Personnel expenses" on the income statement from 2018 and 2017 includes a charge of Euros 12,602 thousand and Euros 5,433 thousand respectively corresponding to the amount accrued for this incentive plan, which has been taken to "Other reserves".

Movements of "Other reserves" for the bonds described above are as follows:

Thousands of Euros	Strategic bonus 2014-2016	Strategic bonus 2017-2019	Total
Balance at 01.01.2017	20,971	–	20,971
Charges	14,121	5,433	19,554
Payment in shares	(15,427)	–	(15,427)
Payments in cash derecognition	(1,341)	–	(1,341)
Balance at 31.12.2017	18,324	5,433	23,757
Charges	5,431	12,602	18,033
Payment in shares	(11,141)	–	(11,141)
Payments in cash derecognition	(2,418)	–	(2,418)
Balance at 31.12.2018	10,196	18,035	28,231

13. PROVISIONS

13.1 Provisions for non-current employee benefits

The breakdown of this item in the balance sheets at 31 December 2018 and 2017 is as follows:

Thousands of Euros	2018	2017
Remuneration stipulated in by-law 48.1 (Note 19.3)	27,099	26,567
Remuneration stipulated in by-law 48.4 (Note 19.3)	14,819	12,297
Defined benefit plans	190,644	201,912
Non-current provisions	5,869	6,368
Restructuring plans	16,236	21,346
Total	254,667	268,490

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

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

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'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 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'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 costs" heading in the income statement and came to Euros 852 thousand and Euros 778 thousand, respectively (Note 19.3).
- 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.

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

	Thousands of Euros	Electricity tariff	long-service bonus
Balance at 01.01.2017		256,649	6,105
Normal cost (Note 19.3)		481	540
Other costs recognised under "Staff costs" (Note 19.3)		110	-
Finance cost (Note 19.5).		3,786	49
Actuarial gains and losses:			
To profit (Note 19.3)		-	181
To reserves		(50,169)	-
Payments and other		(8,945)	(507)
Balance at 31.12.2017		201,912	6,368
Normal cost (Note 19.3)		348	563
Finance cost (Note 19.5).		3,225	49
Actuarial gains and losses:			
To profit (Note 19.3)		-	(91)
To reserves		(4,018)	-
Payments and other		(10,823)	(1,020)
Balance at 31.12.2018		190,644	5,869

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			Survivorship table
	Discount rate	Wage increase	Price kWh (euros)	
Electricity tariff	1.60%	-	2018: 0.118712 2019: 0.127224330942795 2020: 0.130717437441886 2021: 0.122148002932181 2022: 0.121850830479734 [...]	PERM/F 2000P
Long-service bonus	0.93%	1.00%		PERM/F 2000P

	2017			Survivorship table
	Discount rate	Wage increase	CPI increase	
Electricity tariff	1.64%	-	2018 0,120; 2019 0,119; 2020 0,113; 2021 0,112; 2022 0,112; [...]	PERMF 2000P
Long-service bonus	0.80%	1.00%	-	PERMF 2000P

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 01 January 2018 are subject to a contributory system where the Company pays 60% and the employee 40% (as of 1 June 2017, the Company paid 56.45% and the employee 43.55%. Before this date, the Company paid 55% and the employee 45%). For the ones hired after 20 July 2015 the company pays 1/3 and the employee 2/3, until the date in which the employee takes part in the Base Salary Rating (BSR). At this moment the same criteria will be applied to those employees as the ones who were hired since 9 October 1996. The Company finances these contributions for all its respective current employees.

IBERDROLA's contributions in 2018 and 2017 were Euros 2,056 thousand and Euros 7,243 thousand, respectively, and are recognised under "personnel costs" heading in the income statement (Note 19.3).

c) Restructuring plans

Given the interest shown by some of the employees in requesting early retirement, IBERDROLA offered these employees mutually agreed termination of the employment relationship. IBERDROLA has carried out a process of individual termination contracts. At 31 December 2018, the existing provisions in this regard correspond to the following restructuring plans:

Thousands of Euros	31.12.2018		31.12.2017	
	Provisions	No. of contracts	Provisions	No. of contracts
2012 restructuring plan	140	2	648	14
2014 restructuring plan	8,880	52	12,966	57
2015 restructuring plan	219	2	414	2
2016 restructuring plan	303	2	465	2
2017 restructuring plan	6,694	13	6,853	13
Total	16,236	71	21,346	88

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	21,346	21,218
Charges (Note 19.3)	–	6,851
Finance cost (Note 19.5)	74	77
Actuarial gain and losses and other (Note 19.3)	786	(78)
Payments and other	(5,970)	(6,722)
Final balance	16,236	21,346

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

	2018			2017		
	Discount rate	CPI	Survivorship table	Discount rate	CPI	Survivorship table
Collective redundancy procedures and other early retirement plans for employees	0,33%/0,42 %	0,70%/1,00 %	PERM/F 2000P	0,32% / 0,38%/0,45 %	0,70%/1,00 %	PERM/F 2000P

13.2 Other current and non-current provisions

The details and breakdown of the liabilities in the balance sheet in 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Initial balance	230,948	174,188
Charges	1,820	58,213
Charge for discount to present value (Note 19.5)	11,601	10,000
Overprovisions	(7,050)	(8,448)
Provisions applied and payments	(8,689)	(3,005)
Final balance	228,630	230,948

14. LOANS AND BORROWINGS FOR FINANCIAL LEASES

The detail of bank borrowings outstanding at 31 December 2018 and 2017, once considered foreign exchange hedges, and the repayment schedule are as follows:

Thousands of Euros	Short term			Long term				2024 and following	Total long term
	Balance at 31.12.2017	Balance at 31.12.2018	2019	2020	2021	2022	2023		
Euros	927,076	1,079,824	557,037	83,254	23,333	361,855	3,944	50,401	522,787
Sterling Pound	502,139	313,500	37,445	37,447	37,449	37,451	37,454	126,254	276,055
Total	1,429,215	1,393,324	594,482	120,701	60,782	399,306	41,398	176,655	798,842
Interests accrued	1,897	1,803	1,803	–	–	–	–	–	–
Total	1,431,112	1,395,127	596,285	120,701	60,782	399,306	41,398	176,655	798,842

Borrowings outstanding at 31 December 2018 and 2017 accrue a weighted average annual interest rate of 2.12% and 2.12%, respectively, once adjusted for the corresponding hedges.

The borrowings previously mentioned refer to the amounts drawn down and outstanding at 31 December 2018 and 2017. Additionally, at the end of 2018 and 2017 IBERDROLA had undrawn loans and credit facilities amounting to Euros 6,074,361 thousand and Euros 5,096,357 thousand, respectively, maturing between 2019 and 2023 and accrue a weighted average interest plus 0.30%.

Significant transactions carried out by IBERDROLA during 2018 are as follows:

2018				
Operation	Millions of euros	Currency	Extension	Maturity
Main new financing transactions				
Syndicated loan ⁽¹⁾	2,979	Euro	option 1+1	feb-2023
Syndicated loan ⁽¹⁾	2,321	Euro	option 1+1	feb-2023
Main transaction for extending existing financing				
Syndicated loan ⁽²⁾	500	Euro	+1 year	june-2023
Bilateral loan ⁽²⁾	350	Euro	+1 year	jul-2022

(1) 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.

(2) Does not involve entry of funds.

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

2017				
Operation	Millions of euros	Currency	Extension	Maturity
Main new financing transactions				
Bilateral loan ⁽¹⁾	350	Euro	+1 year	jul-2021
Main transaction for extending existing financing				
Syndicated loan	1,856	Euro	+1 year	feb-2022
Syndicated loan	2,331	Euro	+1 year	feb-2022
Syndicated loan	500	Euro	+1 year	june-2022

(1) Reconfiguration, does not involve entry of funds. Includes extension option +1year

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 2018. The terms of the IBERDROLA's borrowings include the usual covenants applied to such agreements.

In relation to credit ratings covenants, IBERDROLA has arranged funding with the European Investment Bank, amounting to Euros 125 million and Euros 352 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. Moreover, these transactions contracted with the European Investment Bank amounting to Euros 189 million and Euros 192 million during 2018 and 2017 respectively, are likely to be declared overdue in advance or require additional guarantees in case of a change of control resulting from a takeover bid, unless the change is not considered harmful.

At reporting date of these annual accounts, neither IBERDROLA nor any of its material subsidiaries were in breach of their financial commitments or any kind of obligation that could trigger the early redemption of their financial undertakings. IBERDROLA considers that the covenant clauses will have no effect on the classification of borrowings as current or non-current in the balance sheet.



