KPMG

Iberdrola, S.A. and Subsidiaries

Condensed Consolidated Interim Financial Statements

30 June 2021

Consolidated Interim Directors' Report

2021

(With Limited Review Report thereon)

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

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

Limited Review Report on the Condensed Consolidated Interim Financial Statements

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

To the Shareholders of
Iberdrola, S.A., commissioned by the Directors of the Company

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of Iberdrola, S.A. (the "Company") and subsidiaries (together the "Group"), which comprise the statement of financial position at 30 June 2021, the income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows for the six-month period then ended, and explanatory notes (all condensed and consolidated). The Directors of the Company are responsible for the preparation of these interim financial statements in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 as regards the preparation of condensed interim financial information. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2021 have not been prepared, in all material respects, in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting as adopted by the European Union, pursuant to article 12 of Royal Decree 1362/2007 as regards the preparation of condensed interim financial statements.

On the Spanish Official Register of Auditors ("ROAC") with No. S0702, and the Spanish Institute of Registered Auditors' list of companies with No. 10.
Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M -188.007, Inscrip. 9
N.I.F. B-78510153

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

Emphasis of Matter

We draw your attention to the accompanying note 2, which states that these interim financial statements do not include all the information that would be required in a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2020. This matter does not modify our conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accompanying consolidated interim directors' report for the six-month period ended 30 June 2021 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The consolidated interim directors' report is not an integral part of the interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2021. Our work is limited to the verification of the consolidated interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Iberdrola, S.A. and subsidiaries.

Other Matter

This report has been prepared at the request of management in relation to the publication of the six-monthly financial report required by article 119 of the Revised Securities Market Law, approved by Royal Legislative Decree 4/2015 of 23 October 2015 and enacted by Royal Decree 1362/2007 of 19 October 2007.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Enrique Asla García

23 July 2021

IBERDROLA, S.A. AND SUBSIDIARIES

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND CONSOLIDATED INTERIM MANAGEMENT REPORT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

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Millions of euros			
ASSETS	**Note**	**30.06.2021 (unaudited)**	**31.12.2020 (*) (audited)**
Intangible assets		**19,182**	**18,222**
Goodwill		8,036	7,613
Other intangible assets		11,146	10,609
Investment property		**235**	**301**
Property, plant and equipment	**8**	**75,026**	**71,779**
Property, plant and equipment in use		66,676	64,879
Property, plant and equipment under construction		8,350	6,900
Right-of-use assets		**2,108**	**1,974**
Non-current investments		**5,589**	**5,461**
Equity-accounted investees	7	1,248	1,145
Non-current equity investments	9	57	38
Other non-current financial assets	9	3,252	2,909
Derivative financial instruments	9	1,032	1,369
Non-current trade and other receivables		**3,531**	**3,161**
Current tax assets	**17**	**679**	**666**
Deferred tax assets		**6,031**	**5,982**
NON-CURRENT ASSETS		**112,381**	**107,546**
Nuclear fuel		**270**	**260**
Inventories		**2,559**	**2,443**
Current trade and other receivables		**9,293**	**7,664**
Current tax assets		781	564
Other tax receivables		1,074	623
Current trade and other receivables		7,438	6,477
Current financial assets	**9**	**1,583**	**1,178**
Other current financial investments		905	578
Derivative financial instruments		678	600
Cash and cash equivalents	**10**	**3,417**	**3,427**
CURRENT ASSETS		**17,122**	**14,972**
TOTAL ASSETS		**129,503**	**122,518**

(*) The Consolidated statement of financial position at 31 December 2020 is presented for comparative purposes only.

The accompanying Notes are an integral part of the Condensed interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES
Consolidated statement of financial position at 30 June 2021

Millions of euros			
EQUITY AND LIABILITIES	**Note**	**30.06.2021 (unaudited)**	**31.12.2020 (*) (audited)**
Parent		**36,625**	**35,412**
Subscribed capital	11	4,813	4,762
Valuation adjustments	11	(37)	(242)
Other reserves		37,525	34,420
Treasury shares	11	(2,836)	(1,985)
Translation differences		(4,371)	(5,154)
Net profit for the period		1,531	3,611
Non-controlling interests		**14,626**	**11,806**
EQUITY		**51,251**	**47,218**
Capital grants		**1,215**	**1,240**
Facilities transferred or financed by third parties		**5,110**	**5,043**
Non-current provisions		**6,082**	**5,836**
Provision for pensions and similar obligations	15	2,293	2,318
Other provisions		3,789	3,518
Non-current financial liabilities		**35,958**	**35,096**
Bank borrowings, debentures or other marketable securities	9, 14	30,939	30,334
Equity instruments having the substance of a financial liability	9	310	334
Derivative financial instruments	9	840	991
Leases		2,060	1,927
Other non-current financial liabilities		1,809	1,510
Other non-current liabilities		**321**	**262**
Current tax liabilities		**289**	**285**
Deferred tax liabilities		**10,438**	**9,607**
TOTAL NON-CURRENT LIABILITIES		**59,413**	**57,369**
Current provisions		**705**	**579**
Provision for pensions and similar obligations	15	17	23
Other provisions		688	556
Current financial liabilities		**15,359**	**15,470**
Bank borrowings, debentures or other marketable securities	9, 14	7,490	7,703
Equity instruments having the substance of a financial liability	9	47	57
Derivative financial instruments	9	582	297
Leases		137	131
Trade payables		5,278	5,138
Other current financial liabilities		1,825	2,144
Other current liabilities		**2,775**	**1,882**
Current tax liabilities		581	178
Other tax payables		1,619	1,226
Other current liabilities		575	478
TOTAL CURRENT LIABILITIES		**18,839**	**17,931**
TOTAL EQUITY AND LIABILITIES		**129,503**	**122,518**

(*) The Consolidated statement of financial position at 31 December 2020 is presented for comparative purposes only.

The accompanying Notes are an integral part of the Condensed interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

Millions of euros	Note	30.06.2021 (unaudited)	30.06.2020 (*) Restated Note 2.c (unaudited)
Revenue	7, 16.1	18,752	16,467
Supplies		(10,246)	(8,417)
GROSS INCOME		**8,506**	**8,050**
Personnel expenses		(1,449)	(1,418)
Capitalised personnel expenses		340	347
External services		(1,412)	(1,364)
Other operating income	2.c	401	381
Net operating expenses		(2,120)	(2,054)
Taxes	16.2	(942)	(1,058)
GROSS OPERATING PROFIT (EBITDA)		**5,444**	**4,938**
Valuation adjustments, trade and contract assets	7	(171)	(216)
Amortisation, depreciation and provisions	7	(2,031)	(2,027)
OPERATING PROFIT (EBIT)		**3,242**	**2,695**
Result of equity-accounted investees	2.c, 6, 7	5	475
Finance income		576	677
Finance expense		(1,049)	(1,077)
Net finance income		(473)	(400)
PROFIT BEFORE TAX		**2,774**	**2,770**
Income tax	17	(1,014)	(780)
NET PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**1,760**	**1,990**
PROFIT/(LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS (NET OF TAX)		**(6)**	**1**
Non-controlling interests	2.c	(223)	(115)
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE PARENT		**1,531**	**1,876**
EARNINGS PER SHARE IN EUROS FROM CONTINUING OPERATIONS:			
BASIC EARNINGS PER SHARE IN EUROS		0.233	0.284
DILUTED EARNINGS PER SHARE IN EUROS		0.233	0.284
EARNINGS PER SHARE IN EUROS FROM DISCONTINUED OPERATIONS:			
BASIC LOSS PER SHARE IN EUROS		(0.001)	0.000
DILUTED LOSS PER SHARE IN EUROS		(0.001)	0.000

(*) The Consolidated income statement for the six-month period ended 30 June 2020 is presented for comparison purposes only.

The accompanying Notes are an integral part of the Condensed interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2021

	30.06.2021 (unaudited)			30.06.2020 (*) Restated Note 2.c (unaudited)		
Millions of euros	Parent	Non-controlling interests	Total	Parent	Non-controlling interests	Total
NET PROFIT FOR THE PERIOD	**1,531**	**223**	**1,754**	**1,876**	**115**	**1,991**
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO THE CONSOLIDATED INCOME STATEMENT IN SUBSEQUENT YEARS						
In valuation adjustments (Note 11)	**205**	**(52)**	**153**	**(39)**	**25**	**(14)**
Change in value of cash flow hedges	282	(76)	206	(71)	39	(32)
Changes in hedging costs	-	-	-	(3)	-	(3)
Tax effect	(77)	24	(53)	35	(14)	21
In translation differences	**783**	**110**	**893**	(1,241)	(603)	(1,844)
TOTAL	**988**	**58**	**1,046**	**(1,280)**	**(578)**	**(1,858)**
OTHER COMPREHENSIVE INCOME NOT TO BE RECLASSIFIED TO THE CONSOLIDATED INCOME STATEMENT IN SUBSEQUENT YEARS						
In Other reserves	**24**	-	**24**	**(143)**	**(39)**	**(182)**
Actuarial deviations for pensions (Note 15)	-	-	-	(232)	(53)	(285)
Tax effect (Note 17)	24	-	24	89	14	103
TOTAL	**24**	-	**24**	**(143)**	**(39)**	**(182)**
TOTAL NET PROFIT RECOGNISED DIRECTLY IN EQUITY	**1,012**	**58**	**1,070**	**(1,423)**	**(617)**	**(2,040)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**2,543**	**281**	**2,824**	**453**	**(502)**	**(49)**

(*) The Consolidated statement of comprehensive income for the six-month period ended 30 June 2020 is presented for comparison purposes only.

The accompanying Notes are an integral part of these Condensed consolidated interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES

Consolidated statement of changes in equity for the six-month period ended 30 June 2021

			Other reserves								
Millions of euros	Subscribed capital	Treasury shares	Legal reserve	Share premium	Other restricted reserves	Retained earnings	Valuation adjustments	Translation differences	Net profit for the year	Non-controlling interests	Total
Balance at 01.01.2021	**4,762**	**(1,985)**	**969**	**14,361**	**1,052**	**18,038**	**(242)**	**(5,154)**	**3,611**	**11,806**	**47,218**
Comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**24**	**205**	**783**	**1,531**	**281**	**2,824**
Transactions with shareholders or owners											
Scrip issue (Note 11)	51	-	-	(51)	-	-	-	-	-	-	-
Distribution of dividends (Note 11)	-	-	-	-	-	3,345	-	-	(3,611)	(80)	(346)
Transactions with treasury shares	-	(851)	-	-	-	8	-	-	-	-	(843)
Transactions with non-controlling interests (Note 6)	-	-	-	-	-	-	-	-	-	615	615
Other changes in equity											
Issuance of perpetual subordinated bonds (Note 11)	-	-	-	-	-	(7)	-	-	-	2,000	1,993
Accrual of perpetual subordinated bond interest (Note 2.c)	-	-	-	-	-	(75)	-	-	-	-	(75)
Share-based payments	-	-	-	-	-	(25)	-	-	-	1	(24)
Other changes	-	-	-	-	-	(114)	-	-	-	3	(111)
Balance at 30.06.2021	**4,813**	**(2,836)**	**969**	**14,310**	**1,052**	**21,194**	**(37)**	**(4,371)**	**1,531**	**14,626**	**51,251**

Millions of euros Restated Note 2.c (*)	Subscribed capital	Treasury shares	Other reserves: Legal reserve	Other reserves: Share premium	Other reserves: Other restricted reserves	Other reserves: Retained earnings	Valuation adjustments	Translation differences	Net profit for the year	Non-controlling interests	Total
Balance at 01.01.2020	**4,771**	**(1,436)**	**969**	**14,512**	**1,053**	**16,988**	**(544)**	**(2,101)**	**3,466**	**9,517**	**47,195**
Comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**(143)**	**(39)**	**(1,241)**	**1,876**	**(502)**	**(49)**
Transactions with shareholders or owners											
Scrip issue	69	-	-	(69)	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	-	-	3,228	-	-	(3,466)	(72)	(310)
Transactions with treasury shares	-	(1,017)	-	-	-	(3)	-	-	-	-	(1,020)
Transactions with non-controlling interests	-	-	-	-		(73)	-	-	-	169	96
Other changes in equity											
Accrual of perpetual subordinated bond interest (Note 2.c)	-	-	-	-	-	(31)	-	-	-	-	(31)
Share-based payments	-	-	-	-	-	(34)	-	-	-	1	(33)
Other changes	-	-	-	-	-	(4)	-	-	-	(30)	(34)
Balance at 30.06.2020	**4,840**	**(2,453)**	**969**	**14,443**	**1,053**	**19,928**	**(583)**	**(3,342)**	**1,876**	**9,083**	**45,814**

(*) The Consolidated statement of changes in equity for the six-month period ended 30 June 2020 is presented for comparison purposes only.

The accompanying Notes are an integral part of these Condensed consolidated interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES
Consolidated statement of cash flows for the six-month period ended 30 June 2021

Millions of euros	Note	30.06.2021 (unaudited)	30.06.2020 (*) (unaudited)
Profit before tax from continuing operations		2,774	2,770
Profit before tax from discontinued operations		(7)	(1)
Adjustments for			
Amortisation, provisions, valuation adjustments of financial assets and personnel expenses for pensions		2,337	2,370
Net profit/loss from investments in associates and joint ventures		(5)	(475)
Capital grants		(142)	(150)
Finance income and finance costs		472	408
Changes in working capital			
Change in trade receivables and other		(923)	(430)
Change in inventories		136	60
Change in trade payables and other liabilities		237	277
Provisions paid		(199)	(364)
Income taxes		(228)	(447)
Dividends received		10	3
Net cash flows from operating activities		**4,462**	**4,021**
Acquisition of subsidiaries	6	(536)	-
Change in cash flow due to modification of the consolidation scope		19	-
Acquisition of intangible assets		(248)	(189)
Acquisitions of equity-accounted investees		(79)	(38)
Acquisition of investment property		-	(1)
Acquisition of property, plant and equipment		(3,398)	(2,952)
Capitalised interest paid		(75)	(93)
Capitalised personnel expenses paid		(327)	(347)
Capital grants		1	8
Payments for other investment flows		(433)	(365)
Proceeds/(payments) for other current financial assets		(171)	79
Interest received		13	16
Proceeds from disposal of non-financial assets		(8)	-
Proceeds from disposal of financial assets		-	1,122
Net cash flows used in investing activities		**(5,242)**	**(2,760)**
Dividends paid		(266)	(238)
Dividends paid to non-controlling interests		(80)	(72)
Perpetual subordinated bonds			
Instruments issued	11	1,993	-
Interest paid		(87)	(63)
Bank borrowings, debentures or other marketable securities			
Issues and disposals		6,676	7,227
Redemption		(6,401)	(5,818)
Interest paid excluding capitalised interest		(353)	(382)
Financial liabilities from leases			
Payment of principal		(80)	(76)
Interest paid excluding capitalised interest		(26)	(18)
Equity instruments having the substance of a financial liability			
Instruments issued		8	279
Redemption		(59)	(14)
Proceeds for transactions with non-controlling interests		615	169
Payments for transactions with non-controlling interests		-	(73)
Acquisition of treasury shares		(1,192)	(1,860)
Proceeds from disposal of treasury shares		63	79
Net cash flows from/(used in) financing activities		**811**	**(860)**
Effect of exchange rate fluctuations on cash and cash equivalents		**(41)**	**(194)**
Net increase/(decrease) in cash and cash equivalents		**(10)**	**207**
Cash and cash equivalents at the beginning of year		**3,427**	**2,113**
Cash and cash equivalents at end of period		**3,417**	**2,320**

(*) The Consolidated statement of cash flows for the six-month period ended 30 June 2020 is presented for comparison purposes only.

The accompanying Notes are an integral part of these Condensed consolidated interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES

Notes to the Condensed consolidated interim financial statements for the six-month period ended 30 June 2021

1. GROUP ACTIVITIES

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

- Production of electricity from renewable and conventional sources.
- Sale and purchase of electricity and gas in wholesale markets.
- Transmission and distribution of electricity.
- Retail supply of electricity, gas and energy-related services.
- Other activities, mainly linked to the energy sector.

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

2. BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

a) Accounting legislation applied

The Board of Directors of IBERDROLA authorised the issuance of these Condensed consolidated interim financial statements for the six-month period ended 30 June 2021 (the “Consolidated financial statements”) on 20 July 2021.

These Financial statements have been prepared in accordance with IAS 34 – Interim financial information, and also include other information not required in that standard, as set forth under Article 12 of Royal Decree 1362/2007. However, they do not include all the information and disclosures required in the Consolidated financial statements by the International Financial Reporting Standards adopted in the European Union (hereinafter, IFRS-EU). To ensure they are properly interpreted, therefore, these Financial statements should be read alongside the Consolidated financial statements of the IBERDROLA Group for the year ended 31 December 2020.

The accounting policies used to prepare these Financial statements are consistent with those used in the Consolidated financial statements for the year ended 31 December 2020 except for the application, effective 1 January 2021, of the following amendments adopted by the European Union for application in Europe:

- Amendment to IFRS 16 – COVID-19-related rent concessions regarding the accounting treatment of deferrals or reductions of rent payments under IFRS 16 against the backdrop of the COVID-19 pandemic. This amendment had no impact on the Condensed consolidated interim financial statements of the IBERDROLA Group at 30 June 2021.

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: IBOR reform (Phase 2).

  On 5 March 2021, the International Swaps and Derivatives Association, Inc. (ISDA) published the equivalences between interbank offered rates and the new risk free reference (RFR) rates, thus eliminating the existing uncertainty in this regard. Other information about the global reform of interbank offered rates (IBOR) is disclosed in the Consolidated financial statements at 31 December 2020.

  At 30 June 2021 and 31 December 2020, the nominal amount of hedging instruments indexed to IBOR indices, with the exception of Euribor, with a maturity date after 31 December 2021, is as follows:

Millions in currency	Currency	Notional value at 30.06.2021	Notional value at 31.12.2020
Libor-pound indexed interest rate swap	GBP	550	550
Libor-USD indexed interest rate swap	USD	935	-
Libor-dollar indexed cross currency swap	USD	227	238
Libor-pound sterling indexed cross currency swap	GBP	201	201

  At 30 June 2021 and 31 December 2020, the nominal amount of bank borrowings, bonds and other marketable securities indexed to IBOR indices, with the exception of Euribor, with a maturity date after 31 December 2021 is as follows:

Millions in currency	Currency	Notional value at 30.06.2021	Notional value at 31.12.2020
Libor-pound sterling bank loans	GBP	75	88
Libor-dollar bank loans	USD	1,182	1,196

b) Changes in accounting estimates

Every year, the IBERDROLA Group reviews the useful life of its assets based on internal and external information sources. Based on this review, the IBERDROLA Group considers that the best estimate of the useful life of wind turbines of less than 1 MW and photovoltaic installations is 30 years (compared to the 25 years previously estimated). The impact of this change in estimate has thus been included in the "Amortisation, depreciation and provisions" heading of the Consolidated income statement for the six-month period ended 30 June 2021. In accordance with accounting standards, the change has been applied prospectively as from 1 January 2021, and has reduced depreciation by EUR 26 million.

c) Comparative information

In 2021, the IBERDROLA Group changed the format of the Consolidated income statement, eliminating the heading "Gains (losses) from non-current assets", which mainly included capital gains or losses from the sale of non-current assets or the sale of equity accounted holdings. The items that used to make up this heading are now classified either under the heading of "Other operating income" forming part of "Gross operating profit (EBITDA)" or in the heading of "Result of equity-accounted investees" depending on their nature. The above accounting approach has been applied retroactively, which has resulted in the modification of the Consolidated income statement for the six-month period at 30 June 2020.

