

Independent Audit Report

IBERDROLA, S.A.

**Financial Statements and Management Report
for the year ended December 31, 2015**

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

Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 29)

INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of IBERDROLA, S.A.:

Report on the financial statements

We have audited the accompanying financial statements of IBERDROLA, S.A., which comprise the balance sheet at December 31, 2015, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity and financial position and the results of IBERDROLA, S.A., in accordance with the regulatory framework for financial information applicable to the Entity in Spain, identified in Note 2 to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of IBERDROLA, S.A. at December 31, 2015, and its results and cash flow for the year then ended, in accordance with the applicable regulatory framework for financial information in Spain, and specifically the accounting principles and criteria contained therein.

Report on other legal and regulatory requirements

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

ERNST & YOUNG, S.L.

The original signed in Spanish

February 25, 2016

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

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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 29). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.

Balance sheets at 31 December 2015 and 2014

(Thousands of euros)

ASSETS	Notes	2015	2014 (*)
NON-CURRENT ASSETS		48,073,382	47,687,995
Intangible assets	7	90,652	92,501
Software		80,435	89,427
Other intangible assets		10,217	3,074
Property, plant and equipment	8	197,375	493,565
Land and buildings		150,535	248,099
Plant and other PP&E items		43,197	241,066
PP&E under construction and prepayments		3,643	4,400
Non-current investments in group companies and associates		46,753,295	46,167,337
Equity instruments	10	46,544,808	45,929,868
Loans to group companies and associates	10, 26.1.a	181,660	201,966
Debt securities	10	11,500	12,900
Derivatives	17, 26.1.c	14,906	21,677
Other financial assets	10, 26.1.a	421	926
Non-current financial investments		455,473	256,304
Equity instruments	11	412	12,608
Loans to third parties	11	14,073	17,139
Derivatives	17	430,898	217,977
Other financial assets	11	10,090	8,580
Deferred tax assets	20	567,824	665,863
Long-term trade receivables		8,763	12,425
CURRENT ASSETS		2,566,063	2,384,056
Inventories		35	30,084
Commercial inventories	13	-	30,084
Advances to suppliers		35	-
Trade and other receivables		456,839	516,050
Trade receivables	12	68,193	88,340
Receivables from group companies and associates	12, 26.1.b	55,751	112,782
Other receivables	12	15,200	22,830
Receivables from employees		158	138
Current income tax assets	20	316,984	290,296
Other tax receivables	20	553	1,664
Current investments in group companies and associates		1,968,839	1,700,403
Loans to group companies and associates	26.1.a	42,047	38,362
Debt securities		1,401	1,402
Derivatives	17, 26.1.c	153,962	49,662
Other financial assets	26.1.a	1,771,429	1,610,977
Current financial investments		136,237	127,385
Equity instruments	11	4,584	4,584
Loans to third parties	11	-	16,765
Derivatives	17	131,387	98,855
Other financial assets	11	266	7,181
Current accruals		4,113	10,134
TOTAL ASSETS		50,639,445	50,072,051

(*) The Balance sheet at 31 December 2014 is presented for comparison purposes only.
These Notes and the Appendix are an integral part of the Balance sheets at 31 December 2015 and 2014.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 29). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.
Balance sheets at 31 December 2015 and 2014
(Thousands of euros)

EQUITY AND LIABILITIES	Notes	2015	2014 (*)
EQUITY		33,787,273	34,134,732
CAPITAL AND RESERVES	14	33,980,010	34,347,375
Share capital	14.1	4,752,652	4,791,362
Issued capital		4,752,652	4,791,362
Share premium	14.2	14,667,679	14,667,679
Reserves		9,564,784	9,997,571
Legal and statutory reserves	14.3	958,272	956,020
Other reserves		8,606,512	9,041,551
Treasury shares and own equity investments	14.6	(629,075)	(804,285)
Retained earnings		5,470,986	5,302,242
Retained earnings		5,470,986	5,302,242
Profit for the year		116,613	358,126
Other equity instruments		36,371	34,680
UNREALISED GAINS (LOSSES) RESERVE	14.7	(192,737)	(213,022)
Hedging instruments		(192,737)	(213,022)
GRANTS, DONATIONS AND LEGACIES RECEIVED		-	379
NON-CURRENT LIABILITIES		11,662,803	9,326,465
Long-term provisions		524,074	635,127
Provisions for employee benefits	15.1	318,078	428,915
Other provisions	15.2	205,996	206,212
Non-current borrowings		1,573,360	1,915,173
Bank borrowings	16	1,359,069	1,641,837
Finance leases	16	62,761	66,805
Derivatives	17	144,418	198,165
Other financial liabilities		7,112	8,366
Long-term debts with group companies and associates	17, 26	8,558,691	5,769,045
Deferred tax liabilities	20	1,006,678	980,575
Non-current accruals		-	26,545
CURRENT LIABILITIES		5,189,369	6,610,854
Current borrowings		1,063,315	1,257,916
Bank borrowings	16	680,458	856,471
Finance leases	16	4,312	4,139
Derivatives	17	360,943	379,424
Other financial liabilities		17,602	17,882
Short-term debts with companies and associates	17, 26	3,946,365	5,055,179
Trade and other payables		179,338	296,589
Suppliers		31,667	50,275
Suppliers, group companies and associates	26.1.b	40,037	33,404
Other payables		52,669	80,570
Employee benefits payable (outstanding remunerations)		17,256	22,191
Other tax payables	20	37,709	110,149
Current accruals		351	1,170
TOTAL EQUITY AND LIABILITIES		50,639,445	50,072,051

(*) The Balance sheet at 31 December 2014 is presented for comparison purposes only.
The accompanying Notes and Appendix are an integral part of the Balance sheets at 31 December 2015 and 2014.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 29). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.

Income statements for the years ended 31 December 2015 and 2014

(Thousands of euros)

	Notes	2015	2014 (*)
CONTINUING OPERATIONS			
Net revenue	21.1	1,581,139	2,119,327
Sales		1,090,351	1,176,998
Rendering of services		-	68,669
Finance revenue from equity investments in group companies and associates		449,220	814,013
Finance revenue from marketable securities and other financial instruments of group companies and associates		41,568	59,647
Work performed by the entity and capitalised	4.1, 4.2	1,349	8,596
Cost of sales	21.2	(1,115,083)	(1,083,964)
Consumption of goods for resale		(1,115,083)	(1,083,964)
Other operating income		213,000	309,654
Ancillary income and other operating income		212,837	309,543
Grants incorporated to income		163	111
Staff costs		(117,219)	(241,639)
Wages, salaries and others		(86,543)	(147,054)
Social security costs	21.3	(30,676)	(94,585)
Other operating expense		(172,508)	(309,811)
External services		(159,720)	(230,242)
Taxes		(12,243)	(73,227)
Losses on, impairment of and change in trade provisions		(35)	(1,185)
Other operating expenses		(510)	(5,157)
Depreciation and amortisation	7, 8	(56,320)	(94,016)
Impairment losses and gains/(losses) on disposal of non-current assets		(197)	1,268
Gains / (losses) on disposals and others		(197)	1,268
Impairment losses and gains/(losses) on disposal of financial instruments of group companies and associates		66,704	239,977
Impairment and losses	4.4	59,307	168,141
Gains / (losses) on disposals and other gains and losses		7,397	71,836
OPERATING PROFIT		400,865	949,392
Finance income	21.6	12,985	26,690
From debt securities in equity instruments of third parties		4,141	-
From marketable securities and other financial instruments of third parties		8,844	26,690
Finance cost	21.5	(457,033)	(546,033)
Due to borrowings from group companies and associates		(458,383)	(488,347)
Due to third-party borrowings		20,573	(39,309)
Due to provision discount adjustment		(19,223)	(18,377)
Change in fair value of financial instruments		9,486	(10,814)
Trading portfolio and other securities		(6,092)	(10,814)
Gains/ (losses) on available-for-sale financial assets for the period	11	15,578	-
Exchange gains/(losses)	21.7	(11,620)	(8,982)
Impairment and gains/(losses) on disposal of financial instruments		-	(9)
Gains/(losses) on disposals and other gains and losses		-	(9)
NET FINANCE COST		(446,182)	(539,148)
PROFIT BEFORE TAX		(45,317)	410,244
Income tax	20	161,930	(52,118)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		116,613	358,126

(*) The Income statements for the year ended 31 December 2014 is presented for comparison purposes only. The accompanying Notes and Appendix are an integral part of the Income statements for the years ended 31 December 2015 and 2014.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 29). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.

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

(Thousands of euros)

A) Statement of recognised income and expense for the years ended 31 December 2015 and 2014

	Notes	2015	2014 (*)
PROFIT FOR THE PERIOD		116,613	358,126
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY			
Grants, donations and legacies received		-	79
From cash flow hedges	14.7	(19,454)	(121,884)
From actuarial gains and losses and other adjustments	15.1.a	47,986	(45,779)
Tax effect		(7,132)	29,361
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		21,400	(138,223)
AMOUNTS TRANSFERRED TO INCOME STATEMENT			
Grants, donations and legacies received		-	(14)
From cash flow hedges	14.7	46,499	40,147
Tax effect		(11,625)	(12,040)
TOTAL AMOUNTS TRANSFERRED TO INCOME STATEMENT		34,874	28,093
TOTAL RECOGNISED INCOME AND EXPENSE		172,887	247,996

(*) The Statement of recognised income and expense for 2014 is presented for comparison purposes only.

The accompanying Notes and Appendix are an integral part of the Statements of recognised income and expense for the years ended 31 December 2015 and 2014.

IBERDROLA, S.A.

B) Statement of changes in equity for the years ended 31 December 2015 and 2014
(Thousands of euros)

	Share capital (Note 14.1)	Share premium (Note 14.2)	Reserves (Notes 14.3, 14.4 and 14.5)	Treasury shares and own equity investments (Note 14.6)	Retained earnings	Profit for the year (Note 3)	Other equity instruments	Net unrealised gains/ (losses) reserve (Note 14.7)	Grants, donations and legacies received	TOTAL
BALANCE AT 1 JANUARY 2014	4,679,981	14,667,679	5,516,849	(290,235)	2,989,556	2,513,445	30,004	(140,782)	308	29,966,805
Total recognised income and expense	-	-	(38,784)	-	-	358,126	-	(71,417)	71	247,996
Transactions with shareholders and owners										
Capital reduction (Note 14)	(100,100)	-	(516,798)	616,886	-	-	-	-	-	(12)
Free capital increase (Note 14)	211,481	-	(212,661)	-	-	-	-	-	-	(1,180)
Acquisition of free of charge allocation rights (Note 14)	-	-	(860,855)	-	-	-	-	-	-	(860,855)
Distribution of profit	-	-	13,842	-	2,312,686	(2,513,445)	-	-	-	(186,917)
Transactions with treasury shares or own equity instruments (net) (Note 14)	-	-	7,890	(1,130,936)	-	-	-	-	-	(1,123,046)
Corporative reorganisation (Note 10)	-	-	6,088,088	-	-	-	-	(823)	-	6,087,265
Other changes in equity	-	-	-	-	-	-	4,676	-	-	4,676
BALANCE AT 31 DECEMBER 2014	4,791,362	14,667,679	9,997,571	(804,285)	5,302,242	358,126	34,680	(213,022)	379	34,134,732
BALANCE AT 1 JANUARY 2015	4,791,362	14,667,679	9,997,571	(804,285)	5,302,242	358,126	34,680	(213,022)	379	34,134,732
Total recognised income and expense	-	-	35,989	-	-	116,613	-	20,285	-	172,887
Transactions with shareholders and owners										
Capital reduction (Note 14)	(111,362)	-	(716,555)	827,884	-	-	-	-	-	(33)
Free capital increase (Note 14)	72,652	-	(73,316)	-	-	-	-	-	-	(664)
Acquisition of free of charge allocation rights (Note 14)	-	-	(115,028)	-	-	-	-	-	-	(115,028)
Distribution of profit	-	-	2,252	-	168,744	(358,126)	-	-	-	(187,130)
Transactions with treasury shares or own equity instruments (net) (Note 14)	-	-	4,178	(652,674)	-	-	-	-	-	(648,496)
Corporative reorganisation (Note 10)	-	-	429,693	-	-	-	(2,400)	-	(379)	426,914
Other changes in equity	-	-	-	-	-	-	4,091	-	-	4,091
BALANCE AT 31 DECEMBER 2015	4,752,652	14,667,679	9,564,784	(629,075)	5,470,986	116,613	36,371	(192,737)	-	33,787,273

(*) The 2014 Statement of changes in equity is presented for comparison purposes only.

The accompanying Notes and Appendix are an integral part of the Statements of changes in equity for the years ended 31 December 2015 and 2014.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 29). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.

Statements of cash flow for the years ended 31 December 2015 and 2014

(Thousands of euros)

	Notes	2015	2014 (*)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		(45,317)	410,244
Adjustments to profit		100,329	(403,996)
Depreciation and amortisation	7, 8	56,320	94,016
Impairment losses		59,342	(166,956)
Gains/(losses) from derecognition and disposal of non-current assets		197	(1,268)
Gains/(losses) from derecognition and disposal of financial instruments		(7,397)	(71,827)
Finance income	21.1, 21.6	(503,773)	(900,350)
Finance costs	21.5	457,033	546,033
Exchange gains/ (losses)	21.7	11,620	8,982
Change in fair value of financial instruments		(9,486)	10,814
Other income and expense		36,473	76,560
Change in working capital		3,810	188,234
Inventories		30,049	(7,844)
Trade and other receivables		104,209	209,577
Trade and other payables		(130,448)	(13,499)
Other cash flows from operating activities		58,898	508,082
Interest payments		(481,605)	(527,656)
Dividends received		334,836	814,013
Interest received		36,970	86,637
Income tax (payments) proceeds		236,292	218,683
Other (payments) proceeds		(67,595)	(83,595)
CASH FLOWS FROM OPERATING ACTIVITIES		117,720	702,564
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments on investments		(98,079)	(888,169)
Group companies and associates	10	(1,594)	(687,252)
Intangible assets	7	(43,135)	(31,721)
Property, plant and equipment	8	(38,996)	(53,298)
Other financial assets	11	(14,354)	(115,898)
Proceeds from disposals		788,501	2,673,199
Group companies and associates	10	721,326	981,803
Property, plant and equipment	8	910	2,665
Other financial assets	11	66,265	1,688,731
CASH FLOWS FROM INVESTING ACTIVITIES		690,422	1,785,030
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds and payments on equity instruments		(850,498)	(748,294)
Proceeds from issuance of equity instruments	14.1	(664)	(1,180)
Capital reduction	14.1	(33)	(12)
Acquisition of own equity instruments	14.6	(938,283)	(896,183)
Disposal of own equity instruments	14.6	88,482	149,081
Proceeds and payments on financial liabilities		386,419	(603,460)
Issuances		5,592,285	7,731,407
Bank borrowings		480,066	281,085
Payables to group companies and associates		5,112,219	7,443,669
Other payables		-	6,653
Repayment and redemption of		(5,205,866)	(8,334,867)
Bank borrowings		(1,373,859)	(262,536)
Payables to group companies and associates		(3,830,472)	(8,072,331)
Other payables		(1,535)	-
Dividends paid and payments on other equity instruments		(302,158)	(1,047,772)
Dividends		(187,130)	(186,917)
Acquisition of free of charge allocation rights	14.1	(115,028)	(860,855)
CASH FLOWS FROM FINANCING ACTIVITIES		(766,237)	(2,399,526)
NET FOREIGN EXCHANGE DIFFERENCE		(41,905)	(98,068)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		-	(10,000)
Cash and cash equivalents at 1 January		-	10,000
Cash and cash equivalents at 31 December		-	-

(*) The Cash flow statement for 2014 is presented for comparison purposes only.

The accompanying Notes and Appendix are an integral part of the Cash flow statements for the years ended 31 December 2015 and 2014.

IBERDROLA, S.A.

Notes to the Financial statements for the year ended 31 December 2015

1. ACTIVITY

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

- To carry out all manner of activities and construction works and provide services required for, or related to, the production, transmission, switching and distribution or retailing of electric power or electricity by-products and their applications, and involving the raw materials or primary energies required for electric power generation, energy, engineering, computer and telecommunications services, services relating to the Internet, the treatment and distribution of water, the integral provision of urban and gas retailing services, and other gas storage, regasification, 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 retailing 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.

In May 2011, merger by absorption arrangements were adopted between IBERDROLA (absorbing company), and Iberdrola Renovables, S.A. (absorbed company).

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 Financial statements.

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The Financial statements 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 1159/2010, of 17 September and prevailing mercantile law.

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

Unless stated otherwise, the figures in these Financial statements are shown in thousands of euros.

2.1 True and fair view

The Financial statements have been prepared from 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 origin and usage of IBERDROLA's monetary assets such as cash and cash equivalents.

Additionally, the IBERDROLA's Balance sheet at 31 December 2015 has a negative working capital amounting to EUR 2,623,306 thousand. IBERDROLA's directors manifest that the shortfall will be covered by the cash flow generated by the business of the IBERDROLA Group.

On the other hand, IBERDROLA has prepared its Consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The main figures in the IBERDROLA Group's 2015 and 2014 Consolidated financial statements are as follows:

Thousands of euros	2015	2014
Total assets	104,664,182	93,742,388
Equity:		
- Attributable to equity holders of the parent	37,158,658	34,954,490
- Attributable to minority interests	3,246,287	199,611
- Subordinated perpetual obligations holders	551,108	551,197
Net revenue	31,418,693	30,032,270
Profit or loss for the year:		
- Attributable to equity holders of the parent	2,421,578	2,326,516
- Attributable to minority interests	16,496	16,818
- Subordinated perpetual obligations holders	21,455	21,399

2.2 Comparative information

In accordance with mercantile law, 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 2015. The notes also include quantitative disclosures from the previous year, except when a financial reporting standard specifically establishes that this is not a requirement.

When comparing the numbers of 2015 with the ones of 2014, the impact of the reorganization of companies that occurred in the year must be taken into account (Note 10).

In accordance with what is established in the additional disposition of the Resolution of 29 January 2016, the *Instituto the Contabilidad y Auditoría de Cuentas* (ICAC), about the information that should appear in the annual Financial statements in relation to the average payment period to suppliers in commercial transactions operations, IBERDROLA breakdown in Note 19 only the information related to 2015 and does not present comparative information. This is because 2015 is the first year in which this information is qualified as required in the Financial statements keeping in mind the application of the principle of uniformity and comparability requirement.

3. DISTRIBUTION OF PROFIT

IBERDROLA's Board of Directors plans to submit for approval at the General Shareholders' Meeting the following distribution of 2015 profit and retained earnings:

Thousands of euros	2015
Proposed distribution:	
Retained earnings	5,470,986
Profit for the year 2015	116,613
Total	5,587,599
Distribution:	
To legal reserve	-
To dividends	191,916
To retained earnings	5,395,683
Total	5,587,599

On 23 February 2016, IBERDROLA's Board of Directors has agreed to propose at the General Shareholders' Meeting, the distribution, chargeable to the results of 2015 and the retained earnings from previous years, a gross dividend of EUR 0.03 per each IBERDROLA share with dividend entitlement, outstanding at the date on which payment is made.

If the number of IBERDROLA shares outstanding at the date on which the payment of the dividend concerned by this proposal is made was equal to the number of shares outstanding at the date on which these Financial statements are drawn up, 6,397,197,000 ordinary shares, the dividend will amount to EUR 191,916 thousand.

In addition, on 23 February 2016, IBERDROLA's Board of Directors has agreed to propose at the General Shareholders' Meeting to maintain the system of remuneration to shareholders implemented in the year 2010 known as the *Iberdrola Flexible Dividend*.

Under this scheme, IBERDROLA would offer its shareholders an alternative that allow them to receive bonus shares of the Company without limiting their eligibility to receive in cash at least an amount equal to the paid out of the 2015 final dividend.

This option would be instrumented through a free capital increase, which must be approved by the IBERDROLA's General Shareholders' Meeting. In the case it is approved, the free capital increase may be executed by the Board of Directors or, when delegated by it, by the Executive Committee. The execution would coincide with the date on which the shareholders would traditionally be paid the final dividend for 2015.

In the capital increase, each shareholder of IBERDROLA would receive a free of charge allocation rights for each share of IBERDROLA they hold. These free of charge allocation rights will be eligible for trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges.

Depending on the choice made, during the capital increase execution, each of the IBERDROLA's shareholders would be able to receive either new bonus shares of IBERDROLA or cash on selling the free of charge allocation rights to IBERDROLA (at a guaranteed fixed price through the commitment assumed by IBERDROLA) or at the market rate (in which case the price obtained varies in line with the free of charge allocation rights).

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

The useful lives of intangible assets are assessed individually to be either finite or indefinite. Intangible assets with finite lives are amortised using the straight-line method over their estimated useful life, and recoverability is analysed when events or changes in circumstances take place that indicate that their carrying amount may not be recovered. The amortisation periods and methods are revised annually at year end and, where appropriate, adjusted prospectively. Intangible assets with indefinite useful lives are not amortised, but are assessed for impairment at least annually and whenever indications of impairment exist. At 31 December 2015 and 2014 have not been identified intangible asset with indefinite useful lives.

Patents, licences, trademarks and other

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.

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 heading "Intangible assets" 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. Staff costs 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. From 1 January 2015 in accordance with the Resolution of the *Instituto de Contabilidad y Auditoría de Cuentas* (ICAC) of 14 April 2015, by which different criterion are established in order to determine the production cost, the method used by IBERDROLA to determine the amount of finance costs which can be capitalised is as follows:

- a) Specific sources of finance used for the acquisition or construction of specific assets for IBERDROLA are allocated to these assets and capitalised in full.
- b) Finance costs accrued on borrowings and allocated to property, plant and equipment under construction are capitalised by applying the average effective interest rate for all general finance sources to the average aggregate capitalisable investment, after deducting the investment financed with specific funding sources, and provided that the total accrued finance costs during the year are not exceeded.

Until 31 December 2014, in accordance with what is established in the Royal Decree 437/1998 of 20 March, the procedure used by IBERDROLA in order to determine the amount of finance costs susceptible to capitalisation, considered that part of the investment had been made with equity, so the investment susceptible to capitalisation decreased the value of the assets financed with equity.

Also, staff 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.

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.

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

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 property, plant and equipment additions, and the units replaced or renewed are retired from the accounts.

Depreciation and amortization expense is recognised in the Income statement. Depreciation and amortization of items commences once the corresponding test period has concluded. The depreciation of the fixed assets included in the Balance sheet at 31 December 2015 is based on cost using the straight-line method over the period the asset's estimated useful life, as follows:

	Average years of estimated useful life
Buildings	50
Data processing equipment	5 - 8
Measuring devices ⁽¹⁾	15 - 27
Optic fibre installations ⁽²⁾	25 - 40
Dispatching centres and other assets ⁽²⁾	5 - 50

(1) On 2 May 2014, Iberdrola Distribución Eléctrica, S.A.U. carried out a subscribed capital increase by IBERDROLA and paid up by a non-cash contribution of assets related to the "metering" business (metering and control devices) (Note 10).

(2) On 2 January 2015, IBERDROLA transferred to Iberdrola España, S.A.U. the referred fixed assets and almost all the rest of the assets (Note 10), through a capital increase with a non-monetary contribution, subscribed and paid by IBERDROLA.

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, and in the case of any intangible asset with an indefinite useful life, the Company estimates the asset's recoverable amount.

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 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.

The 2015 and 2014 Income statements do not include any charge for this item.

4.4 Financial instruments

4.4.1. Financial assets

a) *Classification and measurement*

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

- a.1.) Loans and receivables.
- a.2.) Equity investments in group companies and associates.
- a.3.) Available-for-sale financial assets.
- a.4.) Assets held for trading.

Financial assets are measured on initial recognition at fair value. Barring evidence to the contrary, fair value is the transaction price, which is equivalent to the fair value of the consideration given plus directly attributable transaction costs. For financial assets held for trading, directly attributable transaction costs are recognised directly in the Income statement in the year the financial asset is acquired. In addition, the initial measurement of financial assets held for trading and available-for-sale, includes the amount of any preferential subscription rights or similar acquired, if any.

a.1) *Loans and receivables*

These are financial assets arising from the sale of goods or rendering of services in the Company's ordinary course of business. This heading also includes 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. It does not include financial assets for which IBERDROLA may not recover substantially all of its initial investment, other than because of credit deterioration.

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.

a.2) *Equity investments in group companies and associates*

This heading includes the Company's interests in the equity of 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).

Upon its initial recognition in the Balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

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 financial statements on the date the transaction was performed. The Consolidated financial statements used are those of the major group or subgroup, the parent of which is Spanish, which includes the assets and liabilities. In the event the aforementioned Financial statements 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 financial statements of the contributing company will be taken.

In the case of an investment prior to its classification as an investment in a group company or associate, the cost of this investment will be deemed to be the carrying amount it should have immediately prior to the company receiving this classification. Accordingly, prior valuation adjustments associated with this investment recognised directly in equity, will remain there until this investment is either sold or impaired.

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.

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.

a.3) 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.

a.4) Assets held for trading

A financial asset is considered to be held for trading when:

- a) it is originated or acquired for the purpose of selling it in the short term,
- b) it is part of a portfolio of identified financial instruments that are managed together and for which there is an evidence of a recent action of short-term profit-taking, or
- c) it is a derivative, unless it is a financial guarantee contract or has been designated as a hedging instrument.

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.

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

b) 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.

Accordingly, upon initial measurement of the related financial assets, the explicit and unmatured explicit interest accrued at that time and the dividends agreed by the competent body upon acquisition are recorded separately based on their maturity. Explicit interests are those that are calculated by applying the financial instrument's contractual interest rate.

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.

c) Impairment of financial assets

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

c.1) 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 Financial statements 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.

The Income statement in 2015 includes a credit of EUR 328 thousand in this regard under "Impairment losses and gains / (losses) on disposals of financial instruments", whereas the Income statement in 2014 does not include any amount in this regard.

c.2) 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 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.

Regarding the ownership interest of IBERDROLA in Gamesa Corporación Tecnológica, S.A. (hereinafter, GAMESA), the company carried out an impairment test at 31 December 2014, as indicated in Note 4.4.1.c.2 of the Financial statements for that year, and proceeded to partially reverse the impairment accounted for on such ownership interest in previous years amounting to EUR 166,812 thousand with a credit to "Impairment losses and gains/(losses) on disposal of financial instruments of group companies and associates" in the Income statement for the year 2014.

Additionally, during the year ended 31 December 2014, IBERDROLA made additional provisions and reversals amounting to EUR 10,215 thousand and EUR 11,544 thousand, respectively, in relation to the impairment loss of other investments in group companies and associates.

On 23 April 2015, IBERDROLA made a non-monetary contribution to its subsidiary Iberdrola Participaciones, S.A.U. for specific holdings in Group companies and associates, one of which was GAMESA (Note 10).

In the year ended 31 December 2015, IBERDROLA accounted for a reversal of EUR 58,979 thousand by way of an adjustment for impairment of other investments in group companies and associates.

c.3) Impairment of 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.

d) *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 of consideration received in transfers of financial assets where it has retained substantially all the risks and benefits inherent to ownership.

4.4.2 Financial liabilities

a) *Classification and measurement*

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 included in trade and other payables and taken to the Income statement for the rest of the financial liabilities.

a.1) *Loans and payables*

These are financial liabilities arising from the purchase of goods or services in the ordinary course of the company's operations. This heading also includes non-trade payables defined as financial liabilities that are not derivative instruments and are not trade-related.

After initial recognition, financial liabilities included in this category are subsequently measured at amortised cost. Interest accrued on these liabilities is 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.

a.2) Liabilities held for trading

A financial liability is considered to be held for trading when:

- it has been issued principally for the purpose of reacquiring it in the short term,
- it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
- it is a derivative, unless it is a financial guarantee contract or has been designated as a hedging instrument.

After initial recognition, held for trading financial liabilities 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.

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

b) Derecognition of financial liabilities

IBERDROLA derecognises a financial liability when the obligation is discharged. It also derecognises own financial liabilities acquired even when the intention is to resell them in the future.

When a debt instrument is replaced by another on substantial different terms, the original financial liability is derecognised and the new liability is recognised. Similarly, substantial modifications in the terms of an existing financial liability are treated in the same way.

The difference between the carrying 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.

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.

4.4.3 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.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges: a hedge of the exposure to changes in the fair value of a recognised asset or liability or firm commitment.

- 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.
- Hedges of a net investment in foreign operations.

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

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

b) Cash flow hedges

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.

c) Hedge of net investment in foreign operations

Hedges of investments in subsidiaries, jointly-controlled entities and associates are treated as fair value hedges for the foreign currency component.

4.4.4. 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 Inventories

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

4.6 Cash and cash equivalents

This heading includes cash, 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.

4.7 Treasury shares

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

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

4.8 Post-employment and other benefits

Contributions to defined contribution post-employment benefit plans are registered as an expense under the "Staff 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 the "Other reserves" heading when they arise. The provision recognised in this concept represents the present value of the defined benefit obligation less the fair value of the plan assets.

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.

4.9 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.

4.10 Termination benefits

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

4.11 Share-based employee compensation

The delivery of IBERDROLA shares to employees as compensation for their services is recognised under the “Staff costs” heading in the Income statement as the workers perform the remunerated services, with a credit to equity under the “Other reserves” heading 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.

4.12 Provisions and contingencies

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.

4.13 Foreign currency transactions

IBERDROLA’s Financial statements are presented in thousands of euros. The euro is its functional currency.

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.

4.14 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 in equity.

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 Financial statements.

IBERDROLA recognises deferred income tax liabilities for all taxable temporary differences, except:

- When 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.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled by IBERDROLA and it is probable that the temporary difference will not reverse in the foreseeable future.

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.
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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.

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.

4.15 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.

4.16 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. Interest on trade loans maturing in less than a year without a contractual interest rate is capitalised as an increase in revenue as the impact of not discounting cash flows is not significant.

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.

4.17 Rights of inspection and coupling and meter rentals

The rights of inspection, coupling and meter rentals charged by IBERDROLA to Iberdrola Distribución Eléctrica, S.A.U. until 2 May 2014 (Note 10) were recognised as revenue with a charge to "Net revenue - Rendering of services" in the Income statement.

4.18 Related party transactions

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

4.19 Non-current assets and disposal groups held for sale

IBERDROLA classifies as “Non-current assets held for sale” assets whose carrying amount is expected to be realized through a sale transaction, rather than through continuing use, when the following criteria are met:

- When they are immediately available for sale in their present condition, subjected to the normal terms of sale.
- When it is highly probable that they will be sold.

Non-current assets held for sale are accounted for at the lower of their carrying amount and fair value less selling costs, except for deferred tax assets, assets arising from employee benefits and financial assets which do not correspond to investments in group companies, joint ventures and associates, which are measured according to specific criteria. These assets are not amortized and, when necessary, the corresponding impairment loss is recognized to ensure that the carrying amount does not exceed fair value less selling costs.

Disposal groups held for sale are accounted for using the same criteria described above. The disposal group as a whole is then remeasured at the lower of the carrying amount and fair value less selling costs.

Related liabilities are classified as “Liabilities relating to non-current assets held for sale”.

5. MANAGEMENT OF FINANCIAL RISKS

The IBERDROLA Group is exposed to various risks inherent to 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 IBERDROLA Group’s financing and financial risk policy approved by the Board of Directors identifies the risk factors described below. The IBERDROLA Group has an organization and systems that allow identifying, measuring and controlling the financial risks to which it is exposed.

Interest rate risk

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

IBERDROLA's debt structure at 31 December 2015 and 2014, after taking into account hedges via derivatives, is as follows:

Thousands of euros	2015	2014
Fixed interest rate	775,546	351,330
Floating interest rate	1,281,054	2,167,922
Capped floating interest rate (*)	50,000	50,000
Total	2,106,600	2,569,252

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

The reference interest rates for the floating rate borrowings are basically Euribor and Libor - Sterling pound.

Exchange rate risk

As the IBERDROLA Group's functional currency is the euro, fluctuations in the value of the currencies, mainly the Sterling pound, Brazilian real and the US dollar, 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 period and equity of the Group.

The IBERDROLA Group reduces this risk by ensuring that all its economic flows are denominated in the functional currency of each Group company, when that is possible and economically practicable and efficient or otherwise using financial derivatives.

The impact on the consolidated net asset value of a hypothetical depreciation of the currency for the Group's investments in foreign subsidiaries is mitigated by keeping debt in foreign currency as well as through the use of financial derivatives.

Commodity price risk

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

Inherent business risk

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

Liquidity risk

Exposure to adverse situations in the debt or capital markets, or the economic-financial situation itself of the IBERDROLA Group, 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 aimed to guarantee that it can meet its payment obligations without having to obtain financing under unfavourable terms. For this purpose, it uses various management measures such as the arrangement of committed credit facilities of sufficient amount and 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 16).

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

The figures relating to the company's debt performance are included in Notes 16 and 28 to the Financial statements.

Credit risk

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

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

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

At 31 December 2015 and 2014 IBERDROLA has no significant concentration of credit risk.

6. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

6.1 Accounting estimates

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

- Provisions for pensions and similar commitments, and restructuring plan:

At each year-end, IBERDROLA estimates the current actuarial provision required to cover obligations relating to restructuring plans, pensions and other similar commitments to its employees. In making these estimates, IBERDROLA receives advice from independent actuaries (Notes 4.8 and 4.9).

– Impairment of assets:

As described in Note 4.3, IBERDROLA, in accordance with applicable accounting regulations, tests the investments that require testing for impairment annually. It also conducts specific tests 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 4.12, 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 authorisation for issuance of these Financial statements based on the best information available.

- Useful lives:

Tangible assets owned by IBERDROLA, usually operate for very long periods of time. IBERDROLA considers its useful life for accounting purposes (Note 4.2) taking into account the technical characteristics of each asset and the period in which they are expected to generate profits as well as the applicable legislation in each case.

- Deferred tax assets:

As it is mentioned in Note 4.14, IBERDROLA only recognizes deferred tax assets when it expects to have future taxable profits against which it can recover such assets. In this sense IBERDROLA makes projections of its taxable profits in order to reach a definitive conclusion; projections that are consistent with the impairment tests mentioned earlier in this note.

Although these estimates were made on the basis of the best information available at the date of approval of these Financial statements, 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 formulation of these Financial statements, constitute a source of uncertainty concerning the accounting impact that they might have in future periods. The main uncertainty is as follows:

- The Corporate Income Tax Law ("*Ley del Impuesto sobre Sociedades*") introduced under the Royal Decree 4/2004, in the article 12.5, provided that goodwill arising from the acquisition of foreign companies is deductible for tax purposes. 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, Note 10).

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

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

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

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

On 27 February 2015, the General Court of the European Union issued a Resolution rejecting the interim suspension of the third Decision, which means that Spanish tax authorities should have to recover the aid. However, this Resolution mentions a writing that was sent to the Spanish Kingdom by the General Director for Competition of the Commission, in which it is declared that the recovery of the aid won't be actively pursued until the European Court of Justice does not conclude on the appeals of the Commission against the General Court Resolutions of 7 November 2014. In addition, the resolution specifically points out that it is very likely that on the final sentence of the Court on the Third Decision, said Decision will be voided based on the same reasons that motivated the voiding of the first two Decisions. Finally, it should be noted that on the same date it was published the third Decision in the Official Journal of the European Union, against which the Company filed the corresponding appeal before the General Court on 22 May 2015. At the date of the Financial statements the mentioned appeals have not been resolved.

- Notes 15 and 20 of these Financial statements describe the IBERDROLA's principal contingent assets and liabilities, mostly arising from litigations in progress whose future evolution cannot be determined certainly at the date of formulation of these Financial statements.
- Note 6.b of these Financial statements describes other sources of uncertainty affecting certain companies in the IBERDROLA Group.

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 2015 and 2014 are as follows:

Thousands of euros	2015				Balance at 12.31.15
	Balance at 01.01.15	Contribution of the activity branch (Note 10)	Additions and allowances	Decreases, disposals or reductions	
Cost					
Patents, licences, trademarks and other	157	-	-	-	157
Software	502,332	(461)	31,257	(136)	532,992
Other intangible assets	14,419	(14,419)	11,878	-	11,878
	516,908	(14,880)	43,135	(136)	545,027
Accumulated depreciation					
Patents, licenses, trademarks and other	(157)	-	-	-	(157)
Software	(412,905)	461	(40,174)	61	(452,557)
Other intangible assets	(11,345)	11,344	(1,660)	-	(1,661)
	(424,407)	11,805	(41,834)	61	(454,375)
Net carrying value	92,501	(3,075)	1,301	(75)	90,652

Thousands of euros	2014		
	Balance at 01.01.14	Additions and allowances	Balance at 12.31.14
Cost			
Patents, licences, trademarks and other	157	-	157
Software	470,611	31,721	502,332
Other intangible assets	14,419	-	14,419
	485,187	31,721	516,908
Accumulated depreciation			
Patents, licenses, trademarks and other	(157)	-	(157)
Software	(367,421)	(45,484)	(412,905)
Other intangible assets	(10,404)	(941)	(11,345)
	(377,982)	(46,425)	(424,407)
Net carrying value	107,205	(14,704)	92,501

In 2015 and 2014, expenses of employees who have worked on computer systems projects and have been capitalised in the cost of these projects amounted to EUR 1,303 and EUR 3,822 thousand, respectively.

At 31 December 2015 and 2014 there are no intangible assets securing bank loans.

The amounts for intangible assets acquired from group companies and associates at 31 December 2015 and 2014 is EUR 1,099 and EUR 117 thousand, respectively.

In 2015 and 2014, no intangible assets were sold to group companies.

IBERDROLA does not have intangible assets whose rights may be exercised outside of Spain in 2015 and 2014.

Fully amortised intangible assets amounted to EUR 54,569 thousand at 31 December 2015 (EUR 52,289 thousand at 31 December 2014).

At 31 December 2015 IBERDROLA's firm commitments to acquire intangible assets amounted to EUR 4,598 thousand (EUR 833 thousand at 31 December 2014). At 31 December 2015 and 2014 there were no firm commitments to sell intangible assets.

In 2015 IBERDROLA incurred EUR 3,747 thousand in research costs, (EUR 3,368 thousand in 2014), which were recognised in the Income statement.

8. PROPERTY, PLANT AND EQUIPMENT

The detail and movements of the Balances of the “Property, plant and equipment” in 2015 and 2014 are as follows:

Thousands of euros	Balance at 01.01.15	Contribution of the activity branch (Note 10)	Additions and allowances	Decreases, disposals or reductions	Balance at 12.31.15
Cost					
Land	85,256	(25,780)	-	-	59,476
Buildings	246,409	(156,829)	21,269	(1,243)	109,606
Plant:	402,425	(402,425)	-	-	-
Other plants	208,112	(208,112)	-	-	-
Other communications plants	194,313	(194,313)	-	-	-
Other items of property, plant and equipment in use	385,310	(105,806)	17,279	(235)	296,548
Total PP&E in use	1,119,400	(690,840)	38,548	(1,478)	465,630
Electricity plant under construction	807	(776)	371	-	402
Prepayments and other PP&E under construction	3,593	(129)	77	(300)	3,241
Total cost	1,123,800	(691,745)	38,996	(1,778)	469,273
Accumulated depreciation					
Buildings	(83,566)	66,571	(2,069)	517	(18,547)
Plant:	(219,251)	219,251	-	-	-
Other plants	(65,988)	65,988	-	-	-
Other communications plants	(153,263)	153,263	-	-	-
Other items of property, plant and equipment in use	(327,418)	86,411	(12,417)	73	(253,351)
Total accumulated depreciation of PP&E	(630,235)	372,233	(14,486)	590	(271,898)
Total net cost	493,565	(319,512)	24,510	(1,188)	197,375

Thousands of euros	Balance at 01.01.14	Contribution of the activity branch (Note 10)	Additions and allowances	Transfers	Decreases, disposals or reductions	Balance at 12.31.14
Cost						
Land	85,459	-	20	-	(223)	85,256
Buildings	236,782	-	10,614	-	(987)	246,409
Plant:	1,195,353	(822,382)	23,849	5,605	-	402,425
Other plants	208,112	-	-	-	-	208,112
Measuring devices	798,635	(822,382)	23,849	(102)	-	-
Other communications plants	188,606	-	-	5,707	-	194,313
Other items of property, plant and equipment in use	376,070	(2,678)	11,998	-	(80)	385,310
Total PP&E in use	1,893,664	(825,060)	46,481	5,605	(1,290)	1,119,400
Electricity plant under construction	2,372	(2,443)	6,585	(5,707)	-	807
Prepayments and other PP&E under construction	4,919	(731)	232	102	(929)	3,593
Total cost	1,900,955	(828,234)	53,298	-	(2,219)	1,123,800
Accumulated depreciation						
Buildings	(79,333)	-	(4,975)	-	742	(83,566)
Plant:	(755,180)	563,668	(27,739)	-	-	(219,251)
Other plants	(65,983)	-	(5)	-	-	(65,988)
Measuring devices	(549,629)	563,668	(14,039)	-	-	-
Other communications plants	(139,568)	-	(13,695)	-	-	(153,263)
Other items of property, plant and equipment in use	(314,997)	2,376	(14,877)	-	80	(327,418)
Total accumulated depreciation of PP&E	(1,149,510)	566,044	(47,591)	-	822	(630,235)
Total net cost	751,445	(262,190)	5,707	-	(1,397)	493,565

During the year 2015, IBERDROLA has not capitalised financial expenses as additions to tangible assets (EUR 28 thousand in 2014).

In 2015 and 2014, staff costs directly or indirectly related to construction in progress and capitalised in the cost of those assets, amounted to EUR 46 and EUR 4,774 thousand, respectively.

The carrying amounts of Property, plant and equipment acquired from group companies and associates at 31 December 2015 and 2014 amounted to EUR 2,786 thousand and EUR 891 thousand, respectively.

During the year 2015, tangible assets with a carrying amount of EUR 862 thousand have been disposed of to group companies (none during the year 2014).

IBERDROLA owned no Property, plant and equipment outside the Spanish territory in 2015 and 2014.

At 31 December 2015, IBERDROLA had fully depreciated Property, plant and equipment in use with a cost value of EUR 102,086 thousand, of which no amount corresponds to buildings. At 31 December 2014, the value of fully depreciated Property, plant and equipment items in use amounted EUR 103,691 thousand of which EUR 1,349 thousand and EUR 102,342 thousand, corresponding to building and other items, respectively.

At 31 December 2015 and 2014 IBERDROLA had no Property, plant and equipment securing bank loans.

At 31 December 2015 and 2014, Property, plant and equipment included EUR 90,920 thousand and EUR 91,957 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 EUR 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 2015 is as follows:

Thousands of euros	2015
2016	7,185
2017-2021	35,923
From 2022 onwards	41,965
Total amounts payable	85,073
Finance cost	18,000
Present value of payments	67,073
Total amounts payable	85,073

At 31 December 2015 IBERDROLA has firm commitments to acquire Property, plant and equipment amounting to EUR 21,965 thousand (EUR 43,463 thousand of property, plant and equipment at 31 December 2014).

In 2015, IBERDROLA sold Property, plant and equipment which carrying amount amounted to EUR 26 thousand (EUR 142 thousand in 2014) generating gains of EUR 22 thousand (EUR 1,587 thousand in 2014).

9. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

At 31 December 2015 and 2014 the book 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, Tax receivables and payables, and cash, is as follows:

Thousands of euros	Non-current financial assets									
	Equity instruments		Debt securities		Loans and receivables		Derivatives		Total	
Categories	12.31.15	12.31.14	12.31.15	12.31.14	12.31.15	12.31.14	12.31.15	12.31.14	12.31.15	12.31.14
Assets held for trading	-	-	-	-	-	-	38,874	31,214	38,874	31,214
Loans and receivables	-	-	11,500	12,900	206,244	228,611	-	-	217,744	241,511
Available-for-sale financial assets measured at cost	412	12,608	-	-	-	-	-	-	412	12,608
Hedging derivatives	-	-	-	-	-	-	406,930	208,440	406,930	208,440
Total	412	12,608	11,500	12,900	206,244	228,611	445,804	239,654	663,960	493,773

Thousands of euros	Current financial assets									
	Equity instruments		Debt securities		Loans and receivables		Derivatives		Total	
Categories	12.31.15	12.31.14	12.31.15	12.31.14	12.31.15	12.31.14	12.31.15	12.31.14	12.31.15	12.31.14
Assets held for trading	4,584	4,584	-	-	-	-	5,295	2,403	9,879	6,987
Loans and receivables	-	-	1,401	1,402	1,817,855	1,683,419	-	-	1,819,256	1,684,821
Hedging derivatives	-	-	-	-	-	-	280,054	146,114	280,054	146,114
Total	4,584	4,584	1,401	1,402	1,817,855	1,683,419	285,349	148,517	2,109,189	1,837,922

		Non-current financial liabilities						
Thousands of euros		Bank borrowings		Derivatives		Other		Total
Categories		12.31.15	12.31.14	12.31.15	12.31.14	12.31.15	12.31.14	12.31.15 12.31.14
Liabilities held for trading		-	-	16,356	5,469	-	-	16,356 5,469
Loans and payables		1,421,830	1,708,642	-	-	8,549,455	5,802,053	9,971,285 7,510,695
Hedging derivatives		-	-	144,410	194,599	-	-	144,410 194,599
Total		1,421,830	1,708,642	160,766	200,068	8,549,455	5,802,053	10,132,051 7,710,763

		Current financial liabilities						
Thousands of euros		Bank borrowings		Derivatives		Other		Total
Categories		12.31.15	12.31.14	12.31.15	12.31.14	12.31.15	12.31.14	12.31.15 12.31.14
Liabilities held for trading		-	-	5,547	6,793	-	-	5,547 6,793
Loans and payables		684,770	860,610	-	-	3,962,725	5,073,056	4,647,495 5,933,666
Hedging derivatives		-	-	356,989	373,806	-	-	356,989 373,806
Total		684,770	860,610	362,536	380,599	3,962,725	5,073,056	5,010,031 6,314,265

10. INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

Movements in the items composing "Non-current assets - Investments in group companies and associates" excluding derivatives (Note 17) during 2015 and 2014 are as follows:

Thousands of euros	Balance at 01.01.15	Corporate reorganization (Note 10)	Additions and allowances	Transfers	Decreases, disposals or reductions	Valuation of net investment hedges	Balance at 12.31.15
Non-current							
Investments in group companies	45,418,491	1,264,440	1,594	-	(707,833)	568,087	46,544,779
Investments in associate companies	811,628	(805,368)	-	-	(5,479)	-	781
Loans to group companies and associates	201,966	-	587	726	(21,619)	-	181,660
Debt securities	12,900	-	-	(1,400)	-	-	11,500
Other financial assets	926	-	5,560	(6,065)	-	-	421
Impairment losses							
On investments in group companies and associates	(300,251)	242,057	-	(1,537)	58,979	-	(752)
Total	46,145,660	701,129	7,741	(8,276)	(675,952)	568,087	46,738,389

Thousands of euros	Balance at 01.01.14	Corporate reorganization (Note 10)	Additions and allowances	Transfers	Decreases, disposals or reductions	Valuation of net investment hedges	Balance at 12.31.14
Non-current							
Investments in group companies	39,552,841	5,484,759	640,065	-	(850,180)	591,006	45,418,491
Investments in associate companies	755,655	-	47,187	41,713	(32,914)	(13)	811,628
Loans to group companies and associates	235,385	-	706	839	(34,964)	-	201,966
Debt securities	14,300	-	-	(1,400)	-	-	12,900
Other financial assets	710	-	-	216	-	-	926
Impairment losses							
On investments in group companies and associates	(1,081,752)	613,360	(10,216)	-	178,357	-	(300,251)
Total	39,477,139	6,098,119	677,742	41,368	(739,701)	590,993	46,145,660

The IBERDROLA Group companies and associates and data relating thereto at 31 December 2015 and 2014 are as follows:

Company	Address	Currency	Share price at 12.31.2015	Activity	Percentage of ownership at 12.31.2015	Thousands of euros					Dividends received in 2015	Dividends received in 2014
						Carrying amount 2015	Carrying amount 2014	Share capital	Reserves	Profit/(Loss)		
Iberdrola España, S.A.U. (a)	Bilbao	EUR	-	Holding	100	12,228,917	12,657,197	3,245,816	9,400,086	1,313,753	-	-
Iberdrola Participaciones, S.A.U. (a)	Madrid	EUR	-	Holding	100	2,306,833	-	60	2,305,541	24,027	-	-
Iberdrola Energía, S.A.U. (a)	Madrid	EUR	-	Holding	100	2,263,426	2,263,673	1,477,831	785,793	161,599	122,743	-
Hidrola I, S.L.U. (a)	Madrid	EUR	-	Holding	100	1,228,771	1,211,692	285,409	1,384,374	207,885	317,648	-
Iberdrola Financiación, S.A.U.	Bilbao	EUR	-	Financial – Instrumental	100	2,000,060	1,941,081	2,000,060	(21,729)	71,114	-	-
Scottish Power Investments, Ltd. (a)	United Kingdom	GBP	-	Holding	100	14,517,682	14,299,041	1,201	15,365,358	641,519	-	189,179
Avangrid, Inc. (previously Iberdrola USA, Inc.) (a)	USA	USD	38.4 US dollars	Holding	81.5%	11,429,227	11,099,746	2,297	16,138,882	285,107	-	-
Scottish Power Overseas Holdings, LTD (a)	United Kingdom	GBP	-	Energy	100	295,307	295,307	-	273,063	(23,210)	-	-
Iberdrola Finanzas,S.A.U.	Bilbao	EUR	-	Financial – Instrumental	100	100,061	100,061	100,061	30,177	(976)	-	-
Iberdrola International, B.V.	Netherlands	EUR	-	Financial – Instrumental	100	388	388	388	3,515	9,307	8,000	5,000
Iberdrola Inmobiliaria, S.A.U.	Madrid	EUR	-	Property development	-	-	1,306,197	-	-	-	-	-
Gamesa Corporación Tecnológica, S.A.	Zamudio	EUR	-	Holding	-	-	533,280	-	-	-	-	-
Iberdrola Ingeniería y Construcción, S.A.U.	Erandio	EUR	-	Engineering and construction	-	-	3,065	-	-	-	-	-
Iberdrola Portugal- Electricidade e Gás, S.A.	Portugal	EUR	-	Energy	-	-	200	-	-	-	-	-

Company	Address	Currency	Share price at 12.31.2015	Activity	Percentage of ownership at 12.31.2015	Thousands of euros						
						Carrying amount 2015	Carrying amount 2014	Share capital	Reserves	Profit/Loss	Dividends received in 2015	Dividends received in 2014
Iberdrola Generación, S.A.U.	Bilbao	EUR	-	Energy	-	-	-	-	-	-	-	455,823
Iberdrola Renovables Energía, S.L.	Valencia	EUR	-	Holding	-	-	-	-	-	-	-	154,680
Other companies	-	-	-	-	-	174,136	218,940	-	-	-	829	9,331
Total						46,544,808	45,929,868				449,220	814,013

(a) Group parent company. Share capital, reserves and profit / loss for 2015 data are consolidated.

Main Transactions in 2015

The main transactions carried out in 2015 involving equity stakes held by IBERDROLA were as follows:

- On 2 January 2015, through a share capital increase with a non-monetary contribution, fully subscribed and paid up by IBERDROLA, transferred to Iberdrola España, S.A.U. the items (assets, liabilities and contractual relations) in connection with (i) the provision of corporate services to group business carried on by the parent companies held as investees through Iberdrola España, S.A.U. and (ii) telecommunications activity (which, in addition to the provision of corporate services, carries on independent business with third parties).

As stipulated in Note 4.4.1.a.2), non-monetary contributions of a business to a group company are measured at the carrying amount of the assets delivered in the Group's Consolidated financial statements at the date on which the operation was carried out. Therefore the carrying amounts of the items contributed in the Group's Consolidated financial statements are identical to those recognised in IBERDROLA's Financial statements.

Therefore, as of 2 January 2015 IBERDROLA's Income statement does not include the aforementioned operations.

- On 10 February 2015 Iberdrola España, S.A.U. decided to return a share issue premium in the amount of EUR 700,000 thousand in order to adapt its financial structure to the standards employed in the sector.

As mentioned in Note 4.4.1.b), IBERDROLA recognised this sum with a reduction of the carrying amount booked under the "Non-current investments in group companies and associates – Equity instruments" heading as this had not arisen from earnings generated after it had been created.

- On 23 April 2015, IBERDROLA made a non-monetary contribution of its stakes in Iberdrola Ingeniería y Construcción, S.A.U. (100%), Iberdrola Inmobiliaria, S.A.U. (100%), Carterapark, S.A.U. (100%), Corporación IBV Participaciones Empresariales, S.A. (50%) and Gamesa Corporación Tecnológica, S.A. (19.69%) to its subsidiary Iberdrola Participaciones, S.A.U.

Non-monetary contributions of a business to a Group company are measured at the carrying amount at which the assets delivered are recognised in the Group's Consolidated financial statements at the transaction date. IBERDROLA credited EUR 429,693 thousand to equity as the difference between the carrying amount of the stake delivered and the carrying amount of the assets delivered in the Group's Consolidated financial statements.

As the IBERDROLA Group's Consolidated financial statements are presented in accordance with the provisions of International Financial Reporting Standards as approved by the European Union, pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council, adjustments were made as required to reflect the consolidated value in accordance with the Spanish National Chart of Accounts approved by the Royal Decree 1514/2007 of 16 November, as amended by Royal Decree 1159/2010 of 17 September.

- On 23 April 2015, IBERDROLA sold its interests in Iberdrola Corporate Services, Inc. (100%), Iberdrola Finance UK Limited (100%), Iberdrola Portugal Electricidade e Gas, S.A., (100%), Iberdrola Corporación, S.A. (100%), Investigación y Desarrollo de Equipos Avanzados, S.A.U. (100%), Corporación Empresarial de Extremadura, S.A. (18.74%), Extremadura Avante I, Fondo de Capital Riesgo (1.25%), ADE Capital Sodical, Sociedad de Capital Riesgo, S.A. (5.26%), Kic Innoenergy Ibérica, S.L. (5.4%) and Iberdrola Consultoria e Serviços do Brasil, Ltda. (0.00012%) to its subsidiary Iberdrola Participaciones, S.A.U.

The sale generated a gross capital gain of EUR 8,014 thousand, recognised under the "Impairment losses and gains/losses on disposal of financial instruments of group companies and associates" heading in the 2015 Income statement.

- On 25 February 2015, the Boards of IBERDROLA, Iberdrola USA, Inc. and UIL Holdings Corporation (hereinafter UIL) approved the terms to make UIL part of the IBERDROLA Group through its absorption by Green Merger Sub, Inc. (hereinafter, GREEN MERGER SUB), a wholly-owned investee of Iberdrola USA, Inc., a company which, as a consequence of this transaction, has been renamed as Avangrid, Inc. (hereinafter, AVANGRID).

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

This agreement contains the usual terms for this kind of operation, and implementation was subject to a number of conditions precedent that were fulfilled on 16 December 2015. On 17 December 2015 AVANGRID shares began trading on the New York Stock Exchange.

The transaction was structured by merging GREEN MERGER SUB (acquiring company) and UIL (the acquired company). Following the merge, the shares of UIL have been canceled and their holders have received as consideration, an action of AVANGRID and USD 10.50 in cash (representing a total cash of USD 594.6 million).

As a result of the transaction, the share capital of AVANGRID is 81.5% owned by IBERDROLA, while the former shareholders of UIL received 18.5%.

At 31 December 2015 the AVANGRID market value was less than its carrying amount. This was considered an indication of impairment, and the Directors therefore carried out an impairment test.

The fundamental hypotheses from the analysis are the following:

a) Assumptions used in the regulated business:

- Regulated remuneration: approved remuneration has been used for years in which it is available, while in subsequent periods revision mechanisms of such remuneration set in different regulations have been used, and these have been applied in line with the estimated costs of the corresponding cash-generating units.
- Investment: the projections were based on investment plans consistent with the expected demand growth in each concession and with the estimate of future remuneration used.
- Operation and maintenance costs: the best estimate available of the performance of the operation and maintenance cost was used, which is in line with the remuneration assumed to be received in each year.

b) Assumptions used in the renewables business:

- Productions of the facilities: the hours of operation of each plant are consistent with their historical output. In this respect, the long term predictability of wind output should be taken into account, which is also covered by regulatory mechanisms that enable wind farms to produce whenever meteorological and network conditions allow it.

- Given that most of the wind facilities in the United States have signed fixed-price sale agreements, the prices set out in such agreements have been used.
- An estimate has been made on the regulation that will apply to the facilities in the USA whose construction starts from 31 December 2019 onwards.
- Investment: the projections were based on the best information available on plants due to come on-stream in the coming years, taking into account the fixed prices stated in the contracts to buy turbines from various suppliers and the technical and financial capacity of the IBERDROLA Group to successfully complete the planned projects.
- Operation and maintenance costs: prices set in land leases and maintenance agreements for the useful life of the facilities were used, where the high predictability of the costs of wind farms must be taken into account.

The forecast period of future cash flows are of ten years for the regulated business (being 0% 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 consists of adding to the temporary value of money or risk-free rate of each market the specific asset risks or risk premium of the asset or business.

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

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

The discount rates before taxes used for the impairment test are in between 5.26% and 6.66% based on the businesses that are a part of AVANGRID.

After the analysis completed on the recoverability of its assets, IBERDROLA concludes that it is not necessary record any write-offs at 31 December 2015.

Main transactions in 2014

The main transactions carried out in 2014 involving equity stakes held by IBERDROLA were as follows:

- On 17 March 2014, IBERDROLA formed the company Iberdrola España, S.A.U., with a share capital of EUR 60 thousand, which capital has been fully paid up by IBERDROLA.

Later, on 8 May 2014, Iberdrola España, S.A.U. increased its share capital with a contribution from its sole shareholder, IBERDROLA, of shares in the latter's subsidiaries Iberdrola Generación, S.A.U., Iberdrola Renovables Energía, S.A.U., Iberdrola Distribución de Gas, S.A.U., Iberdrola Distribución Eléctrica, S.A.U., Sociedad Distribuidora de Electricidad de Elorrio, S.A., Herederos María Alonso Calzada-Venta de Baños, S.L.U., Hidroeléctrica San Cipriano de Rueda, S.L.U., Distribuidora de Energía Eléctrica Enrique García Serrano, S.L., Eléctrica Conquense, S.A., Anselmo León, S.A.U., Distribuidora Eléctrica Navasfrías, S.L.U., Iberdrola Redes, S.A.U., Iberdrola Infraestructuras y Servicios de Redes, S.A and Empresa Eléctrica el Cabriel, S.L.U.

As indicated in Note 4.4, non-monetary contributions of a business to a Group company are measured at the carrying amount of the assets delivered in the Group's Consolidated financial statements at the transaction date. IBERDROLA credited EUR 6,913,184 thousand to "Other reserves" for the difference between the cost of the stake and the carrying amount of the assets delivered in the Group's Consolidated financial statements.

Although the IBERDROLA Group's Consolidated financial statements are presented in accordance with the provisions of International Financial Reporting Standards as approved by the European Union, pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council, the equity of the delivered shares would not be different if the IBERDROLA Group had presented the Consolidated financial statements in accordance with the Spanish National Chart of Accounts approved by Royal Decree 1514/2007 of 16 November, as amended by Royal Decree 1159/2010 of 17 September.

- On 21 March 2014 IBERDROLA formed the company Iberdrola UK Ltd. and on 1 April 2014, Iberdrola UK Ltd. increased its share capital through the contribution by its sole shareholder, IBERDROLA, of stakes in its subsidiary Scottish Power Limited.

As indicated earlier, non-monetary contributions of a business to a Group company are measured at the carrying amount of the assets delivered in the Group's Consolidated financial statements at the transaction date. IBERDROLA charged EUR 825,096 thousand to "Other reserves" for the difference between the cost of the stake and the carrying amount of the assets delivered in the Group's Consolidated financial statements.

Later, on 21 May 2014, Iberdrola UK Ltd. was renamed SPW Investments Limited.

- On 28 April 2014, IBERDROLA subscribed to a capital increase of Iberdrola Inversiones 2010, S.A.U. for EUR 23,100 thousand, thereby maintaining its 100% shareholding.
- On 2 May 2014, Iberdrola Distribución Eléctrica, S.A.U. carried out a capital increase that entailed the issue of 835,950 shares, each with a nominal value of EUR 3 and carrying an issue premium of EUR 9 (in total, EUR 10,031 thousand), which were fully subscribed for by the sole shareholder, IBERDROLA, and paid up by a non-cash contribution of assets related to the "metering" business (metering and control devices).

Non-monetary contributions of a business to a Group company are measured at the carrying amount at which the contributed items are recognized in the Group Consolidated financial statements at the date of the transaction. The accounting values of this business in the Consolidated financial statements of the Group are identical to those recorded in the Financial statements of IBERDROLA.

Since 2 May 2014, therefore, the IBERDROLA Income statement does not include transactions within that business.

- On 26 June 2014, IBERDROLA concluded the sale of its 50% stake in the Belgian company NNB Development Company, S.A. (hereinafter NNB) to Advance Energy UK Limited, which is a subsidiary of the Japanese company Toshiba Corporation. NNB owns the totality of the share capital of the British company NuGeneration Limited, the company which is developing the Moorside project with the aim of bringing onstream a nuclear plant of up to 3.6 GW in West Cumbria. The sale price came to GBP 86 million (equivalent to approximately EUR 107 million) and generated a gross gain of EUR 73,710 thousand, recognised under "Impairment losses and gains/losses on disposal of financial instruments of group companies and associates" in the Income statement.
- On 9 September 2014, IBERDROLA subscribed a capital increase of Gamesa Corporación Tecnológica, S.A. for EUR 46,467 thousand, thereby maintaining its 19.69% shareholding.
- On 17 December 2014, IBERDROLA subscribed a capital increase of Iberdrola Inmobiliaria, S.A.U. for EUR 616,728 thousand, thereby maintaining its 100% shareholding.

11. FINANCIAL INVESTMENTS

Movements in "Financial investments" excluding derivatives (Note 17) in 2015 and 2014 were as follows:

Thousands of euros	Balance at 01.01.15	Corporate restructuring	Additions or provision allowances	Disposals, write- offs and write- downs	Balance at 12.31.15
Non-current					
Equity instruments	30,891	(940)	-	(29,539)	412
Loans to third parties	17,139	-	418	(3,484)	14,073
Other financial assets	8,580	-	2,707	(1,197)	10,090
Impairment losses in equity instruments	(18,283)	-	-	18,283	-
Total	38,327	(940)	3,125	(15,937)	24,575
Current					
Equity instruments	4,584	-	-	-	4,584
Loans to third parties	43	-	-	-	43
Other financial assets	7,311	-	11,229	(18,144)	396
Regulatory receivable due to revenue shortfall 2013 ⁽¹⁾	16,765	-	-	(16,765)	-
Impairment losses	(173)	-	-	-	(173)
Total	28,530	-	11,229	(34,909)	4,850

Thousands of euros	Balance at 01.01.14	Corporate restructuring	Additions or provision allowances	Disposals, write- offs and write- downs	Balance at 12.31.14
Non-current					
Equity instruments	30,892	26	-	(27)	30,891
Loans to third parties	19,044	796	(1,777)	(924)	17,139
Other financial assets	7,439	1,322	-	(181)	8,580
Regulatory receivable due to revenue shortfall 2013	1,222,993	-	(1,222,993)	-	-
Impairment losses in equity instruments	(18,283)	-	-	-	(18,283)
Total	1,262,085	2,144	(1,224,770)	(1,132)	38,327
Current					
Equity instruments	4,584	-	-	-	4,584
Loans to third parties	1,213	-	1,777	(2,947)	43
Debt securities	1	-	-	(1)	-
Other financial assets	23,806	66,124	-	(82,619)	7,311
Regulatory receivable due to revenue shortfall 2013 ⁽¹⁾	345,638	8,243	1,222,993	(1,560,109)	16,765
Regulatory receivable due to revenue shortfall 2012	2,476	13,953	-	(16,429)	-
Regulatory receivable due to revenue shortfall 2011	-	15,961	-	(15,961)	-
Regulatory receivable due to revenue shortfall 2010	-	9,473	-	(9,473)	-
Impairment losses	(173)	-	-	-	(173)
Total	377,545	113,754	1,224,770	(1,687,539)	28,530

- (1) Since the effective date of the Law 54/1997 of the Spanish Electricity Industry and until the year 2013, IBERDROLA was the legal subject of the liquidations related to the revenue shortfall. From 1 January 2014, resulting from the Law 24/2013 of the Electricity Industry, companies of the IBERDROLA Group subject to the liquidations system will also become legal subjects related to the revenue shortfall. This balance with origin in the previous regulation was finally settled in the 12th liquidation of 2014 on 27 February 2015.

a) Equity instruments

The breakdown of Equity instruments in the Balance sheet at 31 December 2015 and 2014 is as follows:

Thousands of euros	12.31.15		12.31.14	
	Carrying amount	% interest	Carrying amount	% interest
Equity instruments				
Euskaltel, S.A.	-	-	7,757	2%
Ciudad Real Aeropuertos, S.L.	-	-	-	9.92%
Other	4,996	-	9,435	-
Total	4,996		17,192	

On 30 June 2015, IBERDROLA has disposed of its participation in Euskaltel, S.A. amounting to EUR 24,042 thousand, which has resulted in a capital gain of EUR 15,578 thousands registered in the heading "Gains/ (losses on available-for-sale financial assets" of the Income statement for the year 2015.

b) Loans to third parties

The breakdown of "Loans to third parties" at 31 December 2015 and 2014 is as follows:

Thousands of euros	12.31.15	12.31.14	Interest rate	Maturity
Non-current				
Residential loans	266	597	0.90% Referenced to EURIBOR	2017-2029
Other	13,807	16,542		From 2016
Total	14,073	17,139		
Current				
Regulatory receivable due to revenue shortfall 2013	-	16,765	-	-
Other	43	43	-	-
Impairment losses	(43)	(43)	-	-
Total	-	16,765		

On 15 December 2014, IBERDROLA signed a contract agreement with various credit institutions for which IBERDROLA securitized the regulatory credit for the revenue shortfall for the year 2013 with pending collections except for the amount recorded as of 31 December 2014, in IBERDROLA's Balance sheet (EUR 16,765 thousand). This amount will be recovered in the pending settlements of the electric sector for the year 2014 and have been carried out in the year 2015.

12. TRADE AND OTHER RECEIVABLES

The breakdown by currency of the main items is as follows:

Thousands of euros	EUR	USD	GBP	Other	Total 12.31.15
Trade receivables	68,193	-	-	-	68,193
Receivables from group companies and associates	52,848	2,141	462	300	55,751
Other receivables	14,551	613	-	36	15,200
Total	135,592	2,754	462	336	139,144

Thousands of euros	EUR	USD	GBP	Other	Total 12.31.14
Trade receivables	88,340	-	-	-	88,340
Receivables from group companies and associates	111,572	290	360	560	112,782
Other receivables	22,024	781	2	23	22,830
Total	221,936	1,071	362	583	223,952

The balance is shown net of impairment losses. The movement in impairment losses in 2015 and 2014 is as follows:

Thousands of euros	
Accumulated impairment loss at 31 December 2013	3,819
Contributions	1,180
Accumulated impairment loss at 31 December 2014	4,999
Excess of provision	(17)
Contribution to line of activity (Note 10)	(227)
Accumulated impairment loss at 31 December 2015	4,755

13. INVENTORIES

At 31 December 2015, the IBERDROLA Group has in place “take or pay” contracts with several natural and liquefied natural gas (hereinafter LNG) suppliers for the supply of 31 bcm of gas during the period from 2016 to 2039, earmarked for retailing 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 under these contracts are determined on the basis of formulas commonly used in the market, which index the price of gas to the performance of other energy variables.

On 31 December 2015 IBERDROLA has no liquefied natural gas inventory (EUR 30,084 thousand at 31 December 2014).

14. EQUITY

14.1 Issued capital

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

	Date	% Capital	Number of shares	Nominal	Euros
Balance at 31 December 2013			6,239,975,000	0.75	4,679,981,250
Bonus share issue	28 January 2014	2.139%	133,492,000	0.75	100,119,000
Capital reduction	29 April 2014	2.094%	(133,467,000)	0.75	(100,100,250)
Bonus share issue	18 July 2014	1.078%	67,239,000	0.75	50,429,250
Bonus share issue	16 December 2014	1.288%	81,244,000	0.75	60,933,000
Balance at 31 December 2014			6,388,483,000	0.75	4,791,362,250
Capital reduction	28 April 2015	2.324%	(148,483,000)	0.75	(111,362,250)
Bonus share issue	20 July 2015	1.552%	96,870,000	0.75	72,652,500
Balance at 31 December 2015			6,336,870,000	0.75	4,752,652,500

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

Information on the holders free of charge allocation rights who have accepted the irrevocable rights purchase commitment of IBERDROLA is as follows:

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

¹ IBERDROLA has waived certain bonus issue rights it owns in order to make the number of share ultimately issued a whole number.

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

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

IBERDROLA's shares are listed for trading on the Spanish electronic trading system (the "Continuous" market), and included in the IBEX-35 and 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 2015 and 2014, as well as the holdings of financial instruments disclosed by the owners of these stakes in compliance with Royal Decree 1362/2007 of 19 October. This information is based on filings by the owners of the stakes in the official registers of CNMV (*Comisión Nacional del Mercado de Valores*) or the company financial statements or press releases, and it is presented in 2015 IBERDROLA Group's Annual Corporate Governance Report.

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

Owner	% of voting rights 2015			% Total 2014	Financial instruments 2015	Directors of IBERDROLA 2016
	% Direct	% Indirect	% Total			
Qatar Investment Authority ⁽¹⁾	-	9.726	9.726	9.647	-	-
Kutxabank, S.A. ⁽²⁾	-	3.472	3.472	3.601	-	1

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

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

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

At 31 December 2015, 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	%
Mr. José Ignacio Sánchez Galán	3,880,506	3,473,851	7,354,357	0.116
Mr. Xabier De Irala Estévez	236,617	-	236,617	0.004
Mr. Iñigo Víctor De Oriol Ibarra	1,223,862	-	1,223,862	0.019
Mrs. Inés Macho Stadler	57,987	-	57,987	0.001
Mr. Braulio Medel Cámara	26,111	-	26,111	0.000
Mrs. Samantha Barber	1,664	-	1,664	0.000
Mrs. María Helena Antolín Raybaud	2,921	-	2,921	0.000
Mr. Santiago Martínez Lage	15,261	-	15,261	0.000
Mr. José Luis San Pedro Guerenabarrena	645,240	-	645,240	0.010
Mr. Ángel Jesús Acebes Paniagua	5,736	-	5,736	0.000
Mrs. Georgina Kessel Martínez	2,010	-	2,010	0.000
Mrs. Denise Mary Holt	207	-	207	0.000
Mr. José W. Fernández	-	-	-	0.000
Mr. Manuel Moreu Munaiz	21,307	21,307	42,614	0.001
Total	6,119,429	3,495,158	9,614,587	0.152

Direct and indirect shareholdings of members of the Board of Directors at the date of preparation of these financial statements are set out in section A.3. of the Corporate Governance Report.

At the General Shareholders Meeting on 27 May 2011 the Board of Directors was authorised, pursuant to the provisions of Article 297.1.b) of the Spanish Companies Law, with express powers of substitution, for a period of five years, to increase the share capital by up to one half at the date of authorisation. It also delegated authorisation for the disapplication of preferential subscription rights in relation to the share capital increases that may be agreed pursuant to this authorisation, although this authorisation, in addition to authorisation to issue bonds or stock convertible into Company shares, will be limited to a maximum nominal amount equal to 20% of the share capital at the date of authorisation.

14.2 Share premium

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

14.3 Legal reserve

Under the Revised Text of the Spanish Companies Law, 10% of years profit must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of share capital.

The legal reserve, amounting to EUR 958,272 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.

14.4 Revaluation reserves

This reserve, amounting to EUR 505,242 thousand included in the Balance sheet of the 1996 Financial statements, 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 capital gain will be considered realised for the corresponding amount of depreciation recorded or when the revalued assets have either been sold or disposed of from the accounting records. In the event that balance of this account is used for purposes other than those prescribed by the Royal Decree-Law 7/1996, it would be deemed liable to be taxed.

14.5 Redeemed capital reserve

Prior to 2001, IBERDROLA reduced capital by redeeming treasury shares, lowering its share capital by EUR 81,708 thousand and voluntary reserves by EUR 238,722 thousand, carrying out the resolution adopted at the General Shareholders Meeting held on 25 May 1996.

In accordance with article 335.c of the Revised Text of the Spanish Companies Law, IBERDROLA has a restricted "Redeemed capital reserve" of EUR 406,232 thousand, equivalent to the par value of the reduced share capital.

14.6 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 of derivative instruments having company shares as the underlying asset.

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

	Number of shares	Thousands of euros
Treasury shares	67,636,166	405,457
Swaps over treasury shares	7,800,721	48,979
Futures over treasury shares ⁽¹⁾	14,000,000	83,962
Accumulators (exercised shares)	3,027,195	17,799
Accumulators (potential shares)	12,111,494	72,878
Balance at 31 December 2015	104,575,576	629,075

(1) Over the Counter (OTC) Futures or unorganized market futures.

a) Treasury shares

Movements in treasury shares during 2015 and 2014 were as follows:

	Number of shares	Thousands of euros
Balance at 31 December 2013	34,519,418	137,559
Acquisitions	176,365,850	896,183
Capital reduction	(133,467,000)	(616,886)
Disposals	(16,432,991)	(82,842)
Balance at 31 December 2014	60,985,277	334,014
Acquisitions	162,118,086	938,283
Capital reduction	(148,483,000)	(827,884)
Disposals	(6,984,197)	(38,956)
Balance at 31 December 2015	67,636,166	405,457

The results obtained by IBERDROLA in 2015 and 2014 due to the disposal of treasury shares amounted to a profit of EUR 4,178 thousand and EUR 7,890 thousand, respectively, which are recorded under the "Other reserves" heading in the Balance sheet.

b) Derivatives settled by physical delivery

IBERDROLA has recognised the transaction directly in equity under the heading "Treasury shares and equity investments" and the obligation to buy back the shares under the "Current and non-current liabilities - Bank borrowings" heading in the Balance sheet.

- Swaps on treasury shares**

IBERDROLA has also arranged four 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. At maturity of the contracts it will buy back the shares at the same price for which it sold them.

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

2015	Number of shares	Year price	Maturity date	Interest rate	Thousands of euros
Total Return Swap	2,202,792	6.047	01/18/2016	3-month Euribor + 0.55%	13,320
Total Return Swap	1,867,929	6.370	04/18/2016	3-month Euribor + 0.50%	11,899
Total Return Swap	1,865,000	6.370	04/18/2016	3-month Euribor + 0.50%	11,880
Total Return Swap	1,865,000	6.370	04/18/2016	3-month Euribor + 0.50%	11,880
Total	7,800,721				48,979

2014	Number of shares	Year price	Maturity date	Interest rate	Thousands of euros
Total Return Swap	6,400,000	6.047	01/18/2016	3-month Euribor + 0.55%	38,701
Total Return Swap	3,300,000	6.047	01/20/2015	3-month Euribor + 0.65%	19,955
Total Return Swap	2,800,000	6.370	04/17/2015	3-month Euribor + 0.59%	17,836
Total Return Swap	2,799,795	6.370	04/17/2015	3-month Euribor + 0.45%	17,835
Total	15,299,795				94,327

- Futures (OTC)**

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

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

2015	Number of shares	Average Price of the period	Due date	Thousands of euros
Futures	14,000,000	5.9973	01/13/2016 – 02/03/2016	83,962

2014	Number of shares	Average Price of the period	Due date	Thousands of euros
Futures	22,134,200	5.5484	01/07/2015 – 02/12/2015	122,809

- **Treasury share accumulators**

The IBERDROLA Group holds several purchase accumulators on treasury shares.

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

The accumulation mechanism is as follows:

- when the spot price is below the strike price, two units of the underlying 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 2015 and 2014 are as follows:

2015	Number of shares	Average Price of the period	Due date	Thousands of euros
Exercised shares	3,027,195	5.8796	01/15/2016 – 02/19/2016	17,799
Potencial maximum ⁽¹⁾	12,111,494	6.0173	01/15/2016 – 02/19/2016	72,878

2014	Number of shares	Average Price of the period	Due date	Thousands of euros
Exercised shares	21,551,203	5.3783	02/03/2015 – 02/13/2015	115,909
Potencial maximum ⁽¹⁾	24,832,346	5.5261	02/03/2015 – 02/13/2015	137,226

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

14.7 Unrealised gains/(losses) reserve

Movements in this reserve in 2015 and 2014 due to impairment of available-for-sale financial assets and derivatives classified as cash-flow hedges are as follows:

Thousands of euros	01.01.15	Change in fair value	Charge to Income statement	12.31.15
Cash flow hedges				
Interest rate swaps	(242,905)	(10,918)	14,159	(239,664)
Collars	(2,800)	(156)	468	(2,488)
Currency forwards	(38,331)	(8,380)	31,872	(14,839)
Tax effect	71,014	4,865	(11,625)	64,254
Total	(213,022)	(14,589)	34,874	(192,737)

Thousands of euros	01.01.14	Contribution of activity branch (Note 10)	Change in fair value	Charge to Income statement	12.31.14
Cash flow hedges					
Interest rate swaps	(196,188)	(1,176)	(81,690)	36,149	(242,905)
Collars	(7,988)	-	1,131	4,057	(2,800)
Currency forwards	3,053	-	(41,325)	(59)	(38,331)
Tax effect	60,341	353	22,364	(12,044)	71,014
Total	(140,782)	(823)	(99,520)	28,103	(213,022)

The disclosure of the year in which is expected to affect the Income statement is as follows:

Thousands of euros	2016	2017	2018	2019	2020 and subsequent years	Total
Cash flow hedges						
Interest rate swaps	(31,268)	(31,071)	(30,793)	(25,372)	(121,160)	(239,664)
Collars	(2,378)	(110)	-	-	-	(2,488)
Currency forwards	(12,373)	(2,466)	-	-	-	(14,839)
Tax effect	11,504	8,412	7,698	6,344	30,296	64,254
Total	(34,515)	(25,235)	(23,095)	(19,028)	(90,864)	(192,737)

14.8 Share-based compensation plans

2011-2013 Strategic Bonus Programme

The IBERDROLA General Shareholders Meeting of 27 May 2011 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 (287 beneficiaries), related to the fulfilment of the strategic objectives in the 2011-2013 period and settled it by handing in the company's share.

The 2011-2013 Strategic Bonus had a term of three years for the 2011-2013 period and shares are delivered as deferred income in 2014, 2015 and 2016.

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

In the first half of 2015 and 2014, therefore, the first and the second of the three annual payments were made in the form of 1,610,566 and 1,736,399 shares, respectively. These shares include those delivered to executive directors (Note 23) and to senior management (Note 25).

The "Staff costs" heading in the 2015 and 2014 Income statement includes EUR 2,510 thousand and EUR 5,646 thousand, respectively, relating to the vested amount of this incentive schemes.

2014-2016 Strategic Bonus Programme

The General Shareholders Meeting of 28 March 2014 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 (350 beneficiaries), tied to the IBERDROLA Group's performance in relation to certain metrics throughout the assessment period, from 2014 to 2016:

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

The maximum number of shares to be delivered to the beneficiaries of the 2014-2016 Strategic Bonus will be 19,000,000 shares, equal to 0.3% of the share capital at the time this resolution is adopted. A maximum of 2,200,000 shares will be delivered to the executive directors in compliance with the terms and conditions of the scheme.

The payment period for the scheme will run from 2017 to 2019. Payments will be made in the form of shares on a deferred basis in those three years. The heading "Staff Costs" in the 2015 Income statement includes EUR 14,362 thousand for this item (EUR 13,079 thousand in 2014).

15. PROVISIONS

15.1 Provisions for non-current employee benefits

The breakdown of this item in the Balance sheets at 31 December 2015 and 2014 is as follows:

Thousands of euros	2015	2014
Allocation required under by-laws art. 48.1	23,065	20,915
Allocation required under by-laws art. 48.4	12,062	10,612
Defined benefit plans	247,811	328,993
Non-current employee benefits	5,341	18,085
Restructuring plans	29,799	50,310
Total	318,078	428,915

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'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 2015 and 2014.

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 2015 and 2014 are recognised under "Staff costs" heading in the Income statement and came to EUR 856 thousand and EUR 1,815 thousand, respectively (Note 21.3).

- 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 bonuses for active employees at 10, 20 and 30 years of service (until the signing of the VI Collective Agreement of the Iberdrola Group on 20 July 2015, the seniority bonuses for active employees was in the 25 and 40 years of service).

The movement in provisions for the commitments detailed in the previous section in 2015 and 2014 is as follows:

Thousands of euros	Electric Tariff	Seniority bonuses
Balance at 31 December 2013	296,706	18,186
Contribution of the activity branch (Note 10)	(4,215)	(1,187)
Normal cost (Note 21.3)	1,121	926
Other expenses recognised under "Staff costs" (Note 21.3)	(5,855)	-
Finance cost (Note 21.5)	8,069	469
Actuarial differences		
In the Income statement (Note 21.3)	-	1,870
In reserves	45,779	-
Payments and other	(12,612)	(2,179)
Balance at 31 December 2014	328,993	18,085
Contribution of the activity branch (Note 10)	(21,238)	(10,321)
Normal cost (Note 21.3)	506	521
Other expenses recognised under "Staff costs" (Note 21.3)	(7,516)	-
Finance cost (Note 21.6)	6,049	103
Actuarial differences		
In the Income statement (Note 21.3)	-	1,281
In reserves	(47,986)	-
Payments and other	(10,997)	(4,328)
Balance at 31 December 2015	247,811	5,341

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

	2015			2014		
	Discount rate	Wage increase rate/ kWh price increase	Mortality tables	Discount Rate	Wage increase rate/ kWh price increase	Mortality tables
Seniority bonuses and electricity for employees	1.70%/ 2.10%	1.00% / 2.00%	PERM/ F 2000P	1.75% / 2%	2.50%	PERM/ F 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 are subject to a contributory system where the Company pays 55% and the employee 45%. For the ones hired after 20 July 2015 the company pays 1/3 and the employee 2/3, until the date in which the employee takes part in the Base Salary Rating (SBC). At this moment the same criteria will be applied to those employees as the ones who were hired since 9 October 1996. The Company finances these contributions for all its respective current employees.

IBERDROLA's contributions in 2015 and 2014 were EUR 6,400 thousand and EUR 8,553 thousand, respectively, and are recognised under "Staff costs" heading in the Income statement (Note 21.3).

c) Restructuring plans

In 2012, given the interest shown by 82 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 in Spain, having signed a total of 82 contracts. In 2014 and 2013, 1 and 9 additional contracts have been signed, respectively (none in 2015). At 31 December 2015, the IBERDROLA Group has a provision in this regard amounting to EUR 6,179 thousand.

In 2014, given the interest shown by 92 employees in requesting early retirement, IBERDROLA offered these employees a mutually agreed termination of the employment relationship. IBERDROLA has carried out a process of individual termination contracts in Spain, having signed a total of 92 contracts prior to 31 December 2014. In 2015, no additional contracts were signed. At 31 December 2015, IBERDROLA has a provision in this regard amounting to EUR 22,697 thousand.

Finally, in 2015, IBERDROLA, given the interest shown in early retirement by 3 employees, has offered to these employees the termination as a mutual agreement of the employment relationship linking them by performing a process of disengagement in individual contracts in Spain, having signed a total of 3 contracts before 31 December 2015. At 31 December 2015, IBERDROLA has a provision for this item amounting to EUR 923 thousand.

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

The movement in provisions for the commitments detailed in the previous section in 2015 and 2014 is as follows:

Thousands of euros	
Balance at 31 December 2013	21,385
Allowances (Note 21.3)	37,666
Finance cost (Note 21.5)	339
Actuarial and other differences (Note 21.3)	(1,001)
Payments and other	(8,079)
Balance at 31 December 2014	50,310
Contribution of the activity branch (Note 10)	(12,115)
Allowances (Note 21.3)	923
Finance costs (Note 21.5)	247
Actuarial and other differences (Note 21.3)	980
Payments and other	(10,546)
Balance at 31 December 2015	29,799

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 2015 and 2014 are as follows:

	2015			2014		
	Discount rate	CPI	Mortality tables	Discount rate	CPI	Mortality Tables
Redundancy program and other restructuring plans	0.50%/0.60%	0.70%/1.00%	PERM/F 2000P	0.75%/0.87%	1%/2.30%	PERM/F 2000P

15.2 Other current and non-current provisions

The movement and breakdown of the liabilities in the Balance sheet in 2015 and 2014 is as follows:

Thousands of euros	
Balance at 31 December 2013	190,909
Allowances	32,029
Discount to present value of finance provisions (Note 21.5)	9,500
Overprovisions	(2,040)
Provisions applied and payments	(24,186)
Balance at 31 December 2014	206,212
Allowances	38,876
Discount to present value of finance provisions (Note 21.5)	12,824
Overprovisions	(41,798)
Provisions applied and payments	(5,677)
Contribution of the activity branch (Note 10)	(4,441)
Balance at 31 December 2015	205,996

15.3 Contingent assets and liabilities

IBERDROLA is party to legal and out-of-court disputes arising as part of their ordinary course of business (ranging from conflicts with suppliers, clients, administrative or tax authorities, individuals, environmental activists and employees).

IBERDROLA's legal advisors believe that these proceedings will not have a material impact on its financial position.

IBERDROLA's appeals on regulatory issues were submitted in opposition to general provisions of an indefinite amount, affecting the regulatory and remuneration framework of the companies. They therefore concern regulatory provisions that were in force at the time of appeal.

IBERDROLA's assets are not at risk with respect to the appeals submitted against general energy stipulations because the economic effects of the stipulations challenged apply when they come into force. An estimate of the appeals submitted by third parties has a limited economic scope, as this would force amendments to the regulatory framework and possible refunds.

The following are the main appeals submitted by IBERDROLA against general regulatory provisions:

- a) The Contentious-administrative appeal by IBERDROLA to the Supreme Court against the Ministerial Order IET/1491/2013 of 1 August reviewing electricity access fees for application as of August 2013 and certain tariffs and premiums in relation to special-regime plants in the second quarter of 2013. Expert reports were presented on 14 January 2016.

- b) The Contentious-administrative appeal by IBERDROLA to the Supreme Court against Ministerial Order IET/107/2014 of 31 January reviewing electricity access fees for 2014. The appeal was submitted on 25 February 2014, no application was made for an injunction, and on 23 June 2014 the case was transferred to the State Lawyer to challenge. Appeal conclusions were submitted on 7 December 2015.
- c) Appeal to the Constitutional Court by IBERDROLA against provisional settlement 11/2011 (on IBERDROLA's obligation to cover the revenue shortfall) and the rulings by the National Court and the Supreme Court dismissing the contentious-administrative appeal submitted by IBERDROLA against this.

On 16 April 2015 the Constitutional Court agreed to admit the appeal to proceedings. Its ruling stipulated that this was of constitutional significance since the possible infringement of the basic right stipulated could arise from the law or from another general stipulation. Pleas were presented on 8 July 2015.

- d) Appeal to the Constitutional Court by IBERDROLA against the ruling by the Supreme Court refusing to accept an appeal against CNE settlement 14/2011 (the issue was whether or not the provisional settlement formed part of proceedings). On 6 July 2015 the Constitutional Court agreed to admit the appeal to proceedings. The ruling stipulated that the issue was related to the specific case because it involved a legal precept with major general social or economic repercussions. On 30 September 2015 the allegations were presented.
- e) The Contentious-administrative appeal by IBERDROLA to the National Court against the Ministerial Order IET/350/2014 of 7 March setting the percentage shares of the amounts to be financed with regard to the social tariff for 2014. The State Lawyer contested the appeal in writing on 4 August 2014.
- f) The Contentious-administrative appeal by IBERDROLA to the Supreme Court against the Royal Decree 968/2014 of 21 November, implementing the methodology setting the percentage shares of the amounts to be financed with regard to the social tariff. The appeal has reached the phase of conclusions.

Among the regulatory litigation brought by third parties that may affect the remuneration framework and equity of the IBERDROLA Group there are no outstanding appeals of significant importance.

The main proceedings in which IBERDROLA is involved abroad at the date of formulation of these Financial statements are as follows:

- a) There are eight lawsuits (one administrative and seven civil) involving IBERDROLA in relation to the formulation on 1 July 2008 by its subsidiary IBERDROLA RENOVABLES, S.A. of a takeover bid targeting the ordinary and preference shares of the Greek investee C. ROKAS, S.A. (hereinafter ROKAS). On the occasion of the merging out of existence of IBERDROLA RENOVABLES, S.A. into IBERDROLA, the latter became subrogated to all rights and obligations of the former, including those arising from the proceedings so far referred to. The administrative proceedings consist of an appeal in cassation against the penalty imposed by the Greek securities market commission (HCMC) on IBERDROLA RENOVABLES, S.A. with respect to the takeover bid launched in 2008. The hearing at which that appeal in cassation was to be decided upon had been originally scheduled for 19 May 2015 and although it was foreseen that the sentence would be known before the year 2015 ends, it will not be known until mid-2016.

The remaining civil actions (seven) were instituted by shareholders of C. ROKAS, S.A. and consist of claims for damages equivalent to the difference between the price at which Iberdrola Renovables, S.A. launched the takeover bid (EUR 16 per ordinary share and EUR 11 per preference share), a price which was authorised by HCMC, and the price which those shareholders believe ought to have been set (EUR 21.75 per ordinary share and EUR 21.50 per preference share).

On 14 October 2014, IBERDROLA was notified of the decision issued regarding three of the civil actions, which had been joined into a single one. The decision was unfavorable and IBERDROLA was ordered to pay EUR 10.9 million plus interests (which, at 24 October 2014, came to EUR 4.1 million), of which EUR 0.632 million (plus interests) are IBERDROLA's responsibility on its own, whereas the rest of the amount of the damages must be paid severally by IBERDROLA, Christos Rokas and Georgios Rokas. IBERDROLA does not have face claimants' costs awarded in these proceedings. IBERDROLA has appealed against this decision having set the date to resolve it on 12 November 2015. However, the hearing could not be held on that date, so that it was finally summoned on 24 March 2016. In relation to these three accumulated proceedings, on 26 March 2015 the Court handed down a definitive ruling dismissing IBERDROLA's request for injunctive stay of the provisional implementation of the ruling of 14 October 2014, confirming provisional implementation of the ruling, and compelling IBERDROLA to pay out EUR 420 thousand in relation to two of the three proceedings (EUR 300 thousand and EUR 120 thousand respectively), and EUR 300 in court costs. In May 2015 IBERDROLA proceeded to pay such amounts to the plaintiffs which, in return, proceeded to return the guarantees provided by IBERDROLA. With regard to the third set of proceedings (Collective Suit, Litsa and others), IBERDROLA abandoned its request for stay of execution after reaching an agreement with the plaintiffs, whereby IBERDROLA issued a first-request bank guarantee in their favour for a total of EUR 12.7 million, which can only be called if an unfavourable ruling is handed down against IBERDROLA's appeal. On 23 September 2015 the plaintiffs in the third case (Collective Suit, Litsa and others) instigated a fresh round of proceedings to claim capitalisation of the interest accrued and not paid in connection with the ruling of 14 October 2014. The total amount of the capitalised interest claimed by the plaintiffs was EUR 824 thousand, calculated from the date on which the claim was notified (23 September 2015) to the intended date of the hearing (scheduled for 21 September 2017), with consideration of the prevailing rate in Greece (9.30%). The amount claimed is an estimate, as the interest rate can fluctuate and depends on the date on which the hearing actually takes place.

The remaining other three civil actions are still in a preliminary phase, so it is difficult to determine when a decision upon them will be forthcoming, given the circumstances of the courts of that country. At the date of formulation of these Financial statements, the hearing for these procedures is set on 2 March 2016, 26 May 2016 and 18 January 2017. In 2011, a final judgement in favour of IBERDROLA was obtained in one of the other civil proceedings, while the other seven civil proceedings remain at various procedural stages. The total amount now being claimed (excluding the proceedings where a final judgement has been handed down in favour of IBERDROLA), after reduction of the claimed amounts, mainly under the head of moral damages, has been fixed at EUR 15.5 million, to which must be added any amounts relating to statutory interest and legal costs.