15. DERIVATIVES

The breakdown of items contributing to derivatives at 31 December 2018 and 2017 is as follows:

Thousands of Euros	2018				2017			
	Short term		Long term		Short term		Long term	
With third parties non-group	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate options								
Cash flow hedges								
Interest rate swaps	–	(777)	–	(4,338)	–	(8,622)	–	(44,420)
fair value hedges								
Interest rate swaps	2,964	2,492	4,335	–	4,051	3,890	8,155	–
Exchange rate hedges								
Cash flow hedges								
Exchange insurances	552	(954)	–	–	1,445	(17)	–	–
Currency swap	–	–	–	–	–	(28,834)	–	–
fair value hedges								
Currency swap	141,467	(16,767)	44,101	(73,453)	31,594	33,570	93,071	(107,655)
Fair net investment abroad								
Currency swap	–	–	–	–	(3,346)	(28,156)	–	–
Exchange insurances	66,192	(8,722)	–	–	146,291	(80,844)	–	–
NON-HEDGING DERIVATIVES								
Exchange rate derivatives								
Exchange insurances	1,630	(262)	15,772	–	1,916	(1,895)	8,773	–
Interest rate derivatives								
Interest rate swaps	–	1,275	183	–	–	1,525	1,830	–
Treasury shares derivatives								
Treasury shares derivatives	–	–	–	–	–	(2)	–	–
Total	212,805	(23,715)	64,391	(77,791)	181,951	(109,385)	111,829	(152,075)

Thousands of Euros	2018				2017			
	Short term		Long term		Short term		Long term	
With group companies and associates	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Exchange rate hedges								
Cash flow hedges								
Exchange insurances	–	20	–	(3,696)	–	–	–	(13,490)
NON-HEDGING DERIVATIVES								
Exchange rate derivatives								
Exchange insurances	2,112	(650)	9,499	(3,258)	2,074	(723)	14,817	(385)
Total	2,112	(630)	9,499	(6,954)	2,074	(723)	14,817	(13,875)

The maturity schedule of the notional underlyings of derivative instruments contracted by IBERDROLA and outstanding at 31 December 2018, is as follows:

Thousands of Euros	2019	2020	2021	2022	2023 and following	Total
Interest rate options						
Cash flow hedges						
Interest rate swaps	–	60,000	83,266	–	–	143,266
Fair value hedges						
Interest rate swaps	120,000	–	75,000	–	–	195,000
Exchange rate hedges						
Cash flow hedges						
Exchange insurances	122,262	–	–	–	263,196	385,458
Fair value hedges						
Currency swap	1,283,363	223,287	886,980	–	19,440	2,413,070
Fair net investment abroad						
Exchange insurances	1,039,828	–	–	–	–	1,039,828
NON-HEDGING DERIVATIVES						
Exchange rate derivatives						
Exchange insurances	70,328	64,289	60,852	73,370	160,837	429,676
Interest rate derivatives						
Interest rate swaps	50,000	–	–	–	–	50,000
Treasury shares derivatives						
Treasury shares derivatives	35	–	–	–	–	35
Total	2,685,816	347,576	1,106,098	73,370	443,473	4,656,333

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 since this amount only records the basis on which the calculations to settle the derivative are made.

The nominal value of the financial liabilities for which foreign exchange hedges have been arranged is as follows:

Thousands of	US dollars	Mexican Pesos	Japanese Yens	Sterling Pound
Hedge rate				
Fair value	1,819,000	–	13,000,000	700,000
Cash flow	375,000	–	–	–

Thousands of	US dollars	Mexican Pesos	Japanese Yens	Sterling Pound
Hedge rate				
Fair value	1,819,000	–	28,000,000	700,000
Cash flow	364,000	1,500,000	–	–

IBERDROLA also engages in interest rate hedging transactions as part of its risk management policy. The purpose of these transactions is to offset the effect that fluctuations in interest rates could have on future cash flows from loans and borrowings with floating rates of interest and on the fair value of fixed-rate loans and borrowings.

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

2018		
Thousands of	Euros	Sterling Pound
Hedge rate		
Fair value	195,000	–
Cash flow	60,000	75,000

2017		
Thousands of	Euros	Sterling Pound
Hedge rate		
Fair value	295,000	–
Cash flow	60,000	225,000

16. MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value in “Borrowings”, “Financial lease creditors” and “Borrowings with group companies and associates” (except for group companies and associates) in current and non-current liabilities in the balance statement as of 31 December 2018 and 2017 amounts to Euros 13,785,580 and 12,262,325 thousand respectively. Carrying amount is Euros 13,437,594 thousand and Euros 11,529,372 thousand respectively. The fair value of the derivative financial instruments does not differ significantly from book value thereof.

17. 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 for 2018 and 2017 is the following:

Number of days	2018	2017
Average payment period to suppliers.	21.1	20.8
Paid transactions ratio	20.8	20.6
Outstanding payment transactions ratio	25.5	28.6

Thousands of Euros	2018	2017
Total payments made	614,327	622,905
Total payments due	33,025	12,687

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.

18. TAXES

18.1 Public entities

Details of assets and liabilities related to public entities in the balance sheets at 31 December 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Public Administrations, receivables		
Public Treasury, VAT refundable	714	14
Public Treasury, Corporate income tax receivables	116,009	440,238
Public Treasury, withholdings, receivables	3,698	
Social Security Agencies, receivables	-	3
Total	120,421	440,255
Public Administrations, Payables		
Public Treasury, VAT payable	18,903	65,124
Public Treasury, withholdings payable	694	1,979
Public Treasury, other payables	878	954
Social Security Agencies, payables	994	928
Total	21,469	68,985

18.2 Income tax

IBERDROLA is 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 Bizkaia 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 companies.

In 2018 and in past years, IBERDROLA has been involved in a series of corporate restructuring transactions under the special neutrality tax regime provided under Chapter VII, Title VII of the Spanish Income Tax Law 27/2014 of 27 November. The disclosures required under this law are provided in the Notes to the annual accounts for the years when these transactions have been carried out.

The reconciliation between the parent company's accounting profit and its taxable profit for Income Tax purposes in 2018 and 2017 is as follows:

Thousands of Euros	2018	
	Income statement Increases / (decreases)	Income and expense recognised directly in equity Increases / (decreases)
Income and expense for the year	991,768	47,238
Income tax	(63,610)	15,747
Permanent differences	(1,316,117)	-
Temporary differences		
Arising in the year	12,577	(41,838)
Arising in prior years	(43,407)	(22,360)
Tax base (tax profit)	(418,789)	(1,213)

2017		
Thousands of Euros	Income statement Increases /(decreases)	Income and expense recognised directly in equity Increases /(decreases)
Income and expenses for the year	1,598,871	58,982
Corporate income tax	8,410	19,661
Permanent differences	(1,913,324)	–
Temporary differences		
Arising in the year	41,977	(59,441)
Arising in prior years	(39,609)	(20,361)
Tax base (tax profit)	(303,675)	(1,159)

The amount of income and expenses directly attributed to equity in the years 2018 and 2017, before taxes, includes capital reduction expenses and paid-up capital increase expenses and amounting to Euros 1,213 and 1,160 thousand respectively (Note 11). These expenses, as well as their tax effect of Euros 303 thousand and Euros 290 thousand, respectively, are not reflected in the Statement of recognized income and expense.

Permanent differences are due to dividends received, to changes in the equity investment valuation provision that have not generated a deferred tax asset and associates and to other expenses that are not considered as tax-deductible.

18.3 Income tax expense

The breakdown between current and deferred income tax is as follows:

2018		
Thousands of Euros	Income statement	Income and expense recognised directly in equity
Effective tax (Income) / Expense		
Current	(79,968)	(303)
Deferred	16,358	16,050
Total	(63,610)	15,747

2017		
Thousands of Euros	Income statement	Income and expense recognised directly in equity
Effective tax (Income) / Expense		
Current	97,147	(290)
Deferred	(88,737)	19,951
Total	8,410	19,661

Accrued Corporate Income Tax expense/(income) for 2018 and 2017 is as follows:

Thousands of Euros	2018	2017
Accounting profit of the year before tax	928,158	1,607,281
Permanent differences	(1,316,117)	(1,913,324)
Adjusted accounting profit	(387,959)	(306,043)
Gross tax	(96,990)	(76,511)
Deductions (a)	(3,513)	(3,701)
Effect of consolidated taxation:		
Adjustment of deferred tax assets and liabilities	1,950	3,540
Other (b)	34,943	85,082
Income tax expense/(income)	(63,610)	8,410

(a) Tax credits taken by IBERDROLA include basically the credits to avoid double taxation and other credits intended to promote certain activities.

(b) In 2018 and 2017 it corresponds mainly to income tax incurred abroad and contributions to provisions.

18.4 Deferred taxes

The movement in “Deferred tax assets” and “Deferred tax liabilities” in 2018 and 2017 is as follows:

Thousands of Euros	01.01.2018	Credit (charge) to the income statement	Credit (charge) to “Other reserves”	Credit (charge) to “Unrealised gains/(losses) reserve”	31.12.2018
Deferred tax assets:					
Measurement of financial instruments derivatives:					
Cash flow hedges	23,627	–	–	(3,298)	20,329
Pensions and similar commitments	82,344	(6,475)	(1,004)	–	74,865
Tax credits for losses and deductions	244,258	(3,209)	–	–	241,049
Other deferred tax assets	39,570	(6,935)	–	–	32,635
Total	389,799	(16,619)	(1,004)	(3,298)	368,878

Thousands of Euros	01.01.2017	Credit (charge) to the income statement	Credit (charge) to “Other reserves”	Credit (charge) to “Unrealised gains/(losses) reserve”	31.12.2017
Deferred tax assets:					
Measurement of financial instruments derivatives:					
Cash flow hedges	235,854	–	–	(212,227)	23,627
Pensions and similar commitments	104,972	(10,086)	(12,542)	–	82,344
Tax credits for losses and deductions	298,772	(54,514)	–	–	244,258
Other deferred tax assets	33,086	6,484	–	–	39,570
Total	672,684	(58,116)	(12,542)	(212,227)	389,799

Balance of deferred tax assets included the amounts the Company expects to recover in no more than 10 years.

Thousands of Euros	01.01.2018	Credit (charge) to the income statement	Credit (charge) to “Unrealised gains/(losses) reserve”	31.12.2018
Deferred tax liabilities:				
Measurement of financial instruments derivatives:				
Cash flow hedges	–	–	11,748	11,748
Accelerated depreciation	7,086	184	–	7,270
Overprice in business combinations (Art.12.5)	674,503	–	–	674,503
Other deferred tax liabilities	45,043	(445)	–	44,598
Total	726,632	(261)	11,748	738,119

Thousands of Euros	01.01.2017	Credit (charge) to the income statement	Credit (charge) to "Unrealised gains/(losses)"	31.12.2017
Deferred tax liabilities:				
Measurement of financial instruments derivatives:				
Cash flow hedges	204,818	–	(204,818)	–
Accelerated Depreciation	6,888	198	–	7,086
Overprice in business combinations (Art. 12.5)	822,566	(148,063)	–	674,503
Other deferred tax liabilities	44,031	1,012	–	45,043
Total	1,078,303	(146,853)	(204,818)	726,632

The details of Group tax bases by business in 2018 and 2017 are as follows:

Thousands of Euros	31.12.2018	31.12.2017
Liberalised business Spain	172,702	596
Renewables business Spain	429,145	209,208
Renewables business Spain	3,238	2,994
Other businesses	(75,195)	68,653
Corporation	(432,186)	(336,047)
Total	97,704	(54,596)

The details of Corporate Tax credits and debits at the end of the financial year by business between the companies in the Tax Group is as follows:

Thousands of Euros	31.12.2018	31.12.2017
Liberalised business Spain	53,267	50,813
Renewables business Spain	(56,879)	(16,839)
Renewables business Spain	(246)	(97)
Other businesses	(16,682)	(20,928)
Corporation	137,869	54,440
Total	117,329	67,389

18.5 Administrative actions

At the reporting date, IBERDROLA keeps 2015 and subsequent fiscal years open to fiscal inspection in relation to the main taxes in which they are subject to, with the exception to income tax which is open for 2012 and subsequent fiscal years.

