


Annual Financial Report
Iberdrola, S.A. / Financial Year 2017



Iberdrola, S.A.

Annual Accounts

23 February 2018

Directors' Report

2017

(With Independent Auditor's Report Thereon)

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



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

Independent Auditor's Report on the Annual Accounts

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

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

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Iberdrola, S.A. (the "Company"), which comprise the balance sheet at 31 December 2017, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the financial reporting framework applicable to the entity in Spain (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

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

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

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

Key Audit Matters

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

Recoverability of Investments in Group Companies

See note 10 to the annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>As a result of the acquisitions made in recent years, the annual accounts include investments in Group companies and associates – equity instruments for an amount of Euros 43,796 million.</p> <p>Prevailing accounting principles determine the need to carry out an analysis of the recoverable amount of these investments, at least at the end of the financial period.</p> <p>The calculation of the recoverable amount requires the use of methodologies based on discounted cash flows, the estimation of which is subject to a high degree of uncertainty.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▪ Evaluation of the existence of indications of impairment that would have required an analysis of the recoverability of investments in Group companies. ▪ Analysis and understanding of the models used by the Company in the calculation of the recoverable amounts of investments for which indications of impairment were identified. ▪ Evaluation of the reasonableness of the main assumptions used in determining the recoverable amounts of these investments through the involvement of our specialists. ▪ Analysis of compliance with the disclosure requirements established in the Spanish General Chart of Accounts.

Provisions for litigation and claims

See note 12 to the annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>As a result of the operations carried out by the Company, the balance sheet includes significant provisions on litigation and claims of a fiscal and legal nature.</p> <p>The provisions made in respect of these items amount to Euros 231 million.</p> <p>The criteria for the recognition and disclosure of contingencies and provisions require the application of a high degree of judgement.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▪ Procurement of details of litigation from the Company's legal department, assessment of associated risks and verification against accounting records. ▪ Interviews with the heads of the Tax and Legal Department in order to corroborate the integrity of the details obtained and identify new evidence or significant litigation. ▪ Sending of confirmations to external lawyers. ▪ Reading of the minutes of board of directors' meetings. ▪ Selection of a sample of the main litigation procedures and analysis with supporting documentation. ▪ Involvement of our specialists in assessing the main litigation procedures. ▪ Analysis of compliance with the disclosure requirements established in the Spanish General Chart of Accounts.



Other Information: Directors' Report

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

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

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

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

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

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

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

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



Auditor's Responsibilities for the Audit of the Annual Accounts

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

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

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

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

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



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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee of the Company_____

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

Services Provided _____

The services other than the audit of accounts in addition to those indicated in the notes to the annual accounts provided to the audited entity consisted of the issuance of our limited review report on the condensed selected interim financial information of Iberdrola, S.A. for the six-month period ended 30 June 2017 and the issuance of comfort letters.

Contract Period _____

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

KPMG Auditores, S.L.

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

(Signed on original in Spanish)

Enrique Asla García

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

23 February 2018



Annual Financial Report
Iberdrola, S.A. / Financial Year 2017

FINANCIAL STATEMENTS AND MANAGEMENT REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

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Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 26). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.
BALANCE SHEET AT 31 DECEMBER 2017
(Thousand euros)