The amounts of the reclassification made are as follows:

Millions of euros	Amount
Gains /(losses) from non-current assets	(505)
Gross operating profit (EBITDA)	20
Result of equity-accounted investees (1)	485

(1) The result corresponds to the gross gain from the sale in the first half of 2020 of the entire stake owned by IBERDROLA PARTICIPACIONES in Siemens Gamesa Renewable Energy, S.A. (GAMESA), representing 8.07% of its share capital.

Further, as indicated in the Consolidated financial statements of the IBERDROLA Group for 2020 (Note 2.c), in the second half of 2020, the IBERDROLA Group modified its accounting approach in relation to the recording of accrued interest on subordinated perpetual obligations classified under equity, to recognise them under the "Other reserves" heading of the Consolidated statement of financial position. Previously, this interest was recorded under "Non-controlling interests" in the Consolidated income statement.

The above accounting principle was applied retroactively to 1 January 2020, leading to a charge of EUR 60 million under the "Other reserves" heading of the Consolidated statement of financial position. Also, the comparative information of the Consolidated income statement at 30 June 2020 was modified with an increase in net profit attributable to the parent company of EUR 31 million.

The directors of IBERDROLA Group consider that the above changes provide information that is consistent with market practice.

3. EFFECTS OF COVID-19

At the date of issue of these Condensed consolidated interim financial statements for the six-month period ended 30 June 2021 there is no evidence that the COVID-19 pandemic has affected the long-term performance of the business in such a way as to significantly affect the valuation of the company's non-financial assets (Note 18).

However, certain effects have remained during the period. They are described and estimated in section 1.1 of the Management Report.

4. SEASONAL VARIATIONS

The IBERDROLA Group's activity does not show a significant degree of seasonal variation on a half-yearly basis.

5. SOURCES OF UNCERTAINTY AND USE OF ACCOUNTING ESTIMATES

The IBERDROLA Group relied on certain assumptions and estimates in drawing up these Financial statements. The criteria used to calculate the estimates contained in these Financial statements are the same as those used in the preparation of IBERDROLA's 2020 Consolidated financial statements.

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

The following uncertainties did not exist at 2020 year-end:

- The National Securities Market Commission (CNMV) in its review of the financial statements of some entities subject to Royal Decree 413 2014 of 6 June, regulating electricity production from renewable energy sources, cogeneration and waste, found that a range of accounting criteria were used to reflect this regulation —in particular, "Value adjustment for deviations in the market price" or "VAJDM", in accordance with Article 22 of said Royal Decree— instead of a single approach.

  The CNMV had yet to announce the result of its review at the date of issuance of these Financial statements. Therefore, the IBERDROLA Group is continuing to apply the same accounting policy for the effects of the regulation as it did at the close of the 2020 financial year. If the CNMV considers that a different accounting criterion would be more useful for users of financial information, this circumstance could affect the Financial statements and the comparability of the information. However, the effects on financial information would not be significant.

- On 1 June 2021, the Spanish government's bill to modify the electricity market regulations in order to limit the recent peaks in wholesale electricity market prices began its legislative process. The bill would reduce the electricity generation revenues of certain non-CO_2 emitting power plants that were commissioned prior to 11 March 2005, the effective date of the GHG Emission Allowances Act (with certain exemptions).

  Although it is not yet possible to anticipate the impact or estimate a timeframe for its approval, according to the Spanish government's press release on the bill, the initiative would affect 85 TWh of annual electricity production if approved. A total of 67 TWh of this amount will come from nuclear power plants, 29 TWh from hydroelectric plants and less than 5 TWh from wind farms.

  After analysing the possible effect on the recoverability of the assets of the potentially affected cash generating units — within the Liberalised and Renewables segments in Spain — it has been concluded that no indicia of impairment have been identified.

  However, the bill could undergo changes while making its way through parliament and, consequently, could have other effects on the future business model, although it is still too soon to say what these could be.

6. CHANGES IN THE SCOPE OF CONSOLIDATION AND OTHER SIGNIFICANT TRANSACTIONS

The IBERDROLA Group had the following significant transactions in the six-month period ended 30 June 2021:

Business combinations

Neoenergia Distribuição Brasília (formerly CEB Distribuição)

In December 2020, Bahia Geração de Energia S.A., a company wholly owned directly by Neoenergia S.A., was awarded 100% of the share capital of the Brazilian company CEB Distribuição S.A. (CEB Distribuição) in a public auction. The privatisation process was managed through a public auction on the Brazilian stock exchange.

CEB Distribuição holds the electric power distribution concession for the region of Brasilia, an area of approximately 5,800 square kilometres. It serves some 1.1 million customers through a distribution network of more than 9,700 kilometres. This concession expires in 2045.

For the acquisition to be completed, the required regulatory approvals had to be secured from the Brazilian authorities, and other common conditions in these types of deals also had to be fulfilled. Both of these requirements were met. The takeover took place on 2 March 2021.

CEB Distribuição has been renamed Neoenergia Distribuição Brasília.

Poland

The IBERDROLA Group has reached an agreement with CEE Equity Partner to buy three wind farms in Poland with a total capacity of 162.9 megawatts (MW). Two of the projects (Zopowy and Korytnica 1), with a capacity of 112.5 MW, are already in operation. Construction will soon begin on the third project, Korytnica 2, which will have a capacity of 50.4 MW. The takeover took place on 22 June 2021.

Value of assets and liabilities acquired

The fair value of the assets and liabilities of Neoenergia Distribuição Brasília and their carrying amount at the takeover date are as follows:

Millions of euros	Carrying amount	Fair value
Property, plant and equipment	7	7
Intangible assets	108	409
Non-current investments	65	65
Deferred tax assets	59	59
Inventories	2	2
Current trade and other receivables	111	111
Current financial assets	13	13
Cash and cash equivalents	15	15
Total	**380**	**681**

Millions of euros	Carrying amount	Fair value
Non-current provisions	15	29
Non-current financial liabilities	99	99
Deferred tax liabilities	13	112
Current provisions	3	3
Current financial liabilities	145	147
Total	**275**	**390**

Goodwill

Details of goodwill at 30 June 2021 arising on the above business combinations are as follows:

Millions of euros	Neoenergia Distribuição Brasília	Poland	Total
Fair value of net acquired assets	291	140	431
Total acquisition cost	389	147	536
Goodwill from the acquisition	**98**	**7**	**105**

The resulting goodwill consists primarily of future economic benefits arising from the acquired company's own activities that do not meet the conditions for separate accounting recognition at the time of the business combination.

Other information

Since the takeover, the acquisition of Neoenergia Distribuição Brasília and the wind farms in Poland contributed EUR 1 million to the IBERDROLA Group's net profit from continuing operations for the six-month period ended 30 June 2021.

Had the acquisitions taken place on 1 January 2021, the contribution to the revenue and net income from continuing operations of the IBERDROLA Group in the six-month period ended 30 June 2021 would have been EUR 285 million and EUR 2 million, respectively.

The costs incurred in the acquisitions amounted to EUR 5 million.

Accounting for these business combinations has been provisionally determined. Adjustments affecting the provisional valuations that may be required as a result of new information on facts and circumstances existing at the acquisition date that become apparent no later than 12 months after the acquisition date will be recognised retroactively.

Sale of Group companies

On 30 March 2021, IBERDROLA and MAPFRE, S.A. signed a strategic alliance to jointly invest in renewable energies in Spain. The alliance has begun with 230 MW: 100 MW operational wind and 130 MW photovoltaic under development, with the objective of including further green projects to reach 1,000 MW. The agreement is structured through the company Energías Renovables Ibermap, S.L. (IBERMAP), in which MAPFRE will have an ownership interest of 80% and IBERDROLA will own 20% and will also be responsible for developing, building and maintaining the facilities.

Pursuant to the terms of this strategic alliance, on 25 June IBERDROLA and MAPFRE added a number of operational onshore wind farms to their agreement for a further 95 MW, bringing the total under their strategic alliance to 325 MW.

On 10 June, IBERDROLA delivered 95.3 MW under this second agreement, for the wind farms SE Altamira (49.3 MW), SE La Linera (28 MW) and SE La Gomera (18 MW), to the company IBERMAP. On 30 June it sold 80% of its shareholding to MAPFRE for EUR 51 million. The transaction has resulted in the loss of control of IBERMAP. In addition, the Group has valued the 20% stake it retains at fair value at the transaction date. As a result of all the foregoing, the Group has recognised a capital gain amounting to EUR 80 million under “Other operating income” in the Consolidated income statement for the six-month period ended 30 June 2021.

Transactions with non-controlling interests

In 2021 Avangrid, Inc. carried out a capital increase in the amount of EUR 3,302 million, which was subscribed by the shareholders according to their percentage of ownership. Accordingly, a payment of EUR 611 million was recognised under “Equity – Non-controlling interests” of the Consolidated income statement at 30 June 2021.

Other transactions

PNM Resources, Inc.

In October 2020, Avangrid, Inc, in which the IBERDROLA Group holds an 81.5% ownership interest, announced that it had signed a merger agreement with PNM Resources, Inc. (PNM), a company whose shares are listed on the New York Stock Exchange, through which Avangrid undertook to acquire 100% of the capital of PNM. PNM's Board of Directors unanimously approved the merger agreement and has recommended the transaction to its shareholders.

The consummation of the transaction was subject to the following: (i) approval by PNM's shareholders at the Annual General Meeting; (ii) the acquisition of all required regulatory approvals from the relevant federal and state authorities in the United States of America; and (iii) other common conditions in these types of transactions.

The first of the conditions, the approval by PNM's shareholders of the company's merger into AVANGRID, was fulfilled on 12 February 2021.

At 30 June 2021, AVANGRID received regulatory approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, and approvals from the Committee on Foreign Investment in the United States (CFIUS), the Federal Communications Commission (FCC), the Federal Energy Regulatory Commission (FERC), the Public Utility Commission of Texas (PUCT) and the Nuclear Regulatory (NRC). It now only needs the approval of the New Mexico Public Regulation Commission (NMPRC) to fulfil the second condition indicated above.

The IBERDROLA Group expects the transaction to be completed during the second half of 2021. Accordingly, the Consolidated financial statements at 30 June 2021 do not include any accounting effect from the recognition of this transaction.

7. SEGMENT INFORMATION

The IBERDROLA Group combines its segments based on the nature of the business activities in the different geographic areas in which said activities take place. The operating segments identified by the IBERDROLA Group are as follows:

- Networks business: including all the energy transmission and distribution activities, and any other regulated activity carried out in Spain, the United Kingdom, the United States and Brazil.
- Liberalised business: includes the electricity generation and supply businesses carried out by the Group in Spain, the United Kingdom, Mexico, Brazil and the rest of the countries within the Iberdrola Energía Internacional (IEI) subholding.
- Renewables business: activities related to renewable energies (principally wind, solar and hydroelectric) in Spain, the United Kingdom, the United States, Brazil and the countries within the Iberdrola Energía Internacional (IEI) subholding.
- Other businesses: other non-energy businesses.

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

The transactions between the different segments are usually executed on an arm's-length basis.

The key figures of the operating segments identified are shown below. For the sake of comparison, the balances for the Consolidated income statement are shown at 30 June 2020, while the balances for the Consolidated statement of financial position are shown at 31 December 2020.

Business segment reporting for the six-month period ended 30 June 2021

30.06.2021	Liberalised						Renewable energy							Networks						
Millions of euros	Spain	United Kingdom	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Brazil	Total	Other business, Corporation and adjustments	Total
REVENUE (NOTE 16.1)																				
External revenues	5,393	2,376	2,184	52	643	**10,648**	140	152	646	62	40	235	**1,275**	944	627	2,126	3,005	**6,702**	127	**18,752**
Intersegment sales	302	9	(27)	126	23	**433**	925	348	3	24	32	27	**1,359**	60	84	–	–	**144**	2	**1,938**
Eliminations						**(273)**							**–**					**–**	(1,665)	**(1,938)**
Total sales						**10,808**							**2,634**					**6,846**	(1,536)	**18,752**
RESULTS																				
Segment operating profit - EBIT	130	26	199	30	(71)	**314**	825	212	113	41	35	92	**1,318**	550	324	250	488	**1,612**	(2)	**3,242**
Result of equity-accounted investees - net of taxes	1	–	–	–	–	**1**	2	–	(5)	–	(1)	–	**(4)**	1	–	7	–	**8**	–	**5**
ASSETS																				
Segment assets	6,325	6,627	5,381	325	556	**19,214**	10,842	7,685	12,758	1,590	1,410	4,858	**39,143**	12,660	13,667	22,248	6,933	**55,508**	5,049	**118,914**
Equity-accounted investees	24	–	–	–	–	**24**	56	9	463	–	466	42	**1,036**	31	–	120	–	**151**	37	**1,248**
LIABILITIES																				
Segment liabilities	2,670	1,565	1,737	77	234	**6,283**	1,613	1,417	3,707	276	323	1,022	**8,358**	5,497	3,117	7,115	3,216	**18,945**	2,261	**35,847**
OTHER INFORMATION																				
Total cost incurred during the period in the acquisition of property, plant and equipment, intangible assets and right-of-use assets [(1)]	172	98	94	5	44	**413**	620	125	376	9	204	783	**2,117**	300	301	796	3	**1,400**	61	**3,991**
Valuation adjustments, trade receivables and other assets (Expense)/ income	33	39	–	–	20	**92**	–	–	13	–	–	–	**13**	(1)	1	42	24	**66**	–	**171**
Expenses for amortisation and provisions over the period	191	91	79	8	34	**403**	165	137	245	28	19	80	**674**	287	186	265	152	**890**	64	**2,031**
Expenses for the period other than depreciation and amortisation not resulting in cash outflows	7	11	1	–	1	**20**	3	3	7	–	–	2	**15**	8	24	35	1	**68**	32	**135**

[(1)] Includes the amount related to interest and personnel expenses capitalised during the six-month period ended 30 June 2021.

Business segment reporting of the comparative period

30.06.2020	Liberalised						Renewable energy							Networks					Other business, Corporation and adjustments	Total
Millions of euros	Spain	United Kingdom	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Brazil	Total		
REVENUE (NOTE 16.1)																				
External revenues	4,949	2,309	1,116	57	598	**9,029**	222	132	587	42	44	180	**1,207**	916	610	2,109	2,582	**6,217**	14	**16,467**
Intersegment sales	288	8	11	132	(8)	**431**	385	369	–	12	42	22	**830**	60	80	–	1	**141**	9	**1,411**
Eliminations						**(266)**							–					–	(1,145)	**(1,411)**
Total sales						**9,194**							**2,037**					**6,358**	(1,122)	**16,467**
PROFIT/(LOSS) (Restated Note 2.c)																				
Segment operating profit - EBIT	588	(9)	311	22	(48)	**864**	118	263	20	14	27	129	**571**	515	318	195	273	**1,301**	(41)	**2,695**
Result of equity-accounted investees - net of taxes	2	–	–	–	–	**2**	(1)	1	(11)	–	(5)	–	**(16)**	1	–	5	–	**6**	483	**475**
OTHER INFORMATION																				
Total cost incurred during the period in the acquisition of property, plant and equipment, intangible assets and right-of-use assets [(1)]	103	69	70	13	39	**294**	433	349	458	100	58	167	**1,565**	233	241	746	2	**1,222**	86	**3,167**
Valuation adjustments, trade receivables and other assets (Expense)/ income	34	56	(2)	–	17	**105**	–	–	–	–	–	(1)	**(1)**	1	1	51	59	**112**	–	**216**
Expenses for amortisation and provisions over the period	206	82	75	10	24	397	182	115	270	22	23	48	**660**	275	177	290	166	**908**	62	**2,027**
Expenses for the period other than depreciation and amortisation not resulting in cash outflows	7	11	(3)	–	–	15	3	2	8	–	–	–	**13**	8	22	36	(3)	**63**	24	**115**

[(1)] Includes the amount related to interest and personnel expenses capitalised during 2020.

31.12.2020	Liberalised						Renewable energy							Networks					Other business, Corporation and adjustments	Total
Millions of euros	Spain	United Kingdom	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Brazil	Total		
ASSETS																				
Segment assets	6,283	6,129	5,255	329	517	**18,513**	10,091	7,321	12,410	1,599	1,231	4,012	**36,664**	12,533	12,852	21,549	5,676	**52,610**	4,665	**112,452**
Equity-accounted investees	24	–	–	–	–	**24**	42	8	421	–	458	26	**955**	30	–	110	–	**140**	26	**1,145**
LIABILITIES																				
Segment liabilities	2,541	1,261	1,741	78	184	**5,805**	1,749	1,241	3,624	307	237	738	**7,896**	5,467	2,586	6,767	2,828	**17,648**	2,177	**33,526**

Additionally, the breakdown of revenue and non-current assets by geographical area is as follows:

Millions of euros	30.06.2021	30.06.2020
Revenue		
Spain	6,546	6,081
United Kingdom	3,158	3,052
United States	2,787	2,698
Mexico	2,243	1,181
Brazil	3,097	2,684
IEI	921	771
Total	**18,752**	**16,467**

Millions of euros	30.06.2021	31.12.2020
Non-current assets (*)		
Spain	24,786	24,367
United Kingdom	25,587	24,118
United States	32,148	31,244
Mexico	5,276	5,234
Brazil	4,133	3,467
IEI	4,621	3,846
Total	**96,551**	**92,276**

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

The reconciliation between segment assets and liabilities and the total assets and liabilities of the Consolidated statement of financial position is as follows:

Millions of euros	30.06.2021	31.12.2020
Segment assets	**118,914**	**112,452**
Non-current investments	5,589	5,461
Current financial assets	1,583	1,178
Cash and cash equivalents	3,417	3,427
Total Assets	**129,503**	**122,518**

Millions of euros	30.06.2021	31.12.2020
Segment liabilities	**35,847**	**33,526**
Equity	51,251	47,218
Non-current financial liabilities	34,149	33,586
Bank borrowings, debentures or other marketable securities	30,939	30,334
Equity instruments having the substance of a financial liability	310	334
Derivative financial instruments	840	991
Leases	2,060	1,927
Current financial liabilities	8,256	8,188
Bank borrowings, debentures or other marketable securities	7,490	7,703
Equity instruments having the substance of a financial liability	47	57
Derivative financial instruments	582	297
Leases	137	131
Total Liabilities and Equity	**129,503**	**122,518**

8. PROPERTY, PLANT AND EQUIPMENT

The following table displays the total cost incurred in the acquisition of property, plant and equipment, as well as the depreciation and impairment charge made in the six-month periods ended 30 June 2021 and 2020 broken down for each of the IBERDROLA Group's operating segments:

Millions of euros	30.06.2021		30.06.2020	
	Cost incurred in property, plant and equipment [(1)]	Charge for depreciation and impairment allowances	Cost incurred in property, plant and equipment [(1)]	Charge for depreciation and impairment allowances
Liberalised Business	**223**	**251**	**170**	**277**
Spain	80	149	57	172
United Kingdom	44	26	31	26
Mexico	94	72	69	74
Brazil	5	4	13	5
Renewable Energy business	**1,967**	**610**	**1,460**	**612**
Spain	544	149	372	164
United Kingdom	113	130	348	110
United States	327	220	414	253
Mexico	5	26	117	21
Brazil	200	15	53	19
IEI	778	70	156	45
Networks business	**1,354**	**637**	**1,134**	**622**
Spain	273	270	212	260
United Kingdom	291	174	224	164
United States	789	193	698	198
Brazil	1	–	–	–
Other business, Corporation and adjustments	**16**	**17**	**12**	**17**
Total	**3,560**	**1,515**	**2,776**	**1,528**

(1) Includes the amount related to interest and personnel expenses capitalised during the six-month period ended 30 June 2021 and 2020, respectively.