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.

18.6 Tax litigation

The IBERDROLA Group includes among its principles the strengthening of the relationship with the tax authorities, based on the respect for the law, loyalty, trust, professionalism, cooperation, 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.

All IBERDROLA's work, for this year and the previous years, 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 IBERDROLA's general criterion consists of setting aside provisions for tax litigation when there is high risk that the outcome is unfavourable to IBERDROLA's interests, while this set-aside does not occur where the risk level is lower or remote.

At present, IBERDROLA is awaiting the decision by the Central Administrative Economic Court for the complaints lodged as a result of disagreement signed as part of the general verification process for 2008-2011.

The main adjustments in the settlement agreements arising from the disagreement minutes signed refer to the Measurement of the financial goodwill liable for fiscal amortisation due to the acquisition of SCOTTISH POWER and Elimination of the dividend exemption of SCOTTISH POWER, as the inspectors understood this is incompatible with an adjustment in the value of the portfolio due to coverage of a net investment, discrepancies in tax consolidation criteria and observation of circumstances established in Article 15.1 of Spain's General Tax Law in a debtor-swap operation in a number of bond issues.

The IBERDROLA Group directors and tax advisors believe that no material additional liabilities will arise in relation to additional liabilities arising from the confirmation settlement agreements related to discomformities other than those already recorded at 31 December 2017.

19. INCOME AND EXPENSES

19.1 Net revenue

The detail of this heading in the income statements for 2018 and 2017 by geographic market is as follows:

Thousands of Euros	2018	2017
Gas	395,112	385,331
Spain (1)	326,541	319,862
European Union		
Euro zone	19,761	–
ROW	48,810	65,469
Others	4,542	10,316
	399,654	395,647
Finance revenue from equity investments in group companies and associates (Notes 10 and 24.2)	1,569,950	2,094,515
Finance revenue from debt securities and other financial instruments of group companies and associates (Note 24.2)	21,205	20,248
Income from services rendered to group companies (Note 24.2)	234,448	220,402
	1,825,603	2,335,165
Total	2,225,257	2,730,812

(1) Corresponding mainly to sales to Iberdrola Generación España S.A.U.

19.2 Provisions

The detail of this heading in the income statements for 2018 and 2017 is as follows:

Thousands of Euros	2018	2017
Purchases		
Gas purchases	391,740	379,266
Domestic purchases	64,800	58,735
EU purchases	197,859	148,571
ROW	129,081	171,960
Other purchases	3,741	9,238
Total	395,481	388,504

At 31 December 2018, IBERDROLA has in place “take or pay” contracts with several natural and liquefied natural gas (hereinafter LNG) 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, which are transferred out at the moment of reception to its investee Iberdrola Generación España, S.A.U. The prices of 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.

The information in relation to the expiry of these acquisition commitments is as follows:

Thousands of Euros	2018
2019	362,176
2020	416,156
2021	451,165
2022	441,218
2023	463,858
From 2024 onwards	5,500,373
Total	7,634,944

19.3 Social security costs

The detail of this heading in the income statements for 2018 and 2017 is as follows:

Thousands of Euros	2018	2017
Company social security costs	10,308	9,544
Contribution to provisions for pensions and similar commitments (Note 13)	2,458	8,863
Contributions defined for the outsourced pension plan (Note 13)	2,056	7,243
Remuneration stipulated in by-law 48.1 (Note 21.1)	17,000	17,000
Token payments Art. 48.4	5,588	3,398
Other social expenses	8,214	5,592
Total	45,624	51,640

19.4 Operating leases

The “External services” heading on the income statements includes operating lease payments of Euros 14,262 thousand and Euros 11,698 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	2018
2019	15,062
2020	19,342
2021	19,105
2022	18,938
2023	18,823
From 2024 onwards	99,443
Total	190,713
Financial Cost	23,387
Present value of the payments	167,326
Total	190,713

19.5 Finance cost

Details of this heading in 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Finance expense related to liabilities at amortised cost:		
With third parties	19,430	21,304
With group companies and associates	254,350	301,280
Increase/(decrease) in finance costs from fair-value hedges of interest rate	(67,719)	(72,902)
Increase/(decrease) in finance costs from cash flow hedges of interest rate	9,573	7,469
Increase/(decrease) in finance costs from discontinued hedges	7,247	7,391
Other finance cost	39,369	15,443
Discount to present value of provisions (Note 13)	14,949	13,912
Total	277,199	293,897

19.6 Financial Income

Details of this heading in 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Finance income related to liabilities at amortised cost:	–	–
With third parties	80	1,460
Accrued interest on regulatory receivable (revenue shortfall)	199	5,414
Other financial Income	1,587	2,429
Total	1,866	9,303

19.7 Change in fair value of financial instruments

Details of this heading in 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Valuation at fair value of:		
Equity instruments	146	(2,839)
Non-hedging derivatives	6,790	50,381
Fair net investment abroad	(197,984)	15,241
Inefficiencies cash flow hedges	(4,672)	10,514
Total income/(expense)	(195,720)	73,297

19.8 Exchange gains/(losses)

The breakdown of exchange gains/losses in the income statements for 2018 and 2017 is as follows:

Thousands of Euros	2018	2017
On transactions settled at year end	(2,036)	(2,876)
On transactions not settled at year end	(2,507)	10,095
Total income/(expense)	(4,543)	7,219

19.9 Employees

The average number of employees at IBERDROLA in 2018 and 2017, by professional category, is the following:

	2018	2017
University graduates	581	553
Qualified employees	48	41
Others	94	78
Total	723	672

Distribution by sex at the close of 2018 and 2017 for the IBERDROLA workforce, broken down by categories, is as follows:

	2018			2017		
	Women	Men	Total	Women	Men	Total
University graduates	263	360	623	247	344	591
Qualified employees	19	22	41	17	26	43
Others	59	17	76	66	19	85
Total	341	399	740	330	389	719

During 2018 and 2017, IBERDROLA does not have employees with disabilities greater than or equal to 33 percent.

The Legislative Royal Decree 1/2013 of 29 November, by which the revised text of the General Law on rights of persons with disabilities and their social inclusion is approved, requires public and private companies employing 50 or more workers to have jobs reserved for people with disabilities of at least 2% of its workforce.

As IBERDROLA does not fulfil this reserve, it has opted for a number of alternative measures established by the Royal Decree 364/2005 of 8 April which, on an exceptional basis, regulates alternative compliance with the reserve in favour of employees with disabilities. The alternative measures that may be applied by corporations to meet the obligation of an employment reserve in favour of employees with disabilities are as follows:

- A corporate or civil contract with a special employment centre, or with a freelancer with a disability, to supply raw materials, machinery, equipment goods or any other kind of merchandise required for normal operation of the business of companies taking up this measure.
- Donations and sponsorships, always in a monetary format, to enable employment insertion activities to be carried out and jobs to be created for people with disabilities, when the organisation benefiting from these actions is a foundation or a public-interest association the purpose of which is, among other aspects, professional training, employment insertion or the creation of jobs for the disabled.

- Creation of an employment enclave, following the signature of the contract with a special employment centre, in accordance with the provisions of Royal Decree 290/2004 of 20 February regulating employment enclaves as a means of encouraging employment for the disabled.

In order to fulfil the reserve, IBERDROLA has drawn up contracts with special employment centres to provide services that are ancillary to its usual business, and has made donations during the years covered in this report.

20. GUARANTEE COMMITMENTS TO THIRD PARTIES

IBERDROLA and its subsidiaries are required to provide the bank or corporate guarantees associated with the normal management of the company's activities.

IBERDROLA also guarantees the business of Iberdrola Energía Internacional, S.L. with third parties in some of its commitments relating to the construction and bringing into service of its offshore renewable wind farms and Iberdrola España's in gas sale and purchase from the Generation business.

In its engineering business, IBERDROLA has provided, in some cases, guarantees on behalf of Iberdrola Ingeniería y Construcción, S.A.U. or its subsidiaries in project tender processes, on the design, construction, bringing into service and operation of turnkey projects.

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 18).

On the other hand, IBERDROLA guarantees the following Group companies: Iberdrola Finanzas, S.A.U., Iberdrola Finance Ireland, Limited, Iberdrola International, B.V. and Iberdrola Financiación, S.A.U., for various bonds issues and commercial paper of these and the arrangement of derivatives (ISDA) by subsidiaries and y a Iberdrola Distribución Eléctrica, S.A.U. for EIB financing.

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.

21. REMUNERATION OF THE BOARD OF DIRECTORS

21.1 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 costs" heading in the income statements (Note 19.3) and the breakdown is as follows:

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:

Thousands of Euros	Fixed remuneration		Attendance premium	
	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) Company member's 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 belonging to committees ⁽¹⁾	Attendance fees	Short-term variable remuneration ⁽⁹⁾	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, based on 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 for Francisco Martínez-Córcoles

a) 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.

b) 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.

21.2 Remuneration through the delivery of Company shares

At their General Meeting held on 28 March 2014 the shareholders approved the *2014-2016 Strategic Bonus* as a long-term incentive tied to the performance of the Company in accordance to certain parameters (Note 12).

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 shares thus granted to Francisco Martínez Córcoles, 120,931 shares, correspond to his performance prior to his appointment as member-Business CEO.