ACTIVE	Notes	2017	2016 (*)
Non-current assets		44,744,617	46,260,412
Intangible assets	7	95,514	83,241
IT Applications		86,715	75,463
Other intangible assets		8,799	7,778
Tangible fixed assets	8	221,686	214,206
Land and constructions		167,249	167,659
Plant and other PP&E items		43,515	42,455
PP&E under construction and prepayments		10,922	4,092
Investment in group companies and associates		43,895,720	44,858,784
Equity instruments	10	43,795,580	44,699,767
Loans to companies	23.1.a	84,902	106,284
Debt securities		–	10,100
Derivatives	14,23.1.c	14,817	42,212
Other assets	23.1.a	421	421
Long-term Investment		133,135	422,734
Equity instruments		412	412
Credits to third parties		8,583	9,800
Derivatives	14	111,829	400,868
Other assets		12,311	11,654
Deferred tax assets	17	389,799	672,684
Long term trade receivables		8,763	8,763
CURRENT ASSETS		1,690,006	2,051,550
Trade and other receivables		605,877	688,670
Trade receivables and rendering of services		35,972	88,469
Customers, group companies and associates	23.1.b	62,170	111,806
Other receivables		67,321	87,552
Personnel		159	127
Current tax assets	17	440,238	400,596
Other tax receivables	17	17	120
Investment in group companies and associates		856,814	1,166,727
Loans to companies	23.1.a	26,880	26,689
Debt securities		–	1,402
Derivatives	14,23.1.c	2,074	5,191
Other assets	23.1.a	827,860	1,133,445
Short-term Investment		226,124	194,243
Equity instruments		1,744	4,584
Credits to third parties		5,794	–
Derivatives	14	181,951	147,703
Other assets		36,635	41,956
Current accruals		1,191	1,910
TOTAL ASSETS		46,434,623	48,311,962

(*) The Balance sheet at 31 December 2016 is presented for comparison purposes only.
The accompanying Notes and Appendix are an integral part of the Balance sheet at 31 December 2017.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 26). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.
BALANCE SHEET AT 31 DECEMBER 2017
(Thousand euros)

LIABILITIES	Notes	2017	2016 (*)
EQUITY	11	33,216,241	33,181,293
EQUITY		33,287,122	33,274,400
Capital	11.1	4,738,136	4,771,559
Issued capital		4,738,136	4,771,559
Share premium	11.2	14,667,679	14,667,679
Reserves		6,234,009	8,076,130
Legal and statutory reserves	11.3	968,999	958,272
Other reserves		5,265,010	7,117,858
Treasury shares and own equity investments	11.6	(589,380)	(1,073,787)
Retained earnings		6,614,050	5,400,882
Retained earnings		6,614,050	5,400,882
Profit for the year		1,598,871	1,410,966
Other equity instruments		23,757	20,971
UNREALISED GAINS (LOSSES) RESERVE	11.7	(70,881)	(93,107)
Hedging instruments		(70,881)	(93,107)
NON-CURRENT LIABILITIES		5,819,415	10,793,528
Long-term provisions		499,438	495,802
Provisions for employee benefits	12.1	268,490	321,614
Other provisions	12.2	230,948	174,188
Long-term liabilities		1,211,477	1,493,325
Bank borrowings	13	993,399	1,230,316
Financial leases	13	60,386	62,204
Derivatives	14	152,075	195,539
Other liabilities		5,617	5,266
Long-term debts with group companies and associates	14.23	3,381,868	7,726,098
Deferred tax Liabilities	17	726,632	1,078,303
CURRENT LIABILITIES		7,398,967	4,337,141
Current borrowings		515,796	734,843
Bank borrowings	13	375,317	337,171
Financial leases	13	2,010	1,949
Derivatives	14	109,385	344,583
Other liabilities		29,084	51,140
Short-term debts with group companies and associates	14.23	6,730,990	3,445,014
Trade and other payables		152,149	157,249
Suppliers		15,513	25,480
Suppliers, group companies and associates	23.1.b	710	16,817
Other payables		46,119	63,394
Staff (outstanding remunerations)		20,822	16,666
Other tax receivables	17	68,985	34,892
Current accruals		32	35
TOTAL EQUITY AND LIABILITIES		46,434,623	48,311,962

(*) The Balance sheet at 31 December 2016 is presented for comparison purposes only.
The accompanying Notes and Appendix are an integral part of the Balance sheet at 31 December 2017.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 26). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.
INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017
(Thousand euros)