16. BANK BORROWINGS

The detail of bank borrowings outstanding at 31 December 2015 and 2014, once considered foreign exchange hedges, and the repayment schedule are as follows:

Thousands of euros	Balance at 12.31.14	Balance at 12.31.15	Current	Non-current				2021 and subsequent years	Total non- current
			2016	2017	2018	2019	2020		
Euros	2,369,826	1,469,207	665,375	34,320	184,314	33,423	247,448	304,327	803,832
GBP	191,191	634,881	16,883	16,846	219,555	45,580	45,582	290,435	617,998
Total	2,561,017	2,104,088	682,258	51,166	403,869	79,003	293,030	594,762	1,421,830
Accrued interest	8,235	2,512	2,512	-	-	-	-	-	-
Total	2,569,252	2,106,600	684,770	51,166	403,869	79,003	293,030	594,762	1,421,830

Borrowings outstanding at 31 December 2015 and 2014 accrue a weighted average annual interest rate of 2.08 % and 2.61%, respectively, once adjusted for the corresponding hedges.

The borrowings previously mentioned refer to the amounts drawn down and outstanding at 31 December 2015 and 2014. At the end of 2015 and 2014 IBERDROLA had undrawn loans and credit facilities amounting to EUR 4,786,398 thousand and EUR 4,298,434 thousand, respectively, maturing between 2016 and 2020 and accrue a weighted average interest equivalent to the three-month Euribor rate plus 0.63%.

At 31 December 2015 and 2014, 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 2015. 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 EUR 464 million and EUR 928 million at 31 December 2015 and 2014, 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 EUR 230 million during 2015 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 the date of formulation of these Financial statements, neither IBERDROLA nor any of its material subsidiaries were in breach of their financial commitments or any kind of obligation that could trigger the early redemption of their financial undertakings. IBERDROLA considers that the covenant clauses will have no effect on the classification of borrowings as current or non-current in the Balance sheet.

17. DERIVATIVES

The breakdown of items contributing to derivatives at 31 December 2015 and 2014, is as follows:

Thousands of euros	2015				2014			
	Current		Non-current		Current		Non-current	
With third parties outside the Group	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
INTEREST RATE HEDGES:								
Cash flow hedges								
- Interest rate swap	-	(8,267)	-	(57,463)	-	(15,460)	-	(89,957)
- Collar	-	(449)	-	(117)	-	(326)	-	(547)
Fair value hedges								
- Interest rate swap	4,477	9,490	23,922	-	4,755	9,798	30,488	-
FOREIGN EXCHANGE HEDGES:								
Cash flow hedges								
- Currency forwards	43,599	(55,929)	6,074	(8,474)	21,412	(54,383)	24,976	(33,985)
- Currency swap	9,075	7,882	29,008	(21,543)	(3,613)	15,758	12,165	(18,773)
Fair value hedges								
- Currency swap	39,762	29,641	347,926	(20,464)	25,744	15,693	140,811	(29,581)
Hedges of a net investment in a foreign operation:								
- Currency forwards	36,907	(335,389)	-	-	3,265	(341,082)	-	-
- Currency swap	(3,571)	(3,968)	-	(36,349)	46,583	(3,591)	-	(21,756)
NON-HEDGING DERIVATIVES:								
Exchange rate derivatives								
- Currency forward	1,138	(2,272)	21,944	(8)	709	(6,003)	7,313	(238)
Interest rate derivatives								
- Interest rate swap	-	762	2,024	-	-	1,065	2,224	-
- Other	-	(2,371)	-	-	-	(893)	-	(3,328)
Derivatives on treasury shares								
- Derivatives on treasury shares	-	(73)	-	-	-	-	-	-
Total	131,387	(360,943)	430,898	(144,418)	98,855	(379,424)	217,977	(198,165)

Thousands of euros	2015				2014			
	Current		Non-current		Current		Non-current	
With group companies and associates	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
FOREIGN EXCHANGE HEDGES:								
Cash flow hedges								
- Currency forwards	149,805	-	-	-	47,968	-	-	-
INTEREST RATE HEDGES:								
Cash flow hedges								
- Collar	-	-	-	-	-	(213)	-	-
NON-HEDGING DERIVATIVES:								
Exchange rate derivatives								
- Currency forwards	4,157	(1,593)	14,906	(16,348)	1,694	(962)	21,677	(1,903)
Total	153,962	(1,593)	14,906	(16,348)	49,662	(1,175)	21,677	(1,903)

The maturity schedule of the notional underlyings of derivative instruments contracted by IBERDROLA and outstanding at 31 December 2015, is as follows:

Thousands of euros	2016	2017	2018	2019	2020 and subsequent years	Total
INTEREST RATE HEDGES:						
Cash flow hedges						
- Interest rate swap	-	-	-	-	774,917	774,917
- Collar	-	50,000	-	-	-	50,000
Fair value hedge						
- Interest rate swap	340,000	200,000	100,000	120,000	75,000	835,000
FOREIGN EXCHANGE HEDGES:						
Cash flow hedges						
- Currency forwards	1,807,329	54,914	-	-	-	1,862,243
- Currency swap	31,963	156,608	-	-	-	188,571
Fair value hedge						
- Currency swap	115,849	-	-	1,283,364	1,235,528	2,634,741
HEDGES OF A NET INVESTMENT IN A FOREIGN OPERATION						
- Currency forwards	5,740,121	-	-	-	-	5,740,121
- Currency swap	-	-	93,041	-	-	93,041
NON-HEDGING DERIVATIVES:						
Exchange rate derivatives						
- Currency forwards	106,455	34,536	52,868	36,988	359,940	590,787
Interest rate derivatives						
- Interest rate swap	-	-	-	50,000	-	50,000
- Other	190,000	-	-	-	-	190,000
Derivatives on treasury shares						
- Derivatives on treasury shares	33	-	-	-	-	33
Total	8,331,750	496,058	245,909	1,490,352	2,445,385	13,009,454

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.

IBERDROLA uses derivatives such as currency hedges to offset the potential negative effects that fluctuations in exchange rate could have on transactions and loans in currencies other than the functional currency of some Group companies.

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

Type of hedge	2015				
	Thousands of US Dollars	Thousands of Mexican Pesos	Thousands of Japanese Yens	Thousands of Norwegian Krone	Thousands of Sterling Pounds
Fair value	1,919,000	-	28,000,000	350,000	700,000
Cash flow	623,201	1,500,000	-	-	-

Type of hedge	2014				
	Thousands of US Dollars	Thousands of Mexican Pesos	Thousands of Japanese Yens	Thousands of Norwegian Krone	Thousands of Sterling Pounds
Fair value	1,919,000	-	28,000,000	350,000	850,000
Cash flow	1,222,959	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 liabilities for which interest rate hedges have been arranged is as follows:

Type of hedge	2015	
	Thousands of Euros	Thousands of Sterling Pounds
Fair value	835,000	-
Cash flow	110,000	225,000

Type of hedge	2014	
	Thousands of Euros	Thousands of Sterling Pounds
Fair value	835,000	-
Cash flow	226,440	150,000

18. MEASUREMENT OF FINANCIAL INSTRUMENTS

The breakdown of the carrying amount and fair value of financial instruments, except equity investments in group companies, joint ventures and associates at 31 December 2015 and 2014 is as follows:

Thousand of euros	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial investments in group companies and associates	2,177,326	2,177,326	1,937,872	1,937,872
Financial investments	591,710	591,710	383,689	383,689
Trade and other receivables	148,065	148,065	236,515	236,515
Total	2,917,101	2,917,101	2,558,076	2,558,076

Thousand of euros	2015		2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Bank borrowings, bonds and other debt securities and loans with group companies and associates	14,611,656	15,601,166	13,393,476	14,468,315
Other third-party borrowings	530,075	530,075	603,837	603,837
Trade and other payables	141,629	141,629	186,440	186,440
Total	15,283,360	16,272,870	14,183,753	15,258,592

In the case of the above mentioned financial instruments not admitted to trading, the fair value of unlisted financial instruments was generally determined by discounting forecast cash flows using yield curves adjusted for credit risk, except as indicated in Note 4.4.

19. INFORMATION ON DEFERRED PAYMENTS TO SUPPLIERS. THIRD ADDITIONAL PROVISION "DUTY OF INFORMATION" OF LAW 15/2010, OF 5 JULY

In accordance with what is established in the additional disposition of the Resolution of 29 January 2016, the *Instituto de Contabilidad y Auditoría de Cuentas* (ICAC), about the information that should appear in the annual Financial statements in relation to the average payment period to suppliers in commercial transactions operations, IBERDROLA breakdown only the information relating to 2015 and does not present comparative information. This is because 2015 is the first year in which this information is qualified as required in the Financial statements keeping in mind the application of the principle of uniformity and comparability requirement.

The breakdown of the required information corresponding to 2015 is the following:

Number of days	2015
Average payment period to suppliers	13.2
Paid transactions ratio	13.1
Outstanding payment transactions ratio	28.9
Thousands of euros	2015
Total payments made	1,314,651
Total outstanding payments	9,885

The information in the table above has been prepared in accordance with Law 15/2010 of 5 July, amending Law 3/2004 of 29 December, establishing measures to combat late payments in commercial operations and in accordance with the Resolution of 29 January 2016, from the *Instituto de Contabilidad y Auditoría de Cuentas*, on the information to be included in the notes to the financial statements in relation to deferred payments to suppliers in commercial transactions operations. The specifications with which such information has been prepared are the following:

- Ratio of paid operations: amount in days of the ratio between the sum of the amount of each of the operations paid and the number of paydays, and in the denominator, the total amount of payments made during the year.
- Ratio of outstanding payment operations: amount in days of the ratio between the sum of the amount of the outstanding payment transaction and the number of unpaid days, and in the denominator, the total amount of outstanding payments.
- Suppliers: trade payables generated from debts of goods or services with suppliers included in the current liabilities heading of the Balance sheet.
- Property, plant and equipment and other financial lease suppliers are not considered in the information scope.

- Taxes, levies, indemnifications and some other headings are not considered in the information scope since they are not commercial transactions.

20. TAX

In 2015, IBERDROLA, as the parent of the tax Group 2/86, filed a Consolidated Income Tax return. The tax Group will continue to be taxed under this tax regime indefinitely for as long as the related requirements are met and the Group does not expressly waive application of the regime by filing the related taxpayer registration form.

IBERDROLA, although it does not form part of it, is the parent of another Group of Companies that, as of 1 January 2015, opted for the tax consolidation system provided for in the Bizkaia Regional Corporate Income Tax Statute 11/2013 of 5 December ("Norma Foral"). Application of the system by these companies was made possible following the amendment, applicable after 1 January 2015, to Statute 11/2013 and to Spanish Income Tax Law 27/2014 of 27 November.

In 2015, IBERDROLA was involved in a series of corporate restructuring transactions, in conjunction with some of its investees (Note 10) under the tax-neutral regime provided for under Chapter VII, Title VII of the Spanish Income Tax Law 27/2014 of 27 November.

Note 10 herein contains the other disclosures required by Income Tax Law 27/2014.

In past years, IBERDROLA was 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 Financial statements 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 2015 and 2014 is as follows:

Thousands of euros	2015	
	Income statement Increases/(decreases)	Income and expense recognised directly in equity Increases/(decreases)
Income and expenses for the year	116,613	55,294
Income Tax	(161,930)	18,376
Permanent differences	(465,459)	-
Temporary differences		
- Arising in the year	(64,530)	(28,532)
- Arising in prior years	(73,944)	(46,499)
Tax base (tax profit)	(649,250)	(1,361)

Thousands of euros	2014	
	Income statement Increases/(decreases)	Income and expense recognised directly in equity Increases/(decreases)
Income and expenses for the year	358,126	(111,761)
Income Tax	52,118	(18,018)
Permanent differences	(138,574)	-
Temporary differences:		
- Arising in the year	(50,030)	167,583
- Arising in prior years	(225,805)	(40,133)
Tax base (tax profit)	(4,165)	(2,329)

Permanent differences are due to impairment losses in group companies and associates that form part of the IBERDROLA tax Group. It is also due to dividends received (from 2015 as a result of the Spanish Income Tax Law 27/2014 of 27 November), to changes in the equity investment valuation provision that have not generated a deferred tax asset and to other expenses that are not considered as tax-deductible.

The difference between the tax expense recognised in 2015 and 2014 and the tax payable in the followings years recognised under the "Deferred tax assets" and "Deferred tax liabilities" headings of the Balance sheets at 31 December 2015 and 2014 arises mainly as a result of the following:

- Temporary differences derived mainly, from the tax effect of expenses recorded for pension commitments and the restructuring plan (Notes 4.8 and 4.9) for the purpose of determining the taxable income for corporate Income Tax purposes for each year.
- Temporary differences arising from impairment losses on equity investments in entities that are not tax deductible in the year that they are provided for, or where tax deductions are not considered for accounting purposes.
- Temporary differences derived from the differences in the accounting and tax criteria for recognising certain provisions and the differences between the accounting and tax depreciation of certain items.
- Temporary differences associated with the tax treatment of the financial goodwill generated in the acquisition of securities relating to holdings in non-resident entities.

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

Thousands of euros	2015	
	Income statement	Income and expense recognised directly in equity
Effective tax (Income) / Expense		
Detail:		
- Current	(250,107)	(381)
- Deferred	88,177	18,757
Total	(161,930)	18,376

Thousands of euros	2014	
	Income statement	Income and expense recognised directly in equity
Effective tax (Income) / Expense		
Detail:		
- Current	(174,352)	(698)
- Deferred	226,470	(17,320)
Total	52,118	(18,018)

The accrued Corporate Income Tax expense/(income) for 2015 and 2014 is calculated as follows:

Thousands of euros	2015	2014
Accounting profit before tax	(45,317)	410,244
Permanent differences	(465,459)	(138,574)
Adjusted accounting profit	(510,776)	271,670
Gross tax payable	(143,017)	81,501
Tax credits (a)	(8,340)	(194,404)
Effect of consolidated taxation:		
- Intergroup dividends (b)	-	(183,366)
- Correction to tax credits (b)	-	183,366
Tax rate adjustment (c)	(3,920)	(113,925)
Adjustment to deferred tax assets (d)	-	253,665
Other (e)	(6,653)	25,281
Income Tax	(161,930)	52,118

- (a) Tax credits taken by IBERDROLA include basically the credits to avoid double taxation and other credits intended to promote certain activities.
- (b) In 2014, this mainly means eliminating the effect on tax expense of dividends received by companies which are part of the Tax Group and the elimination of the tax credit to avoid double taxation on these dividends. During 2015, as a result of the entry into force of the Spanish Income Tax Law 27/2014 of 27 November, dividends are generally exempt in the tax base.
- (c) Revenue resulting from the recalculation, after the tax regulatory modification approved in November 2014 by Law 27/2014, of deferred taxes recorded by the company and pending reversion as of 31 December 2015 and 2014, based on the estimated tax rate that will be applicable at the time of the expected mentioned reversal.
- (d) In 2014 deferred tax assets related to provisions of impairment losses on equity investments in group companies and associates were adjusted due to the fact that their reversion in the next 10 years is not secured.
- (e) It corresponds, among others, to the income tax incurred abroad, with the adjustment of income tax expense in prior years and the allocation/reversals of provisions.

The commitments and obligations arising from the tax benefits of which IBERDROLA availed itself in this and prior years were met (and are currently being met) by the companies belonging to Tax Group 2/86, in the terms provided for in the Income Tax Law, approved by the Law 27/2014, of 27 November.

Specifically, IBERDROLA took tax credits in previous years on the capital gains obtained from the disposal of tangible fixed assets and states that the full amount of the disposals has been reinvested in assets related to the fulfilment of the commitment.

The breakdown of receivables from and payables to Public Administrations in Balance sheets at 31 December 2015 and 2014 is as follows:

Thousands of euros	2015	2014
Receivables from Public Administrations		
VAT receivable	417	418
Income Tax receivable	316,984	290,296
Tax withholdings receivable	22	1,110
Social security tax receivable	114	136
Total	317,537	291,960
Payables to Public Administrations		
VAT payable	21,134	31,653
Tax withholdings payable	8,701	69,903
Other tax payables	6,917	6,755
Social security tax payable	957	1,838
Total	37,709	110,149

The movement in “Deferred tax assets” and “Deferred tax liabilities” in 2015 and 2014 is as follows:

Thousands of euros	01.01.15	Contribution of the activity branch (Note 10)	Credit (charge) to income statement	Credit (charge) to “Other reserves”	Credit (charge) to “Unrealised gains/(losses) reserve”	12.31.15
Deferred tax assets:						
Measurement of derivative financial instruments:						
Cash flow hedges	279,969	-	-	-	197	280,166
Pensions and similar commitments	100,275	(10,918)	(9,030)	(11,996)	-	68,331
Tax credits for losses and deductions	136,249	-	(64,749)	-	-	71,500
Other deferred tax assets	149,370	(6,416)	4,873	-	-	147,827
Total	665,863	(17,334)	(68,906)	(11,996)	197	567,824

Thousands of euros	01.01.14	Contribution of the activity branch (Note 10)	Credit (charge) to income statement	Credit (charge) to “Other reserves”	Credit (charge) to “Unrealised gains/(losses) reserve”	12.31.14
Deferred tax assets:						
Measurement of derivative financial instruments:						
Cash flow hedges	309,824	(20)	-	-	(29,835)	279,969
Pensions and similar commitments	99,770	(1,618)	(4,872)	6,995	-	100,275
Tax credits for losses and deductions	138,812	-	(2,563)	-	-	136,249
Other deferred tax assets	457,013	-	(307,643)	-	-	149,370
Total	1,005,419	(1,638)	(315,078)	6,995	(29,835)	665,863

The balance of deferred tax assets, include the amount that the Company expects to recover within a period not exceeding 10 years.

Thousands of euros	01.01.15	Contribution of activity branch (Note 10)	Charge (credit) to income statement	Charge (credit) to "Unrealised gains/losses reserve"	12.31.15
Deferred tax liabilities:					
Measurement of derivative instruments:					
Cash flow hedges	208,961	-	-	6,958	215,919
Accelerated depreciation	6,532	-	131	-	6,663
Overprice in business combinations	654,620	-	29,612	-	684,232
Other deferred tax liabilities	110,462	(126)	(10,472)	-	99,864
Total	980,575	(126)	19,271	6,958	1,006,678

Thousands of euros	01.01.14	Contribution of activity branch (Note 10)	Charge (credit) to income statement	Charge (credit) to "Unrealised gains/losses reserve"	12.31.14
Deferred tax liabilities:					
Measurement of derivative instruments:					
Cash flow hedges	249,489	(373)	-	(40,155)	208,961
Accelerated depreciation	7,763	-	(1,231)	-	6,532
Overprice in business combinations	750,008	-	(95,388)	-	654,620
Other deferred tax liabilities	102,456	-	8,006	-	110,462
Total	1,109,716	(373)	(88,613)	(40,155)	980,575

In general terms, the companies of the Group keep 2010 and subsequent fiscal years open to fiscal inspection in relation to the principal taxes in which they are subject to, with the exception to the Income Tax which is open for 2008 and subsequent fiscal years. Nevertheless, the aforementioned period may vary for those entities of the Group subject to other tax legislations.

On 11 March 2014, the State Tax Administration Agency initiated a general tax audit of the taxes of Fiscal Group 2/86. The years and taxes that are being inspected are the Income Tax for the years 2008 to 2011; the Value Added Tax of the years 2010 and 2011; withholdings on personal income taxes from May 2009 to December 2011 and non-resident withholdings for years 2010 and 2011.

At the date of formulation of these Financial statement inspection minutes have been issued regarding the income tax (specific to transfer pricing), withholding on Personal Income Tax, and withholding on non-residents. No significant equity impact has derived thereof. Nevertheless, the tax inspection is currently in its final phase and it is expected that the final inspection minutes will be signed during the first half of 2016.

The IBERDROLA Group's directors and, where appropriate, their tax consultants consider that the current inspection process will not give rise to additional liabilities of significance for the IBERDROLA Group at 31 December 2015.

As a result of other tax inspections by the tax authorities, tax audit minutes have been issued to several Group companies. Some of these minutes have been signed without agreement and have been appealed against.

21. INCOME AND EXPENSES

21.1 Net revenue

The detail of this item in the Income statements for 2015 and 2014 is as follows:

Thousands of euros	2015	2014
Sales		
Gas sales	1,074,124	1,130,638
Income of telecommunications services (Note 10)	-	31,736
Sales of goods and services	16,227	14,624
	1,090,351	1,176,998
Rendering of services		
Rights to inspection and coupling and metering devices rentals (Notes 4.17 and 10)	-	50,262
Other income	-	18,407
	-	68,669
Finance income from equity investments in group companies and associates	449,220	814,013
	449,220	814,013
Finance income from trading securities and other financial instruments with group companies and associates	41,568	59,647
	41,568	59,647
Total	1,581,139	2,119,327

The detail of this heading in the Income statements for 2015 and 2014 by geographic market is as follows:

Thousands of euros	2015	2014
Net Revenue		
National	1,221,630	1,552,199
Within the European Union	131,306	262,763
Rest of the world	228,203	304,365
Total	1,581,139	2,119,327

21.2 Cost of sales

The detail of this heading in the Income statements for 2015 and 2014 is as follows:

Thousands of euros	2015	2014
Purchases		
Gas purchases	1,071,654	1,066,691
National purchases	214,136	133,124
International purchases	301,644	377,227
Rest of the world	555,874	556,340
Changes in inventory	30,084	(7,844)
Other purchases	13,345	25,117
	1,115,083	1,083,964

21.3 Social Security costs

The composition of this item in the Income statements for 2015 and 2014 is as follows:

Thousands of euros	2015	2014
Employer Social Security costs	8,750	20,751
Allowances for pensions and similar commitments (Note 15)	(2,449)	36,542
Defined contributions to the externalised pension plan (Note 15)	6,400	8,553
Compensation stipulated in the by-laws art. 48.1	17,000	19,000
Compensation stipulated in the by-laws art. 48.4	5,050	4,107
Other social expenses	(4,075)	5,632
Total	30,676	94,585

21.4 Operating leases

The "External services" heading on the Income statements includes operating lease payments of EUR 11,145 thousand and EUR 24,046 thousand for 2015 and 2014, respectively. The breakdown of future minimum payments under non-cancellable operating leases outstanding at 31 December 2015 is as follows:

Thousands of euros	2015
2016	3,445
2017-2021	-
From 2022 onwards	-
Total	3,445

21.5 Finance costs

The breakdown of this heading for 2015 and 2014 is as follows:

Thousands of euros	2015	2014
Finance costs on bonds, loans and other	11,712	46,939
Finance costs on bonds, loans and other with group companies and associates	432,760	457,633
Increase/(decrease) in finance costs from fair-value hedges of interest rate	(82,995)	(65,874)
Increase/(decrease) in finance costs from cash flow hedges of interest rate	2,906	14,034
Increase/(decrease) in finance costs from discontinued hedges	7,144	33,322
Other finance costs	66,283	41,602
Discount to present value of provisions (Note 15)	19,223	18,377
Total	457,033	546,033

21.6 Finance income

The breakdown of this heading for 2015 and 2014 is as follows:

Thousands of euros	2015	2014
Financial income arising from investments in equity instruments with third parties	4,141	-
Income from bonds, loans and other with third parties	8,252	4,497
Accrued interest on regulatory receivable (revenue shortfall)	-	21,179
Other finance income	592	1,014
Total	12,985	26,690

21.7 Exchange gains/(losses)

The breakdown of exchange gains/losses in the Income statements for 2015 and 2014 is as follows:

Thousands of euros	2015	2014
On transactions settled in the year	(41,905)	(98,068)
On transactions not settled at year end	30,285	89,086
Total Income /(expense)	(11,620)	(8,982)

21.8 Employees

The average number of employees at IBERDROLA in 2015 and 2014, by professional category, is the following:

	2015			2014		
	Women	Men	Total	Women	Men	Total
University graduates	184	293	477	326	541	867
Qualified employees	10	26	36	67	225	292
Other	51	10	61	155	204	359
Total	245	329	574	548	970	1.518

The average number of employees during the years 2015 and 2014 with greater than or equal to thirty-three percent disability, separated by professional category, is as follows:

	2015			2014		
	Women	Men	Total	Women	Men	Total
Qualified employees	-	-	-	-	3	3
Others	-	-	-	6	3	9
Total	-	-	-	6	6	12

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 the 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.

22. GUARANTEE GRANTED 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 Scottish Power with third parties in some of its commitments relating to the construction and bringing into service of its offshore renewable wind farms.

In its engineering business, IBERDROLA provides, 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.

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.

IBERDROLA considers that any additional liability other than those provisioned at 31 December 2015 and 2014, arising from the guarantees provided at that date, if any, would not be significant.

23. REMUNERATION OF BOARD OF DIRECTORS

1. 2015 by-law stipulated remuneration

Article 48 of IBERDROLA's by-laws provides that the Company shall assign, as an expense, an amount equal to up to 2% of the profit obtained in the year by the consolidated group for the following purposes:

- a) To remunerate directors, in accordance to both, the positions they have held and their executive functions, considering their dedication and attendance at meetings of corporate bodies.

- b) To set up a fund to meet the Company's obligations in pensions, life insurance premiums and payment of indemnities to current and former directors.

In particular, the board of directors will receive a remuneration which consists of an annual fixed assignment, assistance fees and appropriate hedge risk benefits (death or permanent disability). In the case of dismissal before the end of the period for which they were appointed, the non-executive directors who were not external, shall be entitled to receive compensation for non-attendance; except those whose dismissal could have been motivated by serious breaches of administrator's function that are attributable to their own fault or be exclusively voluntary.

Assignment of up to 2% may be accrued only if the yearly profit is sufficient to cover assignments to the legal reserves and any other obligatory charges, and if shareholders have been allotted a dividend equal to 4% of the share capital.

On the proposal of the Appointments and Remuneration Committee, the Board of Directors has decided to propose to the General Shareholders Meeting to assign by-law stipulated remuneration of EUR 17,000 thousand in 2015. In 2014, it amounted to EUR 19,000 thousand.

These amounts have been registered under the "Staff costs" heading in the Income statements (Note 21.3) and the break down is as follows:

a) Fixed Remuneration

The fixed annual remuneration received by the board members depends on the duties assigned to them in the Board of Directors and its commissions in 2015 and 2014. The detail of which is as follows:

Thousands of euros	2015	2014
Chairman	567	567
Committee chairmen	440	440
Committee members	253	253
Board members	165	165

The fixed remuneration earned by members of the Board of Directors with a charge to the by-law stipulated remuneration amounted to EUR 4,551 thousand and EUR 4,335 thousand in 2015 and 2014, respectively.

The detailed fixed remuneration accrued by the members of the Board of Directors, individually, during 2015 and 2014, respectively, is detailed as follows:

Thousands of euros	Fixed remuneration 2015 (*)	Fixed remuneration 2014
Chairman		
Mr. José Ignacio Sánchez Galán	567	567
Committee chairmen		
Mrs. Inés Macho Stadler	440	440
Mrs. Samantha Barber	440	440
Mrs. Maria Helena Antolín Raybaud ⁽¹⁾	396	253
Mrs. Georgina Kessel Martínez ⁽²⁾	415	253
Committee members		
Mr. Xabier de Irala Estévez	253	253
Mr. Íñigo Víctor de Oriol Ibarra	253	253
Mr. Braulio Medel Cámara	253	253
Mr. Santiago Martínez Lage	253	253
Mr. José Luis San Pedro Guerenabarrena	253	253
Mr. Ángel Jesús Acebes Paniagua	253	253
Mrs. Denise Mary Holt ⁽³⁾	253	126
Mr. Jose Walfredo Fernández ⁽⁴⁾	220	-
Mr. Manuel Moreu Munaiz ⁽⁵⁾	211	-
Directors that resigned		
Mr. Manuel Lagares Gómez-Abascal ⁽⁶⁾	-	45
Mr. Julio de Miguel Aynat ⁽⁷⁾	58	440
Mr. Sebastián Battaner Arias ⁽⁸⁾	33	253
Total remuneration	4,551	4,335

(*) Amounts accrued in 2015, not satisfied until the approval of 2015 by-law stipulated remuneration by the General Shareholders Meeting 2016.

(1) Appointed president of the Appointment Committee after the constitution on the 27 March 2015.

(2) Appointed president of the Audit and Risk Supervision Committee by the Board of Directors in the meeting on the 17 February 2015.

(3) Appointed external director by the Board of Directors at its meeting on 24 June 2014. Furthermore, on 22 July 2014 her appointment was approved as a member of the Audit and Risk Supervision Committee.

(4) Appointed external director by the Board of Directors at its meeting on 17 February 2015. In turn, on that date, the Board of Directors approved his appointment as a member of the Audit and Risk Supervision Committee.

(5) Appointed advisor as external by the Boards of Directors at its meeting on 17 February 2015. Also, on 27 March 2015, the Boards Director approved his appointment as member of the Social Responsibility Commission.

(6) Ceased as vice-chairman of Boards of Directors at their meeting on 10 April 2014.

(7) Ceased as independent director at the Board Meeting on 17 February 2015.

(8) Ceased as independent director at the Board Meeting on 17 February 2015.

As a proposal of the Board of Directors, at the General Shareholder's Meeting which took place on 27 March 2015, approved the separation of the Appointments and Remuneration Commission into two different commissions; on one hand creating the Remuneration Commission and on the other the Appointments Commission.

Currently, all members of the Board of Directors of IBERDROLA assume responsibility for any of the four committees of the Board.

b) Attendance fee

The attendance fees paid in 2015 and 2014 for attending the meetings of the Board of Directors and its commissions, based on the duties discharged in each case, were as follows:

Thousands of euros	2015	2014
Chairman of the Board of Directors and committees chairmen	4	4
Committee members and members of the Board of Directors	2	2

The attendance fees paid to the members of the Board of Directors with a charge to the by-law stipulated remuneration amounted to EUR 676 thousand and EUR 590 thousand in 2015 and 2014, respectively.

Below are listed, individually, the attendance fees received by the members of the Board of Directors during 2015 and 2014, respectively:

Thousands of euros	Attendance fee 2015	Attendance fee 2014
Chairman		
Mr. José Ignacio Sánchez Galán	88	88
Committee chairmen		
Mrs. Inés Macho Stadler	72	76
Mrs. Samantha Barber	44	54
Mrs. María Helena Antolín Raybaud	44	32
Mrs. Georgina Kessel Martínez	68	32
Committee members		
Mr. Xabier de Irala Estévez	44	44
Mr. Íñigo Víctor de Oriol Ibarra	42	30
Mr. Braulio Medel Cámara	28	18
Mr. Santiago Martínez Lage	30	30
Mr. José Luis San Pedro Guerenabarrena	42	44
Mr. Ángel Jesús Acebes Paniagua	56	44
Mrs. Denise Mary Holt	42	14
Mr. Jose Walfredo Fernández	36	-
Mr. Manuel Moreu Munaiz	24	-
Directors that resigned		
Mr. Manuel Lagares Gómez-Abascal	-	4
Mr. Julio de Miguel Aynat	10	50
Mr. Sebastián Battaner Arias	6	30
Total attendance fees	676	590

c) Remuneration of the executive directors for discharging their executive duties

The remunerations earned in 2015 and 2014 by the chairman and chief executive officer for their executive duties, and which are also recognised with a charge to the by-law stipulated remuneration for the year are indicated below individually by remuneration components:

Remuneration components of chairman and chief executive officer:

Thousands of euros	2015	2014
Fixed remuneration	2,250	2,250
Variable annual remuneration (1)	3,200	3,146
Compensation in kind	66	66

(1) Amount relates to variable remuneration received in years 2015 and 2014, respectively, based on attainment of targets and personal performance in 2014 and 2013, respectively.

The Board of Directors has resolved to maintain the fixed remuneration for the chairman and chief executive officer in 2016 at EUR 2,250 thousand. It also decided to maintain the limit of variable annual remuneration, which may not exceed EUR 3,250 thousand and which will be paid as far as been agreed in 2017.

On the other hand, in 2015, the former chief operating officer received EUR 500 thousand by way of annual variable remuneration for 2014 for carrying out functions up until 24 June 2014. He also received EUR 1 thousand as remuneration in kind in 2015. In 2014 he received EUR 484 thousand as fixed remuneration, EUR 21 thousand as remuneration in kind, and EUR 16 thousand for other items.

d) Provisions and guarantees provided by the Company for directors

This account includes the following items:

- The premium incurred to cover benefits payable in the event of the death, disability and other insurance of current directors, amounting to EUR 658 thousand and EUR 869 thousand in 2015 and 2014, respectively.
- The premium paid to cover directors' Civil Liability Insurance amounts to EUR 68 thousand and EUR 86 thousand in 2015 and 2014, respectively.
- In 2015 and 2014 rebates were received amounting to EUR 447 thousand and EUR 276 thousand, respectively, with respect to the adjustment of the pension insurance policies relating to former Members of the Board of Directors.

In 2015 and 2014 no contribution was made to provision schemes additional to the public Social Security system.

e) Others

The expenses of the Board of Directors related to external services and other items during 2015 and 2014 amounted to EUR 1,393 thousand and EUR 1,189 thousand, respectively.

Additionally, under the by-law stipulated in 2015 agreements acquired by the company have been addressed amounting to EUR 63 thousand. No such payment was recorded in 2014.

The undistributed by-law stipulated remuneration for 2015 amounting to EUR 4,021 thousand can be externalized to cover the obligations incurred by the Company to ensure them, in the event they should be materialized.

At 31 December 2015 and 2014 there are no loan or advance granted by the IBERDROLA Group to the members of the Board of Directors of IBERDROLA.

2. Remuneration through the delivery of Company shares

Section 4 of Article 48 of IBERDROLA's by-laws stipulates that independently of the provisions of the foregoing paragraph, and subject always to the approval of the General Shareholders' Meeting, the compensation of directors may also consist of the delivery of shares or options thereon, as well as a payment which takes as its reference the value of the Company's shares.

Consequently, the remuneration through the delivery of Company's shares, or any other remuneration related to such shares is additional, compatible and independent of profit sharing, which is established in Section 1 article 48 of the by-laws of IBERDROLA.

a) 2011-2013 Strategic Bonus

On 24 June 2014, based on a proposal from the Appointments and Remuneration Committee, the Board of Directors resolved to settle, having met 93.20% of the targets set, the 2011-2013 Strategic Bonus, approved at the General Shareholders' Meeting of 27 May 2011 and regulated by the 2011-2013 Strategic Bonus Regulations which were also approved by the Board of Directors. Accordingly, the second of the three annual settlements were made in 2015. The Chairman and the CEO received 536,359 IBERDROLA shares while the Chief Operating Officer received 90,640 shares.

b) 2014-2016 Strategic Bonus

On 28 March 2014, the General Shareholders' Meeting resolved, in connection with item seven on the agenda, on the 2014-2016 Strategic Bonus (Note 14.8) aimed at executive directors, senior executives and other management personnel of the Company and its subsidiaries. The maximum number of shares to be delivered to the beneficiaries (350) of the 2014-2016 Strategic Bonus will be 19,000,000 shares, equal to 0.3% of the share capital at the time this resolution is adopted. A maximum of 2,200,000 shares will be delivered to the executive directors in compliance with the terms and conditions of the scheme. The liquidation of this strategic bonus depends on the completion of the planned objectives and it will be realised in the years 2017, 2018 and 2019.

3. Termination benefits

In the event of termination of a non-executive director prior to the end of the period for which he was appointed not due to non-compliance attributable to such director and not due exclusively to his own will, the Company will pay such director a termination benefit subject to the director's obligation during the remaining period of his term (with a maximum of two years) not to accept positions on the governing bodies of companies in the energy sector or competing companies and not to participate in the management or advisory of the same in any other form.

Termination benefits are equal to 90% of the fixed amount the director would have received for serving his or her remaining term as officer (maintaining any annual fixed amount receivable upon leaving the Board), that could not exceed an amount that is twice 90% of that annual fixed amount.

Since the end of the 90s, executive directors, as well as a group of managers, have the right to receive a termination benefit in the event of termination of the contractual relationship with the Company not due to non-compliance attributable to such director and not due exclusively to his own will. The amount of compensation for the chairman and the chief executive officer is currently set at three annuities. The limit shall be two annuities for new contracts with executive directors and senior executives, since 2011.

In addition, executive director contracts contain a non-compete clause in respect of companies and activities of a similar nature, applicable throughout the director's relationship with the Company and for a maximum of two years subsequent to departure. As compensation for this commitment, the executive directors are entitled to receive a payment equal to the remuneration that would correspond to these periods.

4. By-law stipulated remuneration in 2016

At the proposal of the Appointments and Remuneration Committee, the Board of Directors unanimously resolved to freeze, for the 2016 fiscal year, directors' compensation in the form of fixed annual remuneration based on position and meeting attendance fees, as it has done since 2008.

24. INFORMATION REGARDING COMPLIANCE WITH ARTICLE 229 OF THE SPANISH COMPANIES LAW

As established in article 229 of the Spanish Companies Law (*Ley de Sociedades de Capital*) introduced by the Royal Decree-Law 1/2010 of 2 July 2010 and in the Law 31/2014, of 3 December 2014, modifying the Spanish Companies Law for the improvement of corporate governance, the conflicts of interest, direct or indirect, that the members of the Board have had with the Company, and the treatment thereof, are indicated below.

The Board of Directors discussed the appointment, re-election and salary of directors in absence of those affected in each case.

Additionally, all the directors were refrained from participating in the revision of their respective ratings as executives, external dominical and external independent.

Likewise, Mr. Xabier de Irala Estévez left the meeting during the discussion of the resolutions regarding the agreements involving Kutxabank, S.A. (specifically, the contracting of Norbolsa Sociedad de Valores, S.A. as the agent for the execution of the *Iberdrola dividendo flexible* system and the modification of the terms cancellation agreement of the mortgage loan to Norapex, S.A. to CajaSur Banco, S.A.)

Also, Mr. Manuel Moreu Munaiz left during the discussion and voting of the proposal related to the contracting of Seaplace, S.L., which is linked to Mr. Moreu Munaiz with Iberdrola Renovables Energía, S.A. in the framework of the ATEMPO project.

Finally, Mr. Ángel Jesús Acebes Paniagua left during the discussion of certain framework agreements about corporate rates subsidised with specific airline companies, being one of them a client of this director's law firm.

25. REMUNERATION OF SENIOR EXECUTIVES

Senior executives are those who answer directly to the Company's Board of Directors, chairman and chief executive officer and, in all cases, the Internal audit director, apart from any other director recognised as senior executive.

At the date of these Financial statements such condition has not been recognized to any director by the Board of Directors.

At 31 December 2015 and 2014, the Company has 6 and 7 senior executives, respectively.

The staff costs relating to senior executives amounting to EUR 9,751 thousand and EUR 8,189 thousand in 2015 and 2014, respectively, are recognised under the “Staff costs” heading in the Income statements of the mentioned years.

The remuneration and other compensation received by senior executives in 2015 and 2014 are detailed below:

Thousands of euros	12.31.15	12.31.14
Monetary remuneration	4,569	3,630
Variable remuneration	2,537	2,213
Compensation in kind	418	386
Payments to account not charged	60	75
Social Security	80	93
Promoter contribution pension plan	41	57
Complementary policy accrual	1,647	1,400
Complementary policy risk	399	335
Total staff costs	9,751	8,189

Number of shares	12.31.15	12.31.14
Share-based payment plan, strategic bonus	340,381	385,057 ⁽¹⁾

- (1) During the years 2015 and 2014, 340,381 and 385,057 shares were delivered to senior executives, respectively, for the Strategic Bonus 2011-2013, described in Note 14, for which senior executives received shares of IBERDROLA in equal parts for the years from 2014 to 2016.

A maximum of 2,199,079 shares in aggregate are to be delivered to senior executives under the 2014-2016 Strategic Bonus (Note 14), tied to their success in achievement of objectives. As of 31 December 2015 and 2014, EUR 8,211 thousand and EUR 4,769 thousand have been provided for these commitments.

For senior executives, including executive directors, there are clauses providing guarantees or protection against different cases of contract termination. These contracts have been approved by the Board of Directors of IBERDROLA and are described in Note 23.

The amount of termination benefits is based on the length of service at the Company and the causes of cease, with a maximum payment of five annuities. Since 2011, for contracts with senior executives, the maximum will be two annuities.

The contracts for senior executives set in any case an obligation not to compete in relation to companies and activities similar in nature to those of IBERDROLA and the Group for a period not less than one year after its termination.

On the other hand, during 2015 and 2014 there were no other transactions with the executives outside the normal course of the business.

26. 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.

26.1 Balances of IBERDROLA with group companies and associates

a) Financial balances with group companies and associates

Loans to group companies and associates

The detail of current and non-current “Loans to group companies and associates” in the Balance sheets at 31 December 2015 and 2014 is as follows:

Thousands of euros	2015			2014		
	Current	Non-current	Total	Current	Non-current	Total
ScottishPower Renewable Energy, Ltd.	21,052	117,479	138,531	20,960	138,531	159,491
Biovent Energía, S.A.	-	54,365	54,365	-	53,777	53,777
Other Group companies	-	9,261	9,261	3,923	9,261	13,184
Accrued and unpaid interests	20,995	555	21,550	13,479	397	13,876
Total	42,047	181,660	223,707	38,362	201,966	240,328

The items in the table above are all in euros except when another currency is specified.

The average interest rate on these loans is 1.30% and 1.85% at 31 December 2015 and 2014, respectively.

The maturity schedule for loans is as follows:

Years	Thousands of euros
2016	42,047
2017	21,148
2018	21,242
2019	75,701
2020 and subsequent years	63,569
Total	223,707

Other financial assets/liabilities with group companies and associates

The detail of current and non-current “Other financial assets” and “Other financial liabilities” with group companies and associates in the Balance sheets at 31 December 2015 and 2014 is as follows:

Thousands of euros	2015		2014	
	Receivables	Payables	Receivables	Payables
Non-current				
Torre Iberdrola, A.I.E.	421	26,206	421	20,896
Iberdrola Finanzas, S.A.U.	-	2,214,102	-	2,648,100
Iberdrola International, B.V.	-	1,357,644	-	1,339,828
Iberdrola Finance Ireland, Ltd.	-	1,169,659	-	1,114,705
Iberdrola Financiación, S.A.U.	-	3,700,000	-	550,000
Iberdrola Re, S.A.	-	56,471	-	27,256
Bidelek Sareak, A.I.E.	-	9,683	-	16,552
Parque Eólico Cruz de Carrutero, S.L.	-	-	-	18,636
Iberdrola Energía Solar Puertollano, S.A.	-	-	-	23,800
Others	-	8,578	505	7,369
Total	421	8,542,343	926	5,767,142

Thousands of euros	2015		2014	
	Receivables	Payables	Receivables	Payables
A corto plazo				
Iberdrola España, S.A.U.	-	9,631	850,483	-
Scottish Power, Ltd. (in Sterling Pounds)	-	66,762	-	9,836
Iberdrola Distribución Eléctrica, S.A.U.	-	412,053	-	92,675
Iberdrola Generación, S.A.U.	27,799	278	246,658	25,709
Iberdrola Redes España, S.A.U.	136,300	2,832	-	3,556
Energías Renovables Región de Murcia, S.A.	21,520	-	-	-
Iberdrola Comercialización de Último Recurso, S.A.U.	80,468	-	49,535	-
Iberdrola Renovables Offshore Deutschland, GmbH	14,145	-	43,145	-
Tarragona Power, S.L.	306	4	-	17,881
Iberdrola Financiación, S.A.U.	1,148,338	2,976	217,509	12,787
SPW Investments Ltd. (in Sterling Pounds)	-	1,044,044	-	966,947
Iberdrola Clientes, S.A.U.	-	442,553	-	630,610
Iberdrola Finance Ireland, Ltd.	-	93,573	-	100,246
Iberdrola Finanzas, S.A.U.	-	546,931	-	752,693
Iberdrola Renovables Energía, S.A.U.	-	147,052	-	422,585
Hidro I, S.L.U.	151,996	-	-	552,556
Iberdrola International, B.V.	-	174,334	-	635,659
Iberdrola Generación España, S.A.U.	-	299,186	-	219,625
Iberdrola Ingeniería y Construcción, S.A.U.	-	121,548	-	67,671
Iberdrola Cogeneración, S.L.U.	-	109	-	68,052
Iberdrola Energía, S.A.U.	-	194,843	-	140,587
Nuclenor, S.A.	-	32,091	-	33,084
Inversiones Financieras Perseo, S.L.	-	22,585	-	26,422
Iberdrola Energía Solar de Puertollano, S.A.	-	28,616	-	333
Iberdrola Energy Projects Canada Corporation (in Canadian dollar)	-	11,914	-	43,998
Iberdrola Renovables Castilla La Mancha, S.A.	25,231	-	27,993	-
Iberdrola Renovables Magyarorszag, Kft. (in Hungarian forints)	-	58,996	-	17,881
Iberdrola Ingeniería y Construcción México, S.A. de C.V. (in US dollars)	29,561	-	59,269	-
Iberdrola Renovables de Castilla y León, S.A.	-	51,317	-	40,027
Others	135,765	180,544	116,385	172,584
Total	1,771,429	3,944,772	1,610,977	5,054,004

In general, except for the loans granted by Iberdrola International B.V., Iberdrola Finance Ireland Ltd., 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.

On 31 December 2015 and 2014, Iberdrola International B.V., Iberdrola Finance Ireland Ltd., 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.

The maturity schedule for these unpaid loans at 31 December 2015 is as follows:

Thousands of euros	
Maturity	
2016	817,814
2017	187,180
2018	809,278
2019	1,423,209
Otros	6,021,738
Total	9,259,219

The breakdown by currency of these items at 31 December 2015 and 2014 is as follows:

Thousands of euros	2015	2014
Currency		
EUR	5,763,647	3,170,757
USD	2,241,927	2,691,004
GBP	950,552	960,445
JPY	223,527	202,575
Other	79,566	129,238
Total	9,259,219	7,154,019

These borrowings accrued a weighted average annual interest rate at 31 December 2015 and 2014 of 5.10% and 5.15%, respectively.