21.3 Remuneration for belonging to other committees

Remuneration received by executive directors who in 2018 carried out director duties in companies controlled by IBERDROLA amounts to Euros 261 thousand.

21.4 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:

Thousands of Euros	2018		2017	
	Men	Women	Total	Men
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 is described in Note 23.

Additionally, executive members received 631,527 company shares in 2018 and 2017 (Note 21.2).

21.5 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.

22. 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.

23. 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 "Personnel expenses" 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 strategic bonus 2014-2016 for the Director of Internal Audit, until the date of retirement.

Includes the proportional part of the Internal Audit Officer until the date of appointment, on 21 February 2017.

During the first semester of 2017, 261,106 shares corresponding to the Strategic Bonus 2014-2016, were delivered to senior management, as described in Note 12; 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 2017 (Note 21).

In the first half of 2018 the second of three annual payments has been made corresponding to the *Strategic bonus 2014-2016* (Note 12), 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 12), tied to their success in achievement of objectives. As of 31 December 2018, 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 2018 the 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*.

24. RELATED PARTY TRANSACTIONS AND BALANCES

The transactions detailed below take place under the normal course of the business and are carried out in normal market conditions.

24.1 Balances of IBERDROLA with group companies and associates

a) Financial balances with group companies and associates

Loans to group companies and associates

Details of current and non-current "Loans to group companies and associates" in the balance sheets at 31 December 2018 and 2017 are as follows:

Thousands of Euros	2018			2017		
	Short term	Long term	Total	Short term	Long term	Total
ScottishPower Renewable Energy, Ltd.	21,336	53,754	75,090	21,242	75,090	96,332
Other group companies	–	5	5	–	9,262	9,262
Unpaid accrued interest	7,665	–	7,665	5,638	550	6,188
Total	29,001	53,759	82,760	26,880	84,902	111,782

The transactions above are in euros.

The average nominal interest rate on these loans is 0.81% and 0.93% at 31 December 2018 and 2017, respectively.



The maturity schedule for loans is as follows:

Years	Thousands of Euros
2019	29,001
2020	21,430
2021	21,526
2022	10,803
Total	82,760

Other financial assets/liabilities with group companies and associates

Details of current and non-current “Other financial assets” and “Other financial liabilities” with group companies and associates in the balance sheets at 31 December 2018 and 2017 is as follows:

Thousands of Euros	2018		2017	
	Receivables	Payables	Receivables	Payables
Long term				
Iberdrola Finance Ireland, DAC	–	100,412	–	1,053,086
Iberdrola Financiación, S.A.U.	–	3,000,000	–	–
Iberdrola Finanzas, S.A.U.	–	886,265	–	1,263,368
Iberdrola International, B.V.	–	994,302	–	1,051,539
Others	421	–	421	–
Total	421	4,980,979	421	3,367,993



	2018		2017	
	Receivables	Payables	Receivables	Payables
Short term				
Avangrid, Inc. (USD)	97,551	–	91,606	–
Hidro I, S.L.U.	–	20,934	–	143,565
Iberdrola Clientes Portugal, Unipessoal Ltda	101,295	–	86,948	–
Iberdrola Clientes, S.A.U.	–	132,833	–	101,883
Iberdrola Cogeneración, S.L.U.	–	51,306	–	53,210
Iberdrola Comercialización de Último Recurso, S.A.U.	92,282	–	130,758	–
Iberdrola Distribución Eléctrica, S.A.U.	343,272	–	72,555	–
Iberdrola España, S.A.U.	–	286,132	–	162,608
Iberdrola Finance Ireland, DAC	–	1,039,005	–	79,886
Iberdrola Financiación, S.A.U.	–	3,782,022	–	4,163,331
Iberdrola Finanzas, S.A.U.	–	322,872	–	831,982
Iberdrola Generación España, S.A.U.	115,479	–	6,846	–
Iberdrola Generación Nuclear, S.A.U.	–	59,185	32,367	–
Iberdrola Generación S.A.U.	39,954	–	99,760	–
Iberdrola Ingeniería y Construcción, S.A.U.	61,532	–	64,695	–
Iberdrola Inmobiliaria, S.A.	–	164,026	–	165,335
Iberdrola International, B.V.	–	148,415	–	41,205
Iberdrola Participaciones, S.A.U.	–	34,413	101,908	26
Iberdrola Re, S.A.	–	109,566	–	92,444
Iberdrola Renovables Castilla y León, S.A.	–	66,219	–	44,665
Iberdrola Renovables Deutschland, GmbH.	69,934	–	36,877	–
Iberdrola Renovables Energía, S.A.U.	–	208,261	–	134,617
Iberdrola Renovables Galicia, S.A.U.	–	50,214	–	16,932
Iberdrola Renovables Magyarország, KFT. (Hungarian)	–	89,249	–	92,847
Iberdrola Renovables Offshore Deutschland, GmbH.	–	40,862	–	179,363
Scottish Power. Ltd. (Sterling Pound)	93,149	73	–	32,820
Torre Iberdrola, A.I.E.	–	11,467	–	13,246
Iberdrola Generación Térmica, S.L.U.	55,451	6	–	–
Iberdrola Clientes Internacional, S.L.	30,734	–	–	–
Iberdrola Renovables Internacional, S.L.	–	41,546	–	–
Others	237,179	402,882	103,540	380,302
Total	1,337,812	7,061,488	827,860	6,730,267

In general, except for the loans granted by Iberdrola International B.V., Iberdrola Finance Ireland, DAC., Iberdrola Financiación, S.A.U. and Iberdrola Finanzas, S.A.U., the aforementioned balances with group companies arose in normal transactions related to IBERDROLA's own cash management. These balances have no set maturity and are settled quarterly or annually, bearing interest indexed to market rates.

At 31 December 2018 and 2017, Iberdrola International B.V., Iberdrola Finance Ireland DAC., Iberdrola Financiación, S.A.U. and Iberdrola Finanzas, S.A.U. had granted loans to IBERDROLA for the amounts of various bond issues in various currencies made by them and underwritten by IBERDROLA, as well as current account transactions.

The maturity schedule for these balances at 31 December 2018 is as follows:

Thousands of Euros	31.12.2018
Maturity	
2019	5,292,314
2020	83,502
2021	85,500
2022	259,694
2023	3,027,199
2024 and following	1,525,084
Total	10,273,293

The maturity schedule for these balances at 31 December 2017 was as follows:

Thousands of Euros	31.12.2017
Maturity	
2018	5,116,404
2019	1,308,867
2020	77,457
2021	85,500
2022	263,153
2023 and following	1,633,016
	8,484,397

Details by currency of these items at 31 December 2018 and 2017 are as follows:

Thousands of Euros	2018	2017
Currency		
Euros	7,336,319	5,439,924
US dollars	2,003,309	1,916,013
Pound Sterling	828,297	850,478
Yen	105,368	211,074
Other currencies	–	66,908
Total	10,273,293	8,484,397

As indicated in Note 5, balances in a foreign currency other than Euro are subject to exchange rate risk hedging.

These borrowings accrued a weighted average annual nominal interest rate at 31 December 2018 and 2017 of 2.41% and 2.71%, respectively.

At the end of 2018 and 2017, the accrued unpaid interest payable on these borrowings was Euros 93,340 thousand and Euros 118,842 thousand, respectively.

b) Commercial balances with group companies and associates

The breakdown of IBERDROLA's payables and receivables with group companies and associates at 31 December 2018 and 2017 is as follows:

Thousands of Euros	2018		2017	
	Receivables	Payables	Receivables	Payables
Short term				
Avangrid Management Company, LLC	29,089	802	27,935	–
Iberdrola Generación España, S.A.U.	21,383	(168)	15,758	12
Others	27,718	2,139	18,477	698
Total	78,190	2,773	62,170	710

Most of the balances above arise from transactions undertaken in the normal course of business.

c) Derivatives group companies and associates

The breakdown of derivatives arranged by IBERDROLA with group companies and associates at 31 December 2018 and 2017 is as follows:

Thousands of Euros	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Long term				
Iberdrola Financiación, S.A.U.	–	3,696	–	13,490
Iberdrola Generación, S.A.U.	–	–	14,817	385
Iberdrola Generación Térmica, S.L.U.	9,499	3,258	–	–
Total (Note 15)	9,499	6,954	14,817	13,875
Short term				
Iberdrola Generación Térmica, S.L.U.	1,916	625		
Other	196	5	2,074	723
Total (Note 15)	2,112	630	2,074	723

24.2 Related party transactions by IBERDROLA

The transactions detailed below are specific to the ordinary business activity and have been carried out on an arm's-length basis.

The most noteworthy transactions in 2018 and 2017 are as follows:

Transactions with major shareholders

Thousands of Euros	Significant shareholders ⁽¹⁾	
	2018	2017
	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. Qatar Investment Authority is the only shareholders who satisfied that condition at the date of authorization for issue of these annual accounts

(2) The amounts distributed as dividends and other benefits corresponding to dividends and attendance premium to the General Shareholders' Meeting



Transactions with other related parties

Thousands of Euros	2018			2017		
	Group entities or subsidiaries	Jointly controlled companies	Associated entities	Group entities or subsidiaries	Jointly controlled companies	Associated entities
Expenses and income						
Finance costs	254,814	3	16	305,583	20	23
Leases	1	4,448	–	–	4,465	–
Received services	23,419	3	3	19,448	–	–
Provisions	65,571	–	–	61,117	–	–
Total expenses	343,805	4,454	19	386,148	4,485	23
Finance income	21,205	–	–	20,248	–	–
Dividends received	1,569,950	–	–	2,091,515	–	3,000
Services rendered	234,418	16	14	220,164	24	214
Sales	326,541	–	–	341,420	–	–
Total income	2,152,114	16	14	2,673,347	24	3,214
Other transactions	–	–	–	–	–	–
Purchase of tangible, intangible and other financial assets	387	–	–	650	–	–

24.3 Transactions with directors and senior executives

Thousands of Euros	2018		2017	
	Directors	Executives	Directors	Executives
Dividends and other distributed profit ⁽¹⁾	482	11	765	179

(1) Amounts recorded as distributed dividends and other benefits correspond to the scrip dividend scheme and the General Shareholders' Meeting attendance fee received if applicable.