Investment commitments at 30 June 2021 and 2020 amount to EUR 4,691 and 3,936 million, respectively.

During the six-month periods ended 30 June 2021 and 2020, the IBERDROLA Group did not carry out any disposals of property, plant and equipment for a significant amount in relation to these Financial statements.

9. DISCLOSURES RELATING TO FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of each category of financial assets and liabilities are shown below, except for assets included under “Non-current trade and other assets” and “Current trade and other receivables” and liabilities included under “Other non-current financial liabilities”, “Other current financial liabilities”, “Leases” and “Trade payables”:

	Non-current financial assets									
Millions of euros	**Equity instruments**		**Debt securities**		**Other financial assets**		**Derivatives**		**Total**	
Category	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**
Assets at fair value through the Consolidated income statement	57	38	-	-	-	-	445	734	502	772
Assets at amortised cost	-	-	-	1	3,252	2,908		-	3,252	2,909
Hedging derivatives	-	-	-	-	-	-	587	635	587	635
Total	**57**	**38**	**-**	**1**	**3,252**	**2,908**	**1,032**	**1,369**	**4,341**	**4,316**

	Current financial assets									
Millions of euros	**Equity instruments**		**Debt securities**		**Other financial assets**		**Derivatives**		**Total**	
Category	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**
Assets at fair value through the Consolidated income statement	-	-	-	-	-	-	253	132	253	132
Assets at amortised cost	-	-	-	-	905	578	-	-	905	578
Hedging derivatives	-	-	-	-	-	-	425	468	425	468
Total	**-**	**-**	**-**	**-**	**905**	**578**	**678**	**600**	**1,583**	**1,178**

Millions of euros	Non-current financial liabilities									
	Bank borrowings		Bonds and other marketable securities		Other financial liabilities		Derivatives		Total	
Category	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**
Liabilities at fair value through the Consolidated income statement	-	-	-	-	-	-	443	727	443	727
Liabilities at amortised cost	8,664	8,137	22,275	22,197	310	334	-	-	31,249	30,668
Hedging derivatives	-	-	-	-	-	-	397	264	397	264
Total	**8,664**	**8,137**	**22,275**	**22,197**	**310**	**334**	**840**	**991**	**32,089**	**31,659**

Millions of euros	Current financial liabilities									
	Bank borrowings		Bonds and other marketable securities		Other financial liabilities		Derivatives		Total	
Category	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**	**30/06/2021**	**31/12/2020**
Liabilities at fair value through the Consolidated income statement	-	-	-	-	-	-	225	101	225	101
Liabilities at amortised cost	2,602	2,525	4,888	5,178	47	57	-	-	7,537	7,760
Hedging derivatives	-	-	-	-	-	-	357	196	357	196
Total	**2,602**	**2,525**	**4,888**	**5,178**	**47**	**57**	**582**	**297**	**8,119**	**8,057**

The IBERDROLA Group's general risk policy described in its Consolidated financial statements for the year ended 31 December 2020 is the same policy applied at the date of issuance of these Consolidated financial statements, having completed the review and approval process for 2021. The hedging instruments and types of hedges described herein have the same characteristics as those described in the 2020 Consolidated financial statements.

The fair value of "Bank borrowings, debentures or other marketable securities" in current and non-current liabilities in IBERDROLA Group's Consolidated statement of financial position at 30 June 2021 and 31 December 2020 amounts to EUR 41,012 and 41,065 million, respectively. The carrying amount is EUR 38,429 and 38,037 million, respectively. Said value is classified in Level 2 of the valuation hierarchy. The fair value of the remaining financial instruments does not differ significantly from their carrying amount.

The IBERDROLA Group recognises derivative financial instruments at fair value and classifies them into three levels:

- Level 1: assets and liabilities quoted in liquid markets.
- Level 2: assets and liabilities whose fair value is determined using valuation techniques that rely on observable market inputs.
- Level 3: assets and liabilities whose fair value is determined using valuation techniques that do not rely on observable market inputs.

Details of financial instruments measured at fair value by level are as follows:

Millions of euros	Value at 30.06.2021	Level 1	Level 2	Level 3
Derivatives financial instruments (financial assets)	1,710	4	1,609	97
Derivative financial instruments (financial liabilities)	(1,422)	–	(1,254)	(168)
Total	**288**	**4**	**355**	**(71)**

Millions of euros	Value at 31.12.2020	Level 1	Level 2	Level 3
Derivatives financial instruments (financial assets)	1,969	1	1,852	116
Derivative financial instruments (financial liabilities)	(1,288)	–	(1,171)	(117)
Total	**681**	**1**	**681**	**(1)**

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

Millions of euros	2021	2020
Balance at 1 January	**(1)**	**26**
Income and expense recognised in the Consolidated income statement	1	-
Income and expense recognised in equity	(69)	(9)
Purchases	4	1
Sales and settlements	(6)	9
Balance at 30 June	**(71)**	**27**

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

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

To measure derivatives not traded on an organised market, the IBERDROLA Group uses valuation inputs based on market conditions at year end. In particular,

- the fair value of interest rate swaps is calculated as the value discounted at market interest rates of the interest rate swap contract spread;

- in the case of currency futures, it is measured discounting the future cash flows calculated using the forward exchange rates at year end; and

- the fair value of contracts to trade non-financial items falling under the scope of IFRS 9 is calculated on the basis of the best estimate of future price curves for the underlying non-financial items at the year end, using, wherever possible, prices established on futures markets.

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

- Exposure at default: the amount of the risk arising at the time of non-payment by a counterparty, taking into account any collateral or netting arrangements connected to the transaction.

- Probability of default: the probability that a counterparty will breach its obligations to pay the principal and/or interest, depending mainly on the features of the counterparty and its credit rating.

- Loss given default: the estimated loss in the event of default.

The bylaw-mandated remuneration not distributed from previous years is applied during the first half of the year.

10. CASH AND CASH EQUIVALENTS

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

Millions of euros	30.06.2021	31.12.2020
Cash	1,463	1,251
Other equivalent liquid assets	1,954	2,176
Total	**3,417**	**3,427**

Other cash equivalents mature or expire within a period of less than three months and bear market interest rates. There are no restrictions on cash withdrawals for significant amounts.

11. EQUITY

Subscribed capital

Changes in the share capital of IBERDROLA over the six-month period ended 30 June 2021 are as follows:

	Date of filing at the Mercantile Registry	% Capital	Number of shares	Face value	Euros
Balance at 01.01.2021			**6,350,061,000**	**0.75**	**4,762,545,750**
Scrip issue	5 February 2021	1.072%	68,095,000	0.75	51,071,250
Balance at 30.06.2021			**6,418,156,000**	**0.75**	**4,813,617,000**

On 5 February 2021, the second run of the scrip issue took place, having been approved by shareholders the General Shareholders' Meeting of IBERDROLA on 2 April 2020, under item nine on the agenda, and used to implement the *Iberdrola Retribución Flexible* system.

During the established period, the holders of 1,583,410,921 shares opted to receive the interim dividend (0.168 euros gross per share). The total gross amount of the interim dividend distributed was EUR 266 million. As a result, those shareholders expressly waived 1,583,410,921 free-of-charge allocation rights and, therefore, the right to receive 22,620,156 new shares.

There were no changes to IBERDROLA's share capital other than those resulting from the transactions described above. There are no claims on IBERDROLA's share capital other than those established by the Spanish Companies Act (*Ley de Sociedades de Capital*).

Valuation adjustments

Activity during the six-month periods ended 30 June 2021 and 2020 is as follows:

Millions of euros	01.01.2021	Change in fair value and other	Allocation to the values of hedged assets	Amounts allocated to the Income statement	30.06.2021
Cash flow hedging:					
Interest rate swaps	(669)	44	–	69	(556)
Collars	(7)	–	–	–	(7)
Commodities derivatives	332	316	–	(188)	460
Currency forwards	4	63	(2)	7	72
Other	–	(27)	–	–	(27)
	(340)	**396**	**(2)**	**(112)**	**(58)**
Hedging costs:	**–**	**(17)**	–	**17**	–
Tax effect:	**98**	**(88)**	–	**11**	**21**
Total	**(242)**	**291**	**(2)**	**(84)**	**(37)**

Millions of euros	01.01.2020	Change in fair value and other	Allocation to the values of hedged assets	Amounts allocated to the Income statement	30.06.2020
Valuation adjustments of equity-accounted investees (net of tax):	**(1)**	**–**	**–**	**–**	**(1)**
Cash flow hedging:					
Interest rate swaps	(522)	(258)	–	50	(730)
Collars	(6)	–	–	–	(6)
Commodities derivatives	(163)	(192)	–	305	(50)
Currency forwards	2	58	(10)	(24)	26
	(689)	**(392)**	**(10)**	**331**	**(760)**
Hedging costs:	**(2)**	**(24)**	**–**	**21**	**(5)**
Tax effect:	**148**	**103**	**2**	**(70)**	**183**
Total	**(544)**	**(313)**	**(8)**	**282**	**(583)**

Treasury shares

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

At 30 June 2021 and 31 December 2020, the balances of the different instruments are as follows:

	30.06.2021		31.12.2020	
	Number of shares	Millions of euros	Number of shares	Millions of euros
Treasury shares held by IBERDROLA	190,046,964	2,025	85,222,122	888
Treasury shares held by SCOTTISH POWER	739,405	8	815,645	8
Total return swaps	4,361,203	28	8,209,638	53
Put options sold	-	-	42,996,817	451
Accumulators (exercised shares)	10,422,155	93	11,306,168	107
Accumulators (potential shares)	67,417,368	682	47,016,022	478
Total	**272,987,095**	**2,836**	**195,566,412**	**1,985**

Physically settled derivatives

The IBERDROLA Group recognises these transactions directly in equity under the "Treasury shares" heading and records a liability for the obligation to purchase said shares under the "Current financial liabilities–Bank borrowings, debentures or other marketable securities" and "Non-current financial liabilities–Bank borrowings, debentures or other marketable securities" headings of liabilities of the Consolidated statement of financial position.

- Total return swap

The IBERDROLA Group has swaps on treasury shares in which it pays 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 over the life of the contract. On the expiration date IBERDROLA buys the shares at the strike price set out in the contract.

The key features of these contracts at 30 June 2021 and 31 December 2020 are as follows:

30.06.2021	Number of shares	Strike price	Maturity date	Interest rate	Millions of euros
Total return swap	4,361,203	6.3496	28/07/2021	3 month Euribor + 0.24%	28
Total	**4,361,203**				**28**

31.12.2020	Number of shares	Strike price	Maturity date	Interest rate	Millions of euros
Total return swap	8,209,638	6.440	28/07/2021	3 month Euribor + 0.24%	53
Total	**8,209,638**				**53**

- Treasury share accumulators

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

The accumulation mechanism is as follows:

– if the spot price is below the strike price, two units of the underlying security are accumulated;

- if the spot price is between the strike price and the knockout level, only one unit of the underlying security is accumulated; and

- if the spot price is above the knockout level, no shares are accumulated.

The characteristics of these contracts at 30 June 2021 and 31 December 2020 are as follows:

30.06.2021	Number of shares	Average strike price	Maturity date	Millions of euros
Exercised	10,422,155	8.932	30/08/2021 to 23/09/2022	93
Potential maximum [(1)]	67,417,368	10.121	30/08/2021 to 23/09/2022	682

31.12.2020	Number of shares	Average strike price	Maturity date	Millions of euros
Exercised	11,306,168	9.4737	15/03/2021 to 15/11/2021	107
Potential maximum [(1)]	47,016,022	10.1760	15/03/2021 to 15/11/2021	478

[(1)] Maximum number of additional shares that could accumulate under the mechanism described above through to the expiry of the structures (assuming that the spot price over the remaining life of the structure remains below the strike price at all times).

- Sold put with physical settlement

At 31 December 2020 the Group had sold put options on treasury shares that granted the counterparty the option to sell these shares on the expiry date at the strike price set in the contract. At 30 June 2021, there were no put options outstanding.

The characteristics of these contracts at 31 December 2020 are as follows:

31.12.2020	Number of shares	Average strike price	Maturity date	Millions of euros
Put option	42,996,817	10.8460	29/01/2021 to 31/03/2021	451

Perpetual subordinated bonds

In February 2021, the IBERDROLA Group issued of “green” subordinated perpetual bonds in the amount of EUR 2,000 million. It was divided into two tranches, with the following characteristics:

Coupon	Early redemption option
First tranche of EUR 1,000 million Fixed annual rate of 1.45% from the issuance date until 9 February 2027. From the date of the first review, five-year swap rate plus an annual margin of 1.832% during the following five years. Five-year swap rate plus a margin of 2.082% per year during each of the five-year review periods starting on 9 February 2032, 2037 and 2042 and five-year swap rate plus a margin of 2.832% per year during the subsequent five-year review periods.	During the three previous months until (including) 9 February 2027 and from that date each year.
Second tranche of EUR 1,000 million Fixed annual rate of 1.825% from the issuance date until 9 February 2030. From the date of the first review, five-year swap rate plus an annual margin of 2.049% during the following five years. Five-year swap rate plus a margin of 2.299% per year during each of the five-year review periods starting on 9 February 2035, 2040 and 2045 and five-year swap rate plus a margin of 3.049% per year during the subsequent five-year review periods.	During the six previous months until (including) 9 February 2030 and from that date each year.

The Iberdrola Group has issued a total of EUR 7,500 million in subordinated perpetual bonds at 30 June 2021, taking into account the issues during this year.

12. LONG-TERM COMPENSATION PLANS

Share-based long-term compensation plans

Share-based long-term compensation plans in the settlement period

The key features of the plans are summarised below:

Long-term compensation programme	Settled in shares	Assessment period	Settlement period	Maximum number of beneficiaries	Maximum number of shares	Degree of fulfilment
IBERDROLA 2017-2019	Iberdrola	2017-2019	2020-2022	300	14,000,000	100% (1)
AVANGRID 2016-2019	Avangrid	2016-2019	2020-2022	80	2,500,000	17.4% (2)

(1) Level of achievement and settlement approved by the Board of Directors of IBERDROLA upon the proposal of the Remuneration Committee. During the first quarter of 2021, once it had been confirmed that the beneficiaries remained eligible for the remuneration, the second of the three annual settlements was made, in which 3,965,715 shares were delivered. These shares include those delivered to executive directors (Note 20.a) and to senior management (Note 20.b).

(2) Degree of fulfilment and settlement approved by the Board of Directors of AVANGRID upon the proposal of the Compensation, Nominating and Corporate Governance Committee (CNCGC). During the first quarter of 2021, once it had been confirmed that the beneficiaries remained eligible for the remuneration, the second of the three annual settlements was made, in which 68,554 shares were delivered.

Share-based long-term compensation plans in the assessment period

The key features of the plans are summarised below:

Long-term compensation programme	Settled in shares	Assessment period	Settlement period	Maximum number of beneficiaries	Maximum number of shares	Expected shares [3]
IBERDROLA 2020-2022 [1]	IBERDROLA	2020-2022	2023-2025	300	14,000,000 [4]	11,215,600 [4]
NEOENERGIA 2020-2022 [1]	Neoenergia	2020-2022	2023-2025	125	3,650,000	2,955,379
AVANGRID 2020-2022 [2]	AVANGRID	2021-2022	2023-2025	125	1,500,000	964,478

(1) Approval by the shareholders at the General Shareholders' Meeting of IBERDROLA and NEOENERGIA in 2020, respectively.
(2) Approval by AVANGRID's Board of Directors in 2021, under the scope of the Omnibus Plan.
(3) Foreseeable number of shares to be delivered, depending on the level of success in attaining the related targets.
(4) Includes the shares pertaining to all executive directors.

Cash-based long-term compensation plans

The key features of the plans are summarised below:

Long-term compensation programme	Measurement period	Settlement period	Maximum number of beneficiaries	Maximum cash amount	Degree of fulfilment
2018-2019 NEOENERGIA	2018-2019	2020-2022	100	BRL 50 million	97.64% [1]

(1) Degree of fulfilment and settlement approved by the Board of Directors of NEOENERGIA upon the proposal of the Remuneration Committee. During the first quarter of 2021, once it had been confirmed that the beneficiaries remained eligible for the remuneration, the second of the three annual settlements was made, entailing the delivery of EUR 3 million.

13. LITIGATION PAYMENTS

During the six-month periods ended 30 June 2021 and 2020, payments of EUR 15 and EUR 31 million, respectively, were made for litigation settlements

14. BANK BORROWINGS, DEBENTURES OR OTHER MARKETABLE SECURITIES

The detail of bank borrowings, debentures or other marketable securities outstanding, once foreign exchange hedges are considered, is as follows:

Millions of euros	30.06.2021	31.12.2020
In euros		
Debentures and bonds	11,125	12,005
Promissory notes	3,484	2,763
Loans and drawdowns of credit facilities	5,826	5,447
Other financing transactions	851	1,165
Unpaid accrued interest	110	169
Total	**21,396**	**21,549**
Foreign currency		
US dollars	8,500	8,676
Pounds sterling	3,246	3,430
Brazilian reais	4,984	4,095
Other	76	121
Unpaid accrued interest	227	166
Total	**17,033**	**16,488**
Total	**38,429**	**38,037**

The most significant financing transactions carried out by the IBERDROLA Group during the six months ended 30 June 2021 were as follows:

Borrower	Transaction	Arranged in	Amount (millions)	Currency	Interest rate	Maturity
First quarter						
Neoenergia	Public bond	Feb-21	2,000	BRL	CDI+1.46%	Aug-22
Neoenergia	Loan 4131	Feb-21	500	BRL		Mar-22
Coelba [(1)]	Loan 4131	Jan-21	3,884	JPY		Jan-22
Coelba [(1)]	Loan 4131	Feb-21	37	USD		Feb-24
Elektro	Loan 4131	Mar-21	200	BRL		Mar-26
CEB	Loan 4131	Mar-21	200	BRL		Mar-26
Iberdrola Financiación	Bilateral loan	Feb-21	50	EUR		Feb-28
Iberdrola Financiación	Bilateral loan	Mar-21	50	EUR		Mar-28
Iberdrola Financiación [(2)]	Bilateral loan	Mar-21	125	EUR		Oct-22
Iberdrola Financiación [(3)]	EIB loan	Jan-21	100	EUR		Jul-28
Second quarter						
Elektro	Public bond	May-21	405	BRL	CDI+1.60%	May-26
Elektro	Public bond	May-21	295	BRL	CDI+1.79%	May-28
Iberdrola Finanzas	Private Bond	Apr-21	250	EUR	Euribor+0.65%	Apr-23
CEB [(1)]	Loan 4131	Apr-21	36	USD		Apr-26
Neoenergia Guanabara	Loan 4131	Apr-21	200	BRL		Jun-22
Neoenergia Lagoa Dos Patos [(1)] [(3)]	Loan 4131	May-21	31	USD		Jun-22
Neoenergia Vale Do Itajai [(1)] [(3)]	Loan 4131	May-21	13	USD		Jun-22
Celpe [(1)]	Loan 4131	Jun-21	39	USD		Jun-26
Neoenergia Guanabara [(1)] [(3)]	Loan 4131	Jun-21	15	USD		Jul-22
Neoenergia Vale do Itajaí [(1)] [(3)]	Loan 4131	Jun-21	60	USD		Jul-22
Iberdrola Financiación	Bilateral loan	Jun-21	100	EUR		Jun-26
Iberdrola Financiación [(4)]	Sustainable syndicated loan	Apr-21	2,500	EUR		Apr-26
Iberdrola Financiación [(4)]	Sustainable bilateral credit facility	Jun-21	16,000	JPY		Jun-26
Iberdrola Financiación	Bilateral loan	Jun-21	125	EUR		Jan-23
Coelba [(1)]	Development bank loan	Mar-21	9,900	JPY		Mar-31
Coelba [(1)]	Development bank loan	Mar-21	5,053	JPY		Mar-26

(1) Currency swap contracts for the company's currency.
(2) Option to extend 6 months + 6 months.
(3) Financing expected to be drawn down in 2021.
(4) Option to extend 1 year+1 year.