	Notes	2017	2016 (*)
CONTINUED OPERATIONS			
Net revenue	18.1	2,510,410	2,418,071
Sales		395,315	632,092
Provision of services		332	–
Finance revenue from equity investments in group companies and associates		2,094,515	1,767,742
Finance revenue from debt securities and other financial instruments of group companies and associates		20,248	18,237
Work performed by the entity and capitalised	7.8	2,840	2,492
Provisions	18.2	(388,504)	(630,082)
Cost of sales		(388,926)	(630,082)
Works by other companies		422	–
Other operating income		220,779	221,767
Ancillary income and other operating income	18.1	220,658	221,723
Grants incorporated to income		121	44
Staff costs		(151,475)	(100,708)
Wages, salaries and others		(99,835)	(70,160)
Social security costs	18.3	(51,640)	(30,548)
Other operating expenses		(180,444)	(105,623)
External services		(170,222)	(164,643)
Taxes		(7,213)	61,118
Losses on, impairment of and change in trade provisions		29	(58)
Other operating expenses		(3,038)	(2,040)
Depreciation and amortisation	7.8	(58,512)	(61,755)
Impairment gains/(losses) on disposal of non-current assets		(258)	(386)
Gains / (losses) on disposals and others		(258)	(386)
Impairment gains/(losses) on disposal of financial instruments of group companies and associates	10	(143,477)	(82,258)
Impairment and losses	4.4	(145,076)	(82,258)
Gains / (losses) on disposals and others		1,599	–
OPERATING PROFIT		1,811,359	1,661,518
Financial revenue	18.6	9,303	18,887
from debt securities and other financial instruments in third parties		9,303	18,887
Financial expenses	18.5	(293,897)	(320,165)
Due to borrowings from group companies and associates		(305,626)	(327,011)
Due to third-party borrowings		25,641	24,178
Due to provision discount adjustment		(13,912)	(17,332)
Change in fair value of financial instruments		73,297	9,509
Trading portfolio and other securities		73,297	9,525
Gains/ (losses) on available-for-sale financial assets for the period		–	(16)
Exchange gains/(losses)	18.7	7,219	(2,453)
NET FINANCE COST		(204,078)	(294,222)
PROFIT BEFORE TAX		1,607,281	1,367,296
Income tax	17	(8,410)	43,670
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		1,598,871	1,410,966
PROFIT FOR THE YEAR		1,598,871	1,410,966

(*) The Income statements for the year ended 31 December 2016 is presented for comparison purposes only.
The accompanying Notes and Appendix are an integral part of the Income statement for the years ended 31 December 2017.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 26). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.
STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017
(Thousand euros)

A) Statement of recognised income and expense for the years ended 31 December 2017

	Notes	2017	2016 (*)
PROFIT FOR THE PERIOD		1,598,871	1,410,966
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY			
Due to Cash flow hedges	11.7	9,273	(17,214)
From actuarial gains and losses and other adjustments	12.1.a	50,169	(14,227)
Tax effect		(14,861)	7,860
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		44,581	(23,581)
AMOUNTS TRANSFERRED TO INCOME STATEMENT			
Due to Cash flow hedges	11.7	20,361	150,056
Tax effect	11.7	(5,090)	(37,514)
TOTAL AMOUNTS TRANSFERRED TO INCOME STATEMENT		15,271	112,542
TOTAL RECOGNISED INCOME AND EXPENSE		1,658,723	1,499,927

(*) The Balance sheet at 31 December 2016 is presented for comparison purposes only.
The accompanying Notes and Appendix are an integral part of the Statements of recognised income and expense for the years ended 31 December 2017.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 26). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A.