25. 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	2018			2017		
	Main Auditor	Other auditors	Total	Main Auditor	Other auditors	Total
Auditing services	3,223	–	3,223	3,744	–	3,744
Other provided services related to auditing	1,459	–	1,459	1,386	–	1,386
Total	4,682	–	4,682	5,130	–	5,130
Total	4,682	–	4,682	5,130	–	5,130

The details of “Other auditing services” is as follows:

Thousands of Euros	2018	2017
Limited review of interim information	1,194	1,162
Comfort letters debt issues	205	224
Agreed procedure reports (*)	60	–
Total	1,459	1,386

(*) Mainly agreed procedure reports requested by the regulator.

26. SUBSEQUENT EVENTS

The main events following the closing of the year have been:

Iberdrola Flexible Dividend

On 4 January 2019, the facts in relation to the implementation of the second paid-up capital increase (*Iberdrola* scrip dividend) approved by the shareholders at their General Meeting held on 13 April 2018, under item 8 of the agenda, 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
- Gross 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 issued has been 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 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, through the Stock Exchange Interconnection System (Continuous Market) on 5 February 2019. The ordinary trading of new shares started on 6 February 2019.

Transactions with treasury shares

At the reporting date of these annual accounts, accumulators have been liquidated on treasury shares (Note 11) 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 6,574,552 treasury shares have been acquired (of which 1,260,317 have been acquired through accumulators signed since the reporting date) amounting to Euros 24,859 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

Significant financing transactions carried out by IBERDROLA after the year end 2018, corresponding to the extension of syndicated loans, are as follows:



2019

Operation	Millions of euros	Currency	Extension	Maturity
Syndicated loan ⁽¹⁾	2,979	Euro	+1 year	feb-2024
Syndicated loan ⁽¹⁾	2,321	Euro	+1 year	feb-2024

(1) Extension of novated syndicated loans for 1 additional year in January 2018 in the amount of Euros 5,300 million.

27. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These Financial statements are presented on the basis of accounting principles generally accepted in Spain. Consequently, certain accounting practices applied by the Company may not conform with generally accepted accounting principles in other countries.



DIRECTORS REPORT 2018

1. BUSINESS PERFORMANCE

IBERDROLA is a holding company and therefore its earnings are chiefly produced by dividends and revenues from financing and services granted to investees. It also supplies gas on a wholesale basis, which is subsequently delivered to its subsidiary, Iberdrola Generación España, S.A.U.

2. SIGNIFICANT EVENTS 2018

2.1. Income statement highlights

Net revenue in 2018 was Euros 2,225 million, of which Euros 399 million correspond to sales (mainly gas to its subsidiary Iberdrola Generación España S.A.U.), Euros 1,570 million to dividends received from group companies and associates, and Euros 21 million to finance income related to financing of subsidiaries and Euros 234 million to income from services provided to group companies.

Cost of sales during the year totalled Euros 395 million, mainly of gas supplied on a wholesale basis and subsequently delivered to Iberdrola Generación España, S.A.U.

Other operating income of Euros 1 million, operating expenses of Euros 189 million, personnel expenses of Euros 139 million, amortisation and depreciation of Euros 64 million, and Euros 35 million in impairments and disposals of non-current assets brought operating income to Euros 1,404 million.

The financial result was a Euros 476 million loss, due to, mainly, debts with group companies and associates.

Profit of the year before tax was Euros 928 million, and corporate income tax stood at Euros 64 million, leaving net profit at Euros 992 million, against Euros 1,599 million in 2017.

Two facts should be pointed out that have a significant impact on the income statement:

- The gas wholesale activity in 2018 remains at the same levels as in 2017, resulting in net revenue of Euros 339 million compared to Euros 395 million in 2017, and supplies of Euros 395 million correspond to gas supplies compared to Euros 389 million in 2017.
- On the other hand, the contributions of dividends from subsidiaries during 2018 amounted to Euros 1,570 million compared to Euros 2,095 million in 2017. The reduction in Euros 242 million corresponding to the dividends received by Iberdrola España, S.A., and the extraordinary in 2017 of Iberdrola Energía, S.A., explain this item. Last, dividends received by Avangrid, Inc, despite being USD 4 million higher than in the previous year, were impacted by exchange rates and contributed USD 24 million less than in 2017. The breakdown of dividends received by group companies and associates is as follows:

Thousands of Euros	2018	2017
Iberdrola Spain, S.A.	1,200,952	1,443,090
Avangrid, Inc. ⁽¹⁾	368,998	392,696
Iberdrola Energy, S.A.	-	240,577
Iberdrola International, B.V.	-	8,000
Hidro I, S.A.U.	-	7,152
Amara, S.A.	-	3,000
Total	1,569,950	2,094,515

(1) Correspond to USD 439,898 and 435,862 million in 2018 and 2017.

- Profit for the year 2018 is Euros 272 million lower than the previous year explained by the performance of "Changes in fair value of financial instruments", down Euros 269 million compared to 2017.

2.2 Balance

On 31 December 2018, IBERDROLA shows a working capital of Euros 6,071 million loss, which will be covered by funds generated from its business and dividends from its subsidiaries.

2.3. Compliance with article 262.1 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital) in relation to the average payment period to suppliers

As discussed in Note 17, the Company's average payment period for paying suppliers in 2018 was 21.1 days. This period represent a greater turnaround in the payment in comparison to the maximum payment period legally foreseen.

3. MAIN RISK FACTORS ASSOCIATED WITH THE ACTIVITIES OF THE IBERDROLA GROUP

3.1 Risk Management System

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

The Company's board of directors, aware of the importance of this matter, has pushed for the mechanisms necessary to be put into place so that the risks relevant to all of the group's activities and businesses are appropriately identified, measured, managed and controlled, and has established, through the group's general risk control and management policy, the basic mechanisms and principles necessary for the appropriate management of risk-opportunity with a level of risk which allows:

- attain the strategic objectives formulated by the group with controlled volatility,
- provide the maximum level of assurance to the shareholders,
- protect the results and reputation of the group,
- defend the interests of customers, shareholders, other groups interested in the progress of the Company, and society in general, and
- ensure corporate stability and financial strength in a sustained fashion over time.

In the implementation of the aforementioned commitment, the board of directors and its Executive Committee have the cooperation of the Audit and Risk Supervision Committee, which, as a consultative body, monitors and reports upon the appropriateness of the system for assessment and internal control of significant risks, acting in coordination with the audit committees existing at other companies of the Group.

All actions aimed at controlling and mitigating risks shall conform to the following basic action principles:

- a) Integrate the risk-opportunity vision into the Company's management, through a definition of the strategy and the risk appetite and the incorporation of this variable into strategic and operating decisions.
- b) Segregate functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control, and monitoring of such risks, ensuring an appropriate level of independence.
- c) Guarantee the proper use of risk-hedging instruments and the maintenance of records thereof as required by applicable law.
- d) Inform regulatory agencies and the principal external players, in a transparent fashion, regarding the risks facing the Group and the operation of the systems developed to monitor such risks, maintaining suitable channels that favour communication.

- e) Ensure appropriate compliance with the corporate governance rules established by the Company through its corporate governance system and the update and continuous improvement of such system within the framework of the best international practices as to transparency and good governance, and implement the monitoring and measurement thereof.
- f) Act at all times in compliance with the law and the Company's corporate governance system and, specifically, with due observance of the values established in the *Code of Ethics* and under the principles of zero tolerance for the commitment of illicit acts and fraud situations included in the *Prevention of Fraud and Crimes Policy*.

The *General Risk Control and Management Policy* and the basic principles underpinning it are implemented by means of a comprehensive risk control and management system, supported by a corporate risk committee of the group and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon suitable supporting procedures, methodologies, and tools, including the following stages:

- a) The ongoing identification of significant risks and threats based on their possible impact on key management objectives and the annual accounts (including contingent liabilities and other off-Balance risks).
- b) The analysis of such risks, both at each corporate business or function and taking into account their combined effect on the Group as a whole.
- c) The establishment of a structure of policies, guidelines, and limits, as well as of the corresponding mechanisms for the approval and implementation thereof, which effectively contribute to risk management being performed in accordance with the Company's risk appetite.
- d) The measurement and monitoring of risks, by following consistent procedures and homogeneous standards that are common to the Group as a whole.
- e) The analysis of risks associated with new investments, as an essential element of decision-making based upon profitability/risk.
- f) The maintenance of a system for monitoring of compliance with policies, guidelines, and limits, by means of appropriate procedures and systems, including the contingency plans needed to mitigate the impact of the materialisation of risks.
- g) The periodic monitoring and control of profit and loss account risks in order to control the volatility of the annual income of the Group.
- h) The ongoing evaluation of the suitability and efficiency of applying the system and the best practices and recommendations in the area of risks for eventual inclusion thereof in the model.
- i) The audit of the system by the Internal Audit Division.

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.

Structure of the group's risk policies:

- a) Corporate risk policies:
 - Corporate Credit Risk Policy.
 - Corporate Market Risk Policy.
 - Operational Risk Market Transactions Policy.
 - Insurance Policy.
 - Investment Policy.

- Financing and Financial Risk Policy.
 - Treasury Share Policy.
 - Risk Policy for Equity Interests in Listed Companies.
 - Reputational Risk Framework Policy.
 - Procurement Policy.
 - Information Technology Policy.
 - Cybersecurity Risk Policy.
- b) Risk policies and limits of the various businesses of the Group:
- Risk policy for the deregulated business of the IBERDROLA Group.
 - Risk policy for the renewables business of the IBERDROLA Group.
 - Risk policy for the network business of the IBERDROLA Group.
 - Risk Policy for the non-energy 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.