The main extensions of financing transactions arranged by the IBERDROLA Group during the six months ended 30 June 2021 were as follows:

Borrower	Transaction	Date extension signed	Amount (millions)	Currency	Maturity
Iberdrola Financiación	Sustainable syndicated loan	Mar-21	1,500	EUR	Mar-26

At the date of authorisation for issue of these Financial statements, neither IBERDROLA nor any of its Group companies were in breach of their financial obligations or any kind of obligation that could trigger early repayment of its financial commitments or any change in the classification of current and non-current payables as set out in the Consolidated statement of financial position.

At the date of the authorisation for issue of these Financial statements, the IBERDROLA Group was fully up to date on all its financial debt payments and there had been no circumstances affecting the change of control or adverse changes in its credit quality or any kind of circumstances. Therefore, it had not been necessary to meet the early maturity of the debt or modify the cost related to the loans held by it, or to change the classification of current and non-current payables as set out in the Consolidated statement of financial position.

At 30 June 2021, the IBERDROLA Group had undrawn loans and credit facilities amounting to EUR 13,659 million. Additionally, at 30 June 2021 there are short-term cash deposits that, due to their contractual conditions, the IBERDROLA Group includes in its liquidity position as of that date. The following table provides a breakdown by maturity of the liquidity position at 30 June 2021, based on the balance of the “Cash and cash equivalents” heading and short-term financial investments (between 3 and 12 months) of the Consolidated statement of financial position:

Millions of euros	Available
Available maturity	
2021 - first half of 2022	322
Second half of 2022– 2023	879
2024 onward	12,458
Total	**13,659**
Short-term financial investments (between 3 and 12 months)	249
Cash and cash equivalents	3,417
Liquidity position	**17,325**

15. PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS

At 30 June 2021, the Iberdrola Group has concluded that, at that date, there have been no significant changes in the assumptions used in the valuation of pension obligations at 31 December 2020, nor have there been significant changes in the market valuation of assets assigned to such obligations.

In the first half of 2020, according to the new actuarial valuations carried out due to the economic uncertainty associated with COVID-19 (Note 3), it was found that there were no significant impacts on the provisions for pensions and similar commitments, except for in the United States. Provisions for defined benefit plans in the United States increased by EUR 277 million compared with the closing at 31 December 2019.

The table below shows the changes in the U.S. pension obligations:

Millions of euros	ARHI	UIL	AVANGRID NETWORKS	TOTAL
Balance at 31.12.2019	**64**	**1,129**	**2,531**	**3,724**
Ordinary cost	-	7	17	24
Financial cost	1	18	36	55
Actuarial deviations in reserves	3	82	188	273
Payments	(2)	(33)	(71)	(106)
Translation differences	-	(6)	(13)	(19)
Balance at 30.06.2020	**66**	**1,197**	**2,688**	**3,951**

Changes in the fair value of plan assets in the United States are as follows:

Millions of euros	ARHI	UIL	AVANGRID NETWORKS	TOTAL
Fair value at 31.12.2019	**35**	**715**	**1,943**	**2,693**
Revaluation	1	12	28	41
Actuarial gains and losses to reserves	-	(15)	3	(12)
Company contributions	2	21	15	38
Payments	(2)	(33)	(71)	(106)
Translation differences	(1)	(3)	(7)	(11)
Fair value at 30.06.2020	**35**	**697**	**1,911**	**2,643**

At 30 June 2020, the following assumptions used were modified with respect to those used in the actuarial studies carried out in the previous comparative period:

30 June 2020	Discount rate	Inflation
United States		
ARHI	2.50%	2.00%
UIL	2.62%	2.00%
AVANGRID NETWORKS	2.25%	2.00%

31 December 2019	Discount rate	Inflation
United States		
ARHI	3.10%	2.00%
UIL	3.19%	2.00%
AVANGRID NETWORKS	2.93%	2.00%

16. INCOME AND EXPENSES

16.1 Revenue

The table below shows details of this caption in the Consolidated income statement for the six-month periods ended 30 June 2021 and 2020 by category and segment (Note 7):

Millions of euros	Liberalised							Renewable energy							Networks					Other business, Corporation and adjustments	Total
30 June 2021	**Spain**	**United Kingdom**	**Mexico**	**Brazil**	**IEI**	**Eliminations**	**Total**	**Spain**	**United Kingdom**	**United States**	**Mexico**	**Brazil**	**IEI**	**Total**	**Spain**	**United Kingdom**	**United States**	**Brazil**	**Total**		
Supplies In regulated markets	**758**	**-**	**1,288**	**-**	**-**	**-**	**2,046**	**338**	**-**	**-**	**12**	**-**	**-**	**350**	**991**	**711**	**2,123**	**2,496**	**6,321**	**(344)**	**8,373**
Electricity	758	-	1,288	-	-	-	2,046	338	-	-	12	-	-	350	991	711	1,437	2,496	5,635	(344)	7,687
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	686	-	686	-	686
Supplies and other revenues in non-regulated markets	**4,891**	**2,394**	**878**	**178**	**666**	**(296)**	**8,711**	**727**	**500**	**673**	**51**	**72**	**232**	**2,255**	**9**	**-**	**3**	**-**	**12**	**(1,201)**	**9,777**
Electricity	4,166	1,642	878	176	598	(265)	7,195	719	347	589	51	71	232	2,009	-	-	-	-	-	(1,146)	8,058
Gas	436	728	-	-	56	(30)	1,190	-	-	-	-	-	-	-	-	-	-	-	-	4	1,194
Other	289	24	-	2	12	(1)	326	8	153	84	-	1	-	246	9	-	3	-	12	(59)	525
Income from construction contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4**	**-**	**-**	**509**	**513**	**(1)**	**512**
Income from lease contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9**	**9**
Commodities derivatives trading and valuation	**46**	**(9)**	**(9)**	**-**	**-**	**23**	**51**	**-**	**-**	**(24)**	**23**	**-**	**30**	**29**	**-**	**-**	**-**	**-**	**-**	**1**	**81**
Total	**5,695**	**2,385**	**2,157**	**178**	**666**	**(273)**	**10,808**	**1,065**	**500**	**649**	**86**	**72**	**262**	**2,634**	**1,004**	**711**	**2,126**	**3,005**	**6,846**	**(1,536)**	**18,752**

Millions of euros				Liberalised						Renewable energy						Networks				Other business, Corporation and adjustments	Total
30 June 2020	Spain	United Kingdom	Mexico	Brazil	IEI	Eliminations	Total	Spain	United Kingdom	United States	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Brazil	Total		
Supplies In regulated markets	**685**	**-**	**550**	**-**	**-**	**-**	**1,235**	**317**	**-**	**-**	**-**	**-**	**-**	**317**	**968**	**690**	**2,099**	**2,064**	**5,821**	**(238)**	**7,135**
Electricity	685	-	550	-	-	-	1,235	317	-	-	-	-	-	317	968	690	1,416	2,064	5,138	(238)	6,452
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	683	-	683	-	683
Supplies and other revenues in non-regulated markets	**4,627**	**2,282**	**576**	**182**	**590**	**(237)**	**8,020**	**293**	**501**	**587**	**42**	**84**	**185**	**1,692**	**7**	**-**	**10**	**-**	**17**	**(893)**	**8,836**
Electricity	3,949	1,499	576	182	531	(205)	6,532	286	318	480	42	84	185	1,395	-	-	10	-	10	(707)	7,230
Gas	440	763	-	-	46	(31)	1,218	-	-	-	-	-	-	-	-	-	-	-	-	3	1,221
Other	238	20	-	-	13	(1)	270	7	183	107	-	-	-	297	7	-	-	-	7	(189)	385
Income from construction contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**469**	**470**	**-**	**470**
Income from lease contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**9**	**9**
Commodities derivatives trading and valuation	**(75)**	**35**	**1**	**7**	**-**	**(29)**	**(61)**	**(3)**	**-**	**-**	**12**	**2**	**17**	**28**	**-**	**-**	**-**	**50**	**50**	**-**	**17**
Total	**5,237**	**2,317**	**1,127**	**189**	**590**	**(266)**	**9,194**	**607**	**501**	**587**	**54**	**86**	**202**	**2,037**	**976**	**690**	**2,109**	**2,583**	**6,358**	**(1,122)**	**16,467**

16.2 Taxes

On the subject of taxes, the Court has ruled on the application of the hydroelectric fee derived from Law 15/20212, declaring the nullity of its second transitory provision as well as the first additional provision, second paragraph, of Royal Decree 198/2015, both having been ruled to be unlawful.

As a result of the nullity of the aforementioned transitional provisions, a receivable amounting to EUR 327 million was recognised, with a principal of EUR 265 million, equivalent to the amounts paid as fees in 2013 and 2014, under the “Taxes” caption in the Consolidated income statement and EUR 62 million in late-payment interest (Note 19).

17. INCOME TAX EXPENSE

Pursuant to IAS 34 – Interim financial reporting, the amount included under "Income tax" in the Consolidated income statement for the six-month periods ended 30 June 2021 and 2020 has been calculated on the basis of the best estimate of the expected tax rate for the corresponding annual periods.

As from 1 January 2020, Iberdrola S.A., the parent company of the two tax consolidation groups in Spain, has been subject to income tax under the special tax rules applicable to the region of Biscay, and has been included in tax group 02415BSC in said special tax region.

The table below shows how the accrued income tax expense has been determined for the six months ended 30 June 2021 and 2020:

Millions of euros	30.06.2021	30.06.2020 Restated Note 2.c
Consolidated Profit/(loss) for the year from continuing operations before tax	**2,774**	**2,770**
Consolidated Profit/(loss) for the year from discontinued operations before tax	**(7)**	**(1)**
Consolidated Profit/(loss) before tax	**2,767**	**2,769**
Non-deductible expenses and non-computable income	(111)	(259)
Profit of equity-accounted investees	(5)	(475)
Adjusted accounting profit (a)	**2,651**	**2,035**
Gross tax calculated at the tax rate in force in each country (b)	**639**	**506**
Tax deductions due to reinvestment of extraordinary profits and other tax credits (c)	(60)	(62)
Adjustment of prior years' income tax expense	1	37
Adjustment of deferred tax assets and liabilities (1)	431	298
Other	2	(1)
Income tax expense/(income)	**1,013**	**778**
Accrued income tax from continuing operations (Income)/Expense	**1,014**	**780**
Accrued income tax from discontinued operations (Income)/Expense	**(1)**	**(2)**
Effective tax rate (b+c)/a	**21.84%**	**21.82%**

(1) It primarily concerns i) the increase in the tax rate, from 17% to 19% in 2020 and from 19% to 25% in 2021, applicable in the United Kingdom (EUR 157 million and EUR 480 million respectively in 2020 and 2021) and ii) the effects of the devaluation of the exchange rate of the US dollar against the Mexican peso in determining the difference between the tax and book value of assets and liabilities at the Group's Mexican subsidiaries.

As a result of the increase in the UK tax rate, charges of EUR 24 million and EUR 27 million were made to "Other reserves" in the Consolidated statement of financial position at 30 June 2021 and 2020, respectively, for the recalculation of deferred taxes at the new tax rates.

All IBERDROLA actions have been analysed by its internal and external advisers, both for this year and for preceding years, and these advisers have determined that these actions have been carried out in accordance with the Law and are based on the reasonable interpretation of tax law. The existence of contingent liabilities is also scrutinised. IBERDROLA's general approach is to recognise provisions for tax litigation when it is likely that IBERDROLA will be handed an unfavourable decision or ruling, while no recognition is required when the risk is possible or remote.

Ongoing tax inspections in the six-month period ended 30 June 2021 depend on the tax law applicable in each country, but no material impacts arising therefrom not included in these Financial statements are expected.

In Spain, the inspectorate of the Spanish tax agency (AEAT) initiated in June 2020 a partial inspection (for the years 2012 to 2014) and overall inspection (for the years 2015 to 2017) for the main corporate taxes applicable to IBERDROLA Group companies within the tax consolidation group of the common tax system (no 2/86).

In the first half of 2021, a number of tax assessments were accepted with settlements concerning transfer pricing matters for the period 2012 to 2014; none of these had significant impacts on the Group's assets.

The tax inspection procedures referred to above are still ongoing, and it is estimated that the remaining proposed tax assessments, whether accepted or protested, will be submitted in 2021 and 2022.

A number of different tax inspections are under way in other countries; these inspections are not expected to have any significant adverse results.

In the area of litigation, IBERDROLA has lodged contentious-administrative appeals before the National High Court (*Audiencia Nacional*) against the rulings by the Central Tax Appeals Board dismissing its claims, of which it was notified in June, in relation to tax assessments disputed in 2016, for the period 2008 to 2011. The main disputes relate to the elimination of the tax exemption on dividends received because the tax office believes that this exemption is incompatible with valuation adjustments for net investment hedges, differences in tax consolidation criteria and the possible existence of circumstances established in Article 15.1 of Spain's General Tax Act under a debtor-swap operation for a number of bond issues Throughout the first half of 2021, arguments were presented in the proceedings that were still pending at 31 December 2020.

As a general rule, no significant tax litigation is currently in progress in the other jurisdictions where the Group operates, except for Brazil, where a large number of litigation and administrative and judicial proceedings are ongoing. The Group considers it probable that the final rulings will be favourable.

The IBERDROLA Group’s directors and their tax consultants consider that the matters described in the above paragraphs will not give rise to further material liabilities for the IBERDROLA Group beyond those already recognised at 30 June 2021.

Further developments in relation to financial goodwill (Article 12.5 of the consolidated text of the Income Tax Law)

In previous years, the Spanish authorities applied the aid and grants reimbursement procedure envisioned in the General Tax Act, thus recovering from the IBERDROLA Group, in accordance with Section 12.5 of the TRLIS, the sum of EUR 665 million (EUR 576 million in principal and EUR 89 million in late payment interest) in years 2002 to 2015. IBERDROLA settled the required amount by (i) offsetting part of it against the EUR 363 million received under the 2016 income tax rebate; and (ii) paying EUR 302 million in February 2018, all the foregoing by virtue of Decision Three of the European Commission.

In May 2021, IBERDROLA was notified of a settlement agreement under the aid and grants reimbursement procedure for the years 2016 to 2018 in the amount of EUR 13 million, which the Company paid on 2 July 2021.

These amounts are recognised under the heading “Current tax assets” under non-current assets on the Consolidated statement of financial position.

At any rate, their recoverability is considered to be provisional, subject to the final outcome of the appeals submitted against the three European Commission decisions.

18. CHARGES AND REVERSALS FOR ASSET IMPAIRMENT

As indicated in the Consolidated financial statements of the IBERDROLA Group for 2020, the IBERDROLA Group analyses its assets for indications of impairment. If such indications are found, an impairment test is conducted. The IBERDROLA Group also conducts a systematic analysis of the impairment of cash-generating units (or groups of cash-generating units) that include goodwill or intangible assets in progress or with indefinite useful life.

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use, measured as the present value of its estimated future cash flows.

Global economic activity was temporarily disrupted by the healthcare crisis associated with the coronavirus (COVID-19) pandemic and the containment measures applied by the various countries from the first half of 2020 until the present day, which have affected normal business operations. However, to the best of the Company's knowledge, at the date of issue of these Consolidated financial statements, these effects appear to be temporary, and once economic recovery takes hold, businesses would be expected to revert to the situation they were in before. Therefore, these events are not expected to have a material adverse effect on business plans and hence on the recoverable amount of the assets.

According to the analysis performed in 2020, the electricity and gas retail supply cash-generating unit in the United Kingdom, and the renewables cash-generating unit in the United States, had a value in use which was slightly higher than their carrying amount. The monitoring activity carried out during the first half of 2021 shows that the underlying business performance (stripping out the impact of COVID-19) was substantially aligned with the business plan.

In addition to the above, the impairment indicators of the different cash-generating units (or groups of cash-generating units) have been reviewed, and no additional impairment has been detected to date.

19. CONTINGENT ASSETS AND LIABILITIES

IBERDROLA Group companies are party to legal and out-of-court disputes arising as part of the ordinary course of their business (disputes with suppliers, customers, administrative or tax authorities, individuals, environmental activists or employees). The IBERDROLA Group's legal advisers believe that the outcome of these disputes will have no material impact on its equity or financial position.

In relation to said disputes, the IBERDROLA Group's main contingent assets and liabilities not recognised in these Consolidated financial statements as the pertinent accounting criteria are not met, are as follows:

<u>Contingent liabilities</u>

- On 16 June 2014, the CNMC commenced sanction proceedings against IBERDROLA CLIENTES ESPAÑA (formerly IBERDROLA GENERACION ESPAÑA) for purported fraudulent manipulation aimed at altering energy prices at the River Duero, Tagus and Sil hydroelectric generation plants in December 2013. On 30 November 2015 the Company was notified of a EUR 25 million fine. IBERDROLA CLIENTES ESPAÑA lodged an appeal for a judicial review with the Judicial Review Chamber of the National High Court and was granted leave to proceed, whereupon enforcement of the penalty was stayed. The procedure is currently on hold pending separate rulings.

- Administrative appeals lodged on 7 July 2020 before the National High Court against dismissals of claim by the Central Tax Appeals Board notified to IBERDROLA on contested tax inspection reports signed by the Group in 2016, pertaining to the years 2008-2011. The main disputes relate to the elimination of the tax exemption on dividends received because the tax office believes that this exemption is incompatible with valuation adjustments for net investment hedges, differences in tax consolidation criteria and the possible existence of circumstances established in Section 15.1 of Spain's General Tax Act under a debtor-swap operation for a number of bond issues. Throughout the first half of 2021, arguments were presented in the proceedings that were still pending at 31 December 2020.

- IBERDROLA INGENIERÍA's subsidiary company in the United States (Iberdrola Energy Projects – IEP) is pursuing arbitration proceedings against one of its customers before the International Centre for Dispute Resolution (ICDR) of the American Arbitration Association (AAA) due to the improper termination of a contract and other claims. The client concerned is seeking certain amounts from IEP resulting from late performance penalties and other damages. Arbitration hearings were held in the first quarter of 2021, and the decision is at the conclusions stage. A ruling is expected to be handed down in the fourth quarter of 2021.