B) Statement of changes in equity for the years ended 31 December 2017

(Thousand euros)

	Capital (Note 11.1.)	Share premium (Note 11.2)	Reserves (Note 11.3, 11.4 and 11.5)	Treasury shares and own equity investments (Note 11.6)	Retained earnings	Profit for the year (Note 3)	Other equity instruments	Unrealised assets and liabilities revaluation reserve (Note 11.7)	Grants, donations and legacies received	Total
BALANCE AT THE START OF 2016 (*)	4,752,652	14,667,679	9,564,784	(629,075)	5,470,986	116,613	36,371	(192,737)	–	33,787,273
Total recognised income and expense	–	–	(10,669)	–	–	1,410,966	–	99,630	–	1,499,927
Transactions with shareholders or owners										
Share capital reduction (Note 11)	(117,898)	–	(828,705)	946,566	–	–	–	–	–	(37)
Paid-up share capital increase (Note 11)	136,805	–	(137,721)	–	–	–	–	–	–	(916)
Acquisition of free-of-charge allocation rights (Note 11)	–	–	(514,265)	–	–	–	–	–	–	(514,265)
Distribution of profit	–	–	–	–	(70,104)	(116,613)	–	–	–	(186,717)
Transactions with treasury shares or own equity instruments (net) (Note 14)	–	–	2,706	(1,391,278)	–	–	–	–	–	(1,388,572)
Other changes in equity	–	–	–	–	–	–	(15,400)	–	–	(15,400)
BALANCE AT THE EN OF 2016 (*)	4,771,559	14,667,679	8,076,130	(1,073,787)	5,400,882	1,410,966	20,971	(93,107)	–	33,181,293
BALANCE AT THE START OF 2017	4,771,559	14,667,679	8,076,130	(1,073,787)	5,400,882	1,410,966	20,971	(93,107)	–	33,181,293
Total recognised income and expense	–	–	37,626	–	–	1,598,871	–	22,226	–	1,658,723
Transactions with shareholders or owners										
Share capital reduction (Note 11)	(164,993)	–	(1,115,220)	1,280,176	–	–	–	–	–	(37)
Paid-up share capital increase (Note 11)	131,570	–	(132,403)	–	–	–	–	–	–	(833)
Acquisition of free-of-charge allocation rights (Note 11)	–	–	(645,800)	–	–	–	–	–	–	(645,800)
Distribution of profit	–	–	10,726	–	1,213,168	(1,410,966)	–	–	–	(187,072)
Transactions with treasury shares or own equity instruments (net) (Note 14)	–	–	2,950	(795,769)	–	–	–	–	–	(792,819)
Other changes in equity	–	–	–	–	–	–	2,786	–	–	2,786
BALANCE AT THE EN OF 2017	4,738,136	14,667,679	6,234,009	(589,380)	6,614,050	1,598,871	23,757	(70,881)	–	33,216,241

(*) The Statement of changes at 31 December 2016 is presented for comparison purposes only.

The accompanying Notes and Appendix are an integral part of the Income statements for the years ended 31 December 2017.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 26). In the event of a discrepancy, the Spanish-language version prevails

IBERDROLA, S.A.

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2017

(Thousand euros)