Subholding companies are responsible for adopting the group's risk policies and specifying their application, approving the guidelines regarding specific risk limits, addressing the characteristics and unique features businesses in each country. 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 subject are listed below:

- a) Corporate Governance Risks: the Company assumes the need to safeguard the interests of the Company and the strategy of sustained maximisation of the economic value of the Company and its long-term success, in accordance with the Group's corporate interest, culture, and corporate vision, taking into account the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders and communities and regions in which the Company and its employees act. A fundamental requirement for the foregoing is compliance with the Company's Corporate governance system, comprising the By-Laws, the Corporate policies, the internal corporate governance rules and the other internal codes and procedures approved by the competent decision-making bodies of the Company and inspired by the good governance recommendations generally recognised in international markets.
- b) Market Risks: defined as the exposure of the Group's results and equity to changes in market prices and variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO2 emission allowances, other fuel, etc.), prices of financial assets, and others.

- c) **Credit Risks:** defined as the possibility that a counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties can be final customers, counterparties in financial or energy markets, partners, suppliers, or contractors.
- d) **Business Risks:** defined as the uncertainty regarding the performance of key variables inherent to the business, such as the characteristics of demand, weather conditions, the strategies of different players, and others.
- e) **Political and Regulatory Risks:** defined as those arising from regulatory changes made by the various regulators, such as changes in compensation of liberalised activities or in the required conditions of supply, or environmental or tax regulations, including risks related to political changes that could affect the legal security and to the legal framework applicable to the group's businesses in each jurisdiction, the nationalization or expropriation of assets, the operating licenses cancellation and the previous end of the contracts of the administration.
- f) **Operational Risks:** defined as those related to direct or indirect economic losses resulting from inadequate internal procedures, technical failures, human error, or as a consequence of certain external events, including the economic, social, environmental, and reputational impact, as well as legal and fraud risks. These risks encompassed, among others, those related to technology information and the cybersecurity, such as the risk obsolescence technology.
- g) **Reputational Risks:** potential negative impact on the value of the Company resulting from the conduct of the Company that is below the expectations created among various stakeholders: shareholders, customers, media, analysts, Government, employees, and society in general. Due to its universal and dynamic nature, the comprehensive risk system allows for the consideration of new risks that may affect the Group following changes in its operating environment or revisions of objectives and strategies, as well as adjustments resulting from ongoing monitoring, verification, review and supervision activities.

Owing to its universal and dynamic nature, the system allows for the consideration of new risks that may affect the Group as a consequence of changes in its operating environment or revisions of objectives and strategies, as well as adjustments resulting from ongoing monitoring, verification, review and supervision activities.

The audit and risk supervision committee of the board of directors periodically monitors the evolution of the Company's risks:

- It reviews the Group's risk quarterly reports, which include monitoring compliance with risk limits and indicators and updated key risk maps, submitted by the Group's director of corporate risks.
- It coordinates and reviews risk reports sent periodically, at least semi-annually, by the audit and compliance committees of the main subsidiaries of the group, being included the subholding companies of the main countries where the group operates that, along with the risk director appearances are used to prepare a risk report for the board of directors at least semi-annually.

For further details, see the section *Control systems and risk management* of the *Corporate Governance Report 2018*. Furthermore, Note 5 in these annual accounts explain the *Financing and Financial Risk Policy*.

4. NON-FINANCIAL INFORMATION AND DIVERSITY

IBERDROLA is a holding company. As a result, there are not environmental items to be included in the report as required by the Spanish General Accounting Plan.

By virtue of Law 11/2018 on Non-financial information and diversity, the Company, as well as its subsidiary companies, would be exempt, for it included in the Non-financial information and diversity section of the consolidated directors' report 2018 for IBERDROLA Group. This information has been filed before Bilbao Mercantile Registry with the consolidated annual accounts.

5. RESEARCH AND DEVELOPMENT ACTIVITIES

Innovation is IBERDROLA's primary tool to guarantee the Company's sustainability, efficiency and competitiveness.

IBERDROLA is today the Utility of the future due to its innovative strategy, extended to all its businesses and areas of activity. Thanks to a constant commitment to innovation, Iberdrola is now Spain's most innovative utility and the third most innovative in Europe in the European Commission's classification.

In 2018 IBERDROLA dedicated Euros 23,851 thousand to R&D&I at group level, mainly to the following businesses: more renewables, more structured smart grids and more customer solutions. Moreover, developing digital transition, providing the system with intelligence, has been crucial.

6. TREASURY SHARES AND CAPITAL REDUCTION

At their General Meeting held on 13 April 2018, the shareholders expressly agreed to delegate powers to the board of directors, with powers of substitution, pursuant to the provisions of the Spanish Companies Act, to carry out derivative acquisition of shares in Iberdrola, S.A. under the following conditions:

- Acquisitions may be made directly by Company or indirectly through their subsidiary companies under the same terms and conditions as this agreement. The subsidiary companies which develop liberalised 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.
- 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 nominal value of the share.
- 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.

Shares acquired under these powers can be transferred or cancelled or used for the compensation systems as provided for in paragraph 3.a) in section 146.1 of the Spanish Companies Act. They may also be used to develop programmes that encourage participation in the Company's share capital such as the dividend reinvestment plan, loyalty bonuses and other similar instruments.

The result of transactions involving treasury stock in IBERDROLA'S portfolio in 2018 and 2017 have been destined, mainly, to its amortisation and to personnel retribution systems, and the details are as follows:

Treasury Stock	No. of shares	Nominal (thousands of Euros)	Cost Treasury shares (thousands of Euros)	Average price (Euro)	Total shares	% of 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	-	-
Share capital decrease	(219,990,000)	(164,993)	(1,280,176)	5.82	-	-
Disposals	(11,929,704)	(8,947)	(74,937)	6.28	-	-
<i>Iberdrola scrip dividend</i> ⁽¹⁾	1,896,638	1,422	-	-	-	-
<i>Iberdrola scrip dividend</i> ⁽²⁾	-	-	(9,379)	-	-	-
Balance at 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	-	-
Share capital decrease	(198,374,000)	(148,781)	(1,245,420)	6.28	-	-
Disposals	(7,798,715)	(5,849)	(49,733)	6.38	-	-
<i>Iberdrola scrip dividend</i> ⁽¹⁾	5,117	4	-	-	-	-
<i>Iberdrola scrip dividend</i> ⁽²⁾	-	-	(11,044)	-	-	-
Balance at 31.12.2018	135,985,344	101,988	873,065	6.42	6,397,629,000	2.13

(1) Shares received

(2) Free allocation rights disposed

7. SUBSEQUENT EVENTS

Subsequent events to year end are described in Note 26 of the annual accounts.



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

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



	Direct	Indirect	Direct	Indirect	rights
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
<p>According to available information, the approximate breakdown of the interests in the share capital by type of shareholder is as follows:</p> <ul style="list-style-type: none"> - 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
<p>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.</p> <p>Pursuant to the provisions of section 23.1 of Royal Decree 1362/2007 of 19 October, further developing Law 24/1988 of 28</p>



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 MARTÍNEZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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
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Remarks
<p>The data reflected in this section is at 19/02/2019, the date of approval of this report.</p> <p>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,</p>



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	Grupo Sico Corporativo	0.01	0.00	0.01	0.00



SERNA	SL				
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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

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

Parties to the concerted action	Percentage of affected shares	Brief description of the agreement	Date of termination of agreement, if applicable



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Remarks

If any of the aforementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

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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

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
<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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:</p> <ul style="list-style-type: none"> • 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

No

Description of restrictions
<p>Those having an interest equal to or greater than 3% of the capital or voting rights of two or more companies that have the status of Principal Operator in certain markets or sectors (including the generation and supply of electricity) may not exercise rights in excess of such percentage in more than one entity.</p> <p>Article 29.2 of the By-Laws provides that no shareholder may cast a number of votes greater than those corresponding to shares representing 10% of the share capital.</p> <p>According to article 28, a shareholder may not exercise their right to vote at the General Shareholders' Meeting if 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.</p> <p>Article 50 of the By-Laws provides that the by-law restrictions against the exercise of voting rights by shareholders affected by conflicts 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</p>

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

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

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 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 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:

Date of General Meeting	Attendance data				
	% physically present	% present by proxy	% distance voting		Total
			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
<p>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).</p> <p>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.</p> <p>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.</p>

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

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

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

No

Explain the decisions that must be subject to the General Shareholders' Meeting, other than those established by law
<p>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:</p> <p>s) The transfer to controlled entities of core activities that were previously carried out by the Company itself, while maintaining full control thereof.</p> <p>t) The acquisition, transfer, or contribution of key assets from or to another company.</p> <p>u) The approval of transactions having an effect equivalent to liquidation of the Company.</p>

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



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		Executive	Director	31/03/2017	31/03/2017	Resolution of General	

Martínez Corcoles						Shareholders' Meeting	
Mr Anthony L. Gardner		Independent	Director	13/04/2018	13/04/2018	Resolution of General Shareholders' Meeting	

Total number of directors	14
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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	<p>Salamanca, Spain, 1950</p> <p>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.).</p> <p>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.</p> <p>Personal profile and academic training</p> <p>He graduated as an Industrial Engineer from the Engineering School (ICAI) of Universidad Pontificia Comillas (Madrid).</p> <p>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).</p> <p>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</p>



	<p>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.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>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.</p> <p>Noteworthy experience in other industries</p> <p>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.</p> <p>Other information</p> <p>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,</p>
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		<p>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.</p>
<p>Mr Francisco Martínez Corcoles</p>	<p>Business CEO</p>	<p>Alicante, Spain, 1956</p> <p>He is currently the Business CEO (<i>consejero-director general de los negocios</i>) 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.</p> <p>He is also a member of Merit of the National Association of Engineers of the Escuela Técnica Superior de Ingeniería (ICAI).</p> <p>Academic training</p> <p>Industrial Engineer specialising in Electricity from the ICAI (Universidad Pontificia Comillas, Madrid) and Master in Business Management from IESE Business School (Universidad de Navarra).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>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.</p> <p>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.</p>