  In February 2019 the client enforced 100% of the value of its bond (USD 141 million). The amount paid has been recognised under the heading “Trade and other current assets” of the Consolidated statement of financial position at 30 June 2021 because it is considered likely that the amount will be recovered from the counterparty in case the outcome is favourable, or otherwise netted against the amount to be paid in the event of an unfavourable decision.

- ACE (an economic interest grouping in Portugal consisting of the companies Acciona-Mota and Edivisa) submitted a request for arbitration against Iberdrola Generación before the Commercial Arbitration Centre of Lisbon (the arbitration body provided in the contract) with regard to the construction contract for the Alto Támega dam and hydroelectric plant. The claim is grounded in the argument that they do not consider themselves liable for excess costs that were incurred due to deviations in the work performed. They also claim that they are not liable for the delays occurring and that Iberdrola, consequently, does not have the right to impose on them any of the penalties provided for in the contract. Further, they state that the termination of the works contract is unjustified and should be deemed null and void, and they demand compensation for said termination. An arbitration proceeding has been commenced and will have a duration of at least 18 months. Iberdrola is considering the possibility of bringing a counter-claim in due course. ACE has filed a lawsuit involving a claim for EUR 25.8 million.

- Various labour, civil and tax claims are ongoing against several companies of the NEOENERGIA Group in Brazil in relation to their normal course of business. The IBERDROLA Group considers that the risk of potential losses at such companies has been assessed in line with the opinions of the authorities and the external tax advisers, and the relevant provisions have been made based on the likelihood of loss as per the available evidence, the position of the courts and the most recent case law precedent.

  The labour complaints were filed by former NEOENERGIA Group companies or by former subcontractors in relation to additional working hours, wage equivalence and other employment rights. The civil cases refer to commercial and damages actions initiated to claim material or moral damages, arbitration proceedings relating to engineering contracts and environmental suits.

  The tax claims include violation findings due to the following:

  - amortised gain/goodwill expense (*agio)* is not tax deductible for the purpose of calculating income tax (both in income tax and employee contribution tax) applicable to subsidiary companies Celpe, Coelba, Cosern, Elektro, Itapebi and Termopernambuco;

  - failure to make income tax withholdings on interest payment on capital between companies belonging to the same group.

  - income tax withholding requirement on the alleged taxable capital gain accruing to Iberdrola Energía SA following the incorporation of Elektro Holding by Neoenergia.

  - questions concerning tax credits related to consumption tax (ICMS) at NC Energia, Celpe and Elektro;

  - the tax authorities believe that payments for profit sharing, employee benefits, health insurance and life insurance should be recognised as social security expenses;

  - offsetting by Neoenergia of receivables due to wrongly applying PIS/COFINS to finance income under a favourable ruling, which has been contested.

  - questions concerning federal taxes - income tax and employee contribution tax - from dismissal of expenses with payment of regulatory compensation in Coelba.

  - questions concerning the municipality of contribution of the public lighting service (COSIP), contending that Coelba paid a smaller amount in the period between January 2018 and December 2019.

  Turning to regulatory proceedings, distribution companies Coelba, Celpe, Cosern and Elektro are party to various suits and claims, notably: (I) proceedings to calculate individual and collective technical service continuity indicators; (ii) trade matters; (iii) financial compensation and recovery of global indicators; (iv) matters related to the collection or legality of tariff-related items or matters; and (v) matters related to the legality of administrative action instituted by ANEEL. Among said actions, the following stand out:

  - Elektro's Energy Social Tariff (for low income consumers), for which the Consumers Association intends to increase the number of eligible customers from 2002 to 2010, imposing on ANEEL and Elektro the obligation to restore tariff differences, which should be met, eventually, by the CDE sector fund;

- the free or onerous use of rights of way areas in roads for the electricity grid;

- several matters regarding over or under subscription of energy, currently under administrative discussion; and

- the possibility of ANEEL including, in the tariff tax, income resulting from the favourable outcome of the legal dispute concerning the exclusion of the ICMS tax from the federal contributions calculation base for PIS/COFINS. The matter is undergoing preliminary discussions at the administrative level.

– Claim by the Public Utilities Commission: in 2002, the California Public Utilities Commission and the California Electricity Oversight Board (CPUC and CEOB, respectively) submitted a claim to the Federal Energy Regulatory Commission (FERC) against a number of electricity producers, alleging that these companies had manipulated the market and that the prices set in energy purchase contracts were "unfair and unreasonable", and demanded modifications to the contracts.

  FERC dismissed the claim and, following a review by the Californian courts, the Supreme Court ordered FERC to review the case, which had remained dormant since 2008. In April 2016, following the reopening of the 2014 case, an initial ruling was issued that dismissed any market manipulation by Avangrid Renewables, but the initial ruling did conclude that the price of the power purchase agreements imposed an excessive burden on customers in the amount of USD 259 million. FERC staff have recommended that the case be closed without sanction. Following these proceedings, FERC is expected to issue a final ruling in 2021 and its decision may be appealed before the courts. The IBERDROLA Group expects that the case will eventually be closed without any penalty.

  On 17 June 2021, the FERC issued an Order Establishing Limited Remand, remanding the case to the administrative law judge for additional detailed findings and legal analysis with respect to the impact of the conduct of one of the parties other than Avangrid Renewables on their long-term contracts. The order did not address any of other findings, including all of the findings with respect to Avangrid Renewables, which remain pending. There is no specific time frame for the administrative judge's ruling to be handed down.

– On 20 November 2020, NYPSC issued an order with respect to alleged violations of the Statement of Policy of Adoption of the NYPSC Order of 2004 on the part of RG&E, Greenlight Networks Inc. (Greenlight) and Frontier Communications (Frontier). The alleged violations relate to the installation by Greenlight of unauthorised communications accessories of low quality in all the service territories of RG&E and Frontier, amounting to more than 11,000 alleged violations of the order. According to Article 25-a of the Public Service Law of New York, each alleged violation carries a potential sanction of up to USD 100,000 when it can be shown that the offender did not "reasonably comply" with an NYPSC statute or order. RG&E, Greenlight and Frontier presented their respective notifications to initiate settlement negotiations for the alleged violations and to extend the period for submitting a response. The NYPSC granted the extension requests in order to begin the settlement talks.

– In Mexico, the Federal Electricity Commission (CFE) is making commissioning of the Topolobampo III electrical plant subject to the payment of contractual penalties amounting to USD 16 million for delay in the construction of the plant. Iberdrola Mexico has filed for arbitration requesting recognition of causes of governmental force majeure, return of the USD 2 million paid for contractual penalties, impropriety of the contractual penalty amounting to USD 16 million, payment of the expenses incurred and capacity charges for the period of force majeure of at least USD 10 million and compensation for harm and loss caused by the delay in the commercial operating date of the plant. The CFE has lodged its opposition to Iberdrola's claims and presented a counter-claim in the arbitration seeking payment of the contractual penalties. Iberdrola's statement of claim was filed on 23 March 2021, seeking the sum of USD 16.92 million. CFE is now in time to answer the claim and file, if necessary, a counterclaim.

- Iberdrola Mexico has challenged in court a resolution of the Energy Regulation Commission (CRE) issuing charges by the Electricity Transmission Service to be applied by CFE Intermediación de Contratos Legados, S.A. de C.V. to the holders of Legacy Interconnection Contracts with Electricity Generation Plants with Renewable or Efficient Cogeneration Sources. The resolution substantially increases the charges for this service and, in the judgement of Iberdrola Mexico, hinders and limits a constitutionally significant activity, namely electricity generation, and also violates a number of rights protected by the Constitution of Mexico. After the granting of the injunctive measure sought by Iberdrola, consisting of suspension of the contested resolution, the company had to post a bond in the amount of 621 million Mexican pesos with the court to secure the measure. The amount is the difference between what Iberdrola Mexico would have to pay under the contested resolution and what it actually will pay pursuant to the injunction granted for tariff charges for electricity transmission services for six months. In the event the trial produces an unfavourable outcome, Iberdrola would have to pay this amount.

Additionally, the following contingent liabilities have arisen as part of the ordinary business of the IBERDROLA Group:

- US gas companies own, or have owned, the land on which they operated the gas production plants. This land was polluted as a result of these activities. In some cases, the soil has been cleaned, while in others the soil has been assessed and identified, but has yet to be cleaned and in others the extent of the pollution has yet to be determined. For the last group, at 30 June 2021 no provisions had been recognised because the cost cannot reasonably be estimated as the matter requires the regulators' intervention and approval. In the past, the gas companies have received authorisation to recover cleaning expenses from customers through tariffs and they expect to recover such expenses for the remaining soil.

<u>Contingent assets</u>

- AVANGRID initiated legal proceedings against the former owners of certain sites in order to recover the costs of environmental restoration work it was forced to pay.

- Iberdrola Generación, S.A.U. has challenged RD 198/2015, of 23 March, which implements Section 112 *bis* of Legislative Royal Decree 1/2001, of 20 July, approving the revised text of the Water Law and regulating the Canon for the use of inland waters for the production of electricity in inter-community districts (Hydroelectric Canon). This appeal has been partially upheld by the Supreme Court in its ruling of 21 April 2021, declaring the nullity of the second transitional provision and the second paragraph of the first additional provision of RD 198/2015. Because of the annulment: (i) the self-assessments for 2013 and 2014 —already recognised in the accounting records— are declared invalid due to genuine retroactivity because Royal Decree 198/2015 was not in effect in those years (Note 16.2); (ii) it may also have an effect on the settlements for 2015 to 2020, as the concession titles have not been modified to adapt to the requirements of the Hydroelectric Canon, in accordance with the ad-hoc procedures established in the water legislation.

The IBERDROLA Group's assets are not at risk with respect to the appeals lodged against general energy stipulations because the economic effects of the protested stipulations take effect from the time they enter into force. An estimate of the appeals submitted by third parties has a limited economic scope, as they would require amendments to the regulatory framework and may entail refunds.

As regards the legal proceedings instigated by third parties that may affect the remuneration and equity of the IBERDROLA Group, no significant appeals have been lodged.

The contingent assets and liabilities at 31 December 2020 are described in the IBERDROLA Group's Consolidated financial statements for that year.

20. REMUNERATION RECEIVED BY THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

a) Remuneration of the Board of Directors

Remuneration and other benefits received by directors in the six-month periods ended 30 June 2021 and 2020 are presented in the following table, by item:

Millions of euros	30.06.2021	30.06.2020
Remuneration for membership on the Board and/or Board committees	2.7	2.8
Fixed remuneration – Executive directors	1.6	1.6
Variable remuneration – Executive directors	4.3	4.3
Other items [(1)]	0.3	0.2
Total	**8.9**	**8.9**

(1) Includes the remuneration of directors who have served as directors of companies that are not wholly owned by the Company, whether directly or indirectly, such remuneration amounting to EUR 0.16 million in the first half of 2021, the same amount as in the first half of 2020.

Aside from the remuneration described above, the second of the three annual settlements under the *2017-2019 Strategic Bonus* was completed in the first half of 2021, involving the delivery of 733,333 shares, the same number as in the previous year.

b) Remuneration of senior officers

Senior officers only include those officers directly reporting to the Board of Directors, to the chairman thereof or to the Company's CEO, and in all cases the director of the Internal Audit area, as well as any other officer recognised as such by the Board of Directors.

At 30 June 2021, there were 10 senior officers (at 30 June 2020: 9 senior officers).

Remuneration and other benefits received by senior officers in the first half of 2021 and 2020 are as follows:

Millions of euros	30.06.2021	30.06.2020 (*)
Fixed remuneration	2.5	2.4
Variable remuneration	5.8	5.8
Pension plans (savings and risk)	1.3	1.2
Other items (1)	0.6	0.8
Total	**10.2**	**10.2**

(*) For comparison purposes, this includes information on employees who have been senior officers since 1 January 2021 (1 additional senior officer).

(1) Includes the remuneration of senior officers who have served as directors of companies that are not wholly owned by the Company, whether directly or indirectly, which amounted to EUR 0.35 million in the first half of 2021 and EUR 0.49 million in the first half of 2020.

Aside from the remuneration described above, the second of the three annual settlements under the *2017-2019 Strategic Bonus* was completed in the first half of 2021, involving the delivery of 554,995 shares, the same number as in the previous year.

In the first half of 2021 and 2020, there were no further transactions with officers outside the ordinary course of business.

21. RELATED-PARTY TRANSACTIONS AND BALANCES

The following transactions have taken place within the ordinary course of business and have been carried out at arm's length.

The most significant transactions carried out with the IBERDROLA Group during the six months ended 30 June 2021 and 2020 were as follows:

	Six-month period ended 30.06.2021				
Millions of euros	Significant shareholders (1)	Directors and officers (2)	Group persons, companies or entities	Other related parties	Total
Expenses and income					
Services received	–	–	1	–	1
Purchases	–	–	96	–	96
Total expenses	**–**	**–**	**97**	**–**	**97**
Services rendered	–	–	7	–	7
Sales	–	–	3	–	3
Total income	**–**	**–**	**10**	**–**	**10**
Other transactions					
Dividends and other distributed earnings (3)	93	1	–	–	94

In addition, in the first half of 2021, the Board of Directors authorised a sponsorship in the amount of EUR 0.4 million. This amount will be paid out between 2021 and 2025 and will be used entirely to promote and carry out activities of general interest within the framework of the BBK-Klima project, which is located in the Sukarrieta Colony within the Urdaibai Biosphere Reserve. Board member Xabier Sagredo serves as chairman of BBK.

Millions of euros	Six-month period ended 30.06.2020				
	Significant shareholders (1)	Directors and officers (2)	Group persons, companies or entities	Other related parties	Total
Expenses and income					
Services received (4)	–	–	110	–	110
Total expenses	**–**	**–**	**110**	**–**	**110**
Services rendered	–	–	4	–	4
Sales	–	–	14	–	14
Total income	**–**	**–**	**18**	**–**	**18**
Other transactions					
Purchase of tangible, intangible and other assets	–	–	3	–	3
Dividends and other distributed earnings (3)	96	–	–	–	96

Balances with related parties were as follows at 30 June 2021 and 2020:

Millions of euros	30 June 2021				
	Significant shareholders (1)	Directors and officers (2)	Group persons, companies or entities	Other related parties	Total
Trade and other receivables	–	–	2	–	2
Loans and credits granted	–	–	4	–	4
Total receivables	**–**	**–**	**6**	**–**	**6**
Trade and other payables	–	–	(4)	–	(4)
Total payables	**–**	**–**	**(4)**	**–**	**(4)**

Millions of euros	30 June 2020				
	Significant shareholders (1)	Directors and officers (2)	Group persons, companies or entities	Other related parties	Total
Trade and other receivables	–	–	3	–	3
Loans and credits granted	–	–	29	–	29
Other receivables	–	–	5	–	5
Total receivables	**–**	**–**	**37**	**–**	**37**
Trade and other payables	–	–	29	–	29
Other payment obligations	–	–	70	–	70
Total payables	**–**	**–**	**99**	**–**	**99**

(1) Related-party transactions include those carried out by shareholders who exercise significant influence over the financial and operating decisions of the entity. Significant influence is deemed to exist where the related party has one or more representatives sitting on the Board of Directors.

Related parties also include shareholders whose shareholding in the Company enables them to exercise the proportional representation system.

At the date of issue of these Financial statements, only Qatar Investment Authority meets this condition. Therefore, all amounts pertaining to the six-month period ended 30 June 2021 and 2020 concern transactions with this shareholder.

(2) Refers to transactions other than those disclosed in Note 20.

(3) The amounts recognised as dividends and other distributed earnings in the first half of 2021 and 2020 pertain to the *Iberdrola Retribución Flexible* system and the General Shareholders' Meeting attendance bonus, if applicable.

(4) Relates mainly to purchases of electric power.

22. EVENTS SUBSEQUENT TO 30 JUNE 2021

The following significant event took place after 30 June 2021 and up to the date of authorisation of issue of these Consolidated financial statements:

Reduction in share capital

On 1 July 2021, the reduction in capital approved at the General Shareholders' Meeting of the Company held on 18 June 2021 under item six on its agenda was implemented through the cancellation of treasury shares.

The main features of the capital reduction were as follows:

	Date of filing at the Commercial Registry	% Capital	Number of shares	Face value	Euros
Reduction in share capital	6 July 2021	2.776%	178,156,000	0.75	133,617,000

Following the reduction, share capital stood at EUR 4,680,000,000, represented by 6,240,000,000 shares, each with a par value of EUR 0.75.

Iberdrola Retribución Flexible

On 6 July 2021, the following terms were established in relation to the implementation of the first increase in capital by means of a scrip issue (*Iberdrola Retribución Flexible*) approved at the General Shareholders' Meeting of IBERDROLA held on 18 June 2021 under item 18 on the agenda:

- The maximum number of new shares to be issued under the increase in capital is 156,000,000.
- The number of free allocation rights required to receive one new share is 40.
- The maximum par value of the increase in capital is EUR 117,000,000.
- The gross *Interim dividend* per share amounts to EUR 0.254.

Financing arrangements

Borrower	Transaction	Amount (millions)	Currency	Maturity
Iberdrola Financiación [1]	Green ICO loan	6	EUR	Jul-30
Iberdrola Financiación [1]	Sustainable bilateral loan	250	EUR	Jul-26

[1] Financing expected to be drawn down in 2021.

The IBERDROLA Group's liquidity position, counting financing operations signed after 30 June 2021, totals EUR 17,581 million (Note 14).

23. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These Consolidated financial statements are presented on the basis of IFRS, as adopted by the European Union. Certain accounting practices applied by the Group that conform to IFRS may not conform to other generally accepted accounting principles in other countries.

APPENDIX

INDUSTRY REGULATION AND OPERATION OF THE ELECTRICITY AND GAS SYSTEM

Various new rules and regulations affecting the energy sector were enacted in the first half of 2021. This section addresses the most significant changes and developments.

Spain

Spanish electricity sector

Final version of the 2021-2030 INECP: the final version of the 2021-2030 Integrated National Energy and Climate Plan (INECP) has now been published in the Official State Gazette (BOE), making no change to the objectives or measures contemplated in previous versions.

- Targets set for 2030 (23% reduction in emissions compared to 1990 levels, renewable energy systems (RES) to account for 42% of end energy consumption, 39.5% efficiency, 27% share of electricity in final energy consumption);
- Generation mix with 74% RES by 2030;
- 6 GW of new storage;
- Orderly nuclear shutdown schedule;
- 28% penetration of RES in transportation; and
- 5 million electric vehicles by 2030.

FNEE contributions – 2021: the order establishing the contributions to the National Energy Efficiency Fund (*Fondo Nacional de Eficiencia Energética*) (FNEE) for 2021 has now been approved. These contributions stem from the transposition of Directive 2012/27/EU on energy efficiency, which calls on each Member State to justify a cumulative savings amount for the 2014-2020 period. The deadline has been extended to 2030 under Directive (EU) 2018/2002. Spain, for one, has opted to create a National Fund, managed by IDAE (Institute for Energy Diversification and Savings).

Electricity and gas retail traders and operators of petroleum products are subject to these regulations in proportion to their sales in 2019 (year n-2). It should be noted that the weight of these sectors is approximately ¼ electricity, ¼ gas and ½ oil.

The annual contribution is set at EUR 207 million, similar to previous years, for sales of 819 TWh, which amounts to around EUR 0.25/MWh of electricity, gas or petroleum product.

Calculations are made on the basis of the final energy sales reported by each company and corrections from previous years are added. As it concerns final energy, gas consumed in generation and cogeneration processes is excluded.