At the end of 2015 and 2014, the accrued unpaid interest payable on these borrowings was EUR 153,132 thousand and EUR 171,677 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 2015 and 2014 is as follows:

Thousands of euros	2015		2014	
	Receivables	Payables	Receivables	Payables
Current				
Iberdrola Generación España, S.A.U.	45,085	39,732	60,311	31,947
Iberdrola Renovables Castilla y León, S.A.	-	-	42,551	-
Other	10,666	305	9,920	1,457
Total	55,751	40,037	112,782	33,404

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 2015 and 2014 is as follows:

Thousands of euros	2015		2014	
	Receivables	Payables	Receivables	Payables
Non-current				
Group companies				
Iberdrola Generación, S.A.U.	14,888	16,348	19,924	1,617
Other companies	18	-	1,753	286
Total	14,906	16,348	21,677	1,903
Current				
Group companies				
Iberdrola Generación, S.A.U.	2,078	491	373	305
Iberdrola Financiación S.A.U.	149,805	-	47,968	213
Other companies	2,079	1,102	1,321	657
Total	153,962	1,593	49,662	1,175

26.2 Related party transactions by IBERDROLA

The transactions detailed below arise in the normal course of the business and were carried out in normal market conditions.

The most noteworthy transactions in 2015 and 2014 are as follows:

Transactions with major shareholders

Thousands of euros	Major shareholders ⁽²⁾			
	2015		2014	
	Kutxabank, S.A.	Qatar Investment Authority	Kutxabank, S.A.	Qatar Investment Authority
Expense and Income				
Finance costs	15	-	45	-
Services received	159	-	479	-
Total expenses	174	-	524	-
Finance income	28	-	-	-
Total expenses	28	-	-	-
Other transactions				
Finance arrangements: loans and capital contributions (lender)	-	-	5,267	-
Dividends and other profits distributed ⁽¹⁾	32,835	21,571	93,278	244,543

- (1) The amounts distributed as dividends and other benefits corresponding to the free of charge allocation rights arising from capital increases agreed by the General Meeting of Shareholders of 27 March 2015, 28 March 2015 and 22 June 2015, respectively, which have been sold to IBERDROLA at a guaranteed price according to the terms of the aforementioned increases.

- (2) IBERDROLA treats as a "significant shareholder" any shareholder who exerts a significant influence on the company's financial and operating decisions. "Significant influence" is defined as having at least one director on the Board.

This also applies to those significant shareholders whose ownership interest in the company enables them to exercise the proportional representation system.

Therefore, the amounts relating to "significant shareholders" reflect transactions with Kutxabank and Qatar Investment Authority, these being the only shareholders who satisfied that condition at the date of issue of these financial statements.

Transactions with other related parties

Thousands of euros	2015			2014		
	Group entities or subsidiaries	Jointly controlled companies	Associated entities	Group entities or subsidiaries	Jointly controlled companies	Associated entities
Expense and Income						
Finance cost	457,631	5	747	487,085	16	1,246
Operating leases	-	4,312	1	275	4,321	2,768
Services received	24,605	2	9	22,441	2	9
Purchase of goods (finished or under construction)	214,584	-	74	127,988	-	79
Total expense	696,820	4,319	831	637,789	4,339	4,102
Finance income	41,553	-	15	59,539	-	108
Dividends received	329,866	-	829	804,681	-	9,332
Operating leases	-	-	-	50,298	-	1,288
Rendering of services	211,437	-	931	330,515	99	1,185
Sale of goods (finished or under construction)	735,807	-	-	796,941	-	-
Total income	1,318,663	-	1,775	2,041,974	99	11,913
Other transactions						
Finance arrangements: loans and capital contributions (lender)	-	-	-	-	-	-
Repayment or cancellation of loans and lease arrangements (lessor)	-	-	-	1,170	-	-

26.3 Transactions with directors and senior executives

Thousands of euros	Main shareholders			
	2015		2014	
	Directors	Executives	Directors	Executives
Services received	1,287	-	-	-
Dividends and other distributed benefits ⁽¹⁾	467	67	746	34

- (1) The amounts considered dividends and other distributed profit correspond to the free allocation rights arising from the scrip dividends agreed upon by the Shareholders at the General Meetings of 27 March 2015, 28 March 2014, and 22 March 2013, respectively have been sold to IBERDROLA at a guaranteed fixed price in accordance with the terms and conditions of the aforementioned increases.

As described in Note 24, in 2015 and 2014 there took place transactions related to two directors. The directors did not participate directly or indirectly in any phase, respecting what was established in the procedure for conflicts of interest and transactions with directors, significant shareholders and senior management.

The Seaplace, S.L. company, which is related to the director of IBERDROLA Mr. Manuel Moreu Munaiz, is awarded with several contracts for R&D of Iberdrola Renovables Energía, S.A. Since his designation as director on 17 February 2015, the turnover of this company during the fiscal year ended 31 December 2015 amounted to EUR 312 thousand, approximately.

In 2014 the company Soil Tratamiento de Aguas Industriales, S.L., linked to the director Mr. Iñigo Víctor de Oriol Ibarra, was awarded the contract for the supply, transportation, assembly and commissioning of the water processing plant of Cogeneración Ramos in Mexico. The contract was awarded in the framework of an international tender in which 15 companies were selected for making the most advantageous offer. The award added up to USD 1,999,516 (EUR 1,695 thousand). The turnover of this company in the year 2015 added up to USD 1,083 thousand (EUR 975 million, approximately). There wasn't any turnover in the year 2014.

27. FEES FOR SERVICES PROVIDED BY AUDITORS

The fees resulted from the services provided in 2015 and 2014 by the statutory auditor are detailed in the chart below:

Thousands of euros	To IBERDROLA			To the rest of the Group Companies			Total		
	Primary auditor	Other auditors	Total	Primary auditor ⁽¹⁾	Other auditors ⁽¹⁾	Total	Primary auditor	Other auditors	Total
2015									
Auditing services	2,681	-	2,681	15,894	2,898	18,792	18,575	2,898	21,473
Other services provided related to auditing	1,087	-	1,087	7,569	680	8,249	8,656	680	9,336
	3,768	-	3,768	23,463	3,578	27,041	27,231	3,578	30,809
Other professional services	-	824	824	75	2,346	2,421	75	3,170	3,245
	3,768	824	4,592	23,538	5,924	29,462	27,306	6,748	34,054

- (1) Other provided services related to the audit include fees arising from the AVANGRID's initial public offering of EUR 5,890 thousand of the main auditor and EUR 1,621 thousand of other auditors.

Thousands of euros	To IBERDROLA			To the rest of the Group Companies			Total		
	Primary auditor	Other auditors	Total	Primary auditor	Other auditors	Total	Primary auditor	Other auditors	Total
2014									
Auditing services	3,078	-	3,078	10,769	190	10,959	13,847	190	14,037
Other services provided related to auditing	260	-	260	979	10	989	1,239	10	1,249
	3,338	-	3,338	11,748	200	11,948	15,086	200	15,286
Other professional services	3	-	3	417	4,823	5,240	420	4,823	5,243
	3,341	-	3,341	12,165	5,023	17,188	15,506	5,023	20,529

28. FINANCIAL POSITION AND SUBSEQUENT EVENTS

Financial position

As indicated in Note 16, at 31 December 2015 IBERDROLA had undrawn loans and credit facilities of approximately EUR 4,786,398 thousand.

Subsequent events

Iberdrola flexible dividend

On 8 January 2016, the facts in relation to the implementation of the second paid-up capital increase (*Iberdrola flexible dividend*) approved at the IBERDROLA General Shareholders' Meeting on 27 March 2015, under item A, point six of the agenda, were determined and were as follows:

- The maximum number of shares to be issued under the capital increase is 126,737,400.
- The number of free allocation rights required to receive one new share is 50.
- The maximum nominal value of the capital increase amounts to EUR 95,053,050.
- The acquisition price of the free allocation rights under the purchase commitment made by IBERDROLA is EUR 0.127.

At the end of the trading period for free allocation rights:

- The holders of 3,320,519,969 free allocation rights have accepted the irrevocable commitment to purchase assumed by the IBERDROLA Group. Accordingly, the IBERDROLA Group will acquire such rights for a gross amount of EUR 421,706 thousand.
- The final number of new ordinary shares with a nominal value of EUR 0.75 to be issued will be 60,327,000, giving a nominal capital increase from this implementation of EUR 45,245 thousand. This will add 0.952% to IBERDROLA's pre-issue share capital.
- Subject to compliance with on legal requirements (and verification of compliance by the Spanish National Security Market Commission), the new shares are expected to be admitted for trading on the continuous market of the Madrid, Barcelona, Bilbao and Valencia stock exchanges on 2 February 2016. The ordinary trading of new shares is expected to start on 3 February 2016.

Transactions with treasury shares

At the date of formulation of these Financial statements, all accumulators on treasury shares have matured (Note 14.6) and the liquidation has resulted in the acquisition of 9,624,817 treasury shares amounting to EUR 57,914 thousand (6,597,622 shares have accumulated of the 12,111,494 maximum potential shares to accumulate at 31 December 2015). There has also been the liquidation of future treasury shares (Note 14.6) which has led to the acquisition of 14,000,000 treasury shares amounting to EUR 83,962 thousand.

Finally, from the 2015 year-end until the date of formulation of these Financial statements 44,584,844 treasury shares have been acquired amounting to EUR 267,826 thousand and derivatives were contracted that have resulted in 13,000,000 more treasury shares amounting to EUR 81,903 thousand. At the date of formulation of these financial statements, Iberdrola, S.A. had EUR 148,845,917 in treasury shares.

Banking Market

On 13 February 2016, the IBERDROLA Group has extended the term for syndicated loans for an amount of EUR 4,242,999 thousand lengthening the maturity from 2020 to 2021.

29. 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.

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP

Below is the detail of the proportion of direct or indirect ownership that IBERDROLA, S.A. holds in its subsidiaries in its different businesses. The proportion of decision-making votes in the bodies of these companies controlled by Iberdrola basically corresponds with the proportion of ownership.

(*) The consolidation method by company is detailed as follows:

F: Full consolidation

E: Integration by the equity method

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
<u>DEREGULATED BUSINESS</u>						
<u>Spain & Portugal</u>						
Cobane, A.I.E.	Spain	Energy	100.00	100.00	EY	F
Cofrusa Cogeneración, S.A.	Spain	Energy	50.00	50.00	Others	E
Cogeneración Gequisa, S.A.	Spain	Energy	50.00	50.00	PWC	E
Enercrisa, S.A.	Spain	Energy	50.00	50.00	KPMG	E
Energía Portátil Cogeneración, S.A.	Spain	Energy	50.00	50.00	EY	E
Energyworks Aranda, S.L.	Spain	Energy	99.00	99.00	EY	F
Energyworks Carballo, S.L.	Spain	Energy	99.00	99.00	EY	F
Energyworks Cartagena, S.L.	Spain	Energy	99.00	99.00	EY	F
Energyworks Fonz, S.L.	Spain	Energy	100.00	100.00	EY	F
Energyworks Milagros, S.L.	Spain	Energy	100.00	100.00	EY	F
Energyworks Monzón, S.L.	Spain	Energy	100.00	100.00	EY	F
Energyworks San Millán, S.L.	Spain	Energy	100.00	100.00	EY	F
Energyworks Villarrobledo, S.L.	Spain	Energy	99.00	99.00	EY	F
Energyworks Vit-Vall, S.L.	Spain	Energy	99.00	99.00	EY	F
Fudepor, S.L.	Spain	Energy	50.00	50.00	PWC	E
Fuerzas Eléctricas de Navarra, S.A.	Spain	Energy	100.00	100.00	EY	F
Hidroeléctrica Ibérica, S.L.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Clientes, S.A.U.	Spain	Wholesale/Retail	100.00	100.00	EY	F
Iberdrola Cogeneración, S.L.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Comercialización de Último Recurso, S.A.U.	Spain	Wholesale/Retail	100.00	100.00	EY	F
Iberdrola Generación España, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Generación Nuclear, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Generación, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Operación y Mantenimiento, S.A.U.	Spain	Services	100.00	100.00	EY	F
Iberdrola Servicios Energéticos, S.A.U.	Spain	Services	100.00	100.00	EY	F
Iberduero, S.L.U.	Spain	Energy	100.00	100.00	-	F
Intermalta Energía, S.A.	Spain	Energy	50.00	50.00	EY	E
Italcogeneración, S.A.	Spain	Energy	50.00	50.00	-	E
Nuclenor, S.A.	Spain	Energy	50.00	50.00	EY	E
Peninsular Cogeneración, S.A.	Spain	Energy	50.00	50.00	EY	E
Productos y Servicios de Confort, S.A.	Spain	Services	100.00	100.00	-	F
S.E.D.A. Cogeneración, S.A.	Spain	Energy	50.00	50.00	-	E
Subgrupo Tirme	Spain	Energy	20.00	20.00	KPMG	E
Tarragona Power, S.L.U.	Spain	Energy	100.00	100.00	EY	F
Tecnatom, S.A.	Spain	Services	30.00	30.00	-	-
Iberdrola Clientes Portugal, Unipessoal Ltda.	Portugal	Services	100.00	100.00	-	F

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
United Kingdom						
Caledonian Gas, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Manweb Energy Consultants, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
Manweb Gas, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Scotash, Ltd.	United Kingdom	Others	50.00	50.00	EY	E
Scottish Power Generation Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
ScottishPower (DCL), Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
ScottishPower (DCOL), Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
ScottishPower (SCPL), Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
ScottishPower (SOCL), Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
ScottishPower Energy Management (Agency), Ltd.	United Kingdom	Services	100.00	100.00	EY	F
ScottishPower Energy Management, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
ScottishPower Energy Retail, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
ScottishPower Generation, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
SMW, Ltd.	United Kingdom	Others	100.00	100.00	EY	F
		Data				
SP Dataserve, Ltd.	United Kingdom	Management	100.00	100.00	EY	F
SP Gas Transportation Cockenzie, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
SP Gas Transportation Hatfield, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Sterling Collections, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Rest of Europe						
Iberdrola Energie Deutschland, GmbH	Germany	Services	100.00	100.00	-	-
Iberdrola Energie France, S.A.S.	France	Services	100.00	100.00	EY	-
Iberdrola Energía Italia, S.R.L.	Italy	Services	100.00	100.00	-	-
Iberdrola Energie Romania, S.R.L.	Romania	Energy	100.00	100.00	-	-
Mexico						
Hidro I, S.L.U.	Spain	Holding	100.00	100.00	EY	F
Cinergy, S.R.L. de C.V.	Mexico	Services	100.00	100.00	EY	F
Electricidad de Veracruz, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Enertek, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
		Wholesale/Retail				
Iberdrola Clientes, S.A. de C.V.	Mexico	ail	100.00	-	EY	F
Iberdrola Cogeneración Altamira, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Cogeneración Bajío, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Cogeneración Ramos, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Energía Altamira de Servicios, S.A. de C.V.	Mexico	Services	100.00	100.00	EY	F
Iberdrola Energía Altamira, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Energía Baja California, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Energía del Golfo, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Energía Escobedo, S.A. de C.V.	Mexico	Energy	100.00	-	-	F
Iberdrola Energía La Laguna, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
Iberdrola Energía Monterrey, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
Iberdrola Energía Norte, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Energía Tamazunchale, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
Iberdrola Generación, S.A. de C.V	Mexico	Services	100.00	-	EY	F
Iberdrola Generación México, S.A. de C.V	Mexico	Holding	100.00	100.00	EY	F
Iberdrola México, S.A. de C.V.	Mexico	Holding	100.00	100.00	EY	F
Iberdrola Servicios Corporativos, S.A. de C.V.	Mexico	Services	100.00	-	EY	F
Servicios Administrativos Tamazunchale, S.A. de C.V.	Mexico	Services	100.00	100.00	EY	F
Servicios de Operación La Laguna, S.A. de C.V.	Mexico	Services	100.00	100.00	EY	F
Servicios Industriales y Administrativos del Noreste, S.R.L. de C.V.	Mexico	Gas	51.12	51.12	EY	F

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
United States and Canada						
Iberdrola Canada Energy Services, Ltd.	Canada	Energy	100.00	100.00	EY	F

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method (*)
			12.31.15	12.31.14		
RENEWABLE BUSINESS						
Spain						
Biocantaber, S.L.	Spain	Energy	50.00	50.00	-	E
Bionor Eólica, S.A.	Spain	Energy	57.00	57.00	EY	F
Biovent Energía, S.A.	Spain	Energy	95.00	95.00	EY	F
Cantaber Generación Eólica, S.L.	Spain	Energy	69.01	69.01	EY	F
Ciener, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Desarrollo de Energías Renovables de La Rioja, S.A.	Spain	Energy	40.51	40.51	EY	E
Ecobarcial, S.A.	Spain	Energy	43.78	43.78	EY	E
Electra de Malvana, S.A.	Spain	Energy	48.00	48.00	-	E
Electra Sierra de los Castillos, S.L.	Spain	Energy	97.00	97.00	-	F
Electra Sierra de San Pedro, S.A.	Spain	Energy	80.00	80.00	-	F
Eléctricas de la Alcarria, S.L.	Spain	Energy	90.00	90.00	-	F
Eme Hueneja Cuatro, S.L.	Spain	Energy	100.00	100.00	-	F
Energías de Castilla y León, S.A.	Spain	Energy	85.50	85.50	EY	F
Energías Ecológicas de Fuencliente, S.L.	Spain	Energy	50.00	50.00	-	F
Energías Ecológicas de La Palma, S.A.	Spain	Energy	50.00	50.00	-	F
Energías Ecológicas de Tenerife, S.A.	Spain	Energy	50.00	50.00	-	F
Energías Eólicas de Cuenca, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Energías Renovables de la Región de Murcia, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Eólica Campollano, S.A.	Spain	Energy	25.00	25.00	KPMG	E
Eólica 2000, S.L.	Spain	Holding	51.00	51.00	EY	F
Eólicas de Euskadi, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Energía Solar de Puertollano, S.A.	Spain	Energy	90.00	90.00	EY	F
Iberdrola Renewables Solutions, S.A.U.	Spain	Energy	100.00	100.00	-	F
Iberdrola Renovables Galicia, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Renovables Andalucía, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Renovables Aragón, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Renovables Asturias, S.A.U.	Spain	Holding	100.00	100.00	-	F
Iberdrola Renovables Canarias, S.A.U.	Spain	Holding	100.00	100.00	-	F
Iberdrola Renovables Castilla – La Mancha, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Renovables Castilla y León, S.A.	Spain	Holding	95.00	95.00	EY	F
Iberdrola Renovables Energía, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Renovables La Rioja, S.A.	Spain	Holding	63.55	63.55	EY	E
Iberenova Promociones, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberjalón, S.A.	Spain	Energy	80.00	80.00	-	F
Minicentrales del Tajo, S.A.	Spain	Energy	66.58	66.58	EY	F
Molinos de La Rioja, S.A.	Spain	Energy	42.37	42.37	EY	E
Molinos del Cidacos, S.A.	Spain	Energy	31.78	31.78	EY	E
Parque Eólico Cruz del Carrutero, S.L.	Spain	Energy	76.00	76.00	EY	F
Peache Energías Renovables, S.A.	Spain	Energy	95.00	95.00	-	F
Producciones Energéticas Asturianas, S.L.	Spain	Energy	80.00	80.00	EY	F
Producciones Energéticas de Castilla y León, S.A.	Spain	Energy	85.50	85.50	EY	E

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method (*)
			12.31.15	12.31.14		
Productora de Energía Eólica, S.A.U.	Spain	Energy	95.00	95.00	-	F
Renovables de la Ribera, S.L.	Spain	Energy	50.00	50.00	-	-
Sistemas Energéticos Altamira, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sistemas Energéticos Chandrexa, S.A.	Spain	Energy	96.07	96.07	EY	F
Sistemas Energéticos del Moncayo, S.A.	Spain	Energy	75.00	75.00	EY	F
Sistemas Energéticos Gomera, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sistemas Energéticos La Higuera, S.A.	Spain	Energy	55.00	55.00	EY	F
Sistemas Energéticos de la Linera, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sistemas Energéticos La Muela, S.A.	Spain	Energy	80.00	80.00	EY	F
Sistemas Energéticos Mas Garullo, S.A.	Spain	Energy	78.00	78.00	EY	F
Sistemas Energéticos Nacimiento, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sistemas Energéticos Tacica de Plata, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sistemas Energéticos Torralba, S.A.	Spain	Energy	60.00	60.00	EY	F
Sistemas Energetics Savalla del Comtat, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sociedad Gestora de Parques Eólicos de Andalucía, S.A.	Spain	Energy	63.91	63.91	EY	F
Sotavento Galicia, S.A.	Spain	Energy	8.00	8.00	Others	E
United Kingdom						
Celtpower, Ltd.	United Kingdom	Energy	50.00	50.00	KPMG	E
Coldham Windfarm, Ltd.	United Kingdom	Energy	80.00	80.00	EY	F
East Anglia Four, Ltd.	United Kingdom	Energy	50.00	50.00	-	E
East Anglia Offshore Wind, Ltd.	United Kingdom	Energy	50.00	50.00	EY	E
East Anglia One, Ltd.	United Kingdom	Energy	100.00	50.00	-	F
East Anglia Three, Ltd.	United Kingdom	Energy	50.00	50.00	-	E
Morecambe Wind, Ltd.	United Kingdom	Energy	50.00	50.00	EY	E
ScottishPower Renewable Energy, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Scottish-Power Renewables (WODS), Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
Scottish-Power Renewables UK, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
Rest of the World						
Iberdrola Renovables Offshore Deutschland, GmbH	Germany	Energy	100.00	100.00	EY	F
Iberdrola Renovables Deutschland, GmbH	Germany	Energy	100.00	100.00	EY	F
ScottishPower Hazelwood, Pty. Ltd.	Australia	Holding	100.00	100.00	-	F
Iberdrola Renewables Bulgaria, EOOD	Bulgaria	Energy	100.00	100.00	-	F
Iberdrola Renewables Canadá, Ltd.	Canada	Holding	100.00	100.00	-	F
Rokas Aeoliki Cyprus, Ltd.	Cyprus	Energy	74.82	75.00	EY	F
Ailes Marine, S.A.S.	France	Energy	70.00	70.00	EY	F
Haute Marne Energies, S.A.S.	France	Energy	51.00	51.00	EY	F
Iberdrola Renovables France, S.A.S.	France	Energy	100.00	100.00	EY	F
C. Rokas Industrial Commercial Company, S.A.	Greece	Holding	99.76	99.76	EY	F
PPC Renewables Rokas, S.A.	Greece	Energy	50.88	50.88	EY	F
Rokas Aeoliki Achladotopos, S.A.	Greece	Energy	99.63	99.63	EY	F
Rokas Aeoliki Macedonia I, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeoliki Macedonia II, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeoliki Peloponnisos I, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeoliki Peloponnisos II, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeoliki Thraki III, S.A.	Greece	Energy	99.61	99.61	EY	F
Rokas Aeoliki Vorios Ellas I, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeoliki Vorios Ellas II, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeolos, Ltd.	Greece	Energy	99.76	99.76	EY	F
Rokas Construction, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Energy, S.A.	Greece	Energy	99.72	99.72	EY	F

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method (*)
			12.31.15	12.31.14		
Rokas Hydroelectric, S.A.	Greece	Energy	99.76	99.76	EY	F
Iberdrola Renovables Magyarorszag KFT	Hungary	Holding	75.00	75.00	EY	F
Eólica Lucana, S.R.L.	Italia	Energy	100.00	100.00	EY	F
Iberdrola Renovables Italia, S.p.A.	Italia	Holding	100.00	100.00	-	F
Societa Energie Rinnovabili 1, S.p.A.	Italia	Energy	49.90	49.90	EY	E
Societa Energie Rinnovabili 2, S.p.A.	Italia	Energy	50.00	50.00	-	E
Societa Energie Rinnovabili, S.p.A.	Italia	Energy	49.90	49.90	EY	E
Uppm-Rokas Cranes	Latvia	Energy	49.88	50.00	-	-
Iberdrola Renewables Portugal, S.A.	Portugal	Holding	100.00	100.00	EY	F
Parque Eólico da Serra do Alvao, S.A.	Portugal	Energy	100.00	100.00	EY	F
Eolica Dobrogea One, S.R.L.	Romania	Energy	100.00	100.00	EY	F
Iberdrola Renewables Romania, S.R.L.	Romania	Holding	100.00	100.00	EY	F
Eolica Dobrogea (Schweiz) I, GmbH.	Switzerland	Energy	100.00	100.00	EY	F
Mugla Ruzgar Enerjisinden Elektrik Uret	Turkey	Energy	100.00	100.00	-	-
Yaprak Ruzgar Enerjisinden Elektrik Uret	Turkey	Energy	100.00	100.00	-	-

Mexico

BII NEE Stipa Energía Eólica, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
Corporativo Iberdrola Renovables México, S.A. de C.V.	Mexico	Services	100.00	-	EY	F
Energías Renovables Venta III, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Eólica Dos Arbolitos, S.A.P.I. de C.V.	Mexico	Energy	100.00	-	EY	F
Iberdrola Renovables Centro, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Renovables del Bajío, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Renovables del Irapuato, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Renovables del Zacatecas, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Renovables México, S.A. de C.V.	Mexico	Holding	100.00	100.00	EY	F
Iberdrola Renovables Noroeste, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Renovables Norte, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Parque Industrial de Energía Renovables, S.A. de C.V.	Mexico	Inactive	51.00	51.00	-	-
Parques Ecológicos de México, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
Pier II Quecholac Felipe Angeles, S.A. de C.V.	Mexico	Energy	51.00	51.00	EY	F
Pier IV, S.A. de C.V.	Mexico	Inactive	51.00	51.00	-	-
Servicios Operación Eoloeléctrica de México, S.A. de C.V.	Mexico	Services	100.00	100.00	EY	F

Brazil

Arizona 1 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	F
Caetité 1 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	E
Caetité 2 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	E
Caetité 3 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	F
Calango 1 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	E
Calango 2 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	F
Calango 3 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	F
Calango 4 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	E
Calango 5 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	E
Calango 6 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	E
Canoas, S.A.	Brazil	Energy	69.50	-	EY	E
Energias Renováveis do Brasil, S.A.	Brazil	Energy	100.00	100.00	EY	F
FE Participações, S.A.	Brazil	Energy	69.50	69.50	EY	F
Força Eolica do Brasil 1, S.A.	Brazil	Energy	69.50	69.50	EY	E
Força Eolica do Brasil 2, S.A.	Brazil	Energy	69.50	69.50	EY	F
Força Eolica do Brasil, S.A.	Brazil	Energy	69.50	69.50	EY	E
Iberdrola Renováveis do Brasil, S.A.	Brazil	Energy	100.00	100.00	EY	F

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method (*)
			12.31.15	12.31.14		
Lagoa I, S.A.	Brazil	Energy	69.50	-	EY	E
Lagoa II, S.A.	Brazil	Energy	69.50	-	EY	E
Mel 2 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	F
Santana 1, Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	E
Santana 2, Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	E
<u>Innovation</u>						
Algaenergy, S.A.	Spain	Energy	19.32	20.02	KPMG	-
Arborea Intellbird.S.L.	Spain	Services	18.89	25.97	-	E
GDES Technology for services, S.L.	Spain	Services	40.00	40.00	-	E
Iberdrola Servicios de Innovación, S.L.	Spain	Services	100.00	100.00	-	F
Inversiones Financieras Perseo, S.L.	Spain	Holding	100.00	100.00	EY	F
Oceantec Energías Marinas, S.L.	Spain	Energy	44.39	44.27	EY	E

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
NETWORK BUSINESS						
<u>Spain</u>						
Anselmo León Distribución, S.L.	Spain	Energy	100.00	100.00	-	E
Anselmo León Hidráulica, S.L.	Spain	Energy	100.00	100.00	-	E
Anselmo León, S.A.U.	Spain	Holding	100.00	100.00	-	E
Bidelek Sareak, A.I.E.	Spain	Others	54.00	54.00	EY	E
Distribuidora de Energía Eléctrica Enrique García Serrano, S.L.	Spain	Energy	100.00	100.00	-	E
Distribuidora Eléctrica Navasfrías, S.L.	Spain	Energy	100.00	100.00	-	E
Eléctrica Conquense Distribución Eléctrica, S.A.	Spain	Energy	53.59	53.59	EY	F
Eléctrica Conquense, S.A.	Spain	Energy	53.59	53.59	EY	F
Electro-Distribuidora Castellano-Leonesa, S.A.	Spain	Energy	100.00	100.00	-	E
Empresa Eléctrica del Cabriel, S.L.	Spain	Energy	100.00	100.00	-	E
Herederos María Alonso Calzada – Venta de Baños, S.L.	Spain	Energy	100.00	100.00	-	E
Hidroeléctrica de San Cipriano de Rueda, S.L.	Spain	Energy	100.00	100.00	-	E
Iberdrola Distribución de Gas, S.A.U.	Spain	Inactive	100.00	100.00	-	F
Iberdrola Distribución Eléctrica, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Infraestructuras y Servicios de Redes, S.A.	Spain	Inactive	100.00	100.00	-	-
Iberdrola Redes España, S.A.	Spain	Energy	100.00	100.00	EY	F
Sociedad Distribuidora de Electricidad de Elorrio, S.A.	Spain	Energy	96.86	96.86	-	E
<u>United Kingdom</u>						
Manweb Services, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
NGET/SPT Upgrades, Ltd.	United Kingdom	Energy	50.00	50.00	EY	E
Scottish Power Energy Networks Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
SP Distribution, Plc	United Kingdom	Energy	100.00	100.00	EY	F
SP Gas, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
SP Manweb, Plc	United Kingdom	Energy	100.00	100.00	EY	F
SP Network Connections, Ltd.	United Kingdom	General Networking Asset	100.00	100.00	EY	F
SP Power Systems, Ltd.	United Kingdom	Management Services	100.00	100.00	EY	F
SP Transmission, Plc	United Kingdom	Energy	100.00	100.00	EY	F
SPD Finance UK, Plc	United Kingdom	Inactive	100.00	100.00	EY	F
<u>Brazil</u>						
Afluente Geração de Energia Elétrica, S.A.	Brazil	Energy	42.76	42.76	EY	E
Afluente Transmissao de Energia Elétrica, S.A.	Brazil	Energy	42.76	42.76	EY	E
Baguari Geração de Energia Elétrica, S.A.	Brazil	Energy	39.00	39.00	EY	E
Bahia PCH I, S.A.	Brazil	Energy	39.00	39.00	EY	E
Bahia PCH II, S.A. Bahía Pequeña C. Hidroeléctrica	Brazil	Energy	39.00	39.00	PWC	E
Bahia PCH III, S.A. Bahía Geração de Energia	Brazil	Energy	39.00	39.00	PWC	E
Belo Monte Participações, S.A.	Brazil	Energy	39.00	39.00	EY	E
Capuava Energy, Ltda.	Brazil	Energy	39.00	39.00	-	E
Companhia de Eletricidade do Estado do Bahia, S.A.	Brazil	Energy	37.57	42.76	EY	E
Companhia Energética de Pernambuco, S.A.	Brazil	Energy	34.96	34.96	EY	E
Companhia Energetica do Rio Grande do Norte, S.A.	Brazil	Energy	35.67	39.95	EY	E

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
Companhia Hidreletrica Teles Pires, S.A.	Brazil	Energy	19.54	19.54	EY	E
Elektro Comercializadora de Energía Ltda.	Brazil	Energy	100.00	100.00	EY	F
Elektro Electricidade e Serviços, S.A.	Brazil	Energy	99.68	99.68	EY	F
Energetica Aguas da Pedra, S.A.	Brazil	Energy	19.89	19.89	PWC	E
Energética Corumba III, S.A.	Brazil	Energy	6.08	6.08	Others	E
Energyworks do Brasil, Ltda.	Brazil	Energy	39.00	39.00	EY	E
Geração Ceu Azul, S.A.	Brazil	Energy	39.00	39.00	EY	E
Geração CIII, S.A.	Brazil	Energy	39.00	39.00	EY	E
Goias Sul Geração de Energía, S.A.	Brazil	Energy	39.00	39.00	EY	E
Iberdrola Brasil, S.A.	Brazil	Holding	100.00	100.00	EY	F
Iberdrola Operação e Manutenção, Ltd.	Brazil	Services	99.99	99.99	EY	F
Itapebí Geração de Energía, S.A.	Brazil	Energy	39.00	39.00	EY	E
Meridiano 1 energia renovavel, S.A	Brazil	Energy	39.00	-	PWC	E
Meridiano 2 energia renovavel, S.A	Brazil	Energy	39.00	-	PWC	E
Meridiano 3 energia renovavel, S.A	Brazil	Energy	39.00	-	PWC	E
Meridiano 4 energia renovavel, S.A	Brazil	Energy	39.00	-	PWC	E
Meridiano 5 energia renovavel, S.A	Brazil	Energy	39.00	-	PWC	E
Meridiano 6 energia renovavel, S.A	Brazil	Energy	39.00	-	PWC	E
NC Energía, S.A.	Brazil	Energy	39.00	39.00	EY	E
Neoenergia Investimentos, S.A.	Brazil	Services	39.00	39.00	EY	E
Neoenergia Operação e Manutenção, S.A.	Brazil	Services	39.00	39.00	EY	E
Neoenergia Servicios, Ltd.	Brazil	Services	39.00	39.00	EY	E
Neoenergia, S.A.	Brazil	Holding	39.00	39.00	EY	E
Norte Energía, S.A.	Brazil	Energy	3.90	3.90	PWC	E
PCH Alto do Rio Grande, S.A.	Brazil	Energy	39.00	39.00	-	E
Potiguar Sul Transmissao de Energía, S.A.	Brazil	Energy	39.00	39.00	EY	E
Rio PCH I, S.A.	Brazil	Energy	27.30	27.30	PWC	E
S.E. Narandiba, S.A.	Brazil	Energy	39.00	39.00	EY	E
Sever RJ Participacoes S.A.	Brazil	Energy	39.00	-	PWC	E
Soumaya RJ Participacoes S.A	Brazil	Energy	39.00	-	PWC	E
Tacca RJ Participacoes S.A	Brazil	Energy	39.00	-	PWC	E
Titanum RJ Participacoes S.A.	Brazil	Energy	39.00	-	PWC	E
Teles Pires Participações, S.A.	Brazil	Holding	19.72	19.72	PWC	E
Termopernambuco, S.A.	Brazil	Energy	39.00	39.00	PWC	E
Garter Properties, Inc.	Brit. Virgin Islands.	Finance	39.00	39.00	PWC	E

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
AVANGRID						
DEREGULATED BUSINESS						
Caledonia Energy Partners, LLC.	USA	Energy	81.50	100.00	-	F
E.O. Resources, LLC.	USA	Energy	81.50	100.00	-	F
Enstor Grama Ridge Storage and Transportation, LLC	USA	Energy	81.50	100.00	-	F
Enstor Houston Hub Storage and Transportation, Ltd.	USA	Energy	81.50	100.00	-	F
Enstor Inc.	USA	Holding	81.50	100.00	-	F
Enstor Katy Storage and Transportation, LLC	USA	Energy	81.50	100.00	-	F
Enstor Louisiana, LLC	USA	Energy	81.50	100.00	-	F
Enstor Operating Company, LLC	USA	Holding	81.50	100.00	-	F
Enstor Sundance Storage and Transportation, LLC	USA	Energy	81.50	100.00	-	F
Enstor Waha Storage and Transportation, LLC	USA	Energy	81.50	100.00	-	F
Freebird Assets Inc	USA	Holding	81.50	100.00	-	F
Freebird Gas Storage, LLC	USA	Energy	81.50	100.00	-	F
Gemini Capital, LLC	USA	Energy	81.50	100.00	-	F
Iberdrola Energy Holding, LLC	USA	Holding	81.50	100.00	-	F
Iberdrola Energy Services, LLC	USA	Energy	81.50	100.00	-	F
RENEWABLE BUSINESS						
Aeolus Wind Power I, LLC	USA	Holding	81.50	90.00 ⁽¹⁾	EY	F
Aeolus Wind Power II, LLC ⁽¹⁾	USA	Holding	61.13	75.00	EY	F
Aeolus Wind Power III, LLC ⁽¹⁾	USA	Holding	61.13	75.00	EY	F
Aeolus Wind Power IV, LLC ⁽¹⁾	USA	Holding	61.13	75.00	EY	F
Aeolus Wind Power V, LLC	USA	Holding	81.50	100.00	-	F
Aeolus Wind Power VI, LLC	USA	Holding	81.50	100.00	-	F
Atlantic Renewable Energy Corporation	USA	Holding	81.50	100.00	-	F
Atlantic Renewable Projects II, LLC ⁽¹⁾	USA	Holding	61.13	75.00	-	F
Atlantic Renewable Projects, LLC ⁽¹⁾	USA	Holding	61.13	75.00	-	F
Atlantic Wind, LLC	USA	Holding	81.50	100.00	-	F
Aurora Solar, LLC	USA	Energy	81.50	100.00	-	F
Bakeoven Wind, LLC	USA	Energy	81.50	100.00	-	F
Barton Windpower, LLC	USA	Energy	81.50	100.00	-	F
Big Horn II Wind Project, LLC	USA	Energy	81.50	100.00	-	F
Big Horn Wind Project, LLC ⁽¹⁾	USA	Energy	61.13	75.00	-	F
Blue Creek Wind Farm, LLC	USA	Energy	81.50	100.00	-	F
Buffalo Ridge I, LLC	USA	Energy	81.50	100.00	-	F
Buffalo Ridge II, LLC	USA	Energy	81.50	100.00	-	F
Buffalo Ridge III, LLC	USA	Energy	81.50	100.00	-	F
Casselman Wind Power, LLC ⁽¹⁾	USA	Energy	61.13	75.00	-	F
Deerfield Wind, LLC	USA	Energy	81.50	100.00	-	F
Desert Wind Farm, LLC	USA	Energy	81.50	-	-	F
Dillon Wind, LLC	USA	Energy	81.50	100.00	-	F
El Cabo Wind, LLC	USA	Energy	81.50	-	-	F
El Cabo Wind Holdings	USA	Holding	81.50	-	-	F
Elk River Wind Farm, LLC ⁽¹⁾	USA	Energy	61.13	75.00	-	F
Elm Creek Wind II, LLC	USA	Energy	81.50	100.00	-	F
Elm Creek Wind, LLC	USA	Energy	81.50	100.00	-	F
Farmers City Wind, LLC	USA	Energy	81.50	100.00	-	F
Flat Rock Windpower II, LLC ⁽¹⁾	USA	Energy	30.56	37.50	EY	E
Flat Rock Windpower, LLC ⁽¹⁾	USA	Energy	30.56	37.50	EY	E

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
Flying Cloud Power Partners, LLC	USA	Energy	81.50	90.00 ⁽¹⁾	-	F
Goodland Wind, LLC	USA	Energy	81.50	100.00	-	F
Groton Wind, LLC	USA	Energy	81.50	100.00	-	F
Hardscrabble Wind Power, LLC	USA	Energy	81.50	100.00	-	F
Hay Canyon Wind, LLC	USA	Energy	81.50	100.00	-	F
Hazelwood Australia, Inc.	USA	Holding	81.50	100.00	-	-
Hazelwood Ventures, Inc.	USA	Holding	81.50	100.00	-	-
Heartland Wind, LLC	USA	Energy	81.50	100.00	-	F
Helix Wind Power Facility, LLC	USA	Energy	81.50	100.00	-	F
Iberdrola Arizona Renewables, LLC	USA	Energy	81.50	100.00	-	F
Iberdrola Logistic Services, LLC	USA	Holding	81.50	100.00	-	F
Iberdrola Renewables Holdings, Inc.	USA	Holding	81.50	100.00	EY	F
Iberdrola Renewables, LLC	USA	Holding	81.50	100.00	-	F
Iberdrola Texas Renewables, LLC	USA	Energy	81.50	100.00	-	F
Juniper Canyon Wind Power II, LLC	USA	Energy	81.50	100.00	-	F
Juniper Canyon Wind Power, LLC	USA	Energy	81.50	100.00	-	F
Klamath Energy, LLC	USA	Energy	81.50	100.00	-	F
Klamath Generation, LLC	USA	Energy	81.50	100.00	-	F
Klondike Wind Power II, LLC	USA	Energy	81.50	100.00	-	F
Klondike Wind Power III, LLC ⁽¹⁾	USA	Energy	61.13	75.00	-	F
Klondike Wind Power, LLC	USA	Energy	81.50	90.00 ⁽¹⁾	-	F
Lakeview Cogeneration, LLC	USA	Energy	81.50	100.00	-	F
Leaning Juniper Wind Power II, LLC	USA	Energy	81.50	100.00	-	F
Leipsic Wind, LLC	USA	Energy	81.50	100.00	-	F
Lempter Wind, LLC	USA	Energy	81.50	100.00	-	F
Locust Ridge II, LLC	USA	Energy	81.50	100.00	-	F
Locust Ridge Wind Farms, LLC	USA	Energy	37.74	46.30	EY	F
Loma Vista, LLC	USA	Energy	81.50	100.00	-	F
Manzana Power Services, Inc.	USA	Services	81.50	100.00	-	F
Manzana Wind, LLC	USA	Energy	81.50	100.00	-	F
Midland Wind, LLC	USA	Energy	81.50	100.00	-	F
Minndakota Wind, LLC ⁽¹⁾	USA	Energy	61.13	75.00	-	F
Montague Wind Power Facility, LLC	USA	Energy	81.50	100.00	-	F
Moraine Wind II, LLC	USA	Energy	81.50	100.00	-	F
Moraine Wind, LLC	USA	Energy	81.50	90.00 ⁽¹⁾	-	F
Mount Pleasant Wind, LLC	USA	Energy	81.50	100.00	-	F
Mountain View Power Partners III, LLC	USA	Energy	81.50	90.00 ⁽¹⁾	-	F
New England Wind, LLC	USA	Energy	81.50	100.00	-	F
New Harvest Wind Project, LLC	USA	Energy	81.50	100.00	-	F
Northern Iowa WindPower II, LLC ⁽¹⁾	USA	Energy	61.13	75.00	-	F
Otter Creek Wind Farm, LLC	USA	Energy	81.50	100.00	-	F
Pacific Harbor Capital, Inc.	USA	Others	81.50	100.00	-	F
Pacific Solar Investments, Inc.	USA	Energy	81.50	100.00	-	F
Pacific Wind Development, LLC	USA	Energy	81.50	100.00	-	F
Pebble Springs Wind, LLC	USA	Energy	81.50	100.00	-	F
Phoenix Wind Power, LLC	USA	Energy	81.50	100.00	-	F
PPM Colorado Wind Ventures, Inc.	USA	Holding	81.50	100.00	-	F
PPM Roaring Brook, LLC	USA	Energy	81.50	100.00	-	F
PPM Technical Services, Inc.	USA	Services	81.50	100.00	-	F
PPM Wind Energy, LLC	USA	Holding	81.50	100.00	-	F
Providence Heights Wind, LLC	USA	Energy	81.50	100.00	-	F
Rugby Wind, LLC	USA	Energy	81.50	100.00	-	F
San Luis Solar, LLC	USA	Energy	81.50	100.00	-	F
ScottishPower Financial Services, Inc.	USA	Holding	81.50	100.00	-	F
ScottishPower Group Holdings Company	USA	Holding	81.50	100.00	-	F
ScottishPower International Group Holdings Company	USA	Holding	81.50	100.00	-	F

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
Shiloh I Wind Project, LLC ⁽¹⁾	USA	Energy	61.13	75.00	-	F
South Chestnut, LLC	USA	Energy	81.50	100.00	-	F
Start Point Wind Project, LLC	USA	Energy	81.50	100.00	-	F
Streator Cayuga Ridge Wind Power, LLC	USA	Energy	81.50	100.00	-	F
Streator Deer Run Wind Farmer, LLC	USA	Energy	81.50	100.00	-	F
Trimont Wind I, LLC ⁽¹⁾	USA	Energy	61.13	75.00	-	F
Tule Wind, LLC	USA	Energy	81.50	100.00	-	F
Twin Buttes Wind, LLC ⁽¹⁾	USA	Energy	61.13	75.00	-	F
Twin Buttes Wind II, LLC	USA	Energy	81.50	-	-	F
West Valley Leasing Company, LLC	USA	Services	81.50	100.00	-	F
Winnebago Windpower II, LLC	USA	Energy	81.50	100.00	-	F
Winnebago Windpower, LLC	USA	Energy	81.50	100.00	-	F
NETWORK BUSINESS						
Avangrid, Inc. (previously Iberdrola USA Inc.)	USA	Holding	81.50	100.00	EY	F
Berkshire Energy Resources	USA	Holding	81.50	-	PWC	F
Cayuga Energy, Inc.	USA	Energy	81.50	100.00	-	F
Central Maine Power Company	USA	Electricity	81.50	100.00	EY	F
Chester SVC Partnership	USA	Electricity	40.75	50.00	-	F
CMP Group, Inc.	USA	Holding	81.50	100.00	-	F
CNE Energy Services Group, LLC	USA	Services	81.50	100.00	-	F
CNE Peaking, LLC	USA	Services	81.50	-	-	F
Connecticut Energy Corporation	USA	Holding	81.50	-	PWC	F
Connecticut Natural Gas Corporation	USA	Gas	81.50	-	-	F
CTG Resources, Inc.	USA	Holding	81.50	-	PWC	F
GCE Holding, LLC	USA	Holding	40.75	-	-	E
GenConn Devon, LLC	USA	Generation	40.75	-	-	E
GenConn Energy, LLC	USA	Generation	40.75	-	-	E
GenConn Middletown, LLC	USA	Generation	40.75	-	-	E
Iberdrola USA Enterprises, Inc.	USA	Holding	81.50	100.00	-	F
Iberdrola USA Group, LLC	USA	Holding	81.50	100.00	-	F
Iberdrola USA Management Corporation	USA	Services	81.50	100.00	-	F
Iberdrola USA Networks New York TransCo, LLC	USA	Holding	81.50	100.00	-	F
Iberdrola USA Networks, Inc.	USA	Holding	81.50	100.00	EY	F
Iberdrola USA Solutions, Inc.	USA	Marketing	81.50	100.00	-	F
Maine Electric Power Company, Inc.	USA	Energy	63.80	78.28	-	F
Maine Natural Gas Corporation	USA	Gas	81.50	100.00	EY	F
Maine Yankee Atomic Power Company	USA	Electricity	30.97	38.00	-	-
MaineCom Services	USA	Telecommunications	81.50	100.00	-	F
New York State Electric & Gas Corporation	USA	Electricity and Gas	81.50	100.00	EY	F
NORVARCO	USA	Holding	81.50	100.00	-	F
Nth Power Technologies Fund I, LP.	USA	Others	21.92	26.90	-	-
RGS Energy Group, Inc.	USA	Holding	81.50	100.00	-	F
Rochester Gas and Electric Corporation	USA	Electricity and Gas	81.50	100.00	EY	F
South Glens Falls Energy, LLC	USA	Energy	69.28	85.00	-	-
TEN Transmission Company	USA	Gas	81.50	100.00	-	F
The Berkshire Gas Company	USA	Gas	81.50	-	-	F
The Southern Connecticut Gas Company (SCG)	USA	Gas	81.50	-	-	F
The Union Water Power Company	USA	Services	81.50	100.00	-	F
The United Illuminating Company	USA	Energy	81.50	-	PWC	F
Thermal Energies, Inc.	USA	Inactive	81.50	-	-	F
Total Peaking Services, LLC	USA	Services	81.50	-	-	F
UIL Distributed Resources	USA	Services	81.50	-	-	F