	Notes	2017	2016 (*)
Profit before tax		1,607,281	1,367,296
Adjustments to profit		(1,661,136)	(1,325,055)
Depreciation and amortisation	7.8	58,512	61,755
Impairment losses		145,047	82,316
Gains/(losses) from derecognition and disposal of non-current assets		258	386
Gains/(losses) from derecognition and disposal of financial instruments		(1,599)	–
Financial revenue	18.1,18.6	(2,124,066)	(1,804,866)
Financial expenses	18.5	293,897	320,165
Exchange gains/(losses)	18.7	(7,219)	2,453
Change in fair value of financial instruments		(73,297)	(9,509)
Other income and expense		47,331	22,245
Change in working capital		117,810	(168,386)
Inventories		–	35
Trade and other receivables		122,913	(146,016)
Trade and other payables		(5,103)	(22,405)
Other cash flows from operating activities		1,749,724	1,141,937
Interest payments		(311,355)	(346,914)
Dividends received		2,107,673	1,781,503
Interest received		29,009	52,577
Income tax (payments) proceeds		(20,746)	(291,562)
Other (payments) proceeds		(54,857)	(53,667)
CASH FLOWS FROM OPERATING ACTIVITIES		1,813,679	1,015,792
Payments from disposals		(493,867)	(838,949)
Group companies and associates	10	(405,763)	(701,719)
Intangible assets	7	(53,149)	(36,955)
Tangible fixed assets	8	(25,475)	(40,122)
Other assets		(9,480)	(60,153)
Proceeds from disposals		1,104,980	3,262,391
Group companies and associates	10	1,092,473	3,238,412
Tangible fixed assets	8	101	5,516
Other assets		12,406	18,463
CASH FLOWS FROM OPERATING ACTIVITIES		611,113	2,423,442
Proceeds and payments on equity instruments		(916,335)	(1,371,212)
Proceeds from issues of equity instruments	11.1	(833)	(916)
Share capital reduction	11.1	(37)	(37)
Acquisition of own equity instruments	11.6	(1,002,731)	(1,450,724)
Disposal of own equity instruments	11.6	87,266	80,465
Proceeds and payments on Financial instruments		(675,585)	(1,367,040)
Issue		5,425,103	4,906,106
Bank borrowings		434,094	352,000
Payables to group companies and associates		4,987,560	4,520,568
Other payables		3,449	33,538
Repayment and redemption of		(6,100,688)	(6,273,146)
Bank borrowings		(459,578)	(748,540)
Payables to group companies and associates		(5,615,107)	(5,522,760)
Other payables		(26,003)	(1,846)
Dividends paid and payments on other equity instruments		(832,872)	(700,982)
Dividends		(187,072)	(186,717)
Free-of-charge allocation rights acquisition	11.1	(645,800)	(514,265)
CASH FLOWS FROM FINANCING ACTIVITIES		(2,424,792)	(3,439,234)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		–	–
Cash and cash equivalents at 1 January		–	–
Cash and cash equivalents at 31 December		–	–

(*) The accompanying Notes and Appendix are an integral part of the Cash flow statements for the years ended 31 December 2016.
The accompanying Notes and Appendix are an integral part of the Income statements for the years ended 31 December 2017.

IBERDROLA, S.A.
Report for the year ended at 31 December 2017

1. ACTIVITY

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

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

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

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

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

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

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

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

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

2.1. True and fair view

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

The Cash flow statement has been prepared to present fairly the origin and usage of IBERDROLA's monetary assets such as cash and cash equivalents.

Additionally, the IBERDROLA's Balance sheet at 31 December 2017 has a negative working capital amounting to EUR 5,708,961 thousand. IBERDROLA's directors manifest that the shortfall will be covered by the cash flow generated by the business of the IBERDROLA Group.

On the other hand, IBERDROLA has prepared its Consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The main figures in the IBERDROLA Group's 2017 and 2016 Consolidated financial statements are as follows:

Thousand euros	2017	2016
Total assets	110,688,559	106,706,220
Equity		
Of the parent company	35,509,260	36,690,965
Of Minority shareholders	5,671,380	3,445,898
Of subordinated perpetual obligations	1,552,546	550,526
Net revenue	31,263,262	28,759,148
Profit for the year:		
Of the parent company	2,803,994	2,704,983
Of Minority shareholders	365,972	137,859

2.2. Comparative information

In accordance with mercantile law, for comparative purposes in relation to each item on the Balance sheet, Income statement, Statement of changes in equity and Statement of cash flow, the figures for the previous year have been provided along with the figures for 2017. The Notes also include quantitative disclosures from the previous year, except when a financial reporting standard specifically establishes that this is not a requirement.