Energy Storage Strategy: the Spanish Ministry for the Ecological Transition and Demographic Challenge (MITECO) has published a document to analyse the role of storage in accomplishing the objectives of the INECP and the decarbonisation strategy through to 2050, in relation to both the operation of the electricity system and at end uses (including thermal uses). The document includes a total of 66 measures to be undertaken without a specific timetable and sets figures of 20 GW of storage by 2030 and 30 GW by 2050.

Cofrentes extension: the Order approved by the MITERD renews the authorisation of the Cofrentes nuclear power plant (1,110 MW) until November 2030.

Royal Decree on Electricity System Charges: this Royal Decree approves the methodology for passing on charges (mainly premiums for renewables, historical tariff deficits and extra-peninsular cost overruns) among different consumers, in terms of contracted power (€/kW) and energy consumed (€/kWh). The prices for each financial year will be determined via ministerial order. This Royal Decree further specifies the methodology for calculating transmission and distribution tariffs to include grid remuneration in each financial year, which is the responsibility of the CNMC and which was approved in January 2020. Both methodologies can be reviewed every six years.

Network tariffs from 1 June: the Circular approved by the CNMC sets the start date of the CNMC's methodology for transmission and distribution tariffs at 1 June and includes the Resolution setting tariff prices as from that date.

Royal Decree-Law on tax measures: ushers in urgent measures in the realm of energy taxation and energy generation (Royal Decree-Law 12/2021 of 24 June, on urgent measures in the realm of energy taxation and energy generation and on the management of the regulation rate and the water use tariff):

- VAT is lowered from 21% to 10% until the end of the year for consumers with contracted power up to 10 kW, if the average market price for the last calendar month prior to the last billing day exceeds EUR 45 per MWh.
- The Tax on the Value of Electricity Production (7%) is suspended for the third quarter.
- Protection for strategic sectors against purchases of national companies by foreign agents is further extended to 31 December.

Law on Climate Change and Energy Transition: the Law on Climate Change and Energy Transition (Law 7/2021 of 20 May) has been published in the Official State Gazette (BOE).

- It sets climate targets in line with those established in the INECP (23% CO_2 reduction, renewable energy to account for 42% of final demand, 39.5% efficiency). They will be reviewed in 2023, but these targets can only move upwards.
- Key changes will be made to the electricity sector to increase consumer participation, investment in renewable energy, distributed generation and storage, use and management of flexible electricity grids and local energy markets, access to information by customers and innovation.
- The use of reversible hydroelectric plants will be promoted.
- The Law also consolidates the contribution of EUR 450 million in revenue to the electricity sector through CO_2 auctions.
- Championing electrification: 150kW or 50kW charging points by 2021 at service stations with the highest sales volumes, sales of zero-emission non-commercial vehicles by 2040 and promotion of zero-emission heating systems.
- Taxation: a group of experts is set up to assess the need for a tax reform and to review all subsidies and measures that promote the use of fossil energy products.

Extension of the ban on supply cut-offs: a Royal Decree-Law has been published in the Official State Gazette extending certain social protection measures for a further three months following the end of the State of Alarm (Royal Decree-Law 8/2021 of 4 May).

In relation to energy:

- the ban on cutting off the supply of electricity, natural gas and water is extended until 9 August.
- the deadline for requesting the discounted rate (*bono social*) for unemployed or low-income consumers, or those on furlough, has been extended until 9 August.

United Kingdom

Tariff cap: as required by the 2018 Domestic Gas and Electricity (Tariff Cap) Act, Ofgem introduced a new default tariff cap on 1 January 2019 to protect customers on default tariffs, including standard variable tariffs (SVT). The tariff cap is adjusted on 1 April and 1 October each year. It has been extended for a year until the end of 2021 and may be extended annually up to two more times. Ofgem confirmed in February 2021 that it would include an adjustment to reflect estimated additional debt-related costs due to COVID-19 in Period 6 (Apr-Sep 21) and Period 7 (Oct 21-Mar 22). Ofgem issued a further consultation in June 2021 on its approach to 'truing-up' the allowance for COVID-related costs in light of actual costs.

RIIO-T2: in December 2019, SP Energy Networks (SPEN) submitted its final business plan worth GBP 1,400 million to Ofgem for the RIIO-T2 electricity transmission price control, which will run from 1 April 2021 to 31 March 2026.

OFGEM published its final determination in December 2020, proposing an allowed total expenditure (TOTEX) of GBP 1,300 million (a significant improvement from its July draft determination) and a cost of equity of 4.02% CPIH real (at 55% gearing and net of a 0.23% 'outperformance adjustment').

All nine licensees affected by the RIIO-T2 gas and electricity price controls have been granted permission to appeal against Ofgem's decisions to the CMA. The CMA has been holding hearings with the parties during June 2021 and has until the end of October 2021 to dispose of the appeals.

RIIO-ED2: the RIIO-ED2 electricity distribution price control will run from 1 April 2023 to 31 March 2028. DNOs are required to submit a full draft of their business plans to the RIIO-ED2 Challenge Group by 1 July 2021 and final business plans to Ofgem by 1 December 2021.

UK carbon reduction target: the UK Government announced in April 2021 that it was accepting the advice from the independent Climate Change Committee on setting a target for a 78% reduction in carbon emissions by 2035 compared to 1990 levels. The Government is legislating to give effect to this by setting the Carbon Budget (2033-37) under the Climate Change Act. This builds on the UK's existing commitment —in its already announced Nationally Determined Contribution— to at least a 68% reduction in emissions by 2030.

United States

Mitigating the effects of COVID-19: on 11 March, President Biden signed the American Rescue Plan Act to put in motion a USD 1.9 trillion anti-COVID-19 package. The Act allocates USD 4,500 million in additional funding to the Low Income Home Energy Assistance Program (LIHEAP); USD 20,000 million in rental and utility assistance; USD 10,000 million for mortgages and public spending; and significant amounts for individual states and localities, including various investments in broadband infrastructure. It also includes a number of further provisions to support the pension system.

Infrastructure: President Biden announced an infrastructure package jointly agreed by 11 Republican and 10 Democratic senators. This framework allows for USD 1.2 trillion in spending over eight years, including USD 15,000 million on electric vehicle charging infrastructure, USD 65,000 million for broadband and additional spending on port upgrades and infrastructure resilience. Other climate, social and fiscal priorities could be advanced in a separate, partisan bill. Congress will draft the legislation in the coming months and seek to pass one or both packages by 30 September.

Taxes: on 29 June, the Treasury Department and the IRS issued a new safe harbour notice for renewable energy tax credits in response to delays caused by the COVID pandemic. The notice extends the safe harbour for facilities that began construction in 2016-2019 to six years and for facilities that began construction in 2020 to five years. It also allows taxpayers that do not use a commissioning safe harbour to use the continuous efforts standard instead of the more restrictive continuous construction standard to demonstrate compliance.

Offshore wind power: the Biden Administration brought forward its previously announced goal of generating 30 GW of offshore wind power by 2030, as follows:

- On 11 May, the Administration published a final Record of Decision approving the first commercial-scale offshore wind project: Vineyard Wind 1, which will have an installed capacity of 800 MW off the coast of Massachusetts and is expected to begin commercial operation in 2023. Vineyard Wind is a joint venture between Avangrid Renewables and Copenhagen Infrastructure Partners.

- On 25 May, the Administration and California Governor Newsom announced plans for the first offshore wind lease sale in 2022 off the coast of California. The plan focuses on areas in central and northern California totalling 600 square miles (1,553.9 km^2), which could generate up to 4.6 gigawatts.

- On 11 June, the Biden Administration announced a proposal to lease zones in New York State totalling 7 gigawatts. Also on 11 June, the Bureau of Ocean Energy Management (BOEM) issued a request for information on the potential for offshore wind energy development in the Gulf of Mexico.

- On 28 June, BOEM initiated the environmental assessment process for the Vineyard Wind South project, which could allow for the generation of 2,000 MW of offshore wind power. Phase one of the project is called Park City Wind and would provide 804 MW to Connecticut. The bureau expects to issue a final environmental assessment opinion by March 2023.

Tariffs: on 29 March, the Department of Commerce announced, in a preliminary ruling, a 73% tariff on wind turbines arriving from Spain. On 2 April, the Department of Commerce took the first steps to impose tariffs on wind turbines imported from India (between 3.7% and 397%) and Malaysia (6.32%). The Department of Commerce will deliver its final determinations in the third quarter.

In June, the Biden administration announced that a working group had been set up with the EU to define a process for lifting the 25% steel and 10% aluminium tariffs on European products. They plan to reach an agreement by 1 December. Also in June, the Administration added polysilicon to the US Department of Labor's list of goods produced through forced or child labour, following an investigation of Uighur populations in China's Xinjiang province.

Inquiry into the extreme cold snap: the Federal Energy Regulatory Commission (FERC) and the North American Electric Reliability Corporation (NERC) have launched three independent inquiries into the extreme cold snap that occurred between 14-19 February and resulted in the loss of 47% of generation capacity in Texas. The investigations will focus on the functioning of the overall energy system, activity in the wholesale natural gas and electricity market, and risks associated with climate change and extreme weather conditions. The findings of these inquiries could range from recommendations on winterisation measures for facilities to possible mandatory regulations.

Hydrogen: on 7 June, the US Department of Energy launched its *Hydrogen Shot* initiative in a bid to lower the cost of green hydrogen to 1 dollar per kg (an 80% reduction) within 10 years. As part of the initiative, the Hydrogen and Fuel Cell Technologies Office attached to the Department of Energy announced a request for information on viable hydrogen system demonstration projects, which could lead to a funding opportunity announcement in the future.

New York – Resiliency & Compensation Bill: the new NY Customer Resiliency and Compensation Bill was passed on 21 June (yet to be signed by the Governor):

- Utilities must draw up climate vulnerability studies and resilience plans with measures for the coming 10 and 20 years.

- Utilities will be entitled to recover depreciation and amortisation and obtain a return calculated on the basis of the regulatory ROE in force from time to time.

- The costs incurred in implementing the resilience plan will be recovered through a specific charge to be included on the bill.

- Customers cut off for more than 72 hours during any major event will be entitled to compensation for lost food and medicine (max. USD 240/customer) and USD 25/day once 96 hours have passed.

- Utilities may be exempted from payment of compensation in exceptional cases to be assessed by the Commission.

Connecticut – UI-D tariff review: on 10 June, PURA published its draft order, which was unchanged in respect of the version previously available. The final order is also expected to remain unchanged, with the tariffs coming into force on 1 July.

PURA has adjusted its initial decision and issued a proposed order accepting the substantial part of the Settlement proposed by UI-D and the parties. The key points of the proposed order are as follows:

- Maintaining ROE and equity factor values until the next rate case.

- Offsetting the regulatory asset of the Rate Adjustment Mechanism with regulatory tax liabilities (tax reform/ADIT), with both amounts to be amortised over 22 months.

- Allowing for a reduction in tariffs thanks to the effect of lowering the corporate tax (34% to 21%) and contributing funds from the COVID relief credit.

Connecticut – Storage Bill: on 11 June Connecticut passed a bill (yet to be signed by the governor) to promote energy storage. The bill aims to deploy 1,000 MW of batteries by 2030, with intermediate targets for 2024 (300 MW) and 2027 (650 MW).

New Mexico – Merger with PNM Resources: on 26 April, Avangrid obtained FERC approval to proceed with its merger with PNM Resources. This approval can be added to those previously obtained from the Federal Communications Commission (FCC) and from the shareholders of PNM Resources.

On 28 May, the proposed merger between PNM Resources and Avangrid was approved by the Nuclear Regulatory Commission (NRC). The only authorisation that remains pending is that from the New Mexico Public Regulation Commission (NMPRC). In this regard, NMPRC plans to put back the hearings until November to be able to properly analyse the merger. The Governor of New Mexico and 13 stakeholders have expressed their support for the merger.

Mexico

Reform to amend the Electricity Industry Act: on 1 February 2021, the Federal Government sent to the Chamber of Deputies a preferential initiative to reform the Electricity Industry Act (EIA). The reform was approved by the Chamber of Deputies on 23 February and by the Senate on 2 March and entered into force on 10 March 2021, following its publication a day earlier in the Official Gazette of the Mexican Federation. The key aspects of the EIA Reform are as follows:

- Transmission of electricity in the market. The proposal is to restructure the transmission of electrical power as follows: 1 hydroelectric plant, 2 CFE plants, 3 wind or solar plants owned privately, 4 combined cycle plants owned by private companies. This proposal would alter the transmission structure based on the order of economic merit set out in the EIA. A new type of physical delivery contract only applicable to CFE (between CFE Basic Supply and its generators) is created and afforded certain competitive advantages over other market participants.

- Permits. The aim is for the Energy Regulatory Commission (CRE) to issue permits on the basis of the planning criteria of the National Electricity System (NES) so as to avoid discretionary treatment. It is also proposed that the CRE be authorised to revoke self-supply permits granted under non-transparent criteria and which do not exist under current legislation.

- IEP contracts. It is proposed that Independent Energy Producer (IEP) contracts be mandatorily reviewed “in order to ensure compliance with the requirement of cost-effectiveness for the Federal Government”, and if no agreement is reached between the parties, it allows for the possibility of early termination. The contracts include no review or early termination clauses.

- Clean Energy Certificates (CECs). CECs are to be granted irrespective of the ownership or commercial start-up date of the power plants with the aim of fostering a competitive market. The initiative would indiscriminately award CECs to existing CFE power plants, driving down their prices and offering undue advantages to CFE’s retail supply companies.

Due to the major implications of the EIA reform, several participants in the electricity industry filed suits for protection of their interests. The competent courts ultimately granted them precautionary suspensions with general effect, which has effectively halted the implementation of this government initiative. As at 16 April, a total of 131 suits for protection had been filed and 120 provisional suspensions and 114 definitive suspensions had been granted.

At the end of the second quarter of 2021, various legal proceedings brought by private parties against the Reform of the Electricity Industry Act (EIA) were still ongoing. The reform package has been paralysed by the precautionary measures granted by the courts and this will remain the case until such time as the courts deliver their rulings or decide upon the constitutionality of the reform package.

Reliability Policy: the Supreme Court of Justice of the Nation (SCJN) has issued a ruling on the Constitutional Dispute filed by the Federal Economic Competition Commission (COFECE) against the Reliability Policy published by the Ministry of Energy (SENER), declaring most of its articles unconstitutional. On 4 March 2021, SENER published a Resolution in the Official Gazette of the Federation rendering the Reliability Policy null and void.

Definitive suspension of amendments made to Legacy Contracts for Basic Supply: in November 2020, the Ministry of Energy (SENER) and the CRE modified the terms, periods, criteria, calculation bases and methodologies of the Legacy Contracts for Basic Supply (CLSB) in order to extend their validity, amend their terms and conditions and enable new CFE power generation plants to qualify as Legacy.

In May 2021, the courts granted an injunction with general effect in response to a suit for protection of interests filed by a private party against the amendments made to the legacy contracts, thus temporarily reinstating the terms of the legacy contracts that had previously been in force.

That same month, SENER published a notice to participants in the Wholesale Electricity Market announcing the suspension granted by the courts.

Brazil

Conversion of Provisional Measure No. 998/2020 into Law No. 14120/21: on 2 March, Provisional Measure 998/2020 became Law 14120/21, with the main impacts at Neoenergia being as follows:

- The withdrawal of TUST (Transmission Usage Tariff) subsidies for new renewable projects that apply for those subsidies once one year has elapsed from publication of the Law. The subsidies will be replaced with considerations of environmental benefits for generation expansion.

- The creation of a mechanism for arranging reserve capacity with the participation of existing power plants.

- The use of uncommitted R&D and energy efficiency tariff resources for tariff reduction.

WACC update – 2021: updated WACC values for the generation, transmission and distribution businesses were published on 15 March. Distributors will be subject to a WACC of 7.0194% in 2021. In 2020, the rate was 7.32%. For power transmission and generation companies, the rate moved from 6.98% in 2020 to 6.7596% in 2021. These rates will be used for all processes during the period spanning March 2021 to February 2022.

Tariff adjustment at COELBA and COSERN: in April, ANEEL's Board of Directors ratified the adjustment of the tariffs for distributors COELBA and COSERN, effective 22 April. The average effect for COELBA consumers was 8.98%, with an average adjustment of 7.82% in low voltage and 12.28% in high and medium voltage. At COSERN, the average effect for consumers was 8.96%, with an average adjustment of 8.27% in low voltage and 11.18% in high and medium voltage.

Tariff review at CELPE: on 29 April 2021, the updated CELPE tariffs came into force, with an average effect on consumers of 8.99%, more precisely 11.89% for high and medium voltage and 8.01% for low voltage.

European Union

Recovery and Resilience Facility: on 18 February 2021, Regulation (EU) 2021/241 was published in the OJEU, establishing the Recovery and Resilience Facility, which will allow for a total of EUR 672.5 thousand million (EUR 312.5 thousand million in grants and EUR 360 thousand million in loans) to be allocated to Member States to cope with the effects of the pandemic. These funds are there to accelerate the energy transition (a minimum of 37% of allocations) and digital transition (a minimum of 20%), while also covering health, innovation, social and reconstruction spending. The Recovery and Resilience Facility is the most important component of Next Generation EU, the EU's most ambitious response to the COVID-19 crisis and which, with a budget of 750 thousand million euros between 2021 and 2024, is part of the Multiannual Financial Framework 2021-2027.

Of the total 672.5 thousand million euros, 140 thousand million euros is earmarked for Spain and must be allocated preferentially to the energy transition (compliance with the National Energy and Climate Plan) and digital transition, as per the terms of a Recovery and Resilience Plan to be drawn up in due course. This Plan will include reforms to address EU recommendations on structural imbalances (labour market, pensions, taxation, among others).

As an annex to the Regulation on the Recovery and Resilience Facility, on Friday, 12 February the Commission published technical guidance on interpreting the "do no significant harm" (DNSH) criterion to be incorporated into state proposals, so as to ensure that projects are suitably aligned with the objectives of the Green Deal.

On 16 June, the European Commission passed a positive assessment of Spain's recovery and resilience plan. This has paved the way for EUR 69,500 million in grants (10.3% of the EU total) under the Recovery and Resilience Mechanism (RRM), which should be used to undertake the investments and reforms described in the plan submitted by Spain.

The Commission believes that these actions will effectively contribute to the recovery of the economy post COVID-19 and to overcoming the challenges identified in the European Semester. Notably, 40% of the funds will go to climate targets and 28% to digitisation.

Publication of the first Taxonomy Delegated Act: on 21 April, the European Commission released a legislative package comprising the Taxonomy Delegated Act (DA) on climate change mitigation and adaptation targets, as well as other legislative proposals in the realm of sustainable finance.

This Delegated Act is the first implementation of the Taxonomy Regulation. It should be noted that this Regulation contains a classification of sustainable activities based on their significant contribution to one of the six EU environmental objectives (climate change mitigation, adaptation to climate change, air quality, protection of the aquatic environment, circular economy and biodiversity), without harming any of the others (do no significant harm – DNSH criteria).

The Delegated Act sets out the technical criteria for including a variety of industrial activities and services in the mitigation and adaptation taxonomies, such activities including energy production, distribution and transmission, hydrogen manufacturing and transport. The inclusion of gas (as a transition technology) and nuclear will be the subject of a complementary Delegated Act to be passed in the second half of 2021.