Company	Address	Activity	<i>Percentage of direct or indirect participation</i>		Auditor	Method(*)
			12.31.15	12.31.14		
UIL Holdings, Inc. (formerly Green Merger Sub, Inc)	USA	Holding	81.50	-	PWC	F
United Capital Investments	USA	Inactive	81.50	-	-	F
United Resources, Inc.	USA	Holding	81.50	-	-	F
WGP Acquisition, LLC	USA	Inactive	81.50	-	-	F
Xcal Services, Inc	USA	Inactive	81.50	-	-	F
Xcelcom Inc	USA	Inactive	81.50	-	-	F

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
<u>OTHER BUSINESSES</u>						
<u>Engineering</u>						
Adícora Servicios de Ingeniería, S.L.	Spain	Engineering	100.00	100.00	-	F
Empresarios Agrupados Internacional, S.A.	Spain	Engineering	25.46	25.46	PWC	E
Empresarios Agrupados, A.I.E.	Spain	Engineering	25.46	25.46	PWC	E
Ghesa Ingeniería y Tecnología, S.A.	Spain	Engineering	41.18	41.18	PWC	E
Iberdrola Ingeniería de Explotación, S.A.U.	Spain	Engineering	100.00	100.00	EY	F
Iberdrola Ingeniería y Construcción, S.A.U.	Spain	Engineering	100.00	100.00	EY	F
Ingeniería, Estudios y Construcciones, S.A.	Spain	Engineering	100.00	100.00	-	F
Iberdrola Engineering and Construction Germany GmbH.	Germany	Engineering	100.00	100.00	-	F
Iberdrola Engineering and Construction Saudi Arabia, LLC	Saudi Arabia	Engineering	100.00	100.00	-	F
Iberdrola Construção e Serviços, Ltd.	Brazil	Engineering	100.00	100.00	-	F
Iberdrola Energy Projects Canada Corporation	Canada	Engineering	100.00	100.00	-	F
Iberdrola Ingeniería y Construcción Chile, S.A.	Chile	Engineering	100.00	100.00	-	F
Iberdrola Ingeniería y Construcción Costa Rica, S.A.	Costa Rica	Engineering	100.00	-	-	-
Iberdrola Engineering and Construction Middle East, Ltd.	Dubai	Inactive	100.00	100.00	-	F
Iberdrola Energy Project, Inc.	USA	Engineering	100.00	100.00	-	F
Iberinco Hellas Techniki kai Kataskevastiki EPE	Greece	Engineering	100.00	100.00	-	F
Iberdrola Magyarország Mernoki és Építő Korfaltolft	Hungary	Engineering	100.00	100.00	EY	F
Iberdrola Ingegneria e Costruzioni Italia, SRL.	Italy	Engineering	100.00	100.00	-	F
Enermón S.A. de C.V.	Mexico	Engineering	100.00	100.00	EY	F
Iberdrola Ingeniería y Construcción México, S.A. de C.V.	Mexico	Engineering	100.00	100.00	EY	F
Iberservicios, S.A. de C.V.	Mexico	Engineering	100.00	100.00	EY	F
Iberdrola Ingeniería y Construcción Panamá, S.A.	Panama	Engineering	100.00	100.00	-	F
Iberdrola Engineering and Construction Poland, SP ZOO	Poland	Engineering	100.00	100.00	EY	F
Iberdrola Engenharia e Construção Portugal, Unipessoal Lda.	Portugal	Engineering	100.00	100.00	-	F
Iberdrola Engineering and Construction Networks, Ltd.	United Kingdom	Engineering	100.00	100.00	EY	F
Iberdrola Engineering and Construction UK, Ltd.	United Kingdom	Engineering	100.00	100.00	EY	F
Iberdrola Engineering and Construction Ro, SRL.	Romania	Engineering	100.00	100.00	-	F
Iberdrola Inzhiniring I Stroiteistvo, LLC	Russia	Engineering	100.00	100.00	EY	F
Iberdrola Engineering and Construction South Africa	South Africa	Engineering	100.00	100.00	EY	F
Iberdrola Ingeniería y Construcción Venezuela, S.A.	Venezuela	Engineering	99.81	99.81	EY	F
<u>Real Estate</u>						
Arrendamiento de Viviendas Protegidas Siglo XXI, S.L.	Spain	Real Estate	100.00	100.00	-	F
Camarate Golf, S.A.	Spain	Real Estate	26.00	26.00	Deloitte	E
Fiuna, S.A.	Spain	Real Estate	70.00	70.00	PWC	F
Iberdrola Inmobiliaria Patrimonio, S.A.U.	Spain	Real Estate	100.00	100.00	EY	F
Iberdrola Inmobiliaria, S.A.	Spain	Real Estate	100.00	100.00	EY	F
Oceanic Center, S.L.	Spain	Real Estate	50.00	50.00	EY	E
Promotora la Castellana de Burgos, S.A.	Spain	Real Estate	100.00	100.00	EY	F
Urbanizadora Marina de Cope, S.L.	Spain	Real Estate	80.00	60.00	EY	F
Iberdrola Inmobiliaria Real State Investment, EOOD	Bulgaria	Real Estate	100.00	100.00	-	F

<i>Company</i>	<i>Address</i>	<i>Activity</i>	<i>Percentage of direct or indirect participation</i>		<i>Auditor</i>	<i>Method(*)</i>
			<i>12.31.15</i>	<i>12.31.14</i>		
Desarrollos Inmobiliarias Laguna del Mar, S.A. de C.V.	Mexico	Real Estate	100.00	100.00	EY	F
Promociones La Malinche, S.A. de C.V.	Mexico	Real Estate	50.00	50.00	-	E
<u>Other Businesses</u>						
Amara, S.A.U.	Spain	Services and material merchandising	100.00	100.00	EY	E
Subgrupo Corporación IBV Participaciones Empresariales	Spain	Inactive	50.00	50.00	Deloitte	E
Gamesa Corporación Tecnológica, S.A.	Spain	Holding	19.69	19.69	EY	E
Iberdrola Inversiones 2010, S.A.U.	Spain	Holding	100.00	100.00	-	F
Iberdrola Participaciones, S.A. (previously Iberdrola Redes, S.A.)	Spain	Holding	100.00	100.00	-	F
Investigación y Desarrollo de Equipos Avanzados, S.A.U.	Spain	Services	100.00	100.00	-	E
Keytech Sistemas Integrales, S.A.	Spain	Security Systems	37.00	37.00	-	E
Amara Brasil, Ltd.	Brazil	Services	100.00	100.00	EY	E
Lanmóvil Amara Celular da Bahia Ltd (Lanmara).	Brazil	Wholesale/Retail	65.00	65.00	-	E
Ergytech Inc.	USA	Purchase agent	100.00	100.00	EY	E
Amergy Mexicana, S.A. de C.V.	Mexico	Wholesale/Retail	100.00	100.00	EY	E
Amergy Servicios de México S.A. de C.V.	Mexico	Services	99.00	99.00	EY	E

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
<u>CORPORATION</u>						
Cartera Park, S.A.	Spain	Inactive	100.00	100.00	-	-
Iberdrola Corporación, S.A.	Spain	Inactive	100.00	100.00	-	-
Iberdrola España, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Energía, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Financiación, S.A.	Spain	Finance	100.00	100.00	EY	F
Iberdrola Finanzas, S.A.U.	Spain	Finance	100.00	100.00	EY	F
Iberdrola Corporate Services, Inc.	USA	Services	100.00	100.00	-	F
Iberdrola International, B.V.	Netherlands	Finance	100.00	100.00	EY	F
Iberdrola Finance Ireland, Ltd.	Ireland	Finance	100.00	100.00	EY	F
Iberdrola Re, S.A.	Luxembourg	Insurance	100.00	100.00	EY	F
Iberdrola Portugal Electricidade e Gas, S.A.	Portugal	Energy	100.00	100.00	EY	F
Camjar Plc	United Kingdom	Inactive	100.00	100.00	-	F
Clubcall Telephone Services, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Clubline Services, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Demon Internet, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Manweb Contracting Services, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Manweb Nominees, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Manweb Pensions Trustee, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Manweb Share Scheme Trustees, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Scottish Power Trustees, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Scottish Power UK Group, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Scottish Power UK Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Scottish Power UK, Plc	United Kingdom	Holding	100.00	100.00	EY	F
Scottish Power, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
ScottishPower Investments, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
ScottishPower Overseas Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
ScottishPower Share Scheme Trustees, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
ScottishPower Sharesave Trustees, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
SPPT, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
SPW Investments Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Teledata (Holdings), Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Teledata (Outsourcing), Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Teledata Scotland, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Telephone Information Services, Plc	United Kingdom	Inactive	100.00	100.00	-	F
Telephone International Media Holding, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Telephone International Media, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
The CallCentre Service Limited	United Kingdom	Others	100.00	100.00	EY	F
The Information Service, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
TIM, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F

JOINT OPERATIONS OF THE IBERDROLA GROUP STRUCTURED THROUGH AN INDEPENDENT VEHICLE FOR THE YEARS 2015 and 2014.

Company	Address	Activity	Percentage of direct or indirect participation	
			12.31.15	12.31.14
<u>DEREGULATED BUSINESS</u>				
Asociación Nuclear Ascó – Vandellós, A.I.E.	Spain	Energy	14.59	14.59
Centrales Nucleares Almaraz – Trillo, A.I.E.	Spain	Energy	51.44	51.44
<u>RENEWABLE BUSINESS</u>				
Infraestructuras de Medinaceli, S.L.	Spain	Energy	39.69	39.69
Sistema Eléctrico de Conexión Hueneja, S.L.	Spain	Energy	47.36	47.36
Colorado Green Holdings, LLC	USA	Energy	40.75	50.00
Colorado Wind Ventures, LLC	USA	Holding	40.75	50.00
<u>OTHER BUSINESSES</u>				
Torre Iberdrola, A.I.E.	Spain	Real Estate	68.10	68.10

GROUP COMPANIES AT 31 DECEMBER WHICH HAVE LEFT THE PERIMETER IN 2015 AS A RESULT OF DISPOSAL. MERGER OR LIQUIDATION.

Company	Address	Activity	Percentage of direct or indirect participation	
			12.31.15	12.31.14
<u>DEREGULATED BUSINESS</u>				
Oficina Cambio de Suministrador, S.A.	Spain	Services	-	20.00
Palencia 3 Investigación, Desarrollo y Explotación, S.L.	Spain	Services	-	39.00
Zirconio Cogeneración, S.A.	Spain	Energy	-	50.00
Damhead Creek Finance, Ltd.	Caiman Islands	Inactive	-	100.00
Iberdrola Servicios Monterrey, S.A. de C.V.	Mexico	Services	-	100.00
Servicios de Operación Altamira, S.A. de C.V.	Mexico	Services	-	100.00
Iberdrola Energía Polska Spolka, Z.O.O.	Poland	Services	-	100.00
<u>RENEWABLES BUSINESS</u>				
Eosoria Aire, S.L.	Spain	Energy	-	47.50
Iberdrola Renovables Cantabria, S.A.U.	Spain	Holding	-	100.00
Somozas Energías y Recursos Medioambientales, S.A.	Spain	Energy	-	100.00
Baffin Wind, LLC	USA	Energy	-	100.00
Jazeneuil Energies, S.A.S.	France	Energy	-	100.00
Le Moulins de la Somme, S.A.R.L.	France	Energy	-	50.00
Perle Marine, S.A.S.	France	Energy	-	70.00
Rokas Aeoliki Komito,S.A.	Greece	Energy	-	99.76
Rokas Iliaki I, S.A.	Greece	Energy	-	99.76
Kaptar Széleromu, KFT.	Hungary	Energy	-	75.00
Mistral Energetika Villamosenergia-Termelo, KFT.	Hungary	Energy	-	75.00
Vento Energetika Villamosenergia-Termelo, KFT.	Hungary	Energy	-	75.00
<u>NETWORK BUSINESS</u>				
Iberbolivia de Inversiones, S.A.	Bolivia	Holding	-	63.39
Iberdrola de Inversiones, S.A.	Bolivia	Holding	-	99.99
New Hampshire Gas Corporation	USA	Gas	-	100.00
<u>OTHER BUSINESS</u>				
Iberdrola Consultoria e Serviços do Brasil, Ltd.	Brazil	Engineering	-	100.00
IEC California, Inc.	USA	Engineering	-	100.00
Las Pedrazas Golf, S.L.	Spain	Real Estate	-	50.00
Norapex, S.A.	Spain	Real Estate	-	50.00
Torre Occidente Inmobiliaria, S.A.	Portugal	Real Estate	-	25.00
<u>CORPORATION</u>				
ScottishPower Finance (US), Inc.	USA	Finance	-	100.00
Dornoch International Insurance, Ltd.	Ireland	Insurance	-	100.00
ScottishPower Insurance, Ltd.	Isle of Man	Insurance	-	100.00
Iberdrola Finance UK, Ltd.	United Kingdom	Inactive	-	100.00
ScottishPower NA 1, Ltd.	United Kingdom	Inactive	-	100.00
ScottishPower NA 2, Ltd.	United Kingdom	Inactive	-	100.00
SP Finance 2, Ltd.	United Kingdom	Inactive	-	100.00

(1) The ownership percentage in these companies corresponds to voting rights.

MANAGEMENT REPORT

2015

1. BUSINESS PERFORMANCE

IBERDROLA is a holding company and therefore its earnings are chiefly produced by dividends and revenues from financing 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 2015

2.1 Income statement highlights

Net revenue in 2015 was EUR 1.581 million, of which EUR 1,090 million correspond to sales (mainly gas to its subsidiary Iberdrola Generación España S.A.U.), EUR 449 million to dividends received from Group companies and associates, and EUR 42 million to finance income related to financing of subsidiaries.

Procurements during the year totalled EUR 1,115 million, mainly of gas supplied on a wholesale basis and subsequently delivered to Iberdrola Generación España, S.A.U.

Other operating income of EUR 213 million, operating expenses of EUR 172 million, net personal expenses of EUR 117 million, depreciation and amortisation of EUR 56 million, and EUR 67 million in write-offs of provisions and impairments and disposals of non-current assets brought operating income to EUR 401 million.

The financial result was a EUR 446 million loss, due to, mainly, debts with group companies and associates.

Profit before tax was EUR 45 million, and corporate income tax stood at EUR 162 million, leaving net profit at EUR 117 million, against EUR 358 million in 2014.

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

- Firstly, 2015 is the first year with the new governance model after the reorganization carried out in the first half of 2014, which culminated in the transfer of the majority of the corporate services to Iberdrola España, S.A.U., as is described below.
- On the other hand, the contributions of dividends from subsidiaries during 2015 amounted to EUR 449 million compared to EUR 814 million in 2014. This reduction in dividends is based on the fact that subsidiaries that contributed directly to the dividend, after the reorganization model completed in the first half of 2014, do it now to Iberdrola España, S.A.U., which is the Spanish sub-holding company and will be the one who will contribute the dividends to IBERDROLA. Iberdrola España, S.A.U., the parent company, groups together the shares in companies that develop energy-related activities in Spain: Iberdrola Redes España, S.A.U., which includes the entire network business; Iberdrola Generación España, S.A.U., as the parent company of the deregulated business; and Iberdrola Renovables Energía, S.A.U., head of the renewable business.

2.2 Balance

On 31 December 2015, IBERDROLA presents a negative working capital of EUR 2.623 million. This amount will be covered by funds generated from its business and dividends from its subsidiaries.

2.3 Main operational disclosures

On 2 January 2015, the contribution to Iberdrola España, S.A.U., a corporation which is owned 100%, had effect on the assets, liabilities and contractual relationships of Iberdrola, S.A., affected by the provision of corporate services of the IBERDROLA Group developed by the parent companies of Iberdrola España, such as the assets, liabilities and contractual relationships that effect the telecommunication activity, and the consequential subrogation by succession of the company of Iberdrola España in the work contracts of the employees of IBERDROLA bound to those activities.

Thus the organizational structure of the group in Spain is adapted to the corporate structure and to the govern approved by the Boards Director on 16 December 2008, and homogenized with the structure established in other territories in which the group operates.

This fact should be taken into account when comparing the financial information for the year 2015 with the last period which included these activities.

2.4 Compliance with article 262.1 of the Spanish Corporate Enterprises Act (Ley de Sociedades de Capital) in relation to the average period for paying suppliers

As discussed in Note 19, the Company's average period for paying suppliers in 2015 was 13.2 days. This average period is below the maximum period allowed.

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

3.1 Risk Management System

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

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

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

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

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

- a) Integrate the risk-opportunity vision into the Company's management, through a definition of the strategy and the risk appetite and the incorporation of this variable into strategic and operating decisions.
- b) Segregate functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control, and monitoring of such risks, ensuring an appropriate level of independence.
- c) Guarantee the proper use of risk-hedging instruments and the maintenance of records thereof as required by applicable law.
- d) Inform regulatory agencies and the principal external players, in a transparent fashion, regarding the risks facing the Group and the operation of the systems developed to monitor such risks, maintaining suitable channels that favour communication.
- e) Ensure appropriate compliance with the corporate governance rules established by the Company through its Corporate Governance System and the update and continuous improvement of such system within the framework of the best international practices as to transparency and good governance, and implement the monitoring and measurement thereof.
- f) Act at all times in compliance with the law and the Company's Corporate Governance System and, specifically, with due observance of the values established in the *Code of Ethics* and under the principles of zero tolerance for the commitment of illicit acts and fraud situations included in the prevention of fraud and crimes policy.

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

- a) The ongoing identification of significant risks and threats based on their possible impact on key management objectives and the accounts (including contingent liabilities and other off-balance sheet risks).
- b) The analysis of such risks, both at each corporate business or function and taking into account their combined effect on the Group as a whole.
- c) The establishment of a structure of policies, guidelines, 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 by the corporate risk policies and the specific risk policies established in connection with certain businesses and/or companies of the Group, which are listed below and are also subject to approval by the Company's Board of Directors.

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 Liberalised 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.

Pursuant to established guidelines, the competent management decision-making bodies of each company of the Group, within such company's area of responsibility annually revises and approves the specific risk limits applicable to each of them.

The companies and corporate functions of the Group are responsible for implementing, within their areas of activity, the control systems required for compliance with the general risk control and management policy and with the limits thereunder.

The risk factors to which the Group is generally subject are listed below:

- a) **Corporate Governance Risks:** the Company assumes the need to safeguard the interests of the Company and the strategy of sustained maximisation of the economic value of the Company and its long-term success, in accordance with the Group's corporate interest, culture, and corporate vision, taking into account the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders and communities and regions in which the Company and its employees act. A fundamental requirement for the foregoing is compliance with the Company's Corporate Governance System, made up of the *By-Laws*, the *Corporate Policies*, the internal corporate governance rules, and the other internal codes and procedures approved by the competent decision-making bodies of the Company and inspired by the good governance recommendations generally recognised in international markets.
- b) **Market Risks:** defined as the exposure of the Group's results and equity to changes in market prices and variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO₂ emission 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) **Regulatory Risks:** defined as those arising from regulatory changes made by the various regulators, such as changes in compensation of regulated activities or in the required conditions of supply, or environmental or tax regulations, including risks related to political changes that could affect the legal security and to the legal framework applicable to the Group's businesses in each jurisdiction, the nationalization or expropriation of assets, the operating licenses cancelation 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.

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

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 Quarterly Risk Reports, which include monitoring compliance with risk limits and indicators and updated key risk maps, submitted by the Group's director of Corporate Risks.
- It coordinates and reviews risk reports sent periodically (at least half-yearly) by the audit and compliance committees of the country subholding companies and business subholding companies of the Group. This helps to prepare, together with the appearances of the Risk Director, the risk report for the Board of Directors at least semi-annually.

For further details, see the section *Control systems and risk management* of the *Corporate Governance Report 2015*.

4. ENVIRONMENTAL ISSUES

IBERDROLA supports the adoption of the Sustainable Development Goals (SDG) 2015-2030 adopted by the United Nations Sustainable Development Summit which was held from 25 to 27 September 2015 in New York. The SDG consist of 17 main goals each, in turn, divided into a number of targets to be met, for a total of 169 goals. Energy has acquired an outstanding importance as it occupies one of the seventeen lines of action that has a transversal role in achieving the rest. IBERDROLA is actively working within the framework of the Sustainable Development Goals.

IBERDROLA is promoting the use of cleaner technologies and also, to become one of the companies with lower CO₂ emissions of the electrical sector. 2015 was particularly an important year with the agreement of Paris where IBERDROLA has come to an ambitious compromise with the reduction in the 50% in emissions intensity in 2030.

IBERDROLA stands out for its commitment to sustainability being reference in the major stock market index such as Dow Jones, FTSE4Good, Climate Disclosure Leadership Index, Climate Performance Leadership Index and MSCI, among others thanks to its strong strategic commitment in the integration of business competitiveness, social returns and environmental respect.

IBERDROLA is recognized for its leadership in its excellent environmental management, integrating the various international businesses environmental performances in a global overview of the Group. This year, with a new approach based on life-cycle assessment and environmental impact assessment it has been calculated and published its environmental footprint by collecting the main impacts of the company's environment.

5. RESEARCH AND DEVELOPMENT ACTIVITIES

For IBERDROLA the innovation is the principal tool to ensure the sustainability, the efficiency and the competitiveness. The I+D+ I efforts are aimed to optimize the operative conditions, improve the security and reduce the environment impact. Also, through the innovation, IBERDROLA search new opportunities of business that emerge could in the energy sector. During 2015 stand out the actions related to intelligent networks, the clean generation, the wind energy offshore and new technologies and business models.

Thanks to the continuous commitment with the innovation, IBERDROLA has been recognized as the most innovative Spanish utility and the fourth in Europe, according to the classification of the European Commission.

Iberdrola Ventures – PERSEO is the Corporate Ventures Capital program of IBERDROLA, dedicated to the technologies investments and new business models which ensure the sustainability of the energetic model. In 2015 stand out the entrance along with CDTI in the capital of the Basque company Atten 2, a spin-off of IK4-Tekniker in the pattern, manufacturing and commercialization of sensors for monitoring of the state in industrial applications. Inside the social inversion area, must be emphasized the inversion in the SunFunder company, committed to financing projects of solar energy without connexion to the electrical system in emergent countries of Africa, Latin America and Asia.

Above a clear strategy in which includes the Innovation Plan 2015-2017, innovation is IBERDROLA's primary tool to guarantee the Company's sustainability, efficiency and competitiveness, focusing on the main issues:

- Efficiency, addressed towards a continuous streamlining of our operations, managing the lifespans of facilities and equipment, cutting operation and maintenance costs, and reducing our environmental footprint for the purpose of adapting to an increasingly demanding environment that pushes us to improve constantly from the technological point of view and our processes and operations. More than 200 R&D and innovation projects, all of which are expected to have an effect on business in the short/medium term, are now ongoing thanks to the involvement of all Iberdrola Group employees.
- New products and services in response to customers' needs in an increasingly global and competitive market. These projects deploy existing technology to produce business models offering power supply, facilities and technologies that are increasingly more efficient and environment-friendly, for example, energy efficiency, electric vehicles, smart grids and distributed energy resources.
- Disruptive business models and technology that assist us in undertaking the energy challenges ahead. Through PERSEO, IBERDROLA's corporate risk capital programme, we invest in new disruptive technologies and areas of business focusing on making the energy model sustainable.

Thanks to our human and economic resources allocated to innovation – EUR 3,747 thousand at IBERDROLA and EUR 200,197 thousand at Group level – we are now at the forefront of development of new products, services and business models that are transforming the energy sector.

6. TREASURY SHARES AND CAPITAL REDUCTION

At the General Shareholders Meeting on 28 March 2014, shareholders expressly agreed to delegate powers to the Board of Directors, with powers of substitution, pursuant to the provisions of the Spanish Companies Law ("*Ley de Sociedades de Capital*"), to carry out derivative acquisition of shares in Iberdrola, S.A.

- Acquisitions may be made directly by IBERDROLA or indirectly through their subsidiary companies. The subsidiary companies which develop regulated activities as prescribed in the electric sector and hydrocarbon laws are excluded.
- Acquisitions may be made up to the maximum legal threshold.
- Acquisitions cannot be done at a higher price than it results in stock exchange and it could not realize in a lower nominal value of the share.

- These authorization is granted for a maximum period of five years since the adoption of the agreement.

Movements in treasury shares of IBERDROLA during 2015 were as follow:

Treasury Shares	Number of shares	Thousands of euros	Equity swap- Number of shares	Equity swap- Thousands of euros	Total number of shares	% of capital
Balance at 31 de diciembre de 2013	34,519,418	25,890	137,559	3.98	6,239,975,000	0.55
Acquisitions	176,365,850	132,274	896,183	5.07		
Disposals	(16,432,991)	(12,325)	(82,842)	4.96		
Capital reduction	(133,467,000)	(100,100)	(616,886)	4.62		
Balance at 31 de diciembre de 2014	60,985,277	45,739	334,014	5.48	6,388,483,000	0.95
Acquisitions	162,118,086	121,588	938,283	5.79		
Disposals	(6,984,197)	(5,238)	(38,956)	5.58		
Capital reduction	(148,483,000)	(111,362)	(827,884)	5.58		
Balance at 31 de diciembre de 2015	67,636,166	50,727	405,457	5.99	6,336,870,000	1.07

At the date of formulation of these financial statements, all accumulators have been liquidated on treasury shares (Note 14) and the result of its liquidation has resulted in the acquisition of 9,624,817 own shares for EUR 57,914 thousand (have accumulated 6,597,622 shares of 12,111,494 shares maximum potential to accumulate to 31 December 2015). There has also been the liquidation of futures treasury shares (Note 14) which has led to the acquisition of 14,000,000 own shares for EUR 83,962 thousand.

Finally, from the 2015 year-end until the date of formulation of these Financial statements 44,584,844 treasury shares have been acquired amounting to EUR 267,826 thousand and derivatives were contracted that have resulted in 13,000,000 more treasury shares amounting to EUR 81,903 thousand. At the date of formulation of these financial statements, Iberdrola, S.A. had EUR 148,845,917 in treasury shares.

7. SUBSEQUENT EVENTS

Subsequent events to year end are described in Note 28 of the Financial statements.

**SPECIMEN ANNEX I
ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED COMPANIES**

Data identifying issuer

Ending date of reference financial year	31/12/2015
Tax Identification Code	A-48010615
Registered name	IBERDROLA, S.A.
Registered address	Plaza Euskadi número 5, Bilbao 48009 Biscay Spain

A. OWNERSHIP STRUCTURE

A.1. Complete the following table about the share capital of the company:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
20/07/2015	4,752,652,500	6,336,870,000	6,336,870,000

State whether there are different classes of shares with different rights attaching thereto:

Yes ☐ No ☒

Class	Number of shares	Nominal value per share	Number of voting rights per share	Different rights

A.2. Breakdown of direct and indirect holders of significant shareholdings in the company as of the end of the financial year, excluding directors:

Individual or company name of the shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
QATAR INVESTMENT AUTHORITY	-	QATAR HOLDING LUXEMBOURG II, S.À.R.L.	599,911,474	9.73
QATAR INVESTMENT AUTHORITY	-	DGIC LUXEMBOURG, S.À.R.L.	16,395,153	
KUTXABANK, S.A.	-	KARTERA 1, S.L.	220,034,187	3.47
BLACKROCK, INC.	-	BLACKROCK GROUP	191,563,600	3.02
NORGES BANK	191,233,638	-	-	3.02

State the most significant changes in the shareholding structure that have occurred during the financial year:

Individual or company name of the shareholder	Date of transaction	Description of transaction
ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	26/03/2015	Decrease to below 3% of share capital
NORGES BANK	15/12/2015	Increase to above 3% of share capital

NORGES BANK	16/12/2015	Decrease to below 3% of share capital
NORGES BANK	23/12/2015	Increase to above 3% of share capital

A.3. Complete the following tables about members of the board of directors of the company who have voting rights attaching to shares of the company:

Individual or company name of the director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	3,958,115	-	-	0.12
	-	MS ISABEL GARCÍA-TABERNERO RAMOS	244,385	
	-	MR PABLO SÁNCHEZ-GALÁN GARCÍA-TABERNERO	34,942	
	-	ROYAL PARK 2000, S.L.	3,264,000	
MR XABIER DE IRALA ESTÉVEZ	241,350	-	-	0.00
MR IÑIGO VÍCTOR DE ORIOL IBARRA	1,223,862	-	-	0.02
MS INÉS MACHO STADLER	59,146	-	-	0.00
MR BRAULIO MEDEL CÁMARA	26,633	-	-	0.00
MS SAMANTHA BARBER	1,697	-	-	0.00
MS MARÍA HELENA ANTOLÍN RAYBAUD	2,979	-	-	0.00
MR SANTIAGO MARTÍNEZ LAGE	15,566	-	-	0.00
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	658,144	-	-	0.01
MR ÁNGEL JESÚS ACEBES PANIAGUA	5,850	-	-	0.00
MS GEORGINA KESSEL MARTÍNEZ	2,050	-	-	0.00
MS DENISE MARY HOLT	211	-	-	0.00

MR JOSÉ WOLFREDO FERNÁNDEZ	0	-	-	0.00
MR MANUEL MOREU MUNAIZ	21,733	-	-	0.00
	-	MS MARÍA GAMAZO TRUEBA	21,733	

Total percentage of voting rights held by the board of directors	0.15
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Complete the following tables about members of the company's board of directors who hold rights to shares of the company:

Individual or company name of the director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Number of	voting rights		

A.4. State, if applicable, the family, commercial, contractual, or corporate relationships between significant shareholders, to the extent known to the company, unless they are immaterial or result from the ordinary course of business:

Related individual or company name	Type of relationship	Brief description

A.5. State, if applicable, the commercial, contractual, or corporate relationships between significant shareholders and the company and/or its group, unless they are immaterial or result from the ordinary course of business:

Related individual or company name	Type of relationship	Brief description
KUTXABANK, S.A.	Corporate	<p>1) Iberdrola and Kutxabank, S.A. both hold interests in Fiuna, S.A. (70% and 30%, respectively).</p> <p>2) Iberdrola and Kutxabank, S.A. both hold interests in Operador del Mercado Ibérico de Energía-Polo Español, S.A. (5.5% and 0.76%, respectively).</p> <p>3) Iberdrola and Kutxabank, S.A. both hold interests in Seed Capital de Bizkaia, SGEIC, S.A. (5% and 10%, respectively).</p> <p>4) Iberdrola and Kutxabank, S.A. both hold interests in Torre Iberdrola, A.I.E. (68.1% and 31.9%, respectively).</p> <p>5) Iberdrola and Kutxabank, S.A. both hold interests in Sociedad Bilbao Gas Hub, S.A.</p>

		(5.71% and 21.71%, respectively). 6) Iberdrola and Kutxabank, S.A. both hold indirect interests in Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (0.2% and 2.61%, respectively).
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A.6. State whether any private (paracorporate) shareholders' agreements affecting the company pursuant to the provisions of sections 530 and 531 of the Companies Act (*Ley de Sociedades de Capital*) have been reported to the company. If so, briefly describe them and list the shareholders bound by the agreement:

Yes ☐ No ☒

Participants in the private shareholders' agreement	% of share capital affected	Brief description of the agreement

State whether the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

Yes ☐ No ☒

Participants in concerted action	% of share capital affected	Brief description of the concerted action

Expressly state whether any of such agreements, arrangements, or concerted actions have been modified or terminated during the financial year:

Not applicable.

A.7. State whether there is any individual or legal entity that exercises or may exercise control over the company pursuant to section 5 of the Securities Market Act (*Ley del Mercado de Valores*). If so, identify it:

Yes ☐ No ☒

Individual or company name

Comments

A.8. Complete the following tables about the company's treasury shares:

As of year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
67,636,166	0	1.06

(*) Through:

Individual or company name of direct holder of the interest	Number of direct shares
Total:	

Explain any significant changes, pursuant to the provisions of Royal Decree 1362/2007, that have occurred during the financial year:

Explain any significant changes
<p>The Company made two changes in its treasury share position in 2015 as a result of a change in the number of voting rights arising from corporate transactions:</p> <ul style="list-style-type: none"> - notices of direct acquisitions of a total of 33,474,607 shares (0.536%) were provided on 7 May, coinciding with the reduction in capital; and - notices of direct acquisitions of a total of 11,034,252 shares (0.174%) were provided on 15 July, coinciding with the increase in capital resulting from the "Iberdrola Flexible Dividend" programme. <p>Two additional notices were also provided arising from consecutive direct acquisitions of own shares due to said acquisitions exceeding 1% of voting rights:</p> <ul style="list-style-type: none"> - notices of direct acquisitions of a total of 65,843,749 shares (1.031%) were provided on 11 February 2015; and - notices of direct acquisitions of a total of 56,603,780 shares (0.893%) were provided on 4 January 2016.

A.9. Describe the terms and conditions and the duration of the powers currently in force given by the shareholders to the board of directors in order to issue, repurchase, or transfer own shares of the company:

<p>The shareholders acting at the General Shareholders' Meeting held on 28 March 2014 resolved to expressly authorise the Board of Directors, with the power of substitution, pursuant to the Companies Act (<i>Ley de Sociedades de Capital</i>), to carry out the derivative acquisition of the shares of Iberdrola on the following terms:</p> <ul style="list-style-type: none"> a) Purchases may be made by Iberdrola directly, or indirectly through its subsidiaries. Subsidiaries carrying out regulated activities are excluded pursuant to the provisions of the Electricity Industry Act (<i>Ley del Sector Eléctrico</i>) and the Hydrocarbons Act (<i>Ley de Hidrocarburos</i>). b) Purchases shall be made by means of a purchase and sale agreement, a swap arrangement, or any other transaction permitted by law. c) Purchases may be made up to the maximum sum permitted by law (i.e. 10% of the share capital). d) Purchases may not be made at a higher price than that quoted on the Stock Exchange or at a price lower than the share's nominal value. e) The authorisation was granted for a period not to exceed five years as from the approval of the resolution. f) The acquiring company shall establish a restricted reserve in shareholders' equity equal to the amount of the shares of the controlling company recorded under assets. Such reserve shall be maintained for so long as the shares are not transferred or retired, in compliance with the provisions of the Companies Act. <p>The shares, if any, purchased as a result of the aforementioned authorisation could be used for either transfer or retirement or could be applied to the remuneration systems provided for in the Companies Act;</p>

added to the foregoing alternatives was the possible development of programmes fostering the acquisition of interests in the Company such as, for example, dividend reinvestment plans, loyalty bonds, or similar instruments.

A.9.bis Estimated free-float:

	%
Estimated free-float:	79.54

A.10. State whether there are any restrictions on the transfer of securities and/or any restrictions on voting rights. In particular, disclose the existence of any restrictions that might hinder a takeover of the company through the acquisition of its shares in the market.

Yes ☒ No ☐

Description of restrictions
<p>Those having an interest equal to or greater than 3% of the capital or voting rights of two or more companies that have the status of Principal Operator in certain markets or sectors (including the generation and supply of electricity) may not exercise rights in excess of such percentage in more than one entity.</p> <p>Article 29.2 of the By-Laws provides that no shareholder may cast a number of votes greater than those corresponding to shares representing 10% of the share capital.</p> <p>According to article 28, a shareholder may not exercise their right to vote at the General Shareholders' Meeting if it deals with a resolution intended to: (a) relieve the shareholder of an obligation or grant the shareholder a right; (b) provide the shareholder with any kind of financial assistance, including the provision of guarantees in favour thereof; (c) release the shareholder, if a director, from obligations arising from the duty of loyalty established in accordance with the provisions of law.</p> <p>Article 50 of the By-Laws provides that the by-law restrictions against the exercise of voting rights by shareholders affected by conflicts established in article 28 above and the limitation on the maximum number of votes that may be cast by a single shareholder contained in sections 2 and 4 of article 29 above shall be deprived of effect upon the occurrence of certain circumstances in the case of a takeover bid:</p> <p>Furthermore, section 527 of the restated text of the Companies Act provides that at listed companies (<i>sociedades anónimas cotizadas</i>), the by-law provisions that directly or indirectly set, as a general rule, the maximum number of votes that may be cast by the same shareholder, by the companies belonging to the same group, or by those acting in concert with the foregoing shall be of no effect when, following a takeover bid, the bidder has reached a percentage that is equal to or greater than 70% of the voting share capital, unless such bidder is not subject to equivalent breakthrough measures or has not adopted them.</p> <p>Pursuant to U.S. law, due to the business carried out by Avangrid, Inc. (a company belonging to the Iberdrola Group) in that country, the acquisition of an interest giving rise to the holding of 10% or more of the share capital of Iberdrola will be subject to the prior approval of certain U.S. regulatory authorities.</p>

A.11. State whether the shareholders acting at a general shareholders' meeting have approved the adoption of breakthrough measures in the event of a takeover bid pursuant to the provisions of Law 6/2007:

Yes ☐ No ☒

If applicable, explain the approved measures and the terms on which the restrictions will become ineffective.

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A.12. State whether the company has issued securities that are not traded on a regulated market within the European Community.

Yes ☐ No ☒

If applicable, specify the different classes of shares, if any, and the rights and obligations attaching to each class of shares.

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B. GENERAL SHAREHOLDERS' MEETING

B.1. State and, if applicable, describe whether there are differences with the minimum requirements set out in the Companies Act in connection with the quorum needed to hold a valid general shareholders' meeting.

Yes ☒ No ☐

	Quorum % different from that established in section 193 of the Companies Act generally	Quorum % different from that established in section 194 of the Companies Act for the special circumstances described in section 194.
Required quorum upon 1st call	-	66.67
Required quorum upon 2nd call	-	60.00

Description of differences
As the only exception to the rules provided for in the Companies Act, article 21.2 of the By-Laws increases the quorum required to hold a valid meeting "in order to adopt resolutions regarding a change in the object of the Company, transformation, total split-off, dissolution of the Company, and the amendment of this section 2", in which case "shareholders representing two-thirds (2/3) of subscribed share capital with voting rights must be in attendance at the first call to the General Shareholders' Meeting, and shareholders representing sixty (60%) per cent of such share capital must be in attendance at the second call".

B.2. State and, if applicable, describe any differences from the rules set out in the Companies Act for the adoption of corporate resolutions:

Yes ☒ No ☐

Describe how they differ from the rules provided by the Companies Act.

	Qualified majority other than that established in section 201.2 of the Companies Act for the cases set forth in section 194.1 of the Companies Act	Other instances in which a qualified majority is required
% established by the entity for the adoption of resolutions	75.00%	75.00%

Describe the differences
Article 52 of the By-Laws provides that all resolutions intended to eliminate or amend the provisions contained in title IV (breakthrough of restrictions in the event of takeover bids), in article 28 (conflicts of interest), and in sections 2 to 4 of article 29 (limitation upon the maximum number of votes that a shareholder may cast), shall require the affirmative vote of three-fourths (3/4) of the share capital present in person or by proxy at a General Shareholders' Meeting.

- B.3. State the rules applicable to the amendment of the by-laws of the company. In particular, disclose the majorities provided for amending the by-laws, and any rules provided for the protection of the rights of the shareholders in the amendment of the by-laws.**

In addition to the provisions of section 285 *et seq.* of the Companies Act, the *By-Laws* of Iberdrola contain articles 21.2 (qualified quorum) and 52 (qualified majority) mentioned in sections B.1 and B.2 above.

- B.4 State the data on attendance at the general shareholders' meetings held during the financial year referred to in this report and those of the prior financial year:**

Attendance data					
Date of general shareholders Meeting	% of shareholders present in person	% of shareholders represented by proxy	% absentee voting		Total
			Electronic voting	Other	
28/03/2014	5.99	76.14	0.06	0.05	82.24
27/03/2015	21.45	57.04	0.11	0.05	78.65

- B.5. State whether there are any by-law restrictions requiring a minimum number of shares to attend the general shareholders' meeting.**

Yes ☒ No ☐

Number of shares required to attend the general shareholders' meeting	1
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- B.6. Section deleted.**

- B.7. State the address and method for accessing the company's website to access information regarding corporate governance and other information regarding general shareholders' meetings that must be made available to the shareholders through the company's website.**

www.iberdrola.com > Information for Shareholders and Investors > Corporate Governance.

Information regarding past general shareholders' meetings of the Company can be accessed at the same address: www.iberdrola.com > Information for Shareholders and Investors > Corporate Governance > General Shareholders' Meeting.

C. STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of directors

C.1.1. Maximum and minimum number of directors set forth in the by-laws:

Maximum number of directors	14
Minimum number of directors	9

C.1.2. Complete the following table identifying the members of the board:

Individual or company name of the director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	-	EXECUTIVE	CHAIRMAN/CEO	21/05/2001	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR XABIER DE IRALA ESTÉVEZ	-	PROPRIETARY	DIRECTOR	20/04/2005	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MR ÍÑIGO VÍCTOR DE ORIOL IBARRA	-	OTHER EXTERNAL	DIRECTOR	26/04/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS INÉS MACHO STADLER	-	INDEPENDENT	DIRECTOR	07/06/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MR BRAULIO MEDEL CÁMARA	-	INDEPENDENT	DIRECTOR	07/06/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS SAMANTHA BARBER	-	INDEPENDENT	DIRECTOR	31/07/2008	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS MARÍA HELENA ANTOLÍN RAYBAUD	-	INDEPENDENT	DIRECTOR	26/03/2010	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR SANTIAGO MARTÍNEZ LAGE	-	INDEPENDENT	DIRECTOR	26/03/2010	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	-	OTHER EXTERNAL	DIRECTOR	24/04/2012	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR ÁNGEL JESÚS ACEBES PANIAGUA	-	INDEPENDENT	DIRECTOR	24/04/2012	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MS GEORGINA KESSEL MARTÍNEZ	-	INDEPENDENT	DIRECTOR	23/04/2013	28/03/2014	GENERAL SHAREHOLDERS' MEETING
MS DENISE MARY HOLT	-	INDEPENDENT	DIRECTOR	24/06/2014	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR JOSÉ WALFREDO FERNÁNDEZ	-	INDEPENDENT	DIRECTOR	17/02/2015	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR MANUEL	-	OTHER	DIRECTOR	17/02/2015	27/03/2015	GENERAL

MOREU MUNAIZ		EXTERNAL				SHAREHOLDERS' MEETING
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Total number of directors	14
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State the vacancies on the board of directors during the reporting period:

Individual or company name of director	Class of director at time of vacancy	Date of vacancy
MR JULIO DE MIGUEL AYNAT	Independent director	17/02/2015
MR SEBASTIÁN BATTANER ARIAS	Independent director	17/02/2015

C.1.3. Complete the following tables about the members of the board and each member's status:

EXECUTIVE DIRECTORS

Individual or company name of director	Position within the company's structure
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	Chairman & CEO

Total number of executive directors	1
Total % of the board	7.14

EXTERNAL PROPRIETARY DIRECTORS

Individual or company name of director	Individual or company name of the significant shareholder represented by the director or that has proposed the director's appointment
MR XABIER DE IRLA ESTÉVEZ	Kutxabank, S.A.