	<p>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.</p> <p>He was also a member of the Board of Directors of the Spanish Electric Industry Association (<i>Asociación Española de la Industria Eléctrica</i>) (UNESA).</p> <p>Noteworthy experience in other industries</p> <p>He began his professional career at the Systems Division of Arthur Andersen.</p> <p>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.</p> <p>Other information</p> <p>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.</p>
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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	<p>Dunfermline, Scotland, 1969</p> <p>She is chair of Scottish Ensemble, vice-chair of Scotland's 2020 Climate Group, and member of the Board of Scottish Water and its Remuneration Committee, of the GlobalScot Network and of the Advisory Board for the Imperial College London MBA. She also performs advisory and business coaching work.</p> <p>Academic training</p> <p>Bachelor of Arts in Applied Foreign Languages and European Politics from the University of Northumbria, Newcastle (England, United Kingdom) and Post-Graduate degree in EU Law from the University of Nancy (France).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a member of the Advisory Council of Scottish Power following the integration of the Scottish company</p>



	<p>into the Iberdrola Group.</p> <p>Noteworthy experience in other industries</p> <p>She has been a consultant within the European Parliament, where she provided support to the Economic and Monetary Affairs Committee, a board member of Business for Scotland, and the chief executive of Scottish Business in the Community.</p> <p>She has also been a member of the Advisory Board of Breakthrough Breast Cancer and of the Board of Directors of Right Track Scotland, an organisation dedicated to advancing educational, training, and employment opportunities for youths at risk of social exclusion.</p> <p>She was chosen as one of the “Top 100 Women to Watch” according to the FTSE list and Cranfield University, and was a finalist and earned second place in the annual Director of the Year Awards 2012 of IoD Scotland NED.</p>
<p>Ms María Helena Antolín Raybaud</p>	<p>Toulon, France, 1966</p> <p>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 (<i>Asociación Española de Fabricantes de Equipos y Componentes para Automoción</i>) (Sernauto), vice president of the Excellence in Management Club (<i>Club de Excelencia en la Gestión</i>), and a board member of France Foreign Trade (<i>Comercio Exterior de Francia</i>), Spain section.</p> <p>Academic training</p> <p>Degree in International Business and Business Administration from Eckerd College, St. Petersburg, Florida (United States of America), and a Master of Business Administration from Anglia University, Cambridge (United Kingdom) and from Escuela Politécnica de Valencia (Spain).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has served as an external independent director of Iberdrola Renovables, S.A. and a member of its Related-Party Transactions Committee.</p> <p>She has been in charge of the corporate Industrial and Strategy Divisions of Grupo Antolin Irausa, S.A., where she has also been a director of Human Resources and the head of Total Quality for the Group.</p>



<p>Mr Ángel Jesús Acebes Paniagua</p>	<p>Ávila, Spain, 1958</p> <p>He is chairman and founding partner of Grupo MA Abogados Estudio Jurídico, S.L., as well as sole director and professional partner of Doble A Estudios y Análisis, S.L.P. He is also a trustee of Fundación para el Análisis y Estudios Sociales (FAES) and of Fundación Universitaria de Ávila, UCAV.</p> <p>Academic training</p> <p>Degree in Law from Universidad de Salamanca.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>As a lawyer, he has advised companies in the energy and technological/industrial sectors, among others. He also has significant knowledge of the regulatory area due to his work as a member of the Council of Ministers of the Government of Spain, a senator and a national deputy.</p> <p>Noteworthy experience in other industries</p> <p>He has served on the board of Caja Madrid Cibeles, S.A., which manages the investments of Grupo Caja Madrid in other companies with activities in the financial and insurance sectors (like Mapfre Internacional, S.A.) as well as the retail banking sector outside of Spain. After the public listing of Bankia, S.A., he was a member of the board of Banco Financiero y de Ahorros, S.A. (“BFA”), chairing its Audit and Compliance Committee.</p> <p>In the institutional arena, he has been Minister for Public Administrations, Minister of Justice and Minister of the Interior of the Spanish Government.</p>
<p>Ms Georgina Kessel Martínez</p>	<p>Mexico City, Mexico, 1950</p> <p>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).</p> <p>Academic training</p> <p>Holder of a degree in Economics from Instituto Tecnológico Autónomo de México and of a Master’s and Doctor’s degree in Economics from Columbia University (New York).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been chair of the Energy Regulatory Commission</p>



	<p>(<i>Comisión Reguladora de Energía</i>) and Energy Secretary of the Government of Mexico.</p> <p>She has also been chair of the Board of Directors of Pemex (Petróleos Mexicanos) and of the Board of Directors of the Federal Electricity Commission (<i>Comisión Federal de Electricidad</i>) (CFE).</p> <p>She has participated in the Energy Council of the World Economic Forum and in the United Nations Organization Secretary General’s advisory group (Sustainable Energy for All).</p> <p>Noteworthy experience in other industries</p> <p>She has been an adviser to the chair of the Federal Competition Commission (<i>Comisión Federal de Competencia</i>), head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit (<i>Unidad de Inversiones y Desincorporación de Entidades Paraestatales</i>) of the Office of the Secretary of Finance and Public Credit of Mexico, general manager of the National Mint of Mexico (<i>Casa de Moneda de México</i>), member of the boards of Nacional Financiera (Nafinsa) and of Banco Nacional de Comercio Exterior (Bancomext), and general manager of Banco Nacional de Obras y Servicios Públicos.</p> <p>In the academic field, she has been a professor in the Economics Department of Instituto Tecnológico Autónomo de México, deputy chair of the course towards a Degree in Economics, and chair of the Alumni Association. She has also been holder of the Quintana Chair for Research in International Trade and is the author of many papers and specialised articles.</p>
<p>Ms Denise Holt</p>	<p>Vienna, Austria, 1949</p> <p>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).</p> <p>Academic training</p> <p>Degrees in Spanish Philology, French Philology, and Political Sciences from the University of Bristol and Doctor of Laws from the same university (England, United Kingdom).</p> <p>Noteworthy experience in the energy and industrial</p>



	<p>engineering sector</p> <p>She has been a director of Scottish Power Renewable Energy Ltd. and of Scottish Power Energy Networks Holdings Ltd.</p> <p>Noteworthy experience in other industries</p> <p>In her diplomatic career, she has been first secretary of the Embassy of the United Kingdom in Brazil, director of Human Resources, of Migration and of the Overseas Territories at the UK Foreign and Commonwealth Office, and ambassador of the United Kingdom to Mexico, Spain and Andorra. For her contribution to the British diplomatic service, she was elevated to Dame Commander of the Order of St Michael and St George (DCMG).</p> <p>She has also 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.</p>
<p>Mr José W. Fernández</p>	<p>Cienfuegos, Cuba, 1955</p> <p>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.</p> <p>Academic training</p> <p>Degree in History from Dartmouth College (New Hampshire, United States of America), and Juris Doctor from Columbia University (New York, United States of America).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been Assistant Secretary of State for Economic, Energy and Business Affairs for the United States of America. He has also been an independent director of Iberdrola USA, Inc.</p> <p>Noteworthy experience in other industries</p> <p>He has served on the boards of Dartmouth College, NPR Station WBGO-FM, the Middle East Institute, and Ballet Hispanico of New York and of non-governmental institutions such as Acción Internacional. He has also been the State Department’s representative on the Committee on Foreign Investment in the United States.</p>



	<p>In addition, he was named one of the “World’s Leading Lawyers” by Chambers Global for his M&A work, an “Expert” by the International Financial Law Review, one of the “World’s Leading Privatization Lawyers” by Euromoney, and “Embajador de la Marca España” (Ambassador of the Spain Brand).</p>
<p>Mr Manuel Moreu Munaiz</p>	<p>Pontevedra, Spain, 1953</p> <p>He is president of the Seaplace, S.L., sole director of H.I. de Iberia Ingeniería y Proyectos, S.L. and of Howard Ingeniería y Desarrollo, S.L., 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.</p> <p>Academic training</p> <p>Doctorate in naval engineering from Escuela Técnica Superior de Ingenieros Navales (ETSIN) of the Universidad Politécnica de Madrid, and Master’s degree in Oceanic Engineering from the Massachusetts Institute of Technology (MIT).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been 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.</p> <p>Noteworthy experience in other industries</p> <p>He has been a member of the board of Metalships and Docks, S.A., Neumáticas de Vigo, S.A. and Rodman Polyships, S.A., dean of the Colegio Oficial de Ingenieros Navales y Oceánicos de Madrid y de España, 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.</p>
<p>Mr Juan Manuel González Serna</p>	<p>Madrid, Spain, 1955</p> <p>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 (<i>Asociación Española de Codificación Comercial</i>) (AECOC).</p>



	<p>He is also a founding trustee and chairman of the Grupo SIRO Foundation.</p> <p>Academic training</p> <p>Degree in Law, Economics and Business Studies from the Instituto Católico de Administración y Dirección de Empresas (ICADE) of Universidad Pontificia Comillas (Madrid) and Masters in Business Administration (MBA) from the Escuela de Dirección del Instituto de Estudios Superiores de la Empresa de la Universidad de Navarra (IESE Business School) in Barcelona.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been an independent director of Iberdrola España, S.A.U. and of Iberdrola Renovables, S.A., as well as chair of the Appointments and Remuneration Committee of the latter company.</p> <p>Noteworthy experience in other industries</p> <p>Apart from the food sector, he also has extensive experience in the finance, venture capital and health sectors: he is a member of the advisory board of Rabobank in Spain and Europe and has been a member of the board of Banco Urquijo Sabadell Banca Privada, S.A. and of Sociedad para el Desarrollo Industrial de Castilla y León, Sociedad de Capital Riesgo, S.A. (SODICAL, now Ade Capital Social, Sociedad de Capital Riesgo de Régimen Común, S.A.). He is also a member of the board of directors of the HM Hospitales Group.</p>
<p>Mr Anthony L. Gardner</p>	<p>Washington D.C., United States of America, 1963</p> <p>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.</p> <p>Academic training</p> <p>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.</p> <p>Noteworthy experience in the energy and industrial</p>