The European Council and Parliament have until October (extendable until December) to reject the implementation of the text of the DA (no amendments or partial implementation proposals are allowed). Once this deadline has passed, the DA will take effect from 1 January 2022.

Just Transition Fund Regulation: Regulation (EU) 2021/1056 of 24 June 2021 establishing the Just Transition Fund was published in the OJEU of 30 June. The fund is endowed with 17,500 million euros (790 million for Spain) to facilitate the energy transition of the areas most dependent on activities linked to fossil fuels.

CONSOLIDATED INTERIM MANAGEMENT REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. SIGNIFICANT EVENTS IN THE FIRST HALF OF 2021

1.1. COVID-19

The COVID-19 pandemic continued to impact the Group's operations and results in the first half of 2021, albeit substantially less so than in the previous year.

While it is difficult to accurately gauge the impact of COVID-19 on these Financial Statements, the IBERDROLA Group, based on the best available information, estimates that the main impacts will be a reduction in EBITDA of EUR 108 million due to declining demand as a result of the pandemic and an increase in non-payments of EUR 50 million.

These impacts break down as follows:

	Demand		Non-payments	
Millions of euros	**Networks**	**Generation and customers**	**Networks**	**Generation and customers**
Spain	-	(13)	-	(9)
United Kingdom	(6)	(20)	-	(7)
United States	(21)	-	(24)	-
Brazil	(29)	-	(7)	-
IEI	-	(19)	-	(3)
Total	**(56)**	**(52)**	**(31)**	**(19)**

At the date of issue of these Financial statements, it is not possible to make a precise estimate of the future impact of COVID-19 on the Company's earnings in the coming months because it remains to be seen how quickly the economies of the countries in which the Group operates will recover. Further uncertainties include the duration of the government measures currently in effect and the fact that we may see further measures in the coming months.

1.2. Currency performance

In the first half of 2021, the average exchange rates of IBERDROLA's main reference currencies, namely the US dollar and the Brazilian real, depreciated against the euro by 9.1% and 18.3%, respectively, while the pound sterling gained 0.2%, thus pushing down EBITDA by EUR 285 million and Net profit by EUR 50 million.

1.3. Demand

Demand in the period was affected by the COVID-19 crisis across all of the Company's main areas:

- Key points about the energy balance in the peninsular system in the first half of 2021 were increased production in wind (+24%), solar (+30%) and hydroelectric (+9%) power and a reduction in coal (-35%), combined cycles (-9%) compared to the same period of the previous year, coupled with a slight increase in nuclear power (+2%).

  In the first six months of 2021, demand was up 5.5% on the previous year, or 5.1% when adjusted for labour and temperature factors.

  The first half of 2021 ended with a hydro producer index of 1.0 and hydro reserves at 56.2%.

- In the United Kingdom, electricity demand was up 3.1% on the same period of 2020, while gas demand among customers rose by 10.1%.

- In the area in which Avangrid operates on the east coast of the United States, electricity demand was up 4.4%, while gas demand was up 5% when compared with 2020.

- The demand in Neoenergia's areas of operation in Brazil was up 18.2% on 2020.

1.4. Significant events regarding the IBERDROLA Group

On 24 May 2021, the UK government and parliament resolved to hike corporate income tax from 19% to 25%, effective 1 April 2023. In accordance with IAS 12, deferred taxes have been recalculated at the new expected tax rate. This revaluation has led to an increase in "Income tax expense" of approximately EUR 480 million.

Meanwhile, the ruling delivered by the Spanish Supreme Court declaring the application of the hydroelectric fee under Law 15/2012 null and void has led to the recognition of a receivable in the amount of EUR 327 million (Note 16).

1.5. Key operating figures

- **Installed capacity**

At the end of the first half of 2021, the IBERDROLA Group had 53,115 MW of installed capacity, a net 727 MW more than at year-end 2020.

Installed capacity by technology and geographic region is as follows:

	30.06.2021			31.12.2020			
By technology	Consolidated in EBITDA terms	Managed by investees (*)	Total	Consolidated in EBITDA terms	Managed by investees (*)	Total	Chg. MW – consolidated
Renewable energy	**32,983**	**2,678**	**35,661**	**32,250**	**2,659**	**34,909**	**733**
Onshore wind	18,480	469	18,949	18,125	450	18,575	355
Offshore wind	1,258	-	1,258	1,258	-	1,258	-
Hydroelectric	10,669	2,195	12,864	10,669	2,195	12,864	-
Mini hydroelectric	299	2	301	301	2	303	(2)
Solar and other	2,195	12	2,207	1,866	12	1,878	329
Batteries	82	-	82	31	-	31	51
Thermal	**20,132**	**51**	**20,183**	**20,138**	**51**	**20,189**	**(6)**
Nuclear	3,177	-	3,177	3,177	-	3,177	-
Gas combined cycles	15,821	-	15,821	15,821	-	15,821	-
Cogeneration	1,134	51	1,185	1,140	51	1,191	(6)
Total power (MW)	**53,115**	**2,729**	**55,844**	**52,388**	**2,710**	**55,098**	**727**

In 2020, 13 MW of installed fuel cell capacity was included but is no longer disclosed in these statements.

By country	30.06.2021 Consolidated in EBITDA terms	Managed by investees (*)	Total	31.12.2020 Consolidated in EBITDA terms	Managed by investees (*)	Total	Chg. MW – consolidated
Spain	26,666	271	26,937	26,384	252	26,636	282
United Kingdom	2,933	15	2,948	2,849	15	2,864	84
United States	8,594	248	8,842	8,561	248	8,809	33
Mexico	10,683	-	10,683	10,672	-	10,672	11
Brazil	2,023	2,195	4,218	1,885	2,195	4,080	138
IEI	2,216	-	2,216	2,037	-	2,037	179
Total power (MW)	**53,115**	**2,729**	**55,844**	**52,388**	**2,710**	**55,098**	**727**

(*) Includes the proportional part of MW.

Photovoltaic power is reported in MWdc.

Changes in installed capacity are as follows:

- In Spain, 2 MW of mini-hydro plants have been decommissioned following the sale of Estremera and Maquilón, while 95 MW of wind power from the Altamira, La Linera and Gomera farms have been sold to IBERMAP and 6 MW relating to one wind turbine at the Villarrobledo cogeneration facility have been decommissioned.
- New installed capacity:
    - at the Cordel Vidural (2 MW), Verdigueiro (37 MW) and Valdesantos (14 MW) wind farms;
    - the solar photovoltaic plants at Ceclavín (111 MWdc), Arenales (80 MWdc), San Antonio (41 MWdc), Francisco Pizarro (31 MWdc), Majada Alta (27 MWdc), Barcience (15 MWdc), Puertollano (10 MWdc), Campo Arañuelo III (11 MWdc), Almaraz II (2 MWdc) and Almaraz (1 MWdc); and
    - the first batteries at Campo Arañuelo III (3 MW).
- In the United Kingdom, 36 MW of wind (Halsary and Beinn an Tuirc) and 48 MW of batteries (Whitelee and Barnesmore) have been installed.
- In the United States, 33 MW have been installed (17 MW at Roaring Brook, 3 MW at La Joya, 7 MW from the Trimont repowering process and 6 MW from the Klondike II repowering process).
- In Mexico, the final 11 MW has been installed at the Pier wind farm.
- In Brazil, 138 MW of wind power has been installed at the Chafariz complex;
- At Iberdrola Energía Internacional, capacity increased by 179 MW; 112 MW following the acquisition of already operational wind farms in Poland and 67 MW due to the entry into operation of the Port Augusta wind farm complex in Australia.

- **Production**

In the first half of 2021, the IBERDROLA Group’s total production was up 4.9% to 76,523 GWh (72,927 GWh in the first half of 2020).

Production by technology and geographic region is as follows:

By technology	30.06.2021 Consolidated in EBITDA terms	Managed by investees (*)	Total	31.12.2020 Consolidated in EBITDA terms	Managed by investees (*)	Total	Chg. (%) – consolidated
Renewable energy	**34,960**	**6,171**	**41,131**	**29,961**	**6,149**	**36,110**	**16.7**
Onshore wind	20,787	484	21,271	19,441	398	19,839	6.9
Offshore wind	2,262	-	2,262	1,928	-	1,928	17.3
Hydroelectric	10,269	5,673	15,942	7,584	5,737	13,321	35.4
Mini hydroelectric	399	-	399	384	-	384	3.9
Solar and other	1,243	14	1,257	624	14	638	99.2
Thermal	**41,563**	**165**	**41,728**	**42,966**	**217**	**43,183**	**(3.3)**
Nuclear	11,575	-	11,575	11,208	35	11,243	3.3
Combined cycles – gas	26,885	-	26,885	28,681	-	28,681	(6.3)
Cogeneration	3,103	165	3,268	2,840	182	3,022	9.3
Coal	-	-	-	237	-	237	(100.0)
Total production (GWh)	**76,523**	**6,336**	**82,859**	**72,927**	**6,366**	**79,293**	**4.9**

By country	30.06.2021 Consolidated in EBITDA terms	Managed by investees (*)	Total	31.12.2020 Consolidated in EBITDA terms	Managed by investees (*)	Total	Chg. (%) – consolidated
Spain	31,050	371	31,421	27,299	346	27,645	13.7
United Kingdom	3,371	6	3,377	3,260	7	3,267	3.4
United States	11,471	286	11,757	11,611	276	11,887	(1.2)
Mexico	25,573	-	25,573	26,702	-	26,702	(4.2)
Brazil	2,986	5,673	8,659	2,651	5,737	8,388	12.6
IEI	2,072	-	2,072	1,404	-	1,404	47.6
Total production (GWh)	**76,523**	**6,336**	**82,859**	**72,927**	**6,366**	**79,293**	**4.9**

- **Retail supply**

The following tables show changes in the retail supply of gas and electricity:

	30.06.2021	30.06.2020	Change (%)
Spain	26,053	26,072	(0.1)
United Kingdom	9,140	8,476	7.8
United States	18,937	17,233	9.9
Brazil	22,930	20,899	9.7
Iberdrola Energía Internacional	4,645	4,724	(1.7)
Electricity sales (GWh)	**81,705**	**77,404**	**5.6**
Spain	5,015	4,906	2.2
United Kingdom	16,138	14,003	15.2
United States	34,335	32,932	4.3
Iberdrola Energía Internacional	1,022	733	39.0
Gas sales (GWh)	**56,510**	**52,574**	**7.5**

- **Distribution**

In the first half of 2021, electricity distributed by the Group amounted to 119,043 GWh, up 9.1% on the same period of 2020. Gas distribution increased by 5% to 36,137 GWh.

The breakdown by geographic region is as follows:

	30.06.2021	30.06.2020	Change (%)
Spain	45,345	42,496	6.7
United Kingdom	16,263	15,893	2.3
United States	18,992	18,190	4.4
Brazil (2)	38,443	32,530	18.2
Total electrical distribution (GWh) (1)	**119,043**	**109,109**	**9.1**
United States	36,137	34,422	5.0
Total gas distribution (GWh)	**36,137**	**34,422**	**5.0**

(1) Reported in power station busbars as of 2020.
(2) The units in Brazil are based on the energy injected into the grid, on which each licence receives its tariffs.

Electricity and gas supply points increased 4.8% against June 2020 to number over 33 million, thanks to organic growth across all geographies and the acquisition of CEB Distribuição (Note 6), which contributed 1.1 million supply points in Brazil.

Millions	30.06.2021	30.06.2020	Change (%)
Spain	11.25	11.17	0.8
United Kingdom	3.54	3.53	0.3
United States	2.30	2.27	1.3
Brazil	15.55	14.14	10.0
Total electricity	**32.64**	**31.11**	**4.9**
United States	1.03	1.02	1.0
Total gas	**1.03**	**1.02**	**1.0**
Total supply points managed	**33.67**	**32.13**	**4.8**

1.6. Key figures of the Consolidated income statement

Key figures for the first half of 2021 are as follows:

Millions of euros	30.06.2021	30.06.2020	Change (%)
Gross income	8,506	8,050	5.7
Gross operating profit – EBITDA	5,444	4,938	10.2
Net operating profit – EBIT	3,242	2,695	20.3
Net profit for the period attributable to the parent	1,531	1,876	(18.4)

1.6.1. Gross income

Gross income, understood as the difference between net revenues and expenses incurred on supplies, stood at EUR 8,506 million, up 5.7% on the same period in 2020 (EUR 8,050 million). The average exchange rate effect has reduced this item by EUR 469 million. Stripping out this impact, gross income would be up 11.5%.

Millions of euros	30.06.2021	30.06.2020	Change (%)
Spain	1,001	976	2.6
United Kingdom	683	661	3.3
United States	1,461	1,462	(0.1)
Brazil	912	724	26.0
Networks Business	**4,057**	**3,823**	**6.1**
Spain	1,110	1,485	(25.3)
United Kingdom	456	413	10.4
Mexico	380	431	(11.8)
Brazil	52	44	18.2
Iberdrola Energía Internacional	24	33	(27.3)
Liberalised Business	**2,022**	**2,406**	**(16.0)**
Spain	1,016	568	78.9
United Kingdom	465	469	(0.9)
United States	535	474	12.9
Mexico	68	53	28.3
Brazil	84	70	20.0
Iberdrola Energía Internacional	238	199	19.6
Renewables Business	**2,406**	**1,833**	**31.3**
Other business, Corporation and adjustments	**21**	**(12)**	**(275.0)**
Total	**8,506**	**8,050**	**5.7**

By business unit:

- Gross income at the Networks business was up EUR 234 million on 2020 (+6.1%) to reach EUR 4,057 million. The exchange rate effect had a negative impact of EUR 47 million. Excluding this impact, gross income would be up 15.3%.

  Highlights in the period include the following:

  - In Spain, gross income amounted to EUR 1,001 million, up EUR 25 million (+2.6%) on the same period in 2020, due to lower remuneration levels from 2021 onward, with the return of financial investments falling from 6% to 5.58%, offset by income from new investments, as well as the recalculation of quality incentives and other impacts from previous years.

  - The United Kingdom contributed EUR 683 million, up 3.3%, or EUR 22 million, thanks to growth in the distribution asset base, albeit affected by lower demand amid COVID-19. The revaluation of the pound sterling added just EUR 1 million to gross income.

  - The contribution made by the United States in the period amounted to EUR 1,461 million, down 0.1%. The depreciation of the US dollar knocked EUR 147 million off gross income, offsetting the improvement resulting from the new rate cases in effect, which include the tariff recognition of new investments.

  - Gross income in Brazil amounted to EUR 912 million, up EUR 188 million, despite the depreciation of the Brazilian real, which subtracted EUR 204 million from the total gross income figure. Gross income saw an improvement, largely thanks to the positive effect of the tariff adjustments at the distribution companies, the increased contribution made by transmission assets and the consolidation of CEB Distribuição.

- In the first half of the year, gross income at the Liberalised business was down EUR 384 million (-16%) on the same period of 2020, to reach EUR 2,022 million.

    - In Spain, gross income was down 25.3% to EUR 1,110 million. The reduction of EUR 375 million is due to higher procurement costs and market volatility affecting energy purchases at higher prices than in 2020, mainly due to the performance of gas and CO_2 prices. Gross income was also impacted by Storm Filomena, which generated higher supply costs.

    - The United Kingdom raised its contribution to gross income to EUR 456 million, up 10.4% on the back of higher sales volumes due to colder weather compared to last year, as well as improved margins in both electricity and gas, due to lower procurement costs.

    - Mexico contributed EUR 380 million to gross income, down 11.8%. The depreciation of the US dollar knocked EUR 13 million off the total figure. The main negative impact on gross income was the cold snap that took place in Texas in February of this year, which affected the supply of gas and prices at some of the combined cycle plants operating in Mexico. Part of this loss will be recovered down the line as electricity tariffs are updated to reflect prevailing fuel prices, including gas.

    - Brazil's contributed EUR 52 million to gross income, up 18.2% despite the devaluation of the real, which reduced gross income by EUR 52 million. Stripping out this effect, it would have improved by 46%.

    - The liberalised business at Iberdrola Energía Internacional contributed EUR 24 million to gross income, down 27.3% on the same period of 2020 due to the cold spells and lower sales amid COVID-19.

- The Renewables business increased its contribution to gross income by 31.3% to reach EUR 2,406 million. The main factors shaping this performance were as follows:

    - In Spain, gross income amounted to EUR 1,016 million, up 78.9% thanks to higher levels of production, driven mainly by hydroelectric generation (+39.3%), though also wind power (+12.2%), further supported by an increase in installed solar capacity (+329 MW) and a higher sales price to the commercial business in response to rising market prices.

    - In the United Kingdom, the unit's contribution to gross income fell by 0.9% to EUR 465 million, due to a 36.1% increase in offshore wind production following the entry into operation of East Anglia 1 from April 2020 and despite lower offshore wind production of 16.5% and lower prices. The exchange rate knocked EUR 1 million off the total.

    - The United States contributed EUR 535 million, up EUR 61 million (12.9%) on the same period of 2020. The depreciation of the US dollar subtracted EUR 53 million, while the business generated an increase of EUR 114 million, despite the 1.2% drop in production in the first half of the year, albeit at higher prices, mainly due to the effect of the cold weather in Texas, where the Group's wind farms did not suffer stoppages and obtained a higher than usual production quota.

- Mexico contributed EUR 68 million, up EUR 15 million on the contribution made in 2020, thanks to an increase in average operating power following the entry into operation of certain facilities in 2020.

- Brazil's contribution came to EUR 84 million, up EUR 14 million due to the increase in average operating power, despite the negative impact of currency depreciation totalling EUR 8 million.

- Iberdrola Energía Internacional delivered EUR 238 million, up EUR 39 million on 2020. Lower production at Wikinger was offset by the contribution made by Infigen and Aalto Power.

- Other businesses generated EUR 21 million, mainly from the sale of buildings held by Iberdrola Inmobiliaria.

1.6.2. Gross operating profit – EBITDA

Gross operating profit (EBITDA) for the first half of 2021 saw an increase of EUR 506 million (10.2%) to reach EUR 5,444 million (H1 2020: EUR 4,938 million).

The contribution by business is as follows:

Millions of euros	30.06.2021	30.06.2020	Change (%)
Spain	836	791	5.7
United Kingdom	512	496	3.2
United States	555	537	3.4
Brazil	665	497	33.8
Networks Business	**2,568**	**2,321**	**10.6**
Spain	353	828	(57.4)
United Kingdom	156	129	20.9
Mexico	278	385	(27.8)
Brazil	38	31	22.6
Iberdrola Energía Internacional	(16)	(6)	166.7
Liberalised Business	**809**	**1,367**	**(40.8)**
Spain	990	301	228.9
United Kingdom	350	378	(7.4)
United States	371	288	28.8
Mexico	54	36	50.0
Brazil	68	50	36.0
Iberdrola Energía Internacional	172	177	(2.8)
Renewables Business	**2,005**	**1,230**	**63.0**
Other business, Corporation and adjustments	**62**	**20**	**210.0**
Total	**5,444**	**4,938**	**10.2**

The gross income figures described above are less net operating expenses, which were up EUR 66 million (EUR 2,120 million, compared to EUR 2,054 million in the same period of the previous year). Stripping out exchange rate effects, which led to an improvement of EUR 143 million, net operating expenses were up EUR 209 million.