Total number of proprietary directors	1
Total % of the board	7.14

EXTERNAL INDEPENDENT DIRECTORS

Individual or company name of director	Profile
MS INÉS MACHO STADLER	Bilbao, 1959 Background and professional experience Other activities: professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona, professor of the Barcelona Graduate School of Economics, member of the Council of the

	<p>French Economic Observatory (<i>Observatoire Français des Conjonctures Économiques</i>) (OFCE), and honorary member of the European Economic Association and of the Spanish Economic Association (<i>Asociación Española de Economía</i>).</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 7 June 2006, 29 March 2007, and 22 June 2012.</p> <p>Academic training</p> <p>Degree in Economics from Universidad del País Vasco, Master in Economics from l'École des Hautes Études en Sciences Sociales, and Doctor in Economics (Ph.D.) from the same academic institution and from l'École Nationale de la Statistique et de l'Administration Économique (ENSAE) (Paris, France).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a member of the International Scientific Advisory Committee of the Basque Centre for Climate Change (bc3) and has served as chair of the Scientific Committee of the 2011 Conference of the Spanish Association for Energy Economics (<i>Asociación Española para la Economía Energética</i>).</p> <p>Noteworthy experience in other industries</p> <p>She has been president of the Spanish Economic Association, coordinator of the National Agency for Quality Evaluation and Accreditation (<i>Agencia Nacional de Evaluación y Prospectiva</i>), and representative at the European Science Foundation, as well as a member-elect of the Council of the European Economic Association and a member of the Executive Committee of the European Association for Research in Industrial Economics. She has been a member of the Advisory Board of the Research Service of Caja de Ahorros y Pensiones de Barcelona, "la Caixa".</p> <p>She has taught at universities in Germany, Belgium, Brazil, Denmark, France, Portugal, and Spain.</p>
MR BRAULIO MEDEL CÁMARA	<p>Marchena, Seville, 1947</p> <p>Background and professional experience</p> <p>Other activities: executive chair of Unicaja Banco, S.A. and chair of Fundación Bancaria Unicaja, Hidralia, S.A., Alteria Corporación Unicaja, and Federación de Cajas de Ahorros de Andalucía, vice-chair of Confederación Española de Cajas de Ahorros (CECA), and a member of the board of directors of the listed company Acerinox, S.A. and of Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. and Professor of Public Finance at Universidad de Málaga.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 7 June 2006, 29 March 2007, and 22 June 2012.</p> <p>Academic training</p> <p>Degree in Economics and Business Administration from Universidad Complutense de Madrid and Doctorate in Economics and Business Administration from Universidad de Málaga.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been a member of the board of Compañía Sevillana de Electricidad, S.A., Retevisión and of Abertis Infraestructuras, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been chair of Ahorro Corporación, S.A. and a member of the board of Centros Comerciales Carrefour, S.A., and has been a member of the governance bodies of the World Savings and Retail Banking Institute and of the European Savings and Retail Banking Group, of which he was vice-chair.</p> <p>He has also served as Deputy Minister for Economy and Finance of the Autonomous Government of Andalusia and as chair of Consejo Andaluz de Colegios de Economistas. He has also been a member of the board of trustees of the following foundations: Tres Culturas del Mediterráneo, El</p>

	Legado Andalusi, Doñana 21 and CIEDES (Centro de Investigaciones Estratégicas y Desarrollo Económico y Social).
MS SAMANTHA BARBER	<p>Dunfermline, Fife, Scotland, 1969</p> <p>Background and professional experience</p> <p>Other activities: chair of Scottish Ensemble, vice-chair of Scotland's 2020 Climate Group, member of the Advisory Board for Breakthrough Breast Cancer, of the GlobalScot network, and of the Advisory Board for the Imperial College London MBA, and performs advisory and business coaching work.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 31 July 2008, 20 March 2009, and 22 June 2012.</p> <p>Academic training</p> <p>Bachelor of Arts in Applied Foreign Languages and European Politics from the University of Northumbria, Newcastle (England, United Kingdom) and Post-Graduate degree in EU Law from the University of Nancy (France).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a member of the Advisory Council of Scottish Power following the integration of the Scottish company into the Iberdrola Group.</p> <p>Noteworthy experience in other industries</p> <p>She has been a consultant within the European Parliament, where she provided support to the Economic and Monetary Affairs Committee, a board member of Business for Scotland, and the chief executive of Scottish Business in the Community.</p> <p>She has also been a member of the Board of Directors of Right Track Scotland, an organisation dedicated to advancing educational, training, and employment opportunities for youths at risk of social exclusion.</p> <p>She was chosen as one of the "Top 100 Women to Watch" according to the FTSE list and Cranfield University, and was a finalist and earned second place in the annual Director of the Year Awards 2012 of IoD Scotland NED.</p>
MS MARÍA HELENA ANTOLÍN RAYBAUD	<p>Toulon, France, 1966</p> <p>Background and professional experience</p> <p>Other activities: vice-chair of the Board of Directors and member of the Management Committee of Grupo Antolin Irausa, S.A., vice president of Excellence in Management Club (<i>Club de Excelencia en la Gestión</i>), member of the Governing Board of the Spanish Association of Automotive Equipment and Component Manufacturers (<i>Asociación Española de Fabricantes de Equipos y Componentes para Automoción</i>) (Sernauto), and a board member of France Foreign Trade (<i>Comercio Exterior de Francia</i>), Spain section.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 26 March 2010 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in International Business and Business Administration from Eckerd College, St. Petersburg, Florida (United States of America), and Master in Business Administration from Anglia University, Cambridge (United Kingdom) and from Escuela Politécnica de Valencia (Spain).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has served as an external independent director of Iberdrola Renovables, S.A. and a member of its Related-Party Transactions Committee.</p> <p>She has been in charge of the corporate Industrial and Strategy Divisions of Grupo Antolin Irausa, S.A., where she has also been a director of Human Resources and the head of Total Quality for the Group.</p>
MR SANTIAGO MARTÍNEZ LAGE	Betanzos, A Coruña, 1946

	<p>Background and professional experience</p> <p>Other activities: chair of the law firm Martínez Lage, Allendesalazar & Brokelmann, secretary of the board of directors of SKF Española, S.A., vice-chair of the Spanish Association for the Study of European Law (<i>Asociación Española para el Estudio del Derecho Europeo</i>) and the European Law Section of the Royal Academy of Jurisprudence and Legislation (<i>Real Academia de Jurisprudencia y Legislación</i>), a trustee of Fundación España México, and a member of the Arbitrator Appointment Committee of the Spanish Court of Arbitration.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 26 March 2010 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in Law from Universidad Complutense de Madrid. He continued his studies at the Escuela de Funcionarios Internacionales de Madrid, the Escuela Diplomática, The Hague Academy of International Law, the "Europa Instituut" in Amsterdam (The Netherlands), and the INSEAD in Fontainebleau (France). Career diplomat on leave.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has served as an external independent director of Iberdrola Renovables, S.A. and chair of its Appointments and Remuneration Committee, and secretary of the boards of directors of Fujitsu Services, S.A. and Telettra España, S.A.</p> <p>He has also been a member of the Appointments and Remuneration Committee and of the Audit and Risk Supervision Committee of Iberdrola, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been secretary of the Board of Directors of Empresa Nacional Elcano de la Marina Mercante, S.A. and founder and director of the Gaceta Jurídica de la Unión Europea y de la Competencia.</p> <p>He has also been general secretary of the International Federation for European Law (<i>Fédération Internationale pour le Droit Européen</i>) (FIDE) and member of the managing committee of Círculo de Empresarios.</p> <p>As a diplomat, he was posted to Algiers (Algeria), Libreville (Gabon), Sofia (Bulgaria), and Paris (France), and has also served at the Office of the Secretary of State for Relations with the European Community.</p>
<p>MR ÁNGEL JESÚS ACEBES PANIAGUA</p>	<p>Ávila, 1958</p> <p>Background and professional experience</p> <p>Other activities: chairman and founding partner of Grupo MA Abogados Estudio Jurídico, S.L., sole director and professional partner of Doble A Estudios y Análisis, S.L.P., member of the Advisory Board of Wolters Kluwer España, and a trustee of Fundación para el Análisis y Estudios Sociales (FAES) and of Fundación Universitaria de Ávila, UCAV. He gives courses, workshops, and lectures on various matters relating to law, politics, and social matters.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 24 April 2012 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in Law from Universidad de Salamanca.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>As a lawyer, he has advised companies in the energy and technological/industrial sectors, among others. He also has significant knowledge of the regulatory area due to his work as a member of the Council of Ministers of the Government of Spain, a senator, and a national deputy.</p> <p>Noteworthy experience in other industries</p>

	<p>He has served on the board of Caja Madrid Cibeles, S.A., which manages the investments of Grupo Caja Madrid in other companies with activities in the financial and insurance sectors (like Mapfre Internacional, S.A.) as well as the retail banking sector outside of Spain. After the public listing of Bankia, S.A., he was a member of the board of Banco Financiero y de Ahorros, S.A. ("BFA"), chairing its Audit and Compliance Committee.</p> <p>In the institutional arena, he has been Minister for Public Administrations, Minister of Justice, and Minister of the Interior of the Spanish Government.</p>
MS GEORGINA KESSEL MARTÍNEZ	<p>Mexico, 1950</p> <p>Background and professional experience</p> <p>Other activities: independent director and chair of the Audit Committee of Grupo Financiero Scotiabank Inverlat, and a partner of Spectron E&I.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 23 April 2013 and 28 March 2014.</p> <p>Academic training</p> <p>Holder of a degree in Economics from Instituto Autónomo de México and of a Master's and Doctor's degree in Economics from Columbia University (New York).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been chair of the Energy Regulatory Commission (<i>Comisión Reguladora de Energía</i>) and Energy Secretary of the Government of Mexico.</p> <p>She has also been chair of the Board of Directors of Pemex (Petróleos Mexicanos) and of the Board of Directors of the Federal Electricity Commission (<i>Comisión Federal de Electricidad</i>) (CFE).</p> <p>She has participated in the Energy Council of the World Economic Forum and in the United Nations Organization Secretary General's advisory group (Sustainable Energy for All).</p> <p>Noteworthy experience in other industries</p> <p>She has been an adviser to the chair of the Federal Competition Commission (<i>Comisión Federal de Competencia</i>), head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit (<i>Unidad de Inversiones y Desincorporación de Entidades Paraestatales</i>) of the Office of the Secretary of Finance and Public Credit of Mexico, general manager of the National Mint of Mexico (<i>Casa de Moneda de México</i>), member of the boards of Nacional Financiera (Nafinsa) and of Banco Nacional de Comercio Exterior (Bancomext), and general manager of Banco Nacional de Obras y Servicios Públicos.</p> <p>In the academic field, she has been a professor in the Economics Department of Instituto Tecnológico Autónomo de México, deputy chair of the course towards a Degree in Economics, and chair of the Alumni Association. She was also holder of the Quintana Chair for Research in International Trade and is the author of many papers and specialised articles.</p>
MS DENISE MARY HOLT	<p>Vienna, Austria, 1949</p> <p>Background and professional experience</p> <p>Other activities: independent director and member of the Risk Committee of HSBC Bank plc., chair and independent director of M&S Financial Services Ltd., and independent director and member of the Quality and Safety and Compensation Committees of the Board of Directors of Nuffield Health, member of the governing board of the University of Bristol, and chair of the Appointments Committee of the British Alzheimer's Society.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 24 June 2014 and 27 March 2015.</p> <p>Academic training</p> <p>Degrees in Spanish Philology, French Philology, and Political Sciences from</p>

	<p>the University of Bristol and Doctor of Laws from the same university (England, United Kingdom).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a director of Scottish Power Renewable Energy Ltd. and of Scottish Power Energy Networks Holdings Ltd.</p> <p>Noteworthy experience in other industries</p> <p>In her diplomatic career, she has been first secretary of the Embassy of the United Kingdom in Brazil, director of Human Resources, of Migration and of the Overseas Territories at the UK Foreign and Commonwealth Office, and ambassador of the United Kingdom to Mexico, Spain, and Andorra. For her contribution to the British diplomatic service, she was elevated to Dame Commander of the Order of St Michael and St George (DCMG).</p> <p>She has also served as chair of the Anglo-Spanish Society and of the Institute of Latin American Studies at the University of London.</p>
MR JOSÉ WALFREDO FERNÁNDEZ	<p>Cienfuegos, Cuba, 1955</p> <p>Background and professional experience</p> <p>Other activities: partner of Gibson, Dunn & Crutcher, member of the board of directors of the Council of the Americas and the Center for American Progress.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 17 February 2015 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in History from Dartmouth College (New Hampshire, United States of America), and Juris Doctor from Columbia University (New York, United States of America).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been Assistant Secretary of State for Economic, Energy and Business Affairs for the United States of America.</p> <p>He has also been an independent director of Iberdrola USA, Inc.</p> <p>Noteworthy experience in other industries</p> <p>He has served on the boards of Dartmouth College, NPR Station WBGO-FM, the Middle East Institute, and Ballet Hispanico of New York and of non-governmental institutions such as Acción Internacional. He has also been the State Department's representative on the Committee on Foreign Investment in the United States.</p> <p>In addition, he was named one of the "World's Leading Lawyers" by Chambers Global for his M&A work, an "Expert" by the International Financial Law Review, one of the "World's Leading Privatization Lawyers" by Euromoney, and "Embajador de la Marca España" (Ambassador of the Spain Brand).</p>

Total number of independent directors	9
Total % of the board	64.29

State whether any director classified as independent receives from the company or its group any amount or benefit for items other than director remuneration, or maintains or has maintained during the last financial year a business relationship with the company or with any company of its group, whether in the director's own name or as a significant shareholder, director, or senior officer of an entity that maintains or has maintained such relationship. If applicable, include a reasoned statement of the director regarding the reasons for which it is believed that such director can carry out the duties thereof as an independent director.

Not applicable.

OTHER EXTERNAL DIRECTORS

Identify the other external directors and describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company, its management, or its shareholders:

Individual or company name of director	Reasons	Company, officer, or shareholder with which the director has ties
MR IÑIGO VÍCTOR DE ORIOL IBARRA	A company tied to the director was awarded a contract with a company of the Iberdrola Group in 2014.	IBERDROLA
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	Mr San Pedro Guerenabarrena held the position of chief operating officer (<i>consejero-director general</i>) until 24 June 2014, the date on which he voluntarily ceased executive duties, but continues to serve as a member of the Board of Directors and of the Executive Committee.	IBERDROLA
MR MANUEL MOREU MUNAIZ	Companies tied to the director maintained commercial relations with the Iberdrola Group during 2015, as reflected in section D.3 of this Report.	IBERDROLA

Total number of other external directors	3
Total % of the board	21.43

State the changes, if any, in the class of each director during the period:

Individual or company name of director	Date of change	Former class	Current class
MR IÑIGO VÍCTOR DE ORIOL IBARRA	22/06/2015	Independent director	Other external director

C.1.4. Complete the following table with information regarding the number of female directors for the last 4 financial years, as well as the status of such directors:

	Number of female directors				% of total directors of each class			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	-	-	-	-	-	-	-	-
Proprietary	-	-	-	-	-	-	-	-
Independent	5	5	4	3	55.55	55.55	40	33.33

Other external	-	-	-	-	-	-	-	-
Total	5	5	4	3	35.71	35.71	28.57	21.42

C.1.5. Explain any measures adopted to include on the board of directors a number of women that allows for a balanced presence of men and women.

Explanation of measures
<p>The Company's Corporate Governance System, and particularly the <i>Director Candidate Selection Policy</i>, entrusts the Appointments Committee with the duty to ensure that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, that such procedures do not hinder the selection of female directors. The goals thereof include ensuring that female directors continue to account for at least 30% of the Board of Directors by 2020.</p> <p>Iberdrola has consistently increased the number of female directors on its Board of Directors since 2006.</p> <p>Five of the fourteen members of the Board of Directors are currently women.</p> <p>On 7 June 2006, the Board of Directors appointed Ms Inés Macho Stadler as independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 29 March 2007, where the shareholders also approved her re-election for a five-year period. It should also be noted that on 22 September 2009, Ms Inés Macho Stadler was appointed as lead independent director (<i>consejera coordinadora</i>), a position governed by the provisions of article 45 of the By-Laws and article 21 of the Regulations of the Board of Directors.</p> <p>Thereafter, at its meeting of 31 July 2008, the Board of Directors resolved to appoint Ms Samantha Barber as an independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 20 March 2009. Ms Barber has also chaired the Corporate Social Responsibility Committee since 24 April 2012, replacing Mr. Braulio Medel Cámara.</p> <p>The shareholders at the General Shareholders' Meeting held on 26 March 2010 approved the proposed appointment of Ms María Helena Antolín Raybaud, with the classification of external independent director.</p> <p>On 23 April 2013, Iberdrola's Board of Directors approved the interim appointment of Ms Georgina Kessel Martínez as an external independent director, which was subsequently ratified by the shareholders at the General Shareholders' Meeting held on 28 March 2014. Furthermore, Ms Kessel Martínez was appointed chair of the Audit and Risk Supervision Committee on 17 February 2015, replacing Mr Julio de Miguel Aynat.</p> <p>On 24 June 2014, the Board of Directors approved the interim appointment of Ms Denise Mary Holt as an external independent director. This appointment was ratified by the shareholders at the General Shareholders' Meeting held on 27 March 2015.</p> <p>Finally, the Appointments and Remuneration Committee was split into two separate committees on 27 March 2015. The appointment of Ms María Helena Antolín Raybaud and of Ms Inés Macho Stadler as chairs of the Appointments Committee and the Remuneration Committee, respectively, was approved for these purposes.</p> <p>As a result of the foregoing, all consultative committees of the Board of Directors are chaired by women.</p>

C.1.6. Explain any measures approved by the appointments committee in order for selection procedures to be free of any implied bias that hinders the selection of female directors, and in order for the company to deliberately search for women who meet the professional profile that is sought and include them among potential candidates:

Explanation of measures
<p>Iberdrola approved a new Director Candidate Selection Policy on 25 March 2015 (updated on 15 December 2015) to ensure that the proposed appointments of directors are based on a prior analysis of</p>

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 true professionals, whose professional conduct and background are aligned with the principles set forth in the Directors' Code of Ethics and with the mission, vision, and values of the Group. Efforts should also be made to ensure that there is an appropriate balance on the Board of Directors that enriches decision-making and the contribution of plural viewpoints to the discussion of matters within its purview.

In turn, the Board has entrusted to the Appointments Committee the responsibility of ensuring that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, from any bias that may hinder the selection of female directors. This is expressly provided by articles 27.6.c) of the Regulations of the Board of Directors and 3.e) of the Regulations of the Appointments Committee.

If there are few or no female directors despite any measures adopted, describe the reasons for such result:

Explanation of reasons
Not applicable.

C.1.6.bis Explain the conclusions of the appointments committee regarding verification of compliance with the director selection policy. Particularly explain how said policy is promoting the goal that the number of female directors represents at least 30% of all members of the board of directors by 2020.

The Policy conforms to the most stringent domestic and international corporate governance practices regarding appointments, seeking diversity of knowledge, experience, origin, nationality, and gender within the Board of Directors. The Policy specifies the commitment to avoid implicit bias that hinders the selection of female directors, who currently represent more than thirty per cent of the members of the Board of Directors. Along these lines, the Policy includes a commitment that the number of female directors will continue to account for at least said thirty per cent of the total number of members of the Board of Directors by the year 2020. Finally, the Policy promotes the inclusion within the Board of candidates with experience on boards of directors of subsidiaries of the Group, with the contribution of value contributed by their knowledge of the Company's business through such subsidiaries.

C.1.7. Explain the form of representation on the board of shareholders with significant holdings.

Mr Xabier de Irala Estévez has been a director since 24 April 2005 at the proposal of the significant shareholder Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitexea - BBK (now Kutxabank, S.A.) and was last re-elected by the shareholders at the General Shareholders' Meeting held on 22 June 2012.

C.1.8. Explain, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 3% of share capital.

Individual or company name of the shareholder	Reason

State whether there has been no answer to formal petitions for presence on the board received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been

appointed. If so, describe the reasons why such petitions have not been answered:

Yes ☐ No ☒

Individual or company name of the shareholder	Explanation

C.1.9. State whether any director has withdrawn from the position as such before the expiration of the director's term of office, whether the director has given reasons to the board and by what means, and in the event that the director gave reasons in writing, describe at least the reasons given thereby:

Name of director	Reason for withdrawal
MR JULIO DE MIGUEL AYNAT	Personal reasons.
MR SEBASTIÁN BATTANER ARIAS	Personal reasons.

C.1.10. State any powers delegated to the CEO(s):

Individual or company name of director	Brief description
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	The chairman & chief executive officer, as an individual decision-making body, has all the powers that may be delegated under the law and the <i>By-Laws</i> .

C.1.11. Identify any members of the board who are directors or officers of companies within the listed company's group:

Individual or company name of director	Name of entity within the group	Position	Do he/she have executive duties?
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	SCOTTISH POWER, LTD.	Chairman	NO
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	AVANGRID, INC.	Chairman	NO
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	IBERDROLA ESPAÑA, S.A.	Chairman	NO

C.1.12. Identify the directors of your company, if any, who are members of the board of directors of other companies listed on official stock exchanges other than those of your group, which have been reported to your company:

Individual or company name of the director	Name of listed company	Position
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MR BRAULIO MEDEL CÁMARA	ACERINOX, S.A.	Director
MS GEORGINA KESSEL MARTÍNEZ	GRUPO FINANCIERO SCOTIABANK INVERLAT, S.A. DE C.V.	Director
MS DENISE MARY HOLT	HSBC BANK PLC.	Director
MR MANUEL MOREU MUNAIZ	TUBACEX, S.A.	Director

C.1.13. State and, if applicable, explain whether the regulations of the board have established rules regarding the maximum number of boards of which its directors may be members:

Yes ☒ No ☐

Explanation of rules
Pursuant to the provisions of article 13.b) of the Regulations of the Board of Directors, individuals or legal entities serving as directors in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges, may not be appointed as directors. Positions within holding companies are excluded from the calculation. Furthermore, companies belonging to the same group shall be deemed to be a single company.

C.1.14. Section deleted.

C.1.15. State the overall remuneration of the board of directors:

Remuneration of the board of directors (thousands of euros)	14,730
Amount of pension rights accumulated by the directors (thousands of euros)	0
Amount of pension rights accumulated by former directors (thousands of euros)	0

C.1.16. Identify the members of the company's senior management who are not executive directors and state the total remuneration accruing to them during the financial year:

Individual or company name	Position(s)
MR FRANCISCO MARTÍNEZ CÓRCOLES	Business CEO of the Group
MR JOSÉ SAINZ ARMADA	CFO
MR JULIÁN MARTÍNEZ-SIMANCAS SÁNCHEZ	General secretary and secretary of the Board of Directors
MR LUIS JAVIER ARANAZ ZUZA	Director of Internal Audit
MR PEDRO AZAGRA BLÁZQUEZ	Director of Corporate Development
MR JUAN CARLOS REBOLLO LICEAGA	Director of administration and control

Total senior management remuneration (in thousands of euros)	11,874
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C.1.17. State the identity of the members of the board, if any, who are also members of the board of directors of significant shareholders and/or in entities of their group:

Individual or company name of director	Company name of the significant shareholder	Position
MR XABIER DE IRLA ESTÉVEZ	CAJASUR BANCO, S.A.	Director

Describe any significant relationships, other than the ones contemplated in the prior item, of the members of the board of directors linking them to significant shareholders and/or companies within their group:

Individual or company name of related director	Individual or company name of related significant shareholder	Description of relationship

C.1.18. State whether the regulations of the board have been amended during the financial year:

Yes ☒ No ☐

Description of amendments
<p>On 25 March, the Board of Directors of the Company approved an amendment of the Regulations of the Board of Directors, the new provisions of which were as follows:</p> <ul style="list-style-type: none"> - After the Appointments and Remuneration Committee was split into two separate committees, the duties of each were defined. - There was an update of the disqualification relating to a director not being able to hold the position of director in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges. - In the case of a director who ceases to hold office due to resignation or other reasons prior to the end of the period for which the director was appointed, the director shall explain the reasons for their withdrawal in a letter. - The lead independent director shall chair the meetings of the Board of Directors in the absence of the chairman and of the vice-chairs. - As regards the duties of the secretary of the Board of Directors, the secretary must expressly state for the record his opposition to resolutions that are contrary to law, to the Corporate Governance System, or to the corporate interest. - As regards the conduct of meetings of the Board of Directors, if directors or the secretary state their concern regarding a proposal or, in the case of directors, regarding the status of the Company, and such concerns are not resolved at the meeting of the Board of Directors, a description thereof shall be reflected in the minutes at the request of those stating their concerns. In particular, if significant or repeated decisions are made on matters with respect to which a director has made serious reservations and such director tenders their resignation, the director must explain the reasons for their resignation by letter. - It is provided that the Board of Directors shall meet with the auditors at least once per year in order to receive information regarding the work performed and regarding the accounting status and risks of the Company.

According to the amendment approved on 21 July, the structure of the corporate website is determined by the provisions of the General Corporate Governance Policy and the other internal rules of the Company.

On 20 October 2015, the Board of Directors approved the following changes:

- The powers of the Board of Directors were updated, adding the duty to define the mission, vision, and values of the Group.
- New references to the corporate structure of the Group were introduced as regards the country subholding companies and head of business companies of the Group.
- Modifications were also made to the powers of the Corporate Social Responsibility Committee.

Finally, the *Regulations of the Board of Directors* were amended on 15 December 2015 to make the following changes:

- Amendments were made arising from the admission to trading of the shares of Avangrid, Inc. on the New York Stock Exchange. In particular, specific statements were inserted regarding the strengthened autonomy of the listed country subholding companies in the articles relating to the powers of the Board of Directors and of the Remuneration Committee.

C.1.19. State the procedures for the selection, appointment, re-election, evaluation, and removal of directors. Describe the competent bodies, the procedures to be followed, and the criteria applied in each of such procedures.

1. APPOINTMENT AND RE-ELECTION OF DIRECTORS

The appointment, re-election, and removal of directors is within the purview of the shareholders at the General Shareholders' Meeting.

Vacancies that occur may be filled by the Board of Directors on an interim basis until the next General Shareholders' Meeting.

The Appointments Committee must advise the Board of Directors regarding the most appropriate configuration thereof and of its committees as regards size and equilibrium among the various classes of directors existing at any time. This is in any event based on the conditions that candidates for director must meet pursuant to the Director Candidate Selection Policy.

The following may not be appointed as directors or as individuals representing a corporate director:

- a) Domestic or foreign companies competing with the Company in the energy industry or other industries, or the directors or senior officers thereof, or such persons, if any, as are proposed by them in their capacity as shareholders.
- b) Individuals or legal entities serving as directors in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges.
- c) For purposes of the provisions of the preceding paragraph, positions within holding companies are excluded from the calculation. Furthermore, companies belonging to the same group shall be deemed to be a single company.
- d) Persons who, during the two years prior to their appointment, have occupied high-level positions in Spanish government administrations that are incompatible with the simultaneous performance of the duties of a director of a listed company under Spanish national or autonomous community law, or positions of responsibility with entities regulating the energy industry, the securities markets, or other industries in which the Group operates.

Individuals or legal entities that are under any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the Group.

The Board of Directors and the Appointments Committee, within the scope of their powers, shall endeavour to ensure that the candidates proposed are respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability, and commitment to their duties.

It falls upon the Appointments Committee to propose the independent directors, as well as to report upon the proposals relating to the other classes of directors.

If the Board of Directors deviates from the proposals and reports of the Appointments Committee, it shall

give reasons for so acting and shall record such reasons in the minutes.

2. EVALUATION OF DIRECTORS

The Board of Directors shall annually evaluate: (i) its operation and the quality of its work; (ii) the performance of their duties by the chairman of the Board of Directors and by the chief executive officer, based on the report submitted thereto by the Appointments Committee; and (iii) the operation of its committees, in view of the report submitted thereto by such committees. For such purpose, the chairman of the Board of Directors shall organise and coordinate the aforementioned evaluation process with the chair of each committee. The following section reports on the evaluation process during financial year 2015.

3. REMOVAL OF DIRECTORS

Directors “shall serve in their position for a term of four (4) years, so long as the shareholders acting at the General Shareholders’ Meeting do not resolve to remove them and they do not resign from their position”.

The Appointments Committee shall inform the Board of Directors regarding proposed removals due to breach of the duties inherent to the position of director or due to a director becoming affected by supervening circumstances of mandatory resignation or withdrawal. In addition, the Committee may propose the removal of directors in the event of disqualification, structural conflict of interest, or any other reason for resignation or withdrawal, pursuant to law or the Company’s Corporate Governance System.

The Board of Directors may propose the removal of an independent director before the passage of the period provided for in the By-Laws only upon sufficient grounds, evaluated by the Board of Directors after a report from the Appointments Committee, or as a consequence of takeover bids, mergers, or other similar corporate transactions resulting in a significant change in the structure of the Company’s share capital, as recommended by the Good Governance Code of Listed Companies.

C.1.20 Explain the extent to which the self-evaluation of the board has given rise to significant changes in its internal organisation and regarding the procedures applicable to its activities:

Description of amendments
<p>The annual evaluation of 2014 was derived from a 2015 Action Plan that identified various areas for improvement. There was continued development of the Corporate Governance System during the most recent financial year, significantly advancing on the majority of them. Specifically, this includes:</p> <ol style="list-style-type: none">1. Separation of duties and checks and balances:<ul style="list-style-type: none">- Consideration of Iberdrola, S.A. as a supervisory holding company in the <i>By-Laws</i>.- Split-up of the Appointments and Remuneration Committee.- Expansion of the powers of the lead independent director.2. Suitable composition of the Board of Directors and effective operation:<ul style="list-style-type: none">- Continuous renewal of the Board of Directors with the inclusion of directors with knowledge and experience in key international markets and businesses for the group.- Inclusion of a sole transitional provision in the <i>Regulations of the Board of Directors</i> anticipating the progressive renewal of the Board in coming years.- Publication of guidelines for the Succession Plan.- Improvements in the monitoring of the <i>Tax Risk Control and Management Policy</i>.- Publication of reports supporting the re-election and appointment of directors.3. Shareholder engagement:<ul style="list-style-type: none">- Holding of the first Shareholder Day, in addition to the customary Investor Day.- Approval of the <i>Shareholder Engagement Policy</i>.4. Social return:<ul style="list-style-type: none">- Approval of the mission and modification of the vision and values of the Iberdrola group.

- Approval of the *Stakeholder Relations Policy*.

C.1.20 bis Describe the process of self-evaluation and the areas evaluated by the board of directors, as it may be assisted by an external consultant, regarding diversity in its composition and powers, the operation and composition of its committees, the performance of the chairman of the board and chief executive officer, and the performance and contribution of each director.

The Board of Directors of Iberdrola, S.A. evaluates its performance on an annual basis. On 20 October 2015 the Board of Directors approved the commencement of the process of evaluation, including that of the Board of Directors itself, the Executive Committee, its consultative committees, the directors individually, and the chairman & CEO. This last evaluation was led by the lead independent director. The process concluded at the 23 February 2016 meeting of the Board.

In order to align the Company with best international practices, it was decided to hire PricewaterhouseCoopers Asesores de Negocios, S.L. ("PwC") as an external adviser.

The evaluation process covered approximately 500 objectively quantifiable and measurable indicators, which are updated each year with the latest trends and regulatory changes. The areas analysed in each of the reports were: (i) composition; (ii) operation; (iii) exercise of powers and performance of duties; and (iv) relations with other bodies.

The conclusions of the evaluation process reflected a high level of compliance with almost all of the critical indicators relating to mandatory legal rules and regulations and the recommendations of the new *Good Governance Code of Listed Companies*, and an alignment of more than 85% with the latest international trends and with advancement on the areas for improvement identified during prior years.

Pursuant to the 2016 Action Plan, Iberdrola will continue to develop good governance best practices this year in the following areas:

1. Board and strategy: ensure that the Board of Directors and the directors continue to dedicate sufficient time to planning and supervision of the strategy.
2. Transparency: continue progress on the key processes of the governance model.
3. Corporate social responsibility: increase interaction with socially responsible investors and have the governance bodies monitor the corporate social responsibility strategy of the group.
4. Remuneration: continuously compare to best market practices.
5. Shareholder engagement: improve the information disclosed by the consultative committees to the market and expand the universe of shareholder contacts.

C.1.20 ter List any business relationships of the consultant or any company of its group with the company or any company of its group.

The business relationships of the consultant and the companies of its group with the Company and the group in 2015 came to the aggregate amount of 4.2 million euros, and were mainly focused on the following:

- Advice to the management of Business Development.
- Advice and support to the Office of the Secretary of the Board of Directors.
- Work in the area of Human Resources.
- Advice on Regulation and on tax matters.

C.1.21. State the circumstances under which the resignation of directors is mandatory.

Directors must submit their resignation from the position and formally resign from their position upon the occurrence of any of the instances of disqualification from or prohibition against performing the duties of director provided by law or by Iberdrola's Corporate Governance System.

In this connection, article 16.3 of the Regulations of the Board of Directors provides that the directors must submit their resignation to the Board of Directors in the following cases:

- a) When, due to supervening circumstances, they are involved in any circumstance of disqualification or prohibition provided by law or the Corporate Governance System.
- b) When, as a result of any acts or conduct attributable to the director, serious damage is caused to the value or reputation of the Company or there is a risk of criminal liability for the Company or any of the companies of the Group.
- c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability, or commitment to their duties required to be a director of the Company.

In particular, when the activities carried out by the director, or the companies directly or indirectly controlled by the director, or the individuals or legal entities that are shareholders of or related to any of them, or the individual representing a corporate director, may compromise the competence of the director.

- d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.
- e) When their continuance in office on the Board of Directors may for any reason, either directly, indirectly, or through persons related thereto, jeopardise the faithful and diligent performance of their duties in furtherance of the corporate interest.
- f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
- g) When an independent director unexpectedly falls under supervening circumstances that prevent the director from being considered as such pursuant to the provisions of law.

The resignation provisions set forth under f) and g) above shall not apply when, after a report from the Appointments Committee, the Board of Directors believes that there are reasons that justify the director's continuance in office, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

C.1.22. Section deleted.

C.1.23. Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?

Yes ☒ No ☐

If so, describe the differences.

Description of differences
<p>The Regulations of the Board of Directors (article 5.1 of the Regulations of the Board of Directors) require a majority of at least two-thirds of the directors present at the meeting in person or by proxy to approve the amendment thereof.</p> <p>The serious reprimand of a director for having breached any of the duties entrusted thereto as director (article 16.3.d) of the Regulations of the Board of Directors) requires a majority of two-thirds of the directors.</p>

C.1.24. Explain whether there are specific requirements, other than the requirements relating to directors, to be appointed chairman of the board of directors.

Yes ☐ No ☒

Description of requirements

C.1.25. State whether the chair has a tie-breaking vote:

Yes ☒ No ☐

Matters on which a tie-breaking vote may be cast
In the event of a tie, the chairman has a tie-breaking vote on any matter unless he becomes subject to a conflict of interest, in which case he must abstain from participating in the deliberation and voting stages of the respective resolution.

C.1.26. State whether the by-laws or the regulations of the board set forth any age limit for directors:

Yes ☐ No ☒

Age limit for the chair	-
Age limit for the CEO	-
Age limit for directors	-

C.1.27. State whether the by-laws or the regulations of the Board establish any limit on the term of office for independent directors that is different than the term provided by regulatory provisions:

Yes ☐ No ☒

Maximum number of terms	
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C.1.28. State whether there are formal rules for proxy-voting at meetings of the board of directors, the manner of doing so, and especially the maximum number of proxies that a director may hold, as well as whether any restriction has been established regarding the categories of directors to whom proxies may be granted beyond the restrictions imposed by law. If so, briefly describe such rules.

Pursuant to article 36.2 of the By-Laws, all of the directors may cast their vote and give their proxy in favour of another director, provided, however, that non-executive directors may only do so in favour of another non-executive director. Articles 32.2 and 36.2.b) of the Regulations of the Board of Directors require that directors attend the meetings of the Board of Directors. When directors are unable to attend in person for well-founded reasons, they shall endeavour to give a proxy to another director, to whom they shall give any appropriate instructions, but may not grant a proxy in connection with matters in respect of which they are involved in a conflict of interest.

The proxy granted shall be a special proxy for the Board meeting in question and may be communicated by any means allowing for the receipt thereof.

There is no maximum number of proxies provided per director.

C.1.29. State the number of meetings that the board of directors has held during the financial year. In addition, specify the number of times the board has met, if any, at which the chair was not in attendance. Proxies granted with specific instructions shall be counted as attendance.

Number of meetings of the board	8
Number of meetings of the board at which the chair was not in attendance	0

If the chair is an executive director, state the number of meetings held without the presence in person or by proxy of any executive director and chaired by the lead independent director.

Number of meetings	0
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State the number of meetings held by the different committees of the board of directors during the financial year:

Number of meetings of the Executive Committee	14
Number of meetings of the Audit and Risk Supervision Committee	15
Number of meetings of the Appointments Committee	14
Number of meetings of the Remuneration Committee	10
Number of meetings of the Corporate Social Responsibility Committee	7

C.1.30. State the number of meetings that the board of directors has held during the financial year with the attendance of all of its members. Proxies granted with specific instructions shall be counted as attendance:

Number of meetings with the attendance of the directors	8
% in attendance of total votes during the financial year	100%

C.1.31. State whether the annual individual accounts and the annual consolidated accounts that are submitted to the board for approval are previously certified:

Yes ☒ No ☐

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated accounts of the company for preparation by the board:

Name	Position
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	Chairman & CEO
MR JUAN CARLOS REBOLLO LICEAGA	Director of Administration and Control

C.1.32. Explain the mechanisms, if any, adopted by the board of directors to avoid any qualifications in the audit report on the annual individual and consolidated accounts prepared by the board of directors and submitted to the shareholders at the general shareholders' meeting.

Articles 3 and 6 of the *Regulations of the Audit and Risk Supervision Committee* provide that it has the following duties, among others:

- Supervise the process of preparing and presenting regulated financial information relating to the Company, both individual and consolidated with its subsidiaries, reviewing compliance with legal requirements, the proper delimitation of the scope of consolidation, and the correct application of accounting standards.
- Establish appropriate relationships with the auditor to receive information regarding matters that might risk the independence thereof, for examination by the Committee, and any other information related to the development of the audit procedure as well as such other communications as are provided for in the laws on auditing of accounts and in other legal provisions on auditing. The Committee must receive written confirmation from the auditor on an annual basis of their independence vis-à-vis the Company or entities directly or indirectly related thereto, as well as information on additional services of any kind provided to such entities by such auditor or by persons or entities related thereto, pursuant to the laws on auditing of accounts.
- On an annual basis, prior to the audit report, issue a report containing an opinion on the independence of the auditor. This report must in any case pass upon the provision of the additional services referred to in the preceding point.
- Report in advance to the Board of Directors regarding the financial information that the Company must disclose on a regular basis because of its status as a listed company; the Committee shall make sure that the interim accounts are prepared in accordance with the same accounting standards as the annual accounts and, for such purpose, it shall consider the appropriateness of a limited review by the auditor.
- Review the contents of the audit reports on the accounts and of the reports on the limited review of interim accounts, if any, as well as other mandatory reports to be prepared by the auditor, prior to the issuance thereof, in order to avoid qualified reports.
- Act as a channel of communication between the Board of Directors and the auditors, causing them to hold an annual meeting with the Board of Directors to report thereto on the work performed and the accounting status and risks of the Company.

Article 51 of the *Regulations of the Board of Directors* provides, among other things, that:

- The Board of Directors shall meet with the auditors at least once per year in order to receive information regarding the work performed and regarding the accounting status and risks of the Company.
- The Board of Directors shall use its best efforts to definitively prepare the accounts such that there is no room for qualifications by the auditors. However, when the Board of Directors believes that its opinion must prevail, it shall provide a public explanation of the content and scope of the discrepancy.

Pursuant to the above-cited articles, the Audit and Risk Supervision Committee reports on the financial information of the Company throughout the financial year and prior to the approval thereof by the Board of Directors and its submission to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*). The reports of the Committee, which the chair thereof presents to the full Board of Directors, are mainly intended to disclose such aspects, if any, as may give rise to qualifications in the audit report of Iberdrola and its consolidated group, making the appropriate recommendations to avoid any such qualifications.

Accordingly, the Committee submitted to the Board of Directors the following reports regarding the annual and half-yearly financial reports and the interim management statements of the Company for financial year 2015:

- Report dated 27 April 2015 on the interim management statement for the first quarter of 2015.
- Report dated 20 July 2015 on the economic/financial report for the first half of 2015.
- Report dated 19 October 2015 on the interim management statement for the third quarter of 2015.
- Report dated 22 February 2016 on the annual accounts of Iberdrola and its consolidated group for financial year 2015.

As disclosed in the information about Iberdrola posted on the website of the National Securities Market Commission (www.cnmv.es), the audit reports on the individual and consolidated annual accounts prepared by the Board of Directors have historically been issued without qualifications.

C.1.33. Is the secretary of the board a director?

Yes ☐ No ☒

If the secretary is not a director, complete the following table.

Individual or company name of the secretary	Representative
MR JULIÁN MARTÍNEZ-SIMANCAS SÁNCHEZ	-

C.1.34. Section deleted.

C.1.35. State the mechanisms, if any, used by the company to preserve the independence of auditors, financial analysts, investment banks, and rating agencies.

1. MECHANISMS TO PRESERVE THE INDEPENDENCE OF THE AUDITOR

The Company's Corporate Governance System, and the *Auditor Hiring Policy* as part thereof, provide that:

- The Audit and Risk Supervision Committee shall receive information from the auditor regarding matters that might risk the independence thereof.
- The Committee shall receive from the auditor, on an annual basis, written confirmation of its independence as well as information on additional services provided to the Company or entities related thereto.
- The auditor shall provide to the Committee annual information regarding the profiles and the track record of the persons making up the audit teams, stating the changes in the composition of such teams compared to the preceding financial year and persons added to the Iberdrola Group.
- The Committee shall issue, on an annual basis and prior to the issuance of the audit report, a report setting forth an opinion on the independence of the auditor. This report shall in any case pass upon the provision of the additional services referred to above and shall attach a reasoned assessment thereof.
- The Committee shall monitor the quality assurance and independence safeguarding internal procedures implemented by the auditor.
- The Committee shall not submit a proposal to the Board of Directors, and the Board of Directors shall not submit a proposal to the shareholders at a General Shareholders' Meeting, for appointment of firms as auditor when it has evidence that they are affected by grounds for disqualification or do not satisfy the independence requirements established by the Company's Corporate Governance System.

As regards 2015:

- Iberdrola's auditor appeared on eight occasions before the Audit and Risk Supervision Committee and on one occasion before the Board of Directors to report on various matters relating to the audit process. During these appearances, the auditor did not report issues that might put its independence at risk.
- On 10 February 2015 the auditor sent written confirmation of its independence with regard to the audit of financial information for financial year 2014.
- On 14 July 2015 the auditor sent written confirmation of its independence with regard to the limited review of financial information through 30 June 2015.
- On 13 November 2015 the auditor sent confirmation of its independence with regard to the proposed re-election of the auditor to audit the individual and consolidated annual accounts for financial year 2016 to be submitted at the General Shareholders' Meeting.
- The auditor represented in the aforementioned letters that it had implemented the internal procedures necessary to ensure its independence.
- The hiring of the auditor for services other than auditing is authorised in advance by the Committee.

The hiring is supported by the respective letters of the partner responsible for the audit confirming the non-existence of restrictions on independence to perform this work.

- In its written confirmation of 10 February 2015, the auditor reported that there were no hirings of professionals from the auditor at the Company or its group, except in the case of Iberdrola México, where one person was hired. The Audit and Risk Supervision Committee believes that this hiring does not affect the independence of the auditor, as it involves a professional with only three years of experience at the audit firm.
- On 16 February 2015 the Committee issued its report to the Board of Directors regarding the independence of the Company's auditor. The Committee concluded that the auditor performed its audit work with independence from the Company or entities related thereto.
- On 16 February 2015 the Committee proposed to the Company's Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the re-election of Ernst & Young as the Company's auditor for financial year 2015.
- On 14 February 2015 the Committee proposed to the Company's Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment of KPMG Auditores, S.L. as auditor of the annual accounts of the Company and its consolidated group for financial years 2017 to 2019. This proposal was adopted after the holding of a tender among well-known audit firms, in compliance with the provisions on rotation of auditors established in the new Audit Law 22/2015 of 20 July 2015.

2. MECHANISMS TO PRESERVE THE INDEPENDENCE OF FINANCIAL ANALYSTS, INVESTMENT BANKS, AND RATING AGENCIES

The principles which form the basis of the relations of the Company with financial analysts, investment banks, and rating agencies are transparency, non-discrimination, truthfulness, and trustworthiness of the information supplied. The Finance and Resource Division, through the Investor Relations Division, manages their requests for information and requests submitted by institutional or retail investors (in the case of retail investors, through the Office of the Shareholder). The Finance and Resource Division gives mandates to investment banks. The Development Division gives the appropriate advisory mandates to investment banks within the scope of its activities, in coordination with the Finance and Resource Division.

The independence of financial analysts is protected by the Investor Relations Division, which ensures the objective, fair, and non-discriminatory treatment thereof.

To actualise the principles of transparency and non-discrimination, always in strict compliance with regulations regarding the Securities Market, the Company has a number of communication channels:

- Personalised assistance for analysts, investors, and rating agencies.
- Publication of the information relating to quarterly results and other specific events, such as those relating to the submission of the Business Prospects or to corporate transactions.
- E-mail through the corporate website (accionistas@iberdrola.com) and a toll-free line for shareholders (+34 900 100 019).
- In-person and broadcasted presentations.
- Release of announcements and news.
- Visits to Company facilities.

C.1.36. State whether the Company has changed the external auditor during the financial year. If so, identify the incoming and the outgoing auditor:

Yes ☐ No ☒

Outgoing auditor	Incoming auditor

If there has been any disagreement with the outgoing auditor, provide an explanation thereof:

Yes ☐ No ☒

Description of the disagreement

C.1.37. State whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the company and/or its group:

Yes ☒ No ☐

	Company	Group	Total
Amount of other non-audit work (thousands of euros)	0	75	75
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	0	0.3	0.3

C.1.38. State whether the audit report on the annual accounts for the prior financial year has observations or qualifications. If so, state the reasons given by the chair of the audit committee to explain the content and scope of such observations or qualifications.

Y ☐ No ☒
e ☐
s ☐

Explanation of reasons

C.1.39. State the consecutive number of years for which the current audit firm has been auditing the annual accounts of the company and/or its group. In addition, state the percentage represented by such number of financial years audited by the current audit firm with respect to the total number of financial years in which the annual accounts have been audited:

	Company	Group
Number of continuous financial years	10	10

	Company	Group
Number of years audited by the current audit firm / Number of years in which the company has been audited (%)	43	43

C.1.40. State whether there is any procedure for directors to hire external advisory services, and if so, describe it:

Yes ☒ No ☐

Describe the procedure
<p>Pursuant to the provisions of article 35 of the Regulations of the Board of Directors, in order to be assisted in the performance of the duties entrusted thereto, any director may request the hiring of legal, accounting, technical, financial, commercial, or other expert advisers, whose services shall be paid for by the Company.</p> <p>The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.</p> <p>The request for an expert to be hired shall be channelled through the secretary of the Board of Directors, who may subject it to the prior approval of the Board of Directors; such approval may be denied in well-founded instances, including the following circumstances:</p> <ul style="list-style-type: none"> a) That it is not necessary for the proper performance of the duties entrusted to the directors. b) That the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company. c) That the technical assistance sought may be adequately provided by the Company's own experts and technical personnel. d) That it may entail a risk to the confidentiality of the information that must be made available to the expert. <p>Furthermore, article 25.2 of the Regulations of the Audit and Risk Supervision Committee, article 18.2 of the Regulations of the Appointments Committee, article 14.2 of the Regulations of the Remuneration Committee, and article 17.3 of the Regulations of the Corporate Social Responsibility Committee provide that such committees may seek advice from outside professionals, who shall submit their reports directly to the chair of the relevant committee.</p>

C.1.41. State whether there is any procedure for directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:

Yes ☒ No ☐

Describe the procedure
<p>Section 16 of the General Corporate Governance Policy provides that "the Company has a programme to provide directors with information and updates in response to the need for professionalisation, diversification, and qualification of the Board of Directors.</p> <p>In order to improve their knowledge of the Group, presentations are made to the directors regarding the businesses of the Group. In addition, a portion of each meeting of the Board of Directors tends to be dedicated to a presentation on economic, legal, or political/social issues of importance to the Group.</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 materials relating to director training programmes and the presentations made to the Board of Directors.</p> <p>In addition, the minutes of the meetings of the Board of Directors and the committees thereof, or an extract or summary thereof, are also included on the directors' website, after they have been approved".</p> <p>Pursuant to article 34.4 of the Regulations of the Board of Directors, there shall be an inclusion of such information as is deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof, in accordance with the agenda included in the calls to meeting, as well as materials relating to director training programmes.</p> <p>In addition, article 36.3.a) of the Regulations of the Board of Directors provides that a director is specifically required to "properly prepare the meetings of the Board of Directors and, if applicable, the meetings of the Executive Committee or of the committees of which the director is a member, for which purposes the director must diligently become apprised of the running of the Company and the matters to be discussed at such meetings".</p> <p>In order to facilitate the directors' discharge of their duties, the following initiatives have been</p>

implemented:

- The approval by the Board of Directors of the Directors' Code of Ethics of Iberdrola, which provides the directors with an overall view of the rights and duties inherent in their position and is continuously updated.
- The directors' website, on which the call to and the documents for preparation of each meeting of the Board of Directors are published.
- The development of the update training programme for directors of Iberdrola pursuant to article 12.5 of the Regulations of the Board of Directors, which seeks to achieve the ongoing update of directors and consists of presentations, informational notes, and posts that are included in the directors' website regarding matters of interest to the directors of the Company, issues of general interest, and specific information on corporate governance and corporate social responsibility.
- The holding of informational meetings led by officers and employees of the Group, at which information is provided regarding activities related to the various business and corporate areas of the Company, as well as training presentations delivered by well-known professionals from outside the Company, at which the directors receive information on matters of topical interest.