3. DISTRIBUTION OF PROFIT

IBERDROLA's Board of Directors plans to submit for approval at the General Shareholders' Meeting the following distribution of 2017 profit and retained earnings:

Thousand euros	2017
Proposed distribution	
Retained earnings	6,614,050
Profit for 2017	1,598,871
Total	8,212,921
Distribution:	
To Legal reserves	—
To dividends	Amount pending resulting from adding: (a) the total interim dividend and (b) the result of multiplying the final dividend by the total number of shares that the holders have decided to receive as cash remuneration under the framework of the first execution of the Iberdrola scrip dividend system
To retained earnings	Amount to be determined resulting from deducting proposed distribution from amounts to legal reserves and to dividends.
Total	8,212,921

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

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

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

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

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

4. ACCOUNTING RULES

4.1 Intangible assets

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

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

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

Patents, licenses, trademarks and similar

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

IT Applications

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

4.2 Property, plant and equipment

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

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

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

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

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

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

The depreciation of the fixed assets included in the Balance sheet at 31 December 2016 is based on cost using the straight-line method over the next estimated years of useful life:

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

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

4.3 Impairment of non-current non-financial assets

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

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

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

The 2017 and 2016 Income statements do not include any charge for this item.

4.4 Financial instruments

4.4.1 Classification and measurement of financial assets and liabilities

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

a) *Loans and receivables*

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

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

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

b) *Equity investments in group companies and associates*

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

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

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

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

c) Available-for-sale financial assets

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

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

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

d) Assets and liabilities held for trading

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

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

e) Loans and payables

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

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

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

4.4.2. Interest and dividends received on financial assets

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

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

4.4.3. Impairment of non-financial assets

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

a) *Loans and receivables*

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

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

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

b) *Equity investments in group companies and associates*

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

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

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

c) *Available-for-sale financial assets*

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

4.4.4. *Derecognition of financial assets*

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

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

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

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

4.4.5. *Derecognition of financial liabilities*

IBERDROLA derecognises a financial liability when the obligation is discharged.

When a debt instrument between IBERDROLA and the counterparty is replaced by another on substantial different terms, the original financial liability is derecognised and the new liability is recognised. The difference between the carrying amount of the financial liability or part of the financial liability and the amount paid to extinguish the liability, including attributable transaction costs and any asset transferred other than cash or liability assumed, is recognised in the Income statement for the period.

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

When the debt instrument is replaced by another on terms that are not substantially different, the original financial liability is not derecognised in the Balance sheet, and the carrying amount is adjusted for the fees paid. The amortised cost of the financial liability is determined using the effective interest rate method. The effective interest rate is the rate that matches the carrying amount of the financial liability at the date of modification with the cash flows payable under the new terms.

4.4.6. *Derivative financial instruments and hedging*

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

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

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

a) Fair value hedges

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

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

b) Cash flow hedges

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

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

c) Hedge of net investment in foreign operations

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

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

Discontinuation of hedges

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

4.4.7. Contracts to buy or sell non-financial items

IBERDROLA performs a detailed analysis of all its contracts to buy or sell non-financial items to ensure they are classified correctly for accounting purposes.

As a general rule, those contracts that are settled net of cash or in another financial asset are classified as derivatives and are recognised and measured as described in this note, except for contracts entered into and held for the purpose of the receipt or delivery of a non-financial item in accordance with IBERDROLA's purchase, sale, or usage requirements.

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

4.5 Cash and cash equivalents

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

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

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

4.6 Treasury shares

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

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

4.7 Post-employment and other benefits

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

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

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

4.8 Collective redundancy procedures and other early retirement plans for employees

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

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

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

4.9 Termination benefits

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

4.10 Share-based employee compensation

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

If remuneration based on equity instruments is paid in cash, the amount booked as "Staff costs" in the income statement is credited to "Long-term debt" on the liabilities side of the statement of financial position, as appropriate. The fair value of the cash-settled compensation is remeasured at each reporting date.