Taxes fell by EUR 116 million, or 11%, to EUR 942 million, compared to EUR 1,058 million in the same period of 2020. Stripping out exchange rate effects, which led to an improvement of EUR 40 million, the reduction came to EUR 76 million. This decrease is due to several effects, the most notable of which is the refund of EUR 265 million for the right to a refund of the hydroelectric canon paid for financial years 2013-2014 following Supreme Court Ruling 513/2021, which held that this canon violates Spanish law by infringing the principles of prohibition of genuine or maximum retroactivity and hierarchy of norms.

1.6.3. Net operating profit – EBIT

Net operating profit – EBIT came to EUR 3,242 million, up 20.3% on the first half of 2020 (EUR 2,695 million).

Amortisation, depreciation, provisions and impairment losses on trade receivables and contract assets improved by EUR 41 million. The exchange rate effect reduced these items by EUR 111 million, while the Group's increased business activity increased them by EUR 70 million:

- Amortisation, depreciation and provisions was up EUR 4 million to EUR 2,031 million, compared to EUR 2,027 million in 2020.

- Impairment losses on trade receivables and contract assets were down EUR 45 million to EUR 171 million.

1.6.4. Finance income

Financial losses increased by EUR 73 million to reach EUR 473 million (H1 2020: EUR 400 million), bringing the average cost of adjusted net financial debt to 3.38% (H1 2020: 3.19%). The breakdown of items in said variation is as follows:

Millions of euros	30.06.2021	30.06.2020	Change
Gains/(losses) on debt	(596)	(593)	(3)
Derivatives and other	123	193	(70)
Total	**(473)**	**(400)**	**(73)**

The change can be largely explained by:

- Gains/(losses) on debt instruments worsened by EUR 3 million due to an increase of 19 basis points in the cost of debt, despite a reduction in the average debt balance of EUR 1,784 million.

- Gains/(losses) on derivatives and other saw a deterioration of EUR 70 million, largely due to the effect of exchange rate hedges, though offset by other items in the Income statement.

The cost of debt was up 19 basis points (rising from 3.19% to 3.38%), mainly due to higher inflation in Brazil, which is more than offset by the distributors' operating profit also indexed to inflation.

1.6.5. Result of equity-accounted investees

The Result of equity-accounted investees showed a profit of EUR 5 million, compared to a profit of EUR 475 million in the same period of 2020, which showed the proceeds of EUR 485 million obtained from the sale of Siemens-Gamesa.

1.6.6. Profit before tax

Profit before tax amounted to EUR 2,774 million, compared to EUR 2,770 million in the first half of 2020.

1.6.7. Taxes

Corporate income tax expense from continuing operations was up EUR 234 million to EUR 1,014 million.

The effective tax rate for the six months ended 30 June 2021 was 21.84%, compared to 21.82% for the six months ended 30 June 2020.

The impact here is due to the progressive hiking of the UK tax rate from 17% to 19% in 2020 and from 19% to 25% in 2021, which generated an increase of EUR 480 million in the first half of the year.

1.6.8. Net profit for the period attributable to the parent

Net profit for the period attributable to the parent amounted to EUR 1,531 million, down 18.4% on the figure reported in the same half of 2020 (EUR 1,876 million), mainly due to the effect of the change in UK tax rates just mentioned.

1.7. Key figures of the Consolidated statement of financial position

The IBERDROLA Group's Statement of financial position at 30 June 2021 showed total assets of EUR 129,503 million, confirming its strong equity position.

- **Investments in Property, plant and equipment**

Total net investments in Property, plant and equipment from January to June 2021, as disclosed in Note 8, amounted to EUR 3,560 million.

Investments were concentrated at the Renewables and Networks businesses, with the following breakdown:

30.06.2021	Millions of euros	% of total invested
Liberalised Business	223	6.3
Renewable Energy business	1,967	55.3
Networks business	1,354	38.0
Other business, Corporation and adjustments	16	0.4
Total	**3,560**	**100.0**

Turning to Renewables, highlights for the period include the investments made at IEI (EUR 778 million) to acquire renewable energy facilities in Poland and the construction of offshore wind projects in France (St Brieuc) and Germany (Baltic Eagle); in Spain (EUR 544 million), in photovoltaic and wind projects as well as the construction of the Támega hydroelectric plant; in the United States (EUR 327 million), mainly for the new wind farms at Golden Hills, Roaring Brook, the repowering of Trimont and Klondike II and the solar facilities at Montague and Lundhill; in the United Kingdom (EUR 113 million), mainly at the East Anglia Hub complex; in Brazil (EUR 200 million), at the Chafariz complex; and in Mexico (EUR 5 million).

At the Networks business, investments were made in the United States (EUR 789 million), Spain (EUR 273 million), the United Kingdom (EUR 291 million) and Brazil (EUR 1 million).

By geographical area, investments in the period were distributed as follows:

30.06.2021	Millions of euros	% of total invested
Spain	913	25.6
United Kingdom	448	12.6
United States	1,116	31.3
Mexico	99	2.8
Brazil	206	5.8
Iberdrola Energía Internacional	778	21.9
Total	**3,560**	**100.0**

- **Capital**

Following completion of the capital increase on 5 February 2021 as part of the *Iberdrola Retribución Flexible* programme, the company's share capital at 30 June 2021 amounted to 6,418,156,000 bearer shares, each with a par value of EUR 0.75 (Note 10).

In keeping with the announced commitment to keep the number of shares stable at 6,240 million, the General Shareholders' Meeting approved a share capital reduction through the redemption of 178,156,000 treasury shares representing 2.776% of the Company's share capital. The capital reduction took place on 6 July 2021.

- **Debt structure**

Adjusted net financial debt at 30 June 2021 was up EUR 1,439 million to EUR 36,581 million, compared to EUR 35,142 million at 31 December 2020, largely as a result of the investment activity undertaken during the period.

Millions of euros	30.06.2021	31.12.2020	30.06.2020
Bank borrowings, debentures or other marketable securities (Note 14)	38,429	38,037	38,617
Derivative financial liabilities	652	592	703
Leases	2,197	2,058	1,833
Gross financial debt	**41,278**	**40,687**	**41,153**
Derivatives of treasury stock with physical settlement that at this date are not expected to be executed.	129	784	296
Adjusted gross financial debt	**41,149**	**39,903**	**40,857**
Derivative financial assets	742	1,037	1,354
Non-current investments	45	-	-
CSA derivatives value guarantee deposits	115	50	87
Short-term financial investments (between 3 and 12 months)	249	247	-
Cash and cash equivalents (Note 10)	3,417	3,427	2,320
Total cash assets	**4,568**	**4,761**	**3,761**
Adjusted net financial debt	**36,581**	**35,142**	**37,096**

The derivative financial instruments shown in the table above do not include those related to the price of commodities.

The structure by currency of the debt classified under "Bank borrowings, debentures or other marketable securities" after hedging is shown in Note 14.

As per the policy of minimising financial risks, foreign currency risk continues to be mitigated by financing the international businesses in their local currency (pound sterling, Brazilian real, US dollar, etc.) or functional currency (US dollar, in the case of Mexico). Interest rate risk is mitigated by issuing fixed-rate debt, derivatives and hedges of future financing arrangements.

The breakdown of adjusted gross financial debt by source of financing is as follows:

	30.06.2021	31.12.2020
Bond market – EUR	28.1%	31.1%
Bond market – USD	18.1%	18.5%
Bond market – GBP	7.4%	8.1%
Other capital markets	4.8%	4.0%
Promissory notes	8.7%	7.7%
Multilateral	15.3%	11.6%
Structured financing	1.1%	1.1%
Leases	5.5%	5.3%
Bank financing	11.0%	12.6%
Total	**100.0%**	**100.0%**

Green/sustainable funding totalled EUR 32,153 million, including sustainable credit facilities and the sustainable ECP programme. Counting the financing operations signed after 30 June (Note 22), this figure climbs to EUR 32,409 million. Iberdrola is the world's leading corporate group when it comes to green bonds issued.

The IBERDROLA Group presents a comfortable profile of debt maturities, with its adjusted gross financial debt having an average life of some six and a half years.

- **Liquidity**

The IBERDROLA Group had a strong liquidity position of EUR 17,325 million at 30 June 2021 (Note 14). Counting the financing operations signed after 30 June, this figure rises to EUR 17,581 million (Note 22).

This liquidity comes mainly from syndicated credit facilities signed with relationship banks, undrawn loans arranged with multilateral lenders and development banks (European Investment Bank – EIB, Instituto de Crédito Oficial – ICO, Banco Nacional de Desenvolvimento Econômico e Social – BNDES), as well as cash, cash equivalents and short-term financial investments. These liquidity operations have been arranged on the main markets in which the Iberdrola Group is present (Europe, United States and Brazil), in both the banking and capital markets.

This liquidity position covers 21 months of the Group’s financing needs in the base case and 15 months in the risk scenario.

1.8. Financial solvency

- **Credit rating of IBERDROLA's senior debt**

Agency	Long-term (1)	Outlook
Moody´s	Baa1 (15/06/2012)	Stable (14/03/2018)
Fitch	BBB+ (02/08/2012)	Stable (25/03/2014)
Standard & Poor's	BBB+ (22/04/2016)	Stable (22/04/2016)

(1) The above ratings may be reviewed, suspended or withdrawn by the rating agency at any time.

- **Financial solvency ratios**

The calculation of the financial solvency ratios is shown below (*):

		30.06.2021	30.06.2020
Adjusted FFO / Adjusted net financial debt	%	23.6	22.0
Adjusted RCF / Adjusted net financial debt	%	21.2	20.3
Adjusted net financial debt / Adjusted EBITDA	Times	3.43	3.67

(*) Ratio calculations based on the last four quarters.

The IBERDROLA Group relies on the following main measures to assess cash generation for the period:

- Funds from Operations (FFO).
- Retained Cash Flow (RCF). FFO – Own and minority dividend payments – net flows from perpetual (hybrid) bonds.

These measures are calculated as follows:

Millions of euros	30.06.2021	30.06.2020
Net profit for the period attributable to the parent	3,266	3,673
Amortisation, depreciation and provisions	4,433	4,471
Earnings at companies accounted for using the equity method	17	(433)
Gains/(losses) from non-current assets	-	(196)
Extraordinary income tax	-	25
Discounting of provisions	114	158
Non-controlling interests	448	299
Dividends received	52	61
Capital grants taken to profit and loss	(79)	(81)
Negative non-cash tax effects	477	139
Ruling on hydroelectric canons	(245)	-
Amortisation of goodwill	35	-
Funds from operations (FFO)	**8,518**	**8,116**
Exit plan	45	52
Pro-forma to include new acquisitions	27	-
Pro-forma to include goodwill	35	-
Adjusted funds from operations (FFO)	**8,625**	**8,168**
Dividends paid	(879)	(653)
Adjusted retained cash flow (RCF)	**7,746**	**7,515**

Millions of euros	30.06.2021	30.06.2020
EBITDA	10,543	10,053
Exit plan	60	67
Pro-forma to include new acquisitions	53	-
Adjusted EBITDA	**10,656**	**10,120**

2. MAIN RISKS AND UNCERTAINTIES IN THE FIRST HALF OF 2021

The IBERDROLA Group's activities are subject to: (i) market risks, such as exposure to fluctuations in prices and other market variables, including exchange rates, interest rates, commodity prices (electricity, gas, CO_2 emission allowances, other fuels, etc.), financial asset prices, and other); (ii) business risks, such as uncertainty as to the performance of key variables inherent to the various activities carried out by the Group through its businesses, such as the characteristics of demand, weather conditions or the strategies of different market agents; and (iii) risks arising from regulatory changes made by the various regulators, such as changes in the remuneration for regulated activities or in the required conditions of supply, or in environmental or tax regulations.

Regulatory concerns that are currently known but have not run their full course are not expected to have a significant impact or introduce an element of uncertainty down the line.

As described in Note 4 to the Financial statements, the Group's activities show no significant degree of seasonal variation on a half-yearly basis and the main sources of estimates are as described in Note 5.

3. STOCK MARKET DATA – THE IBERDROLA SHARE

Stock market data:

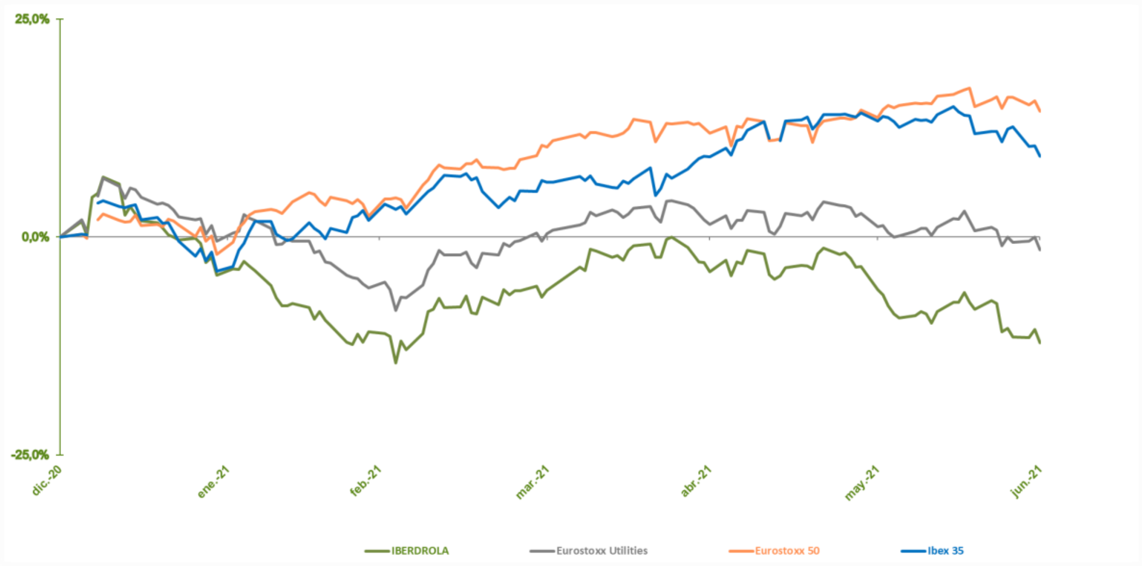
		30.06.2021	30.06.2020
Stock market capitalisation	Millions of euros	65,979	66,601
Price / Book value (Stock market capitalisation / Equity of the Parent at the end of the period)	Factor	1.8	1.8
Number of shares outstanding	no.	6,418,156,000	6,453,592,000
Share price at period end	Euros	10.28	10.32
Average share price for the year	Euros	11.11	9.558
Average daily volume	no.	12,547,075	21,277,739
High at 27/05/2021 and 12/03/2020, respectively	no.	39,937,270	65,237,950
Low at 03/05/2021 and 25/05/2020, respectively	no.	3,983,299	7,186,373
Dividends paid (euros) (1):	Euros/share	0.422	0.405
- Interim, gross (05/02/2020 - 05/02/2019)	Euros/share	0.168	0.168
- Final, gross (01/08/2020 (provisional) and 01/08/2019 (provisional)	Euros/share	0.254	0.232
General Shareholders' Meeting attendance fee	Euros/share	-	0.005
Dividend yield (2)	%	4.11%	3.92%

(1) Amount paid on account of the dividend under the *Iberdrola Retribución Flexible* system.

(2) Interim and final dividend plus General Shareholders' Meeting attendance fee/period-end share price.

The IBERDROLA share:

Stock market performance of IBERDROLA versus the indexes:



4. ALTERNATIVE PERFORMANCE MEASURES

To complement these Consolidated financial statements presented in accordance with International Financial Reporting Standards as adopted for use in the European Union (IFRS-EU), the IBERDROLA Group discloses a number of Alternative Performance Measures (APMs). These measures are used in conjunction with the financial measures, in accordance with IFRS-EU, to set budgets and targets and to manage the businesses, to assess the operating and financial performance of the businesses and to compare that performance with prior periods and with the performance of peers. Presenting such measures is believed to be useful because they can be used to analyse and reliably compare profitability across companies and industries by eliminating the impact of financial structure and accounting effects other than cash flows.

Non-financial measures are also presented because these and similar measures are widely used by investors, securities analysts and others as supplementary indicators of performance.

The IBERDROLA Group's Consolidated income statement includes the lines and subtotals that it considers relevant for the purpose of reporting its financial position and performance and includes subtotals such as "Gross income", "Net operating expenses", "Gross operating profit – EBITDA", "Operating profit – EBIT" and "Financial result".

Broadly speaking, these APMs are those used in the Management Report and are therefore directly linked to the Consolidated income statement and do not require reconciliation.

Definitions and calculations of the APMs used can be found on the corporate website (www.iberdrola.com) under the section titled "Shareholders and Investors".

AUTHORISATION FOR ISSUE

2021 – FIRST HALF

AUTHORISATION FOR ISSUE OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND CONSOLIDATED INTERIM MANAGEMENT REPORT OF IBERDROLA, S.A. AND ITS SUBSIDIARIES

Mr José Ignacio Sánchez Galán *Chairman & CEO*	Mr Juan Manuel González Serna *Vice-Chair and lead director*

Mr Íñigo Víctor de Oriol Ibarra *Member*	Ms Samantha Barber *Member*	Ms María Helena Antolín Raybaud *Member*
Mr José Walfredo Fernández *Member*	Mr Manuel Moreu Munaiz *Member*	Mr Xabier Sagredo Ormaza *Member*
Mr Francisco Martínez Córcoles *Business CEO*	Mr Anthony Luzzatto Gardner *Member*	Ms Sara de la Rica Goiricelaya *Member*
Ms Nicola Mary Brewer *Member*	Ms Regina Helena Jorge Nunes *Member*	Mr Ángel Jesús Acebes Paniagua *Member*

FINANCIAL REPORT FOR THE FIRST HALF OF 2021
STATEMENT OF RESPONSIBILITY

The members of the Board of Directors of IBERDROLA, S.A. state that, to the best of their knowledge, the interim condensed separate financial statements of IBERDROLA, S.A., as well as the interim condensed consolidated financial statements of IBERDROLA, S.A. and its subsidiaries for the first half of fiscal year 2021, issued by the Board of Directors at its meeting of July 20, 2021, 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 interim management report contains a fair assessment of the required information.

Madrid, July 20, 2021

Mr. José Ignacio Sánchez Galán
Chairman & Chief Executive Officer

Mr. Juan Manuel González Serna
Vice Chair and Lead director

Mr. Íñigo Víctor de Oriol Ibarra
Director

Ms. Samantha Barber
Director

Ms. María Helena Antolín Raybaud
Director

Mr. José Walfredo Fernández
Director

Mr. Manuel Moreu Munaiz
Director

Mr. Xabier Sagredo Ormaza
Director

Mr. Francisco Martínez Córcoles
Business CEO

Mr. Anthony Luzzatto Gardner
Director

Ms. Sara de la Rica Goiricelaya
Director

Ms. Nicola Mary Brewer
Director

Ms. Regina Helena Jorge Nunes
Director

Mr. Ángel Jesús Acebes Paniagua
Director

Certificate drafted by the secretary non-director of the Board of Directors to place on record that Mr. José Walfredo Fernández, Mr. Anthony Luzzatto Gardner and Ms. Regina Helena Jorge Nunes do not personally sign this document because they attend the meeting through remote communication systems from places different from the corporate offices in Madrid. Therefore, Mr. Xabier Sagredo Ormaza signs the document on behalf of Mr. José Walfredo Fernández and Ms. Regina Helena Jorge Nunes, and Ms. María Helena Antolín Raybaud signs it on behalf of Mr. Anthony Luzzatto Gardner, in all cases following the express instructions issued for this purpose by the referred directors.

Julián Martínez-Simancas Sánchez