C.1.42. State whether the company has established any rules requiring directors to inform the company—and, if applicable, resign from their position—in cases in which the credit and reputation of the company may be damaged, and if so provide a detailed description:

Yes ☒ No ☐

Explain the rules

Section 17 of the General Corporate Governance Policy sets out the obligations and duties of the directors, including, as a statement of the duty of loyalty, the duty to submit their resignation to the Board of Directors in the event of supervening disqualification, lack of competence, prohibition against holding office as a director, and other instances provided for in the Company's Corporate Governance System.

As provided by subsections c) and d) of article 44.2 of the Regulations of the Board of Directors, a director must inform the Company of any judicial, administrative, or other proceedings instituted against the director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company. In particular, if a director becomes subject to criminal charges or to an order for further criminal prosecution upon indictment (*resultar procesado*), or if an order for the commencement of an oral trial is issued against the director for the commission of any of the crimes contemplated in section 213 of the Companies Act, such director shall give notice thereof to the Company, in the person of its president. In such instance, the Board of Directors shall review the case as soon as practicable and shall adopt the decisions it deems fit taking into account the interests of the Company.

In addition, the director must inform the Company of any fact or event that may be relevant to the holding of office as a director.

Directors must also submit their resignation to the Board of Directors and formally resign from their position in the events set forth in article 16.3 of the Regulations of the Board of Directors, particularly:

- a) When, due to supervening circumstances, they are involved in any circumstance of disqualification or prohibition provided by law or the Corporate Governance System.
- b) When, as a result of any acts or conduct attributable to the director, serious damage is caused to the value or reputation of the Company or there is a risk of criminal liability for the Company or any of the companies of the Group.
- c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability, or commitment to their duties required to be a director of the Company.

In particular, when the activities carried out by the director, or the companies directly or indirectly controlled by the director, or the individuals or legal entities that are shareholders of or related to any of them, or the individual representing a corporate director, may compromise the competence of the director.

- d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.

- e) When their continuance in office on the Board of Directors may for any reason, either directly, indirectly, or through persons related thereto, jeopardise the faithful and diligent performance of their duties in furtherance of the corporate interest.
- f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
- g) When an independent director unexpectedly falls under supervening circumstances that prevent the director from being considered as such pursuant to the provisions of law.

In any of the instances set forth in section 3 of article 16 of the Regulations of the Board of Directors, the Board of Directors shall request the director to resign from such position and, if applicable, shall propose the director's removal from office to the shareholders at the General Shareholders' Meeting.

By way of exception, the resignation provisions set forth in letters f) and g) of article 16.3 of the Regulations of the Board of Directors cited above shall not apply when, after a report from the Appointments Committee, the Board of Directors believes that there are reasons that justify the director's continuance in office, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

C.1.43. State whether any member of the board of directors has informed the company that such member has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of an oral trial has been issued against such member for the commission of any of the crimes contemplated in section 213 of the Companies Act:

Yes ☐ No ☒

Name of director	Criminal case	Comments

State whether the board of directors has analysed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the director should remain in office or, if applicable, describe the actions taken by the board of directors through the date of this report or that it plans to take.

Yes ☐ No ☐

Decision made / action taken	Duly substantiated explanation

C.1.44. Describe the significant agreements entered into by the company that go into effect, are amended, or terminate in the event of a change in control at the company as a result of a takeover bid, and effects thereof.

Not applicable.

C.1.45. Identify on an aggregate basis and provide a detailed description of the agreements between the company and its management level and decision-making positions or employees that provide for indemnities, guarantee or "golden parachute" clauses upon resignation or termination without cause, or if

the contractual relationship is terminated as a result of a takeover bid or other type of transaction.

Number of beneficiaries	52
Type of beneficiary	Executive directors, senior officers, and employees

Description of agreement
<p>1. EXECUTIVE DIRECTORS</p> <p>Pursuant to the provisions of his contract, the chairman & chief executive officer has the right to receive a severance payment in the event of termination of his relationship with the Company, provided that such termination is not the consequence of a breach attributable thereto or exclusively due to his own decision to withdraw. The amount of the severance payment is three times annual salary.</p> <p>Furthermore, in consideration for his two-year non-compete commitment, the chairman & chief executive officer is entitled to severance equal to the remuneration for that period.</p> <p>Since 2011, the Director Remuneration Policy provides that the limit on the amount of such severance under new contracts with executive directors shall be two times their annual salary.</p> <p>2. SENIOR OFFICERS</p> <p>Contracts with senior officers of Iberdrola include specific severance clauses. The purpose of such clauses is to obtain an effective and sufficient level of loyalty from senior officers who are necessary for the management of the Company and thus avoid a loss of experience and knowledge that might jeopardise the achievement of strategic objectives. The amount of the severance is determined based on length of service and the reasons for the senior officer's withdrawal from office, up to a maximum of five times annual salary.</p> <p>Notwithstanding the foregoing, the Senior Officer Remuneration Policy provides since 2011 that the limit on the amount of the severance under new contracts with senior officers shall be two times their annual salary.</p> <p>3. EMPLOYEES</p> <p>The contracts of employees linked to Iberdrola by an ordinary employment relationship do not generally include specific severance clauses and, accordingly, the general provisions of labour law shall apply in the event of termination of the employment relationship.</p>

State whether such agreements must be reported to and/or approved by the decision-making bodies of the company or its group:

	Board of directors	General Shareholders' Meeting
Decision-making body approving the provisions	X	

	Yes	No
Is information about these provisions provided to the shareholders at the general shareholders' meeting?	X	

C.2. Committees of the board of directors

C.2.1. Describe all of the committees of the board of directors, the members thereof, and the proportion of executive, proprietary, independent, and other external directors of which they are comprised:

EXECUTIVE COMMITTEE

Name	Position	Class
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	CHAIRMAN	Executive director
MR XABIER DE IRALA ESTÉVEZ	MEMBER	Proprietary director
MS INÉS MACHO STADLER	MEMBER	Independent director
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	MEMBER	Other external director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director

% executive directors	20.00
% proprietary directors	20.00
% independent directors	40.00
% other external	20.00

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

The Executive Committee is assigned all the powers of the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions. The chairman of the Board of Directors, and the chief executive officer, if any, are members in any case. The secretary of the Board of Directors acts as secretary of the Committee.

The Executive Committee shall meet as many times as deemed necessary by the chair thereof. It shall also meet when so requested by a minimum of two of the directors forming part thereof.

Resolutions of the Committee shall be adopted by absolute majority of its members who are present at the meeting in person or by proxy.

The duties of this Committee consist of making proposals to the Board regarding strategic decisions, investments, and divestitures that are significant for the Company or the Group, assessing their conformity to the budget and the strategic plans and analysing and monitoring business risks.

The duties of the Committee are provided in article 38 of the By-Laws and are further developed in article 25 of the Regulations of the Board of Directors.

State whether the composition of the executive committee reflects the participation of the different directors within the board based on their class:

Yes ☐ No ☒

If no, explain the composition of your executive committee
<p>The Executive Committee of Iberdrola is made up of five directors, one being an executive director, one being a proprietary director, two being independent directors, and finally one classified as other external director.</p> <p>Iberdrola believes it is essential for both the executive directors and the proprietary director to be part of the Executive Committee. The presence of two independent directors, including the lead independent director (<i>consejera coordinadora</i>), provides an appropriate balance in the composition thereof, with representation of the various classes of directors of the Company, and also ensures that the duties of the Executive Committee may not be performed along lines different from those reflected by the composition</p>

of the Board of Directors.

AUDIT AND RISK SUPERVISION COMMITTEE

Name	Position	Class
MS GEORGINA KESSEL MARTÍNEZ	CHAIR	Independent director
MS DENISE MARY HOLT	MEMBER	Independent director
MR JOSÉ WALFREDO FERNÁNDEZ	MEMBER	Independent director

% executive directors	0
% proprietary directors	0
% independent directors	100.00
% other external	0

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

The Audit and Risk Supervision Committee is an internal informational and consultative body.

A majority of its members shall be independent, and at least one of them shall be appointed taking into account the knowledge and experience thereof in the areas of accounting, audit, and risk management.

The Board of Directors shall appoint a chair of the Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The members of the Audit and Risk Supervision Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length. The chair shall hold office for a maximum period of four years, after which period the director who has held office as such may not be re-elected until the passage of at least one year from ceasing to act as such.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided in article 39 of the By-Laws and are further developed in article 26 of the Regulations of the Board of Directors, as well as in the Regulations of the Audit and Risk Supervision Committee.

Identify the director who is a member of the audit committee and who has been appointed taking into account the director's knowledge and experience in the areas of accounting, audit, or both, and report the number of years that the chair of this committee has held office.

Name of director with experience	MS GEORGINA KESSEL MARTÍNEZ
Number of years during which chair has held the position	1

APPOINTMENTS COMMITTEE

Name	Position	Class
MS MARÍA HELENA ANTOLÍN RAYBAUD	CHAIR	Independent director
MR IÑIGO VÍCTOR DE ORIOL IBARRA	MEMBER	Other external director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director

% executive directors	0
% proprietary directors	0
% independent directors	66.67
% other external	33.33

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

<p>The Appointments Committee is an internal informational and consultative body.</p> <p>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.</p> <p>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.</p> <p>A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.</p> <p>The duties of the Committee are set out in article 27 of the <i>Regulations of the Board of Directors</i>, as well as in the <i>Regulations of the Appointments Committee</i>.</p>

REMUNERATION COMMITTEE

Name	Position	Class
MS INÉS MACHO STADLER	CHAIR	Independent director
MR IÑIGO VÍCTOR DE ORIOL IBARRA	MEMBER	Other external director
MR SANTIAGO MARTÍNEZ LAGE	MEMBER	Independent director

% executive directors	0
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% proprietary directors	0
% independent directors	66.67
% other external	33.33

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

<p>The Remuneration Committee is an internal informational and consultative body.</p> <p>A majority of the members of the Remuneration Committee must be classified as independent. The Board also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.</p> <p>The members of the Remuneration Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.</p> <p>A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.</p> <p>The duties of the Committee are set out in article 28 of the Regulations of the Board of Directors, as well as in the Regulations of the Remuneration Committee.</p>

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Name	Position	Class
MS SAMANTHA BARBER	CHAIR	Independent director
MR BRAULIO MEDEL CÁMARA	MEMBER	Independent director
MR MANUEL MOREU MUNAIZ	MEMBER	Other external director

% executive directors	0
% proprietary directors	0
% independent directors	66.67
% other external	33.33

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

<p>The Corporate Social Responsibility Committee is an internal informational and consultative body.</p> <p>A majority of the members of the Corporate Social Responsibility Committee must be classified as 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 Corporate Social Responsibility Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.</p> <p>A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a</p>
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majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided in article 41 of the By-Laws and are further developed in article 29 of the Regulations of the Board of Directors, as well as in the Regulations of the Corporate Social Responsibility Committee.

C.2.2. Complete the following table with information regarding the number of female directors comprising the committees of the board of directors for the last four financial years:

	Number of female directors							
	Financial Year 2015		Financial Year 2014		Financial Year 2013		Financial Year 2012	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	1	20.00	1	20.00	1	20.00	1	16.66
Audit and Risk Supervision Committee	2	66.66	2	50.00	1	33.33	0	0.00
Appointments Committee	1	33.33	1	33.33	1	33.33	1	33.33
Remuneration Committee	1	33.33	1	33.33	1	33.33	1	33.33
Corporate Social Responsibility Committee	1	33.33	2	66.66	2	66.66	2	66.66

C.2.3. Section deleted.

C.2.4. Section deleted.

C.2.5. State, if applicable, the existence of regulations of the board committees, where such regulations may be consulted, and the amendments made during the financial year. Also state if any annual report of the activities performed by each committee has been voluntarily prepared.

1. AUDIT AND RISK SUPERVISION COMMITTEE

The Audit and Risk Supervision Committee has its own Regulations, which may be viewed by interested parties on the Company's website (www.iberdrola.com).

Article 20.2 of the Regulations of the Audit and Risk Supervision Committee provides that within three months following the end of each financial year of the Company, the Audit and Risk Supervision Committee shall submit to the Board of Directors for approval a Report describing its work during the financial year covered thereby, which shall be made available to the shareholders on occasion of the call to the Annual General Shareholders' Meeting.

The Report for financial year 2015 was prepared by the Audit and Risk Supervision Committee at its meeting of 13 January 2016.

2. APPOINTMENTS COMMITTEE

The Appointments Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website (www.iberdrola.com).

Article 20.2 of the Regulations of the Appointments Committee provides that within three months following the end of the Company's financial year, the Committee shall submit to the Board of Directors for approval a report detailing its work for the financial year covered by the report.

The Report for financial year 2015 was prepared by the Appointments Committee at its meeting of 12 January 2016.

3. REMUNERATION COMMITTEE

The Remuneration Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website (www.iberdrola.com).

Article 16.2 of the Regulations of the Remuneration Committee provides that within three months following the end of the Company's financial year, the Committee shall submit to the Board of Directors for approval a report detailing its work for the financial year covered by the report.

The Report for financial year 2015 was prepared by the Remuneration Committee at its meeting of 1 February 2016.

4. CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website (www.iberdrola.com).

Article 19.2 of the Regulations of the Corporate Social Responsibility Committee provides that within three months following the end of each financial year of the Company, the Committee shall submit to the Board of Directors for approval a report on its activities during the financial year covered by the report.

The Report for financial year 2015 was prepared by the Corporate Social Responsibility Committee at its meeting of 12 January 2016.

An Activities Report of the Consultative Committees is published for purposes of the call to the General Shareholders' Meeting.

C.2.6. Section deleted.

D. RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1. Explain any procedures for approving related-party and intragroup transactions.

Procedure for the approval of related-party transactions	
Article 43 of the Regulations of the Board of Directors provides that:	
<p>1. Any transaction by the Company or the companies forming part of its Group with directors, with shareholders that own a shareholding interest that is equal to or greater than that legally regarded as significant at any time or that have proposed the appointment of any of the directors of the Company, or with the respective related persons, shall be subject to the approval of the Board of Directors, or in urgent cases, of the Executive Committee, following a report from the Appointments Committee.</p> <p>In the event that authorisation has been granted by the Executive Committee due to the urgency of the matter, the Executive Committee shall give notice thereof at the next meeting of the Board of Directors in order for it to be ratified.</p>	
<p>2. The Board of Directors, through the Appointments Committee, shall ensure that transactions between the Company or the companies forming part of its Group and the directors, the shareholders mentioned in the preceding section, or the respective related persons are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders in the same situation.</p>	
<p>3. In the case of customary and recurring transactions in the ordinary course of business, it shall be sufficient for the Board of Directors to give prior generic approval of the kind of transaction and of the conditions for performance thereof, following a report from the Appointments Committee.</p>	
<p>4. 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.</p>	
<p>5. The authorisation must be approved by the shareholders at the General Shareholders' Meeting in the instances provided by law, and particularly if it affects a transaction having a value of more than ten per cent of the corporate assets.</p>	
<p>6. The Company shall report the transaction referred to in this article in the Half-Yearly Financial Report and in the Annual Corporate Governance Report, in the cases and to the extent provided by law. Likewise, the Company shall include in the notes accompanying the annual accounts information regarding the transactions by the Company or by the companies of the Group with the directors and those persons who act for the account of the latter when such transactions are conducted other than in the ordinary course of the Company's business or other than under normal arm's length conditions.</p>	
<p>Similar terms are provided in article 12 of the Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders, and Senior Officers. Articles 15 and 16 of this Procedure govern transactions with related persons other than directors and significant shareholders. In such cases, authorisation of the related-party transaction is within the purview of the Corporate Resources Division.</p>	

D.2. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's significant shareholders:

Individual or company name of the significant shareholder	Individual or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
KUTXABANK, S.A.	IBERDROLA, S.A.	Corporate	Dividends and other distributed benefits	32,835
KUTXABANK, S.A.	IBERDROLA, S.A.	Contractual	Interest charged	15

Individual or company name of the significant shareholder	Individual or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
KUTXABANK, S.A.	IBERDROLA, S.A.	Contractual	Interest paid	28
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Interest charged	223
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Receipt of services	24
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Financing agreements: loans	6,962
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Security and bonds	2,246
QATAR INVESTMENT AUTHORITY	IBERDROLA, S.A.	Corporate	Dividends and other distributed benefits	21,571

D.3. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's directors or officers:

Individual or company name of directors or officers	Individual or company name of related party	Relation	Nature of the relationship	Amount (thousands of euros)
MR MANUEL MOREU MUNAIZ	SEAPLACE, S.L.	Chairman	Provision of services	312

D.4. Report the significant transactions made by the company with other entities belonging to the same group, provided they are not eliminated in the preparation of the consolidated accounts and they are not part of the ordinary course of business of the company as to their purpose and conditions.

Name of the entity within the group	Brief description of the transaction	Amount (thousands of euros)
GRUPO GAMESA	Receipt of services	61,852
GRUPO GAMESA	Purchase of goods (finished or in progress)	275,436
GRUPO GAMESA	Leases	4
GRUPO GAMESA	Provision of services	715
GRUPO GAMESA	Sale of goods (finished or in progress)	34,553

In any case, report any intragroup transaction with entities established in countries or territories considered to be tax havens:

Name of the	Brief description of the	Amount
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entity within the group	transaction	(thousands of euros)

D.5. State the amount of transactions with other related parties.

Amount (thousands of euros)

D.6. Describe the mechanisms used to detect, determine, and resolve potential conflicts of interest between the company and/or its group, and its directors, officers, or significant shareholders.

1. CONFLICTS OF INTEREST GENERALLY

As part of its Corporate Governance System, Iberdrola has adopted a Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders, and Senior Officers (in this section, the "Procedure").

The Procedure further develops the provisions of the Regulations of the Board of Directors and the Internal Regulations for Conduct in the Securities Markets, in order to specify the rules to be observed in conflict of interest situations. It applies to directors, significant shareholders, senior officers, other persons designated by the Compliance Unit, and their related persons, upon the terms expressly defined in the Procedure itself.

2. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE DIRECTORS

Article 39 of the Regulations of the Board of Directors defines a conflict of interest as those cases in which there is a conflict, whether direct or indirect, between the interests of the Company or of the companies of the Group and (i) the personal interest of the director, (ii) the interest of a person related thereto, and (iii) in the case of a proprietary director, the interest of the shareholder or shareholders that proposed or made the director's appointment or persons directly or indirectly related thereto.

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: the director must give notice to the Board of Directors, in the person of the chairman or the secretary thereof, of any conflict of interest in which the director is involved.
- b) Abstention: the director shall leave the meeting during the deliberation and voting on those matters in which the director is affected by a conflict of interest, and shall not be counted in the number of members attending for purposes of the calculation of a quorum and majorities.
- 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, article 16 of the Regulations of the Board of Directors provides that a loss of competence is an event of resignation, removal, and withdrawal of the director.

3. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE SENIOR OFFICERS AND OTHER PERSONS SUBJECT TO CONFLICT OF INTEREST RULES

The Procedure also governs conflicts of interest with respect to senior officers, and subjects them to the same rules of reporting, abstention, and transparency applicable to directors.

4. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND SIGNIFICANT SHAREHOLDERS

Transactions between companies forming part of the Group with significant shareholders or shareholders that have proposed the appointment of any of the directors and their respective related persons are dealt with in article 43 of the Regulations of the Board of Directors mentioned in section D.1. They must be carried out on arm's-length conditions and be previously approved by the Board of Directors. Approval by the shareholders at a General Shareholders' Meeting shall be required if the value of the transaction exceeds 10% of the corporate assets. All transactions shall be reported in the *Annual Corporate Governance Report* and in the *Annual Financial Report*.

5. CONFLICTS OF INTEREST WITH OTHER EMPLOYEES

The Code of Ethics, which dedicates a specific section to conflicts of interest, applies to all professionals within the Group, regardless of rank.

D.7. Is more than one company of the group listed in Spain?

Yes ☐ No ☒

Identify the subsidiaries listed in Spain:

Listed subsidiaries

State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the group:

Yes ☐ No ☐

Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies within the group

Identify the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the group:

Mechanisms for the resolution of possible conflicts of interest

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1. Explain the scope of the company's Risk Management System, including the system for managing tax risks.

The *General Risk Control and Management Policy* and the *Risk Policies* that further develop it apply to all companies over which the Company has effective control, within the limits established by the laws applicable to the regulated activities carried out by the Group in the various countries in which it operates.

The *General Risk Control and Management Policy* and the basic principles underpinning it are implemented by means of a Comprehensive Risk Control and Management System, supported by a Risk Committee of the Group and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon supporting procedures, methodologies, and tools, covering the following stages:

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

Developed in accordance with the following basic action principles:

- a) Integrate the risk/opportunity vision into the Company's management, through a definition of the strategy and the risk appetite and the incorporation of this variable into strategic and operating decisions.
- b) Segregate functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control, and monitoring of such risks, ensuring an appropriate level of independence.
- c) Guarantee the proper use of risk-hedging instruments and the maintenance of records thereof as required by applicable law.
- d) Inform regulatory agencies and the principal external players, in a transparent fashion, regarding the risks facing the Group and the operation of the systems developed to monitor such risks, maintaining suitable channels that favour communication.
- e) Ensure appropriate compliance with the corporate governance rules established by the Company through its Corporate Governance System and the update and continuous improvement of such system within the framework of the best international practices as to transparency and good governance, and implement the monitoring and measurement thereof.
- f) Act at all times in compliance with the law and the Company's Corporate Governance System and, specifically, with due observance of the values and standards of conduct reflected in the *Code of Ethics* and the principles and good practices reflected in the *Corporate Tax Policy*, under the principle of zero tolerance towards the commission of unlawful acts and situations of fraud set forth in the *Crime Prevention and Anti-Fraud Policy*.

Excluded from the scope of this policy are listed country subholding companies and the subsidiaries thereof which, pursuant to their own special framework of strengthened autonomy, have their own risk

policies approved by their competent bodies. In any event, said risk policies must be in accord with the principles set forth in this *General Risk Control and Management Policy* and in the other *Risk Policies* of the Company.

At those companies in which the Company has an interest but which do not belong to the Group, the Company shall promote principles, guidelines, and risk limits consistent with those established in the *General Risk Control and Management Policy* and in its supplemental *Risk Policies* and shall maintain appropriate channels of information to ensure a proper understanding of risks.

E.2. Identify the decision-making bodies of the company responsible for preparing and implementing the Risk Management System, including the system for managing tax risks.

The Board of Directors of the Company undertakes to develop all of its capabilities in order for the significant risks to all the activities and businesses of the Group to be adequately identified, measured, managed, and controlled, and establishes through the *General Risk Control and Management Policy* the mechanisms and basic principles for appropriate management of the risk/opportunity ratio, at a risk level that makes it possible to:

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

1. BOARD OF DIRECTORS

Within its area of authority, and with the support of the Audit and Risk Supervision Committee, it promotes the implementation of the mechanisms required to ensure the adequate identification, measurement, management, and control of all significant risks, defines the strategy and profile of the Company's risks, including tax risks, and approves the Group's *Risk Policies*.

2. EXECUTIVE COMMITTEE

In order to align the risk impact with the established risk appetite, the Executive Committee of the Board of Directors, acting at the proposal of the business or corporate divisions involved and upon a prior report from the Group's Risk Committee, annually reviews and approves specific guidelines regarding the risk limits from the *Corporate Policies* of the Group.

Pursuant to established guidelines, competent management decision-making bodies of the country subholding companies and each of the principal companies of the Group, within their area of responsibility, annually review and approve the specific risk policies and limits applicable to each of them and implement the control systems required to ensure compliance with the *General Risk Control and Management Policy* and with the limits thereunder.

3. AUDIT AND RISK SUPERVISION COMMITTEE

As a consultative body of the Board of Directors, it is charged with the following duties:

- Directly supervise the unit vested with the power to actively participate in the preparation of the Company's risk strategy and in significant decisions affecting the management thereof.
- Continuously review the internal control and risk management systems, such that the principal risks are properly identified, managed, and reported.
- Ensure that the Group's risk control and management system identifies at least:
 - The different types of risk (operational, technological, financial, legal, reputational, etc.) the Company is exposed to, including contingent liabilities and other off-balance sheet risks among financial or economic risks.
 - The establishment and review of the risk map and levels that the Company deems acceptable.
 - The measures planned in order to mitigate the impact of identified risks in the event that they materialise.

<ul style="list-style-type: none"> - The information and internal control systems that will be used to monitor and manage the aforementioned risks, including contingent liabilities and other off-balance sheet risks. - (Specifically in the tax area) Receive from the Company's tax director information on the tax guidelines used by the Company during the financial year and, in particular, on the level of compliance with the <i>Corporate Tax Policy</i>, and report to the Board of Directors on the tax policies applied and, in the case of transactions or matters that must be submitted to the Board of Directors for approval, regarding the tax consequences thereof when such consequences represent a significant issue. - Maintain appropriate relationships with the Risk Division and with the audit and compliance committees of the other companies of the Group. - Report in advance on the risks of the Group to be included in the Company's <i>Annual Corporate Governance Report</i> and give notice thereof to the Board of Directors, through the Corporate Social Responsibility Committee, for an assessment of its conclusions. <p>4. BOARDS OF DIRECTORS OF COUNTRY SUBHOLDING COMPANIES OF THE PRINCIPAL COUNTRIES IN WHICH THE GROUP OPERATES</p> <p>They are assigned the power to approve the <i>Risk Policies</i> for the various businesses of the Group in the country in question as well as to establish the limits and specific risk indicators applicable to such businesses, based on the nature and unique aspects of each country.</p> <p>5. RISK COMMITTEE OF THE GROUP</p> <p>The Risk Committee of the Iberdrola Group is a technical body chaired by the chief financial officer, which performs executive duties in connection with customary risk management and gives advice to the Group's governance bodies.</p> <p>The Committee meets, at a minimum, one time per month, with the participation of the Group's director of Risk Management, those responsible for risks at the corporate businesses and areas that have a Risk Management function, the Internal Audit Division, and the Administration and Control Division.</p> <p>The Group's Risk Committee is complemented with the Credit Risk and Market Risk Committees of the Group, which report to said Risk Committee and which meet on a fortnightly and monthly basis, respectively, to discuss and decide on credit and market (financial and commodities) risk issues.</p>

E.3. Point out the principal risks, including tax risks, that could affect the achievement of business goals.

<p>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.</p> <p>The section entitled "Main risk factors associated with the activities of the Iberdrola Group" of the Management Report within the Annual Report for financial year 2015 provides a detailed description of the principal risks associated with the activities carried out by the main businesses of the Group, as well as the risks of the corporation.</p> <p>Owing to its universal and dynamic nature, the comprehensive risk system allows for the consideration of new risks that may affect the Group following changes in its operating environment or revisions of objectives and strategies, as well as adjustments resulting from ongoing monitoring, verification, review, and supervision activities.</p> <p>Pursuant to the definitions established by the <i>General Risk Control and Management Policy</i>, at the Group level, risks are classified as follows:</p> <p>a) Corporate Governance Risks: the Company assumes the need to safeguard the interests of the Company and the strategy of sustained maximisation of the economic value of the Company and its long-term success, in accordance with the Group's corporate interest, culture, and corporate vision, taking into account the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders and communities and regions in which the Company and its employees act. A fundamental requirement for the foregoing is compliance with the Company's Corporate Governance System, made up of the <i>By-Laws</i>, the <i>Corporate Policies</i>, 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.</p>

- b) Market Risks: defined as the exposure of the Group's results and assets to changes in market prices and variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO2 emission allowances, other fuel, etc.), prices of financial assets, and others.
- c) Credit Risks: defined as the possibility that a counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties can be end customers, counterparties in financial or energy markets, partners, suppliers, or contractors.
- d) Business Risks: defined as the uncertainty regarding the performance of key variables inherent in the business, such as the characteristics of demand, weather conditions, the strategies of different players, and others.
- e) Regulatory and Political Risks: defined as those arising from regulatory changes made by the various regulators, such as changes in compensation of regulated activities or in the required conditions of supply, or in environmental or tax regulations, including risks relating to political changes that might affect legal security and the legal framework applicable to the businesses of the Group in each jurisdiction, nationalisation or expropriation of assets, the cancellation of operating licences, and the early termination of government contracts.
- f) Operational, Technological, Environmental, Social, and Legal Risks: defined as those related to direct or indirect economic losses resulting from inadequate internal procedures, technical failures, human error, or as a consequence of certain external events, including the economic, social, environmental, and reputational impact thereof, as well as legal and fraud risks. Said risks include those associated with information technology and cybersecurity, as well as the risk of technological obsolescence, among others.
- g) Reputational Risks: potential negative impact on the value of the Company resulting from conduct on the part of the Company that is below the expectations created among various stakeholders, as defined in the *Stakeholder Relations Policy*.

E.4. Identify whether the entity has a risk tolerance level, including one for tax risk.

The Company's Board of Directors annually reviews and approves the acceptable risk tolerance level for the Group.

The *General Risk Control and Management Policy*, together with the specific *Risk Policies* and limits that develop it, qualitatively and quantitatively establish, in sufficiently detailed form, the risk appetite that is annually accepted at the Group level and at the level of each of its main businesses.

By way of complement, once such limits and guidelines are considered in order to verify the risk assumed globally in the annual profit and loss account, there is a comprehensive probability analysis of the remaining global risk for the year at the time of approving the annual budget.

In addition, all new multi-year plans are accompanied by their associated risk analysis.

Corporate risk policies and limits reviewed and approved annually:

- Corporate Credit Risk Policy
- Corporate Market Risk Policy
- Operational Risk in Market Transactions Policy
- Insurance Policy
- Investment Policy
- Financing and Financial Risk Policy
- Treasury Share Policy
- Risk Policy for Equity Interests in Listed Companies
- Reputational Risk Framework Policy
- Procurement Policy
- Information Technologies Policy
- Cybersecurity Risk Policy

Risk policies of the various businesses of the Group reviewed and approved annually:

- Risk Policy for the Liberalised Businesses of the Iberdrola Group
- Risk Policy for the Renewable Energy Businesses of the Iberdrola Group
- Risk Policy for the Networks Businesses of the Iberdrola Group
- Risk Policy for the Engineering and Construction Business
- Risk Policy for the Real Estate Business

In general terms, the *Corporate Policies*, applicable to all of the Group's businesses, establish the framework and the proper practices for the control, management, and mitigation of the various types of risks and establish overall risk limits to be distributed among the various businesses, measured in the form of physical, notional, and/or probability figures (VaR, CVaR, etc.), through measures such as:

- Limits on maximum global credit risk exposure by type of counterparty
- Limits on market risk proportional to the volume of activity of each business
- Strict global limit on discretionary energy trading
- Limits on operational risk through preventive maintenance programmes and insurance programmes
- Strict limits on activities not associated with the main energy business
- Other

The *Risk Policies* of each of the main businesses of the Group establish the framework and the authorised activities for each of them, together with the qualitative and quantitative risk guidelines, limits, and indicators that should be applicable thereto, adjusted to the specific nature of each of them.

The *Corporate Tax Policy* establishes the limits on tax risk by setting the tax strategy, principles of conduct, and good tax practices assumed by the Company.

The *General Risk Control and Management Policy*, as well as a summary of the *Corporate Risk Policies* and another summary of the Specific Risk Policies for the Various Businesses of the Group, are available on the corporate website (www.iberdrola.com).

E.5. State what risks, including tax risks, have materialised during the financial year.

During 2015, the activities of the Iberdrola Group were subject to various risk factors in the countries and markets in which it does business and which, from a global standpoint, did not have a significant impact on the income for the financial year, thanks to the diversification of activities, markets, and geographical areas of the Group, which made it possible for the negative effects of some businesses to be offset by a favourable performance in others.

Before listing the risks that materialised during the year, note should be taken of the following positive events that have eliminated risks or threats:

- Improvement in the economic situation in Spain, translating into: (i) an increase in the demand for electricity, with 1.8% growth in 2015 (1.6% adjusted for seasonality and temperature), and (ii) an improvement in the credit risk environment and the Spanish banking system in particular.
- The approval of Order IET/2660/2015 of 11 December 2015, authorising the unit values for remuneration of Spanish electricity distribution companies and establishing the first period of regulation, in effect through 31 December 2019.
- Approval of the new remuneration framework for electricity distributors in the United Kingdom, RIIO-ED1, which will govern revenues from April 2015 to March 2023.
- Approval in the United States of Production Tax Credits, a new tax incentive regime to develop renewable energy, in effect through 2020.
- Approval by the Brazilian regulator ANEEL of the four-year tariff review of our subsidiary Elektro, on terms satisfactory to the company, in force through August 2019.
- Satisfactory closing of the agreement reached with the Bolivian government, after the litigation commenced due to the expropriation of our subsidiaries in 2012, with the collection of 31 million euros.
- The 26 May 2015 decision of the Supreme Court in favour of Iberdrola Distribución Eléctrica regarding the application of Biscay tax regulations for the tax periods 2010 onwards.

Risks that have materialised include:

- A sanction proceeding brought against Iberdrola Generación by the CNMC for “fraudulent manipulation tending to alter the price of electrical energy” ending with a sanction of 25 million euros due to a serious infringement.

Iberdrola Generación has appealed this sanction to the National High Court (*Audiencia Nacional*) because it believes that the requirements to impose a sanction for fraudulent pricing have not been met, as it has at all times engaged in rational and prudent management of the plants under investigation.

- The low international prices for petroleum and other commodities, with a particular impact on:
 - Our business of selling electricity to private partners in Mexico, offset at the overall business level in Mexico due to the favourable movement in the USD/EUR exchange rate.
 - Our business of producing electricity in the United Kingdom, where a decision has been made to move forward the closing of our Longannet coal plant, with an after-tax writedown of 230 million euros.
- A progressive increase in Renewables USA’s exposure to market prices, and thus to volatility, as a result of the expiration of long-term fixed-price power purchase agreements.

Finally, it should be noted that in the opinion of the Company, activities in 2016 will be subject to the following risk factors:

- Possible new international financial turbulence with an impact on exchange and interest rates as a result of economic changes in the People’s Republic of China or a change in monetary policy by the U.S. Federal Reserve.
- The low international prices for energy commodities, with a possible impact on the final sales price of electricity.
- Low spreads between winter and summer prices for gas in the United States, with an impact on our gas storage and transportation business in that country.
- Uncertainty associated with possible measures approved as a result of the analysis of the retail electricity and gas market by the Competition Market Authority in the United Kingdom, although the preliminary conclusions published in 2015 reduce the risks and threats to retail activities.
- Implementation of a new retail system at Scottish Power has led to customer billing and service incidents that are being resolved. These actions are being analysed by the British regulator Ofgem.
- Uncertainty associated with the current tariff review process for the NYSEG and RG&E electricity and gas distribution companies, applicable beginning in April 2016.
- Possible impact associated with the Mexican energy reforms.
- The political and macroeconomic situation in Brazil, characterised by stagnant GDP, rising inflation, and unemployment, increasing the risk of higher depreciation of the Brazilian real.
- The final results of the tax inspection commenced in 2014 by the National Tax Administration Agency (*Agencia Estatal de Administración Tributaria*) regarding the 2008-2011 Corporate Income Tax of the Iberdrola tax Group, 2010-2011 VAT for this tax Group, and other taxes, to be completed during the first half of 2016. No liabilities additional to those already booked at 31 December 2015 are expected to arise.
- The conclusion of the OECD’s work with respect to the Base Erosion and Profit Shifting Action Plan, pushed by the G20. No significant impacts are expected on the Group, although the principles inspiring these works and documents are being considered by the Group as regards reporting, transparency, and corporate reputation.

E.6. Explain the plans for responding to and supervising the entity’s main risks, including tax risks.

The Comprehensive Risk System, together with the Company’s control and management policies and systems that develop it, including the Group’s Risk Committee and Operating Committee, have allowed for the identification of new risks and threats sufficiently in advance, and to establish appropriate mitigation plans.

The Group's Operating Committee meets on close to a weekly basis.

The Group's Risk Committee meets on a monthly basis, reviews the various risks, and on a quarterly basis approves a Quarterly Risk Report of the Group, which includes the main risk positions, a report on compliance with policies and limits, and an update of the key risk maps.

The Audit and Risk Supervision Committee of the Board of Directors periodically monitors the evolution of the Company's risks at least on a quarterly basis:

- It reviews the Quarterly Risk Reports of the Group, which include monitoring compliance with risk limits and indicators and updated key risk maps, submitted by the Group's director of Corporate Risks.
- It coordinates and reviews Risk Reports sent periodically (at least half-yearly) by the audit and compliance committees of the country subholding companies and head of business companies of the Group.
- It prepares a Risk Report for the Board of Directors at least half-yearly.

F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFRS)

Describe the mechanisms making up the risk control and management systems with respect to the process of issuing the entity's financial information (ICFRS)

F.1 Control environment at the entity

Indicate at least the following, specifying the main features thereof:

F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective internal control over financial reporting system (ICFRS); (ii) the implementation thereof; and (iii) oversight thereof.

The Board of Directors has the ultimate responsibility for the existence of an adequate and effective internal control over financial reporting system (ICFRS) lies with the Board of Directors of Iberdrola. The Boards of Directors of the country subholding companies and the head of business companies also have this responsibility within their various purviews.

The persons in charge of the country subholding companies and the head of business companies, together with the respective control officers, as well as the directors of the global corporate areas, are responsible for the design and implementation of the ICFRS. Such responsibility is expressly set forth in the certifications signed by such persons on a half-yearly basis in connection with the financial information for their respective areas of responsibility.

Pursuant to article 26.7.d of the Regulations of the Board of Directors, the Audit and Risk Supervision Committee has the power to monitor the effectiveness of the internal control of the Company and its Group. The Committee draws on the support of the Internal Audit Division to discharge such responsibility. Any Audit and Compliance committees at the country subholding and head of business companies have this power within their respective purviews.

F.1.2. Whether any of the following are in place, particularly as regards the financial information preparation process:

- **Departments and/or mechanisms in charge of: (i) the design and revision of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of work and duties; and (iii) ensuring that there are sufficient procedures for the proper dissemination thereof at the entity.**

The Board of Directors of Iberdrola defines the top-level organisational structure. The heads of such top-level organisations, together with the Human Resources Division, are responsible for deployment within their respective areas.

Each top-level division prepares a proposed organisation structure, including a description of the mission, duties, and responsibilities of the various organisations deployed, which must then be validated by the Human Resources Division and the Finance and Resources Division.

Primary responsibility for the preparation of financial information lies with the corporate Administration and Control Division. This division proposes the structure of those responsible for Control at the country subholding companies and head of business companies and is in charge of coordinating and supervising their activities.

- **Code of conduct, body that approves it, degree of dissemination and instruction, principles and values included (indicating whether the**

recording of transactions and the preparation of financial information are specifically mentioned), body in charge of reviewing breaches and of proposing corrective actions and penalties.

The Iberdrola Group has a Code of Ethics, approved by the Board of Directors.

According to article 2.1 thereof, "the principles and guidelines for conduct contained in the Code of Ethics apply to all of the Group's professionals, regardless of seniority, geographic or functional location, or the company of the Group for which they provide their services". The Code of Ethics is communicated to and disseminated among the professionals of the Iberdrola Group in accordance with the plan approved for such purpose by the Compliance Unit.

Article 32.5 of the Code of Ethics expressly provides as follows:

"The Group shall provide true, proper, useful, and consistent information regarding its programmes and actions. Transparency of information is a basic principle that must govern the actions of Group professionals.

The economic/financial information of the Group (especially the annual accounts) shall faithfully reflect its economic and financial position and its net worth, in accordance with generally accepted accounting principles and applicable international financial reporting standards. For such purposes, no professional shall conceal or distort the information set forth in the accounting records and reports of the Group, which shall be complete, accurate, and truthful.

A lack of honesty in the communication of information, whether internally within the Group (to employees, subsidiaries, departments, internal bodies, management decision-making bodies, etc.) or outside the Group (to auditors, shareholders and investors, regulatory entities, the media, etc.), is a breach of this Code of Ethics. This includes delivering incorrect information, organising it in an incorrect manner, or seeking to confuse those who receive it".

Control of the application of the Code of Ethics is a duty of the Compliance Unit, a body linked to the Corporate Social Responsibility Committee of the Company's Board of Directors, with duties in the area of regulatory compliance and the Company's Corporate Governance System. This Unit evaluates and prepares an annual report on the level of compliance with the Code of Ethics. The report is transmitted to the Human Resources Division, to the Company's Internal Audit Area Division, and to the Corporate Social Responsibility Committee. In turn, the latter transmits it to the competent governance bodies, to the Company's chairman & chief executive officer, and to the Audit and Risk Supervision Committee.

The Compliance Unit also has the duty to determine whether a Group professional has conducted activities in violation of the law or of the Code of Ethics and, if applicable, to direct the Human Resources Division, or the Division responsible for the human resources function at the relevant Group company, to apply disciplinary measures in accordance with the rules on breach of duties and penalties contained in the collective bargaining agreement to which the professional belongs or in applicable labour law provisions.

Pursuant to article 41.1 of the Code of Ethics, the professionals of the Group expressly accept the vision, values, and rules of conduct established therein.

In addition, pursuant to article 41.2, professionals who join or become part of the Group in the future shall expressly accept the vision, values, and rules of action set forth in the Code of Ethics, which document shall be attached to their respective employment contracts.

- **Reporting channel that makes it possible to report any irregularities of a financial or accounting nature to the audit committee, as well as any possible breach of the code of conduct and irregular activities at the organisation, specifying, if appropriate, whether it is confidential.**

Iberdrola has a procedure in place that must be followed by all employees of the Group who wish to report potentially significant irregularities of a financial and accounting nature and that allows them to report such irregularities, by e-mail or regular mail, to the chair of the Audit and Risk Supervision Committee.

As established in the procedure itself, the Company's Board of Directors guarantees that the name of the reporting person and the irregularity reported shall be treated in the strictest confidence, both in the reporting process and in any process for the assessment and clarification of the facts conducted by the Audit and Risk Supervision Committee and the organisations of the Company or third parties participating

at the request of such Committee.

In accordance with the above-mentioned procedure, the chair of the Audit and Risk Supervision Committee receives and admits the report for further processing. Such admission is made on the basis of the requirements established in the procedure (name of the sender, sufficiently detailed information on the situation reported, need for the report to fall within the scope of the channel, confidentiality guarantee, personal data protection, etc.).

No reports were received during financial year 2015.

- **Regular training and update programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, covering at least accounting standards, auditing, internal control, and risk management.**

Personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, receives regular training on accounting standards, auditing, internal control, and risk management, according to its specific responsibilities.

In accordance with the organisational structure of the Iberdrola Group, the divisions that have a direct relationship with these types of duties are the Internal Audit Division, the Administration and Control Division, and the Finance and Resources Division.

During 2015, the personnel involved in these duties in Spain received 13,116 hours of training, of which 4,335 hours were dedicated to technical training directly related to the responsibilities discharged by such personnel, which accounts for 33% of the training they receive, with 447 professionals participating in these courses. In the case of Elektro, there were 2,450 hours, of which 1,034 were dedicated to training directly related to the duties they perform, which accounts for 42% of the training they receive, with 92 employees attending these courses.

Mexico gave 1,677 hours of technical training for the personnel belonging to these areas. At ScottishPower, there were 1,537 hours of training, of which 708 were directly related to the duties performed, accounting for 46%. And in the United States there were 245 hours of specific training for this group.

There are more than 200 technical courses taken by the employees of these organisations, most of them taught by external entities (business schools, universities, or specialist consulting firms). There were 115 training activities in Spain, 59 at Elektro, 11 in the USA, 7 at ScottishPower, and 11 in Mexico.

Especially noteworthy is the receipt of various professional certificates by Iberdrola professionals in these functional areas:

- Certified Internal Auditor (CIA), by one professional in Spain.
- CIMA Professional Qualification, ACT Certificate in Risk Management, CIMA Strategic Level and CIA Qualification, by 5 professionals in the United Kingdom.

The technical training activities in which these professionals engaged include the following in Spain:

- Tax updates for companies
- Consolidation of financial statements
- Energy and treasury counterparties
- Financial information internal control
- Internal control and risk management
- Data analysis techniques for fraud examiner
- Financial criminal law
- Enterprise risk management workshop
- Energy project financing
- Taxation of restructurings
- How to detect and prevent financial statement fraud

- Corporate tax
- Reform of the corporate income tax
- New tax issues of interest
- Reform of the Companies Act
- Internal regulations for conduct in securities markets
- Venture capital: investing and fundraising

In Brazil:

- Credit risk financial analysis
- Financial analysis of feasibility projects
- Regulatory assets and liabilities
- Accounts payable
- Accounting training
- Financial planning
- Accounting for income taxes
- Update on rate structure
- Investor relations training
- Financial budget management
- Tax update for the company
- Training on project financial analysis
- Financial mathematics
- Training on negotiation
- Update on treasury and financing products
- IFRIC training
- Federal taxes

In Mexico

- Update on financial information standards
- Update on international financial information standards
- Tax Updates
- Licensing in Accounting and Finance
- Foreign trade forum

In the United States:

- EEI/AGA Utility Internal Auditors Training
- EEI/AGA Advanced Utility Accounting Course
- Association of Certified Fraud Examiners
- Anti-Market Manipulation Training

In the United Kingdom

- Accounting development course
- Credit Risk Analysis
- Risk based internal audit

Generally, these professionals have also taken courses to improve their qualifications in the use of the office automation tools required to perform their duties, mainly Excel.

It should be noted that several international meetings were organised during 2015 among the professionals in these areas, like the IX Global Internal Audit Days and the annual meetings of the risk

management and treasury teams.