4.11 Contingent Provisions assets and liabilities

IBERDROLA's policy, based on its best estimates, recognises provisions for contingencies and expenses to cover probable or certain quantifiable third-party liabilities arising from litigation in progress or from indemnity payments, obligations or unpaid expenses of an undetermined amount, and collateral and other similar guarantees provided by the company. A provision is recognised when the liability or obligation arises, with a charge to the heading in the Income statement in accordance with the nature of the obligation, for the present value of the provision when the effect of discounting the value of the obligation to present value is material. The change in the provision due to its discounting each year is recognised under "Finance cost" in the Income statement.

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

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

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

4.12 Foreign currency transactions

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

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

4.13 Income tax expense

IBERDROLA files Consolidated Tax Returns with certain Group companies.

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

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

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

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

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

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

IBERDROLA recognises deferred income tax assets for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that IBERDROLA will have taxable profit available against which these can be utilised, in a maximum period of 10 years, .

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

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

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

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

4.14 Classification of current and non-current assets and liabilities

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

4.15 Income and expense

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

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

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

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

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

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

4.16 Related party transactions

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

5 MANAGEMENT OF FINANCIAL RISKS

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

In particular, the financing and financial risk policy of the IBERDROLA Group approved by the Board of Directors identifies the risk factors described below. The IBERDROLA Group has an organisation and systems, which allow the financial risks to which the Group is exposed to be identified, measured and controlled.

Interest rate risk

The IBERDROLA Group is exposed to the risk of fluctuations in interest rates affecting cash flows and fair value in respect of items in the Statement of financial position.

In order to adequately manage and limit this risk, the IBERDROLA Group yearly determines the desired structure of the debt between fixed and floating interest rate. On a yearly basis, actions to be carried out are determined throughout the year: new sources of financing (at a fixed, floating or indexed rate) and/or the use of interest rate derivatives.

The debt structure at 31 December 2017 and 2016, after taking into account hedges via derivatives, is as follows:

Thousand euros	2017	2016
Fixed interest rate	927,019	592,145
Floating interest rate	504,093	989,495
Limited floating interest rate ⁽¹⁾	–	50,000
Total	1,431,112	1,631,640

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

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

Exchange rate risk

As the IBERDROLA Group's functional currency is the euro, fluctuations in the value of the currencies, (mainly the Sterling pound, US dollar and the Brazilian real) in which borrowings are instrumented and transactions are made, with respect to the euro may have an impact on the finance cost, profit for the period and equity of the Group.

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

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

Liquidity risk

Exposure to adverse situations in the debt or capital markets or the IBERDROLA Group's economic and financial situation can hinder or prevent the IBERDROLA Group from obtaining the financing required to properly carry on its business activities.

IBERDROLA Group's liquidity policy is designed to ensure that it can meet its payment obligations without having to obtain financing under unfavourable terms. For this purpose, various management measures are used, such as the arrangement of committed credit facilities of sufficient amount, term and flexibility, diversification of the hedge of financing needs through access to different markets and geographical areas, and diversification of the maturities of the debt issued (Note 13).

The figures relating to IBERDROLA's debt performance are included in Note 13 to the Financial statements.

As indicated in Note 13, at 31 December 2017 IBERDROLA had undrawn loans and credit facilities of approximately EUR 5,096,357 thousand.

Credit risk

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

Receivable accounts do not have a relevant credit risk since the activity as a holding company of the Group is centred on services provided to other Group companies. Regarding other exposure (counterparties in transactions with derivatives, placement of cash surpluses, sale transactions involving energy and guarantees received from third parties), in 2017 and 2016 there have been no material non-payments or losses.

6. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

6.1 Accounting estimates

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

- Provision for pensions and similar commitments and restructuring plans:

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

- Impairment of investments in group companies and associates

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

- Provisions for contingencies and expenses:

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

- Deferred tax assets:

As it is mentioned in Note 4.13, IBERDROLA only recognizes deferred tax assets when it expects to have future taxable profits against which it can recover such assets. In this sense IBERDROLA makes projections of its taxable profits in order to reach a definitive conclusion; projections that are consistent with the impairment tests mentioned earlier in this note.