	<p>engineering sector</p> <p>He was an independent director of Scottish Power, Ltd and a member of that company’s Audit and Compliance Committee.</p> <p>Noteworthy experience in other industries</p> <p>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.</p> <p>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.</p> <p>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.</p>
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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.		<p>Bilbao, Spain, 1959</p> <p>She is a professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona and a professor of the Barcelona Graduate School of Economics. She is also an honorary member of the European Economic Association and of the Spanish Economic Association (<i>Asociación Española de Economía</i>) as well as a member-elect of The Academy of Europe.</p> <p>Academic training</p> <p>Degree in Economics from Universidad del País Vasco, Master in Economics from l'École des Hautes Études en Sciences Sociales, and Doctor in Economics (Ph.D.) from the same academic institution and from l'École Nationale de la Statistique et de</p>



			<p>l' Administration Économique (ENSAE) (Paris, France).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has served as lead independent director (<i>consejera coordinadora</i>) of Iberdrola, S.A. and chair of its Remuneration Committee.</p> <p>Noteworthy experience in the energy and industrial economy sector</p> <p>She has been a member of the International Scientific Advisory Committee of the Basque Centre for Climate Change (bc3) and has served as chair of the Scientific Committee of the 2011 Conference of the Spanish Association for Energy Economics (<i>Asociación Española para la Economía Energética</i>).</p> <p>Noteworthy experience in other industries</p> <p>She has been president of the Spanish Economic Association, coordinator of the National Agency for Quality Evaluation and Accreditation (<i>Agencia Nacional de Evaluación y Prospectiva</i>), and representative at the European Science Foundation, as well as a member-elect of the Council of the European Economic Association and a member of the Executive Committee of the European Association for Research in Industrial Economics. She has been a member of the Advisory Board of the Research Service of Caja de Ahorros y Pensiones de Barcelona, "la Caixa".</p> <p>She has taught at universities in Germany, Belgium, Brazil, Denmark, France, Portugal and Spain.</p>
Mr Iñigo Victor de Oriol Ibarra	More than 12 years have passed since appointment.	IBERDROLA	<p>Madrid, Spain, 1962</p> <p>He is a member of the board of Empresa de Alumbrado Eléctrico de Ceuta, S.A.</p> <p>Academic training</p> <p>Bachelor of Arts in International</p>



			<p>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.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>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 Neoenergía, S.A. (Brazil) and of Empresa Eléctrica de Guatemala, S.A.</p> <p>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.</p> <p>Noteworthy experience in other industries</p> <p>He has been chair of Empresa de Servicios Sanitarios de Los Lagos, S.A. (ESSAL) in Chile.</p>
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	<p>Portugalete, Spain, 1972</p> <p>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.</p>



			<p>Academic training</p> <p>Degree in Economics and Business from Universidad del País Vasco, with a major in Finance, and holder of postgraduate degrees in various areas.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been a director of Iberdrola Generación, S.A. and a member of its Audit and Compliance Committee.</p> <p>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.</p> <p>Noteworthy experience in other industries</p> <p>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.</p> <p>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.</p>
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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 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 Martínez as an external independent director, which appointment was subsequently ratified by the shareholders at the General Shareholders' Meeting held on 28 March 2014. Furthermore, Ms Kessel Martínez was appointed chair of the Audit and Risk Supervision Committee on 17 February 2015.

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
<p>The <i>Board of Directors Diversity and Director Candidate Selection Policy</i> ensures that the proposed appointments of directors are based on a prior analysis of the needs of the Board of Directors. In particular, the candidates must be respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability and commitment to their duties. They must be irreproachable professionals, whose professional conduct and background is aligned with the principles set forth in the Directors' Code of Ethics and the corporate values contained in the Mission, Vision and Values of the Iberdrola group.</p> <p>In the selection of candidates, it also endeavours to ensure a diverse and balanced composition of the Board of Directors overall, such that decision-making is enriched and multiple viewpoints are contributed to the discussion of the matters within its 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.</p> <p>In turn, the Board has entrusted to the Appointments Committee the responsibility of ensuring that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, from any bias that might hinder the selection of female directors.</p>

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

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.
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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 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
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Remarks
<p>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.</p>

C.1.15 State whether the Board rules were amended during the year:

Yes No

Description of changes
<p>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.</p> <p>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.</p>

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
<p>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.</p> <p>More than 98% of the work areas defined in the evaluation process from the prior year were met during 2018. Specifically, significant</p>

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

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

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

	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 <input type="checkbox"/>	No <input checked="" type="checkbox"/>
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
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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 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
<p>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.</p> <p>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.</p> <p>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.</p>

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.

<p>The Regulations of the Audit and Risk Supervision Committee provide that it shall have the following duties, among others:</p> <ul style="list-style-type: none"> - 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. 	
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- 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

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

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

	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

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

No

Explanation of procedure
<p>Section 16 of the General Corporate Governance Policy provides that “the Company has a programme to provide directors with information and updates in response to the need for professionalisation, diversification and qualification of the Board of Directors.</p> <p>In order to improve their knowledge of the group, presentations are made to the directors regarding the businesses thereof. In addition, a portion of each meeting of the Board of Directors tends to be dedicated to a presentation on economic, legal or political/social issues of importance to the group.</p> <p>The directors have access to a specific application, the directors’ website, that facilitates performance of their duties and the exercise of their right to receive information. This website includes information deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof in accordance with the agenda, as well as training materials intended for the directors and presentations made to the Board of Directors.</p> <p>In addition, the directors shall be given access through the directors’ website to the minutes of the meetings of the Board of Directors and the committees thereof, as well as to any other information that the Board of Directors decides to include”.</p> <p>Pursuant to the Regulations of the Board of Directors, there shall be an inclusion on the directors’ website of such information as is deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof, in accordance with the agenda included in the calls to meeting, as well as access to materials relating to director training programmes.</p> <p>In addition, the Regulations of the Board of Directors provide that a director is specifically required to “properly prepare the meetings of the Board of Directors and, if applicable, the meetings of the Executive Committee or of the committees of which the director is a member, for which purposes the director must diligently become apprised of the running of the Company and the matters to be discussed at such meetings”.</p>

C.1.36 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

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 No

Name of director	Criminal charge	Remarks
Mr Ángel Jesús	Alleged crime of false	Commencement of



Acebes Paniagua	accounting as an independent director of Bankia, S.A.	oral criminal trial ordered against various directors of Bankia, S.A., including Mr Acebes Paniagua, on 17 November 2017 by Central Investigative Court (<i>Juzgado Central de Instrucción</i>) number 4 of the National High Court (<i>Audiencia Nacional</i>).
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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 (<i>Ministerio Fiscal</i>) and the Fund for the Orderly Restructuring of the Banking Sector (<i>Fondo de Reestructuración Ordenada Bancaria</i>) (FROB) requested dismissal of the case against him.

C.1.38 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	<p>1. EXECUTIVE DIRECTORS</p> <p>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.</p> <p>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.</p> <p>2. OFFICERS</p> <p>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.</p> <p>Notwithstanding the foregoing, the Senior Officer Remuneration Policy provides since 2011 that the limit on the amount of the</p>

	severance pay under new contracts with senior officers shall be two times their annual salary.
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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.

<p>The Sustainable Development Committee is an internal informational and consultative body.</p> <p>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.</p> <p>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.</p> <p>A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.</p> <p>The duties of the Committee are set out in the Regulations of the Board of Directors, as well as in the Regulations of the Sustainable Development Committee.</p> <p>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.</p>
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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	Year t-1	Year t-2	Year t-3
Number %	Number %	Number %	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
<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>



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

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, CO₂ emission allowances, other fuel, etc.), prices of financial assets, and others.
- c) **Credit Risks:** defined as the possibility that a counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the group. Counterparties can be end customers, counterparties in financial or energy markets, partners, suppliers or contractors.
- d) **Business Risks:** defined as the uncertainty regarding the performance of key variables inherent in the 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 discretionary 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 negatively 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%), CO₂ 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 Bahia, 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 are 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 Neoenergía, 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 | 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 | 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 | 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 | 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 | 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 | 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 | 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 |

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 |

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 | 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 | 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 |

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 | 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 | 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 | 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 | 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 | 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 | 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 | 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 | 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 | 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 | 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.

- e) 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 | 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 | 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 | 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 | 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 | 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 | Complies Partially | Explanation |

48. That high market capitalisation companies have formed separate appointments and remuneration committees.

Complies | 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 | 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 | 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 | 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 | 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 it is 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 | | 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 | | 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 | 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 | 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 | 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 | 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 | 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 | 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

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	8/8	--	--	--	--	--



CÓRCOLES						
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).



PROFIT DISTRIBUTION PROPOSAL 2018



PROFIT DISTRIBUTION PROPOSAL

YEAR 2018

Euros		2018
Basis of distribution		
prior years' profit and loss		8,070,225,096
Profit for 2018		991,767,992
		9,061,993,088
Distribution:		
To Legal reserves		–
To dividends	Amount to be determined resulting from adding: (a) the total interim dividend and (b) the result of multiplying the complimentary dividend by the total number of shares that the holders have decided to receive their complimentary dividend under the framework of the first execution of optional dividend as part of the Iberdrola scrip dividend system	
To prior years' profit and loss	Amount to be determined resulting from deducting amounts earmarked for the legal reserves and dividends from the basis of distribution	
		9,061,993,088

On the date that the board of directors (or the delegated body) decides to execute the share capital increase submit for the shareholders approval at their General Meeting under item 8 of the agenda (and therefore initiate the first execution of the optional dividend as part of the Iberdrola scrip dividend system for 2019), the minimum amount of the cash remuneration will be made public. The final amount of the complimentary dividend will be notified as soon as the board of directors (or the delegated body) makes its decision as provided for in the Common Terms. Likewise, once the first execution of the Iberdrola scrip dividend system for 2019 is completed, the board of directors, which has explicit authority for replacement, will proceed to specify the aforementioned distribution proposal and determine the final amount of the dividend and the amount to be left over.