F.2 Risk assessment of financial information

Indicate at least the following:

F.2.1. What are the main features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:

- **Whether the process exists and is documented.**

The process for the identification of risks of error in financial information is one of the most important steps in the method for the development of internal control of the financial information of Iberdrola, and the goals, implementation, and results thereof are documented.

The method starts with a review of the consolidated financial information of the Iberdrola Group and of the various country subholding companies in order to select the most significant accounts and notes to the accounts, in accordance with both quantitative (materiality) and qualitative (business risk and visibility to third parties) standards. The selected accounts and notes are grouped into management cycles or large processes in which the selected information is generated. The cycles are analysed and a description of each is prepared, as a way of identifying possible risks of error in the financial information, in connection with attributes such as completeness, presentation, assessment, cut-off, recording, and validity. The identified risks are submitted to a process of prioritisation, such that the most significant ones are selected by applying professional judgement on a number of indicators (existence of documented processes and controls, existence of systems that automate the processes, whether there have been any incidents in the past, whether the process is known and mature, or whether judgements need to be made to make estimates). The risks of fraud are not explicitly identified, although they are taken into account to the extent that they might generate material errors in financial information.

Once the most significant risks have been selected, the controls needed to mitigate or manage them are selected and designed; such controls are monitored, documented, and systematically reviewed by internal audit.

The risks selected are reviewed at least on an annual basis, within the framework of the assessment of the effectiveness of internal control carried out by the persons or divisions responsible therefor. The purpose of such review is to adjust the risks to the changing circumstances in which the Company operates, particularly in the event of changes in the organisation, information technology systems, regulations, products, or the situation of the markets.

- **Whether the process covers all the objectives of financial information (existence and occurrence; completeness; assessment; presentation, breakdown and comparability, and rights and obligations), whether it is updated, and how often.**

As mentioned above, the cycles or large processes in which financial information is generated are reviewed at least on an annual basis in order to identify possible risks of error, in connection with attributes such as validity (existence and authorisation), completeness, assessment, presentation, cut-off, and recording.

- **The existence of a process for the identification of the scope of consolidation, taking into account, among other matters, the possible existence of complex corporate structures, holding entities, or special purpose entities.**

The scope of consolidation is identified on a monthly basis, and the result thereof is the updated corporate map, which expressly identifies the changes that occurred in each period.

This review covers all companies in which Iberdrola or any of its subsidiaries has an interest, no matter how small.

In accordance with the provisions of section 529 of the Companies Act, the Regulations of the Board of Directors provide that the Board of Directors has the power to, among other things, approve the creation or acquisition of equity interests in special purpose entities or entities registered in countries or territories that are considered to be tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the Group.

In accordance with the same law, the Regulations of the Audit and Risk Supervision Committee of Iberdrola provide that the Audit Committee must report to the Board of Directors prior to such decisions being adopted.

Accordingly, whenever the Company intends to create a special purpose entity or an entity registered in a tax haven, or to acquire an interest in one, the transaction must first be submitted to the Audit and Risk Supervision Committee for it to issue a report and then to the Board of Directors for approval.

There are specific procedures for such purpose, tailored to the current corporate governance model, according to which such initiative is to be taken by the Division of the Group or country subholding company, head of business company, or company in which an interest is held through them, that intends to create or acquire a special purpose company or a company registered in a tax haven. In the case of companies that have a board of directors and an audit committee, their corporate governance bodies must first review the proposed transaction.

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.**

The process for the identification of risks of error in financial information takes into account the effects of other types of risks (operational, technological, legal, tax, reputational, environmental, etc.) to the extent that they affect the accounts; such risks are assessed and managed by different corporate units such as the Risk Division or Legal Services, among others. However, no express identification of such other types of risks is carried out to identify financial information risks.

- **What governance body of the entity supervises the process.**

The governance body that supervises the process is the Audit and Risk Supervision Committee, which draws on the support of the Internal Audit Division to discharge this responsibility.

F.3 Control activities

Indicate whether at least the following are in place and describe their main features:

- F.3.1. Procedures for review and authorisation of financial information, and description of the internal control over financial reporting system to be published in the securities market, indicating the persons or divisions responsible therefor, as well as documentation describing the flows of activities and controls (including those relating to risk of fraud) of the various types of transactions that could materially affect the financial statements, including the closing process and the specific review of significant judgements, estimates, assessments, and projections.**

The process or structure of certification of financial information, conducted formally on a half-yearly basis, on the dates of the year-end and interim closing processes, reflects the manner in which financial information is generated in the Group.

In such structure, the persons in charge of the country subholding companies and those responsible for the head of business companies, together with the respective directors of control, and the heads of the global corporate areas, certify both the reliability of the financial information in the areas under their responsibility (which is the information they provide for purposes of consolidation at the Group level) and the effectiveness of the internal control system established to reasonably ensure such reliability. Finally, the chairman & chief executive officer, as the highest executive authority, and the director of Administration and Control, as the person responsible for the preparation of financial information, certify the reliability of the consolidated accounts to the Board of Directors.

The Audit and Risk Supervision Committee, with the support of the Internal Audit Division, supervises the entire certification process, and submits the conclusions of such review to the Board of Directors at the meetings at which the accounts are formally approved.

As regards the description of the internal control over financial reporting system (ICFRS) to be published in the securities markets, the review and authorisation procedure is the same as that used for all contents of an economic and financial nature of the Annual Corporate Governance Report.

The documentation of the internal control over financial reporting system includes high-level descriptions of the cycles of generation of selected significant financial information, as well as detailed descriptions of the prioritised risks of error and of the controls designed to mitigate or manage them. The description of the controls includes the evidence to be obtained in the implementation thereof, which is necessary for its review.

Each of the closing processes performed at the business units is regarded as a cycle, and the same is true of all the closing activities performed at the corporate level, of the global consolidation process, and of the process for preparation of the notes to the accounts. As a result, all such activities are subject to the methodological process described in the section relating to risks.

The specific review of critical accounting judgements and significant estimates, assessments, and projections is subject to specific controls within the model, since this type of matter entails the identification of risks of error in the different cycles in which they are made. In many cases, the evidence of such specific controls is the media supporting such reviews.

Independently of the certification process followed in the countries, businesses, and corporate areas, the Audit and Risk Supervision Committee, again with the support of the Internal Audit Division, performs an overall review of financial information on a quarterly basis, ensuring that the half-yearly financial reports and the quarterly management statements are prepared using the same accounting standards as the annual financial reports, verifying the proper delimitation of the scope of consolidation as well as the proper application of generally accepted accounting principles and international financial reporting standards.

F.3.2. Policies and procedures of internal control over reporting systems (including, among others, security of access, control of changes, operation thereof, operational continuity, and segregation of duties) that provide support for the significant processes of the entity in connection with the preparation and publication of financial information.

The controls used to mitigate or manage the risks of error in financial information include controls relating to the most significant computer applications, such as controls of user access permissions or of the integrity of the transfer of information between applications.

In addition, the Iberdrola Group has guidelines or regulations as well as procedures for internal control over reporting systems in connection with software acquisition and development, the acquisition of system infrastructure, software installation and testing, change management, service level management, management of the services provided by third parties, system security and access thereto, management of incidents, operation management, continuity of operations, and segregation of duties.

Such guidelines and procedures (which, in some cases, differ according to geographical area or type of solution and are in the process of progressive standardisation) are applied across all information systems supporting significant financial information generation processes, and on the infrastructure required for the operation thereof.

The Systems director of Iberdrola certifies the effectiveness of the internal controls established on information systems on an annual basis.

F.3.3. Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as those aspects of assessment, calculation, or valuation entrusted to independent experts, which may materially affect the accounts.

Generally speaking, the Iberdrola Group has no significant duties outsourced to third parties that have a direct impact on financial information. The assessments, calculations, or valuations entrusted to third parties that may materially affect the accounts are regarded as significant financial information generating activities that lead, if appropriate, to the identification of high-priority risks of error, which, in turn, entails the design of associated internal controls. Such controls cover the review and internal approval of the basic assumptions to be used, as well as the review of the assessments, calculations, or valuations made by outside parties, by verifying them against calculations made internally.

F.4 Information and communication

Indicate whether at least the following are in place and describe their main features:

F.4.1. A specific function charged with defining and updating accounting policies (accounting policy area or department) and with resolving questions or conflicts arising from the interpretation thereof, maintaining fluid communications with those responsible for operations at the organisation, as well as an updated accounting policy manual that has been communicated to the units through which the entity operates.

The Accounting Regulations Division, reporting directly to the director of Administration and Control, is responsible for defining and updating accounting policies, as well as for resolving questions or conflicts stemming from the interpretation thereof. It maintains fluid communications with those responsible for the operation of the organisation and, especially, with those responsible for accounting functions. It publishes a quarterly newsletter, widely disseminated within the Group, on new accounting developments in connection with IFRS, which includes regulation updates (laws and regulations that come into force, drafts issued, laws and regulations enacted, laws approved and pending approval by the European Union, and expected future laws and regulations) as well as accounting questions asked internally, together with the conclusions in respect thereof.

The Accounting Regulations Division is also responsible for continuously updating the Group's accounting practices manual and for the appropriate dissemination thereof.

The accounting manual is updated continuously. For this purpose, the Accounting Regulations Division analyses whether new developments or changes in accounting matters have an effect on the Group's accounting policies, as well as the effective date of each of such laws or regulations. When a new law or regulation, or interpretation thereof, is identified as having an effect on the Group's accounting policies, it is included in the manual and is also communicated to those responsible for preparing the Group's financial information by means of the quarterly newsletters mentioned above, and there is an update of the application in which the manual is maintained.

The updated version of the manual is available in an application on the Group's internal network. This application is also accessible by VPN over the internet and can be linked to e-mail. Any change or the inclusion of a document within the manual generates a notice by e-mail to all users.

F.4.2. Mechanisms to capture and prepare financial information with standardised formats, to be applied and used by all units of the entity or the group, supporting the principal accounts and the notes thereto, as well as the information provided on the internal control over financial reporting system.

The mechanism to capture and prepare the information supporting the principal accounts of the Iberdrola

Group is based primarily on the use of a unified management consolidation tool (known as BPC) accessible from all geographical areas, currently deployed across the entire Group.

A large portion of the information supporting the breakdowns in and notes to the financial information is included in the consolidation tool, and the rest is captured on standardised spreadsheets known as reporting packages, which are prepared for the half-year and year-end closing processes.

F.5 Supervision of the operation of the system

Indicate and describe the main features of at least the following:

F.5.1. The activities of supervision of the internal control over financial reporting system (ICFRS) performed by the audit committee, as well as whether the entity has an internal audit function whose duties include providing support to the committee in its work of supervising the internal control system, including the internal control over financial reporting system. Information is also to be provided concerning the scope of the assessment of the internal control over financial reporting system performed during the financial year and on the procedure whereby the person or division charged with performing the assessment reports the results thereof, whether the entity has an action plan in place describing possible corrective measures, and whether the impact thereof on financial information has been considered.

The activities of supervision of the internal control over financial reporting system carried out by the Audit and Risk Supervision Committee include basically: (i) monitoring compliance with the certification process by the various persons or divisions responsible for financial information, (ii) reviewing the design and operation of the internal control system, with the support of the Internal Audit Division, to assess the effectiveness thereof, and (iii) periodic meetings with external auditors, internal auditors, and senior management to review, analyse, and discuss financial information, the group companies covered, and the accounting standards applied, as well as, where appropriate, the significant internal control weaknesses detected.

It should be noted that on an annual basis, those responsible for the preparation of the financial information of each country subholding company, each head of business company, and each corporate area carry out a review of the design and operation of the internal control system within their area of responsibility in order to assess the effectiveness thereof, in a process coordinated by the Internal Control Division.

To that end, an analysis is made of whether, as a result of the changing circumstances in which the Group operates (changes in organisation, systems, processes, products, regulation, etc.), changes in identified risks need to be included and prioritised. A review is also made of whether the design of the controls to mitigate or manage the risks that may have changed is appropriate, as well as whether the controls have functioned properly, in accordance with their design.

The conclusions of this annual review, both as regards the deficiencies detected (which are classified as serious, medium, or slight, according precisely to their possible impact on financial information) and with respect to the action plans to correct them, are submitted at an annual seminar session chaired by the director of Administration and Control, at which the Internal Audit Division is also in attendance. At such meeting, conclusions are reached concerning the effectiveness of the internal control system at each of the different areas for which they are responsible and, overall, at the Group as a whole.

The most significant conclusions of the review performed are subsequently submitted to the Audit and Risk Supervision Committee within the framework of the periodic meetings with the director of Administration and Control.

Independently of the foregoing, the Internal Audit Area (which reports to the chairman & chief executive officer and is functionally controlled by the Audit and Risk Supervision Committee, and which, as provided in the Basic Internal Audit Regulations of Iberdrola, S.A. and the Companies of its Group, has the primary roles of working with the Audit and Risk Supervision Committee to further develop the powers thereof and to proactively ensure the proper operation of the information technology, internal control, and risk management systems of the Company), conducts an independent review of the design and operation of

the internal control system in support of said Committee, identifies deficiencies, and draws up recommendations for improvement.

As a result thereof, the Internal Audit Division continuously monitors the various action plans agreed with the different organisations to correct the deficiencies detected and to implement the suggestions for improvement agreed with the organisations.

The period that the Internal Audit Division plans for an in-depth review of the entire internal control system is three years.

Specifically, during financial year 2015, more than 40 cycles of the companies Iberdrola Ingeniería y Construcción S.A., Iberdrola España S.A., Scottish Power, Ltd., Iberdrola USA, Inc., Iberdrola Energía, S.A., and Iberdrola México S.A. de C.V. were reviewed, as were the corporate areas of Administration and Control and Finance and Resources.

In addition, the Internal Audit Division performs a review of the operation of the internal controls regarded as most critical on a half-yearly basis, on the dates of the half-year and year-end closing.

The combination of the three-year reviews and the half-yearly reviews of the most critical controls enables the Internal Audit Division to perform an assessment of the internal control system, as regards the design and operation thereof, and to issue an opinion on the effectiveness of the internal controls established to ensure the reliability of financial information, which it submits to the Audit and Risk Supervision Committee within the framework of their periodic meetings.

F.5.2. Whether it has a discussion procedure whereby the auditor (as provided in the Technical Auditing Standards), the internal audit function, and other experts can inform senior management and the audit committee or the directors of the entity of the significant internal control weaknesses detected during the review of the annual accounts or such other reviews as may have been entrusted to them. Information shall also be provided on whether it has an action plan to seek to correct or mitigate the weaknesses found.

Generally speaking, the procedure for discussion of significant internal control weaknesses detected is based on periodic meetings of the various agents.

Thus, the Audit and Risk Supervision Committee holds meetings, both at the half-year and at the year-end closing, with the external auditors, the internal auditors, and the division responsible for preparing financial information, in order to discuss any significant aspect of the preparation process and of the resulting financial information.

Specifically, pursuant to the provisions of its Regulations (scope of authority), the Audit and Risk Supervision Committee of Iberdrola has, among other duties, the duty of reviewing, together with the auditors, the significant weaknesses of the internal control system detected in the course of the audit. To such end, the auditor appears before such Committee on an annual basis to submit recommendations in connection with the internal control weaknesses identified during the review of the accounts. Any weaknesses described by the auditor are monitored on an ongoing basis by the Committee, with the support of the Internal Audit Division. The auditors did not highlight any significant internal control weaknesses during financial year 2015.

Furthermore, the division responsible for preparing the consolidated accounts also holds meetings with the external auditors and with the internal auditors, both at the half-year and at the year-end closing, to discuss significant issues relating to financial information.

F.6 Other significant information.

Iberdrola has an internal model or system for control over financial reporting, the purpose of which is to reasonably ensure the reliability of the financial information. It is important to note that the development of this model, which commenced in 2006, was not the product of a legal requirement, but rather derived from the firm belief of both the Board of Directors and the senior management of the Company that in a context of growth and internationalisation as the one that could already be envisaged for the Group, an explicit and auditable internal control system would contribute to maintaining and improving its control environment and the quality of financial information; it would also boost investors' trust because of its

effects on the transparency, reputation, and good governance of Iberdrola and of the subsidiaries making up the Iberdrola Group.

The Internal Control over Financial Reporting Model or System (ICFRS) of the Iberdrola Group rests on two main pillars: certification and internal control proper.

Certification is a half-yearly process in which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and the financial condition within their area of responsibility, and (ii) they are responsible for establishing the ICFRS within their area of responsibility and have found, upon evaluation, that the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the half-yearly process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The other pillar supporting this model, i.e. internal control proper, is patterned on the reference framework described in the report entitled "Internal Control Integrated Framework" of the Committee of Sponsoring Organisations of the Treadway Commission (COSO), and is primarily aimed at providing a reasonable level of security in achieving the aim of reliability of the financial information.

The methodology used by Iberdrola for the development and continuous update of internal control consists of the following stages or steps: (i) analysis and selection of significant financial information, (ii) grouping such information into cycles or large processes in which it is generated, (iii) identification, assessment, and prioritisation of risks of error in financial information within selected cycles, (iv) design and operation of controls in order to mitigate or manage selected risks, and (v) monitoring and update of the previous steps in order to continuously adapt the model to the circumstances of corporate activities.

One of the salient features of the design of this model is that it seeks to guarantee the quality of financial information during all months of the year, such that it is not limited only to the periods of year-end or half-year closings.

This feature is strengthened through the use of a specific software application developed in-house by the Group that allows for monitoring of the status of controls at all times.

Another important feature of the model is that it extends the culture of internal control to all of the organisations, both corporate and business, that significantly contribute to generating financial information, by assigning personal responsibility for the implementation and documentation of controls.

All relevant documents in connection with Iberdrola's ICFRS, both regarding the certification process and internal control proper, are contained in the aforementioned computer application.

Those responsible for implementing the controls enter into the computer application evidence of such controls having been performed, and then evaluate the results obtained, which they rate as satisfactory or non-satisfactory. This allows for the internal control situation to be monitored in real time, and also makes it possible to act promptly on any deficiencies detected.

In addition, those responsible for control at the country subholding and business subholding companies, as well as those responsible for the corporate areas, carry out an annual review of the design and operation of the SCIIF, as a systematic process for updating such model in order to adapt it to the changing circumstances of corporate activities.

The annual review is coordinated by the Internal Control Division, which is also responsible for managing the computer application and coordinating the development of the ICFRS in the various business units and corporate areas of the Group.

Moreover, the Internal Audit Division, which is responsible for supervising internal control as part of its duty of support of the Audit and Risk Supervision Committee, performs an independent review of the design and operation of the ICFRS, identifying deficiencies and formulating recommendations for improvement. Such review is carried out in accordance with an established policy of rotation among the different cycles within the model over a period of three years.

The Internal Audit Division also performs a half-yearly independent review of the effectiveness of the internal controls established to guarantee the reliability of financial information. It also reviews the process for certification of financial information on a half-yearly basis. The conclusions of such reviews are submitted to the Audit and Risk Supervision Committee, which, if appropriate, adopts such conclusions and submits them in turn to the Board of Directors.

The current scope of the ICFRS is such that, based on materiality standards, it covers the entire Iberdrola Group. At present, more than 1,000 persons within the Group use the software application, both to document evidence of the performance of more than 2,200 controls (which mitigate or manage more than 900 risks of error in financial information that have been prioritised) and to monitor, analyse, adjust, and

assess the ICFRS.

Furthermore, approximately 60 officers who participate in the process of certification of the accuracy of information under their responsibility do so by using an electronic signature directly on the computer application.

As a consequence of all of the foregoing, the final result of the certification process, which is based on the situation of internal control proper, can be reviewed by the Board of Directors of Iberdrola as one of the significant guarantees of reliability in connection with the preparation of the Group's annual and interim financial information.

F.7 External audit report

Report on:

F.7.1. Whether the information on the internal control over financial reporting system has been reviewed by the external auditor, in which case the entity should include the respective report as an exhibit. Otherwise, it should provide the reasons therefor.

The information on the internal control over financial reporting system sent to the markets has not been reviewed by the external auditor for reasons of consistency with the fact that the rest of the information set forth in the Annual Corporate Governance Report is only reviewed by the auditor in connection with the accounting information contained in said Report. It is also believed that having the information on the internal control over financial reporting system reviewed externally would in a certain manner overlap the internal control review to be performed by the external auditor, according to technical auditing standards, within the context of the audit of the accounts.

G. DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

State the company's degree of compliance with the recommendations of the Good Governance Code of Listed Companies.

If the company does not comply with any recommendation or follows it partially, there must be a detailed explanation of the reasons providing shareholders, investors, and the market in general with sufficient information to assess the company's course of action. Generalised explanations will not be acceptable.

- 1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market**

Complies ☐ Explain ☒

Article 29.2 of the *By-Laws* provides that "No shareholder may cast a number of votes greater than those corresponding to shares representing ten (10%) per cent of share capital, even if the number of shares held exceeds such percentage of the share capital. This limitation does not affect votes corresponding to shares with respect to which a shareholder is holding a proxy as a result of the provisions of article 23 above, provided, however, that with respect to the number of votes corresponding to the shares of each shareholder represented by proxy, the limitation set forth above shall apply".

Section 3 of such article adds: "The limitation set forth in the preceding section shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholders that are entities or companies belonging to the same group. Such limitation shall also apply to the number of votes that may be cast collectively or individually by an individual and the shareholder entity, entities, or companies controlled by such individual. A group shall be deemed to exist under the circumstances provided by law, and also when a person controls one or more entities or companies".

Iberdrola believes that the limitation on the maximum number of votes that may be cast by a single shareholder, or by several shareholders belonging to the same group or, if applicable, acting in concert, is a measure to protect the many minority shareholders, whose investment is thus guarded from any transaction that is contrary to the corporate interest of Iberdrola. In this regard, it should be noted that approximately one-fourth of Iberdrola's capital is held by retail investors, who thus have little room to manoeuvre and respond to a possible influence-seeking shareholder that owns a non-controlling interest and does not reach the threshold requiring a takeover bid, and whose interest is not totally in line with the corporate interest.

It should also be noted that such voting limitation has been in effect since 16 June 1990, the date on which the General Shareholders' Meeting was held at which it was resolved, by unanimous vote of the attendees, to bring the *By-Laws* of the Company (then doing business as Iberduero, S.A.) into line with the restated text of the Companies Act approved by Royal Legislative Decree 1564/1989 of 22 December. This shows the level of corporate consensus that has existed on such voting limitation from the very beginning, which has been confirmed by the fact that such limitation has remained unchanged through various by-law amendments passed by the shareholders at General Shareholders' Meetings. In turn, it reflects the will of the shareholders to increase their bargaining power in the event of hostile offers or transactions.

In any event, article 50 of the current *By-Laws* establishes the instances of removal of such voting limitation in the event that the Company is the target of a takeover bid that receives the required shareholder approval, in which case the provisions of section 527 of the Companies Act prevail. Pursuant to the foregoing, it cannot be deemed that the limitation on the maximum number of votes that may be cast by a shareholder constitutes an obstacle to a takeover bid.

- 2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:**

- a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies.**

b) The mechanisms in place to resolve possible conflicts of interest.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular,

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies ☒ Complies in part ☐ Explain ☐

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies ☒ Complies in part ☐ Explain ☐

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies ☒ Complies in part ☐ Explain ☐

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory.

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the nomination and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on the corporate social responsibility policy.

Complies ☒ Complies in part ☐ Explain ☐

7. The committee should broadcast its general meetings live on the corporate website.

Complies ☒ Explain ☐

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies ☒ Complies in part ☐ Explain ☐

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies ☒ Complies in part ☐ Explain ☐

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies ☒ Complies in part ☐ Explain ☐

- 13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.**

Complies ☒ Explain ☐

- 14. The board of directors should approve a director selection policy that:**

- a) Is concrete and verifiable.**
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and**
- c) Favours a diversity of knowledge, experience and gender.**

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies ☒ Complies in part ☐ Explain ☐

- 15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

Complies ☒ Complies in part ☐ Explain ☐

- 16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.**

Complies ☒ Explain ☐

- 17. Independent directors should be at least half of all board members.**

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies ☒ Explain ☐

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Background and professional experience.
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
- d) Dates of their first appointment as a board member and subsequent re-elections.
- e) Shares held in the company, and any options on the same.

Complies ☒ Complies in part ☐ Explain ☐

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies ☒ Explain ☐

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies ☒ Complies in part ☐ Explain ☐

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve:

Complies ☒ Complies in part ☐ Explain ☐

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies ☒ Complies in part ☐ Explain ☐

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Complies ☒ Complies in part ☐ Explain ☐

- 28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.**

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

- 29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.**

Complies ☒ Complies in part ☐ Explain ☐

- 30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Complies ☒ Explain ☐ Not applicable ☐

- 31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.**

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies ☒ Complies in part ☐ Explain ☐

- 32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.**

Complies ☒ Complies in part ☐ Explain ☐

- 33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.**

Complies ☒ Complies in part ☐ Explain ☐

- 34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman**

or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies ☒ Explain ☐

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies ☒ Complies in part ☐ Explain ☐

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Complies ☐ Complies in part ☒ Explain ☐ Not applicable ☐

There is a single executive director and a single proprietary director on the Company's Board of Directors. The Executive Committee of Iberdrola is made up of five directors, one of which is an executive director and another a proprietary director. Their membership on the Executive Committee causes their relative weight therein to be necessarily greater than that on the Board of Directors. However, Iberdrola believes that it is essential for them to be a part of the Executive Committee. In

any event, the Executive Committee also has an external director and two independent directors, one of which is the lead independent director (*consejera coordinadora*), which provides a proper balance in the composition thereof, with representation of the various classes of directors of the Company, and ensures that their duties may not be performed along lines different from those reflected by the composition of the Board of Directors.

- 38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.**

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

- 39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.**

Complies ☒ Complies in part ☐ Explain ☐

- 40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.**

Complies ☒ Complies in part ☐ Explain ☐

- 41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.**

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

- 42. The audit committee should have the following functions over and above those legally assigned:**

1. With respect to internal control and reporting systems

- a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies ☒ Complies in part ☐ Explain ☐

- 43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.**

Complies ☒ Explain ☐

- 44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.**

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

- 45. The risk control and management policy should identify at least:**

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.
- c) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance- sheet risks.

Complies ☒ Complies in part ☐ Explain ☐

- 46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct**

supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies ☒ Complies in part ☐ Explain ☐

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies ☒ Complies in part ☐ Explain ☐

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Complies ☒ Complies in part ☐ Explain ☐

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Complies ☒ Complies in part ☐ Explain ☐

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the board the standard conditions for senior officer contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies ☒ Complies in part ☐ Explain ☐

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies ☒ Complies in part ☐ Explain ☐

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established *ad hoc* by the board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
- f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies ☒ Complies in part ☐ Explain ☐

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies ☒ Complies in part ☐ Explain ☐

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies ☒ Explain ☐

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies ☒ Explain ☐

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This

condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies ☒ Complies in part ☐ Explain ☐

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies ☐ Complies in part ☒ Explain ☐ Not applicable ☐

A significant portion of the remuneration of the directors and officers of Iberdrola is received on a deferred basis in shares upon the terms approved by the shareholders. Specifically, the second delivery of the Strategic Bonus 2011-2013, approved by the shareholders at the General Shareholders' Meeting held on 27 March 2011, was paid in 2015.

This Strategic Bonus, as well as the one approved at the General Shareholders' Meeting held on 28 March 2014, is an instrument of multi-year variable remuneration linked to the long-term performance of the Company and aligned with the shareholders' interest, given that it is paid in shares and each beneficiary's allocated a maximum theoretical amount.

The evaluation period covers three years, and payment occurs over the next three years. Recommendation 62 is made on the basis of "specify an element of deferment that allows the delivery of objectives to be confirmed". This purpose serves the Director Remuneration Policy which, as was explained, contemplates share-based remuneration instruments that are delivered on a deferred basis, for which reason the remuneration is withheld for several years.

Furthermore, it should be noted that the chairman & chief executive officer, the only executive director, has not sold shares of the Company since his appointment, and is and has for many years been the owner of a number of shares that is much higher than that provided for by this recommendation.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies ☐ Complies in part ☒ Explain ☐ Not applicable ☐

As already explained in the previous recommendation, the purpose of this recommendation 63 is also that the Remuneration Policy specify "an element of deferment that allows the delivery of objectives to be confirmed".

The Director Remuneration Policy specifies said deferral in the Strategic Bonds approved at the General Shareholders' Meetings. The delivery of shares is subject to three-year evaluation periods, and implementation occurs over the next three years. In sum, this structure allows for verification of the long-term effectiveness of satisfying the targets to which the variable remuneration is linked.

Furthermore, prior to the payment of any deferred variable remuneration, there must be a report of the Remuneration Committee confirming the effectiveness of the grounds supporting said deferred variable remuneration. If there is a circumstance that subsequently requires a correction of the parameters taken into consideration during the initial evaluation, the Board of Directors will decide whether to cancel payment of the deferred variable remuneration in whole or in part (*malus* clause).

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies ☐ Complies in part ☒ Explain ☐ Not applicable ☐

Contracts with new executive directors and senior officers include, as from 2011, maximum severance equal to two times annual salary in the event of termination of their relationship with the Company, provided that termination of the relationship is not the result of a breach attributable thereto or solely due to a voluntary decision thereof.

The Company included guarantee clauses of up to five years in contracts with its key officers 16 years ago. Subsequently, in 2001, when the current chairman joined Iberdrola, he received the treatment in effect for such officers, in order to achieve an effective and sufficient level of loyalty. As chairman & chief executive officer, he is currently entitled to three times annual salary.

The Board of Directors has analysed this situation, the treatment of which is necessarily collective in nature. Any reduction in the salary multiples would carry high costs for the Company, for which reason the Board of Directors believes that it is most appropriate not to change the status quo. Any proposed reduction in the salary multiples would have a higher cost for the Company, as the amount of the contingency would gradually decrease due to the passage of time, resulting in payments far smaller

than any possible reduction in the agreed termination benefit, taking into account the average age of the affected group and the low likelihood of the guarantees being enforced. In this regard, it should be pointed out that at year-end 2014, there were 62 officers in this group. At year-end 2015, the number decreased to 52 without the enforcement of any guarantee.

H. OTHER INFORMATION OF INTEREST

- 1. If there are any significant aspects regarding corporate governance at the company or at entities of the group that is not included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the corporate governance structure and practices at the entity or its group, briefly describe them.**
- 2. In this section, you may also include any other information, clarification, or comment relating to the prior sections of this report to the extent they are relevant and not repetitive.**

Specifically, state whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this report.

- 3. The company may also state whether it has voluntarily adhered to other international, industrial, or other codes of ethical principles or good practices. If so, identify the code in question and the date of adherence thereto. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.**

MISSION, VISION, AND VALUES

Iberdrola is fully aware of its importance as a business, institutional, and social reality, and cannot nor does it want to be estranged from the challenges entailed in its position as the controlling company of one of the leading global groups in the electricity sector. The responsibilities arising from all of the above go beyond the strictly economic arena, fully reaching the social level.

Along these lines, the efforts of Iberdrola's Board of Directors since the General Shareholders' Meeting held in 2015 have been directed towards a consideration of the relations that the Company and the Group should maintain with its stakeholders, beyond its shareholders and the financial community - its workforce, regulatory entities, its customers, its suppliers, the media, society in general, and the environment, among others.

Specifically, during the month of October 2015, the Board of Directors engaged in a profound review of the mission, vision, and values of the Group to better conform them to a complex business group, with the goal of leadership in all facets of its business (both economically and especially socially) using a new focus that stresses the sustainable creation of value and emphasises the social impact of its activities.

The content of the new mission, vision, and values of the Group have been incorporated into a new rule within the Corporate Governance System: the Mission, Vision, and Values of the Iberdrola group, which contains the corporate philosophy of the Group, inspires and takes form in the Corporate Policies and in the other rules of the Corporate Governance System, governing the day-to-day activities of all companies of the Group and guiding their strategy and all of their actions.

The Company seeks a social return on all of its activities. Its corporate values reflect its commitment to the sustainable creation of value, ethical principles, transparency and good corporate governance, the development of human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, customer focus, and institutional loyalty.

The Company and the other entities belonging to the Group seek to engage all stakeholders in its business enterprise in accordance with a policy on relations with all of them based on two-way communication and the principles of transparency, active listening and equal treatment, which allows for all of their legitimate interests to be taken into consideration and to effectively disclose information regarding the activities and businesses of the Group.

SECTION A.1

The shareholders acting at the General Shareholders' Meeting of the Company held on 28 March 2014 approved two increases in share capital by means of scrip issues in order to implement, for the fourth consecutive year, the shareholder compensation system called "Iberdrola Flexible Dividend" ("Iberdrola Dividendo Flexible"), which allows the shareholders to decide whether they prefer to receive all or part of their compensation in cash or in Iberdrola bonus shares.

The second increase in capital took place in December 2014, when the traditional interim dividend for financial year 2014 would otherwise have been paid, and the number of new shares that were issued and floated came to 81,244,000, par value 0.75 euro each, without a share premium, representing approximately 1.29% of the share capital prior to the increase.

The shareholders acting at the General Shareholders' Meeting held on 27 March 2015, under item 10 on the agenda, approved a reduction in share capital by means of the retirement of 135,768,494 treasury shares of Iberdrola representing 2.125% of the share capital, and the acquisition of the Company's own shares representing a maximum of 0.199% of the share capital through a buy-back programme for the retirement thereof.

As a result of such resolution, the share capital of Iberdrola was reduced by the amount of 111,362,250.00 euros in May 2015 through the retirement of 148,483,000 treasury shares (135,768,494 own shares already in treasury and 12,714,506 shares acquired from the shareholders through the buy-back programme), representing approximately 2.324% of the share capital prior to the reduction. The share capital resulting from the reduction was set at 4,680,000,000.00 euros, corresponding to 6,240,000,000 shares.

The purpose of the reduction in capital was to retire treasury shares, for which reason there was no return of contributions as the Company itself was the holder of the retired shares.

In addition, the shareholders acting at the General Shareholders' Meeting of the Company held on 27 March 2015 approved, under item six on the agenda, two increases in share capital by means of a scrip issue in order to implement, for the sixth consecutive year, the shareholder remuneration system known as Iberdrola Flexible Dividend.

The first increase in capital took place in July 2015, when the traditional supplementary dividend for financial year 2014 would otherwise have been paid, and the number of new shares that were issued and floated came to 96,870,000, par value 0.75 euro each, without a share premium, representing approximately 1.55% of the share capital prior to the increase. The share capital of the Company came to 6,336,870,000 shares after this increase in capital.

The second increase in capital took place in January 2016, when the traditional dividend for financial year 2015 would have been paid. The number of new shares issued and floated came to 60,327,000, par value 0.75 euro each, without a share premium, representing approximately 0.95% of the share capital prior to the increase. After said increase in capital, the share capital of the Company was 6,397,197,000 shares.

SECTION A.2

Given that the shares are represented by book entries, no information is available on a daily basis about the interest of shareholders in the share capital. However, since 7 May 2014, Iberdrola is a member within Iberclear of the Communication Service for securities holdings and the balanced list of buyers and sellers upon the terms set forth in Circular No 5/2013 of 27 November. The sources of the information provided are the notices sent by the shareholders to the CNMV and to the Company itself, and the information contained in their respective annual reports and press releases, as well as the information that the Company obtains from Iberclear.

Pursuant to the provisions of section 23.1 of Royal Decree 1362/2007 of 19 October, further developing Law 24/1988 of 28 July on the Securities Market, in connection with the transparency requirements relating to the information on issuers whose securities have been admitted to trading on an official secondary market or other regulated market in the European Union, it is deemed that significant shareholders are the holders of at least 3% of voting rights.

According to available information, the approximate breakdown of the interests in the share capital by type of shareholder is as follows:

- Foreign investors	62.9%
- Domestic entities	13.7%
- Domestic retail investors	23.4%

SECTION A.3

Data at the date of approval of this Report.

SECTION A.8

As of the end of financial year 2015, the number of own shares and derivatives on treasury shares at Iberdrola is 92,464,082, representing 1.459% of share capital.

Of such amount, Iberdrola has 67,636,166 own shares and 17,027,195 shares accumulated through derivatives pending settlement and that are recorded as treasury shares in the consolidated financial statements at 31 December 2015, and 7,800,721 shares corresponding to share swaps.

Pursuant to the authorisations granted to the Board of Directors by the shareholders at the General Shareholders' Meeting, during financial year 2015 Iberdrola acquired 76,341,337 own shares for 451,332 thousand euros, and 102,803,944 shares for 588,713 thousand euros, through derivatives, although the latter are included in the derivatives pending settlement as mentioned above.

In addition, 6,984,197 own shares were sold for 43,133 thousand euros. Under such authorisations, Iberdrola has retired 148,483,000 own shares.

Due to the change in the number of voting rights as a result of the increase in capital for the Iberdrola Flexible Dividend scheme, on 4 February 2016 the Company announced direct acquisitions of 41,537,228 treasury shares (0.649%).

Furthermore, at year-end 2015 there are 1,638,563 treasury shares of Scottish Power corresponding to the matching shares held in trust for the Share Incentive Plan.

SECTION C.1.3

Pursuant to information held by the Company, it is foreseeable that the circumstances leading to the classification of Mr Iñigo Víctor de Oriol Ibarra and Mr Manuel Moreu Munaiz as other external directors do not occur during 2016 and that they become classified as independent directors.

The complete professional profiles of all the directors are available on the Company's corporate website (www.iberdrola.com).

SECTION C.1.16

Mr Julián Martínez-Simancas Sánchez has ceased to hold office as a senior officer since 9 January 2016 due to his retirement. On 19 January 2016, Mr Santiago Martínez Garrido was appointed as director of Group's Legal Affairs.

SECTION C.1.29

In December 2014, under the chairmanship of the lead independent director, there was a meeting without the presence of the chairman & CEO to deliberate on his proposed re-election as director at the General Shareholders' Meeting of 27 March 2015.

Furthermore, within the framework of the process of evaluation of the Board of Directors, the lead independent director met individually with each of the directors in order to identify possible improvements in the operation thereof.

The Appointments and Remuneration Committee was split into two separate committees on 27 March 2015.

SECTION C.1.30

Below is the data on attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2015:

Directors	Board	Committees					
		EC	ARSC	ARC	AC	RC	CSRC

MR JOSÉ IGNACIO SÁNCHEZ GALÁN	8/8	14/14	--	--	--	--	--
MR JULIO DE MIGUEL AYNAT	1/1	--	3/3	--	--	--	--
MR SEBASTIÁN BATTANER ARIAS	1/1	--	3/3	--	--	--	--
MR XABIER DE IRLA ESTÉVEZ	8/8	14/14	--	--	--	--	--
MR IÑIGO VÍCTOR DE ORIOL IBARRA	8/8	--	--	6/6	8/8	4/4	--
MS INÉS MACHO STADLER	8/8	14/14	--	6/6	--	4/4	--
MR BRAULIO MEDEL CÁMARA	8/8	--	--	--	--	--	7/7
MS SAMANTHA BARBER	8/8	--	--	--	--	--	7/7
MS MARÍA HELENA ANTOLÍN RAYBAUD	8/8	--	--	--	8/8		2/2
MR SANTIAGO MARTÍNEZ LAGE	8/8	--	--	6/6	--	4/4	--
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	8/8	13/14	--	--	--	--	--
MR ÁNGEL JESÚS ACEBES PANIAGUA	8/8	14/14	--	--	8/8	--	--
MS GEORGINA KESSEL MARTÍNEZ	8/8	--	15/15	--	--	--	--
MS DENISE MARY HOLT	8/8	--	14/15	--	--	--	--
MR JOSÉ WALFREDO FERNÁNDEZ	7/7	--	11/12	--	--	--	--
MR MANUEL MOREU MUNAIZ	7/7	--	--	--	--	--	5/5

Notes:

- The denominator indicates the number of meetings held during the period of the year in which the director served as such or as a member of the respective Committee.
- EC: Executive Committee.
- ARSC: Audit and Risk Supervision Committee.
- ARC: Appointments and Remuneration Committee.
- AC: Appointments Committee.
- RC: Remuneration Committee
- CSRC: Corporate Social Responsibility Committee.

SECTION C.1.31

The Iberdrola Group has established a certification process by which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and the financial condition within their area of responsibility, and (ii) they are responsible for establishing the ICFRS within their area of responsibility and have found, upon evaluation, that the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The process is carried out by means of electronic signature in a software application which manages the areas of responsibility and time periods and which serves as a repository of all the documentation generated, allowing for periodic review by the supervisory bodies of the Group.

SECTION C.1.36

On 15 December 2015 the Board of Directors approved the selection of KPMG Auditores, S.L. as the auditor of the annual accounts of the Company and of its consolidated group for financial years 2017 to 2019, upon a proposal of the Audit and Risk Supervision Committee. The Board of Directors will submit this proposal to the shareholders at the General Shareholders' Meeting to be held in 2017.

SECTION D

All information regarding related-party transactions included in this Annual Corporate Governance Report 2015 is consistent with that contained in the Company's Annual Financial Report for financial year 2015.

SECTION D.2

Contracts for financial instruments are made in competition with various entities, with the one most beneficial for the Company at any time being selected. The Financing and Financial Risk Policy establishes a number of limits on derivatives contracts with a single financial institution in order to avoid excessive risk concentration, as well as to ensure a minimum creditworthiness level below which no contracts could be made. Such limits are complied with in respect of all counterparties, including the significant shareholders of the Company.

The amounts set forth as "profits and other dividends paid" correspond to the cash dividend distributed by the Company and to the free-of-charge allocation rights stemming from the two increases in share capital by means of a scrip issue approved by the shareholders at the General Shareholders' Meetings, which were sold to the Company at a guaranteed fixed price pursuant to the terms and conditions of such increases.

This information includes transactions with the shareholders Qatar Investment Authority and Kutxabank, S.A., holders of significant interests at the close of financial year 2015.

All of these transactions were made in the ordinary course of business, were carried out on an arm's-length basis, and the information about them is not needed to give a true and fair view of the assets, the financial condition, and the results of operations of the Company.

The Iberdrola Group optimises its banking transactions management by selecting financial institutions based on their solvency, presence in the Group's markets, and capacity to provide the best service in terms of costs and quality. The selection of suitable financial institutions for each bank product is supplemented by a balanced allocation based on the financial institution's risk exposure toward the Iberdrola Group and the volume of business granted.

Kutxabank provides banking services to the Group in the management of the domestic and international business.

Kutxabank corresponds in terms of how it ranks in profits and risk exposure towards the Iberdrola Group, which shows Iberdrola's commitment to achieving a balanced risk/business distribution. Kutxabank ranks below 30th as to both risk exposure and profits; therefore, it does not have a significant position as a provider of financial services to the Iberdrola Group.

SECTION D.4

Transactions with subsidiaries and companies in which the Company has an interest that have not been eliminated in the process of consolidation were made in the ordinary course of business of the Company, were carried out under arm's-length conditions, and are of little significance to accurately reflect the assets, financial condition, and results of operations of the Company.

On 20 July 2010, the Company adhered to the Code of Good Tax Practices, a document approved at the full Forum of Large Businesses (*Foro de Grandes Empresas*) created by the National Tax Administration Agency (*Agencia Estatal de Administración Tributaria*) and certain large companies, and which was held on that date.

Pursuant to the provisions of section 2 of the annex of adherence to the Good Tax Practices Code and of subsection 5.b) of the Corporate Tax Policy, the Company reports that it has complied with the provisions of such Code as from the time of approval thereof.

Specifically, it is reported that, during financial year 2015, the Company's head of tax matters appeared on 16 February and 20 July before Iberdrola's Audit and Risk Supervision Committee to report on compliance with the Corporate Tax Policy, which includes the good tax practices contained in the aforementioned Code, all of which was reported to the Board of Directors.

This annual corporate governance report was approved by the Board of Directors of the company at its meeting of 23 February 2016.

State whether any directors voted against or abstained in connection with the approval of this Report.

Yes ☐ No ☒

Individual or company name of director that did not vote in favour of the approval of this report	Reasons (opposed, abstained, absent)	Explain the reasons

PROFIT DISTRIBUTION PROPOSAL

YEAR 2015

(Euros)	2015
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Distribution basis:

Retained earnings of previous years	5,470,986,121.67
Profit for 2015	116,612,892.52
	5,587,599,014.19

Distribution:

To legal reserve	-
To dividend (maximum amount to deliver consisting of a gross dividend of EUR 0.03 per share, per all of the 6,397,197,000 shares outstanding at the date of issuance of these financial statements)	191,915,910.00
To retained earnings (minimum amount)	5,395,683,104.19
	5,587,599,014.19



ANNUAL FINANCIAL REPORT STATEMENT OF RESPONSIBILITY

The members of the Board of Directors of IBERDROLA, S.A. state that, to the best of their knowledge, the individual annual accounts of IBERDROLA, S.A. (balance sheet, profit and loss statement, statement of change in shareholders' equity, statement of cash flows and notes), as well as the consolidated annual accounts of IBERDROLA, S.A. and its subsidiaries (balance sheet, profit and loss statement, statement of changes in shareholders' equity, statement of cash flows and notes) for the fiscal year ended on December 31, 2015, issued by the Board of Directors at its meeting of February 23, 2016, and prepared in accordance with applicable accounting standards, present a fair view of the assets, financial condition and results of operations of IBERDROLA, S.A. as well as of the subsidiaries included within its scope of consolidation, taken as a whole, and that the management reports supplementing the individual and consolidated annual accounts contain a fair assessment of the corporate performance and results and the position of IBERDROLA, S.A. and of the subsidiaries included within its scope of consolidation, taken as a whole, as well as a description of the principal risks and uncertainties facing them.

Bilbao, February 23, 2016

Mr José Ignacio Sánchez Galán
Chairman & Chief Executive Officer

Mr Xabier de Irala Estévez
Director

Mr Iñigo Víctor de Oriol Ibarra
Director

Ms Inés Macho Stadler
Director

Mr Braulio Medel Cámara
Director

Ms Samantha Barber
Director

Ms Maria Helena Antolín Raybaud
Director

Mr Santiago Martínez Lage
Director

Mr José Luis San Pedro
Guerenabarrena
Director

Mr Ángel Jesús Acebes Paniagua
Director

Ms Georgina Yamilet Kessel Martínez
Director

Ms Denise Mary Holt
Director

Mr José Walfredo Fernández
Director

Mr Manuel Moreu Munaiz
Director