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

6.2 Sources of uncertainty

There are certain aspects that, at the date of authorization for issue of these Financial statements, constitute a source of uncertainty concerning the accounting impact that they might have in future periods. The main uncertainty is as follows:

- Section 12.5 of the Corporate Income Tax Law (Ley del Impuesto sobre Sociedades) introduced under the Royal Decree 4/2004, stated that financial goodwill arising from the acquisition of foreign companies was deductible for tax purposes. IBERDROLA is applying said deductibility for the financial goodwill arising from the acquisitions of Scottish Power Plc. (now Scottish Power Limited) and Energy East Inc. (now AVANGRID).

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

In 2009 and 2011 the European Commission issued two Decisions (named First Decision and Second Decision) stating that article 12.5 constituted a forbidden State aid and should be removed. However, deductions could remain in place for acquisitions transacted or agreed before 21 December 2007 (this being the case of the acquisitions made by the IBERDROLA Group) due to the fact that the entities applying them had acted on the ground of legitimate expectations.

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

In October 2014, the European Commission issued a third decision (named Third Decision) in which it determined that, as the Spanish tax authorities answered in 2012 to several "binding consultations" as to whether indirect acquisitions are deductible under article 12.5, it cannot be understood that the companies that made indirect acquisitions acted on the ground of legitimate expectations. Furthermore, as this was a measure subsequent to the date on which it was disclosed that the formal investigation process had begun, the Commission considered that, for companies which made indirect acquisitions prior to 21 December 2007, no legitimate expectations had been generated, since they were aware of the administrative practice which excluded indirect acquisitions from the scope of application of the tax measure. Therefore, the Commission requested to the Kingdom of Spain, which has appealed against that decision, to recover the aid given.

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

On 27 February 2015, the General Court of the European Union issued a resolution rejecting the interim suspension of the Third Decision, which means that Spanish tax authorities should have to recover the aid. However, this Resolution mentions a writing that was sent to the Spanish Kingdom by the General Director for Competition of the Commission, in which it is declared that the recovery of the aid won't be actively pursued until the European Court of Justice does not conclude on the appeals of the Commission against the General Court Resolutions of 7 November 2014.

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

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

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

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

At the date of authorization for issue of these Financial statements, the appeal submitted had not been resolved.

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

- Notes 12.3 and 17 of these Financial statements describe IBERDROLA's principal contingent assets and liabilities, mostly arising from litigations in progress whose future evolution cannot be determined certainly at the date of authorization for issue of these Financial statements.

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

7. INTANGIBLE ASSETS

The detail and movements in the items comprising "Intangible assets" in 2017 and 2016 are as follows:

Thousand euros	Balance at 01.01.2016	Additions and allowances	Balance at 31.12.2016	Additions and allowances	Balance at 31.12.2017
Cost					
Patents, licenses, trademarks and similar	157	–	157	–	157
IT Applications	532,992	33,639	566,631	47,484	614,115
Other intangible assets	11,878	3,316	15,194	5,665	20,859
	545,027	36,955	581,982	53,149	635,131
Accumulated depreciation					
Patents, licenses, trademarks and similar	(157)	–	(157)	–	(157)
IT Applications	(452,557)	(38,611)	(491,168)	(36,232)	(527,400)
Other intangible assets	(1,661)	(5,755)	(7,416)	(4,644)	(12,060)
	(454,375)	(44,366)	(498,741)	(40,876)	(539,617)
Net value	90,652	(7,411)	83,241	12,273	95,514

In 2017 and 2016, staff costs of the staff who have worked on computer systems projects and have been capitalised in the cost of these projects amounted to EUR 2,630 and EUR 2,346 thousand, respectively.

At 31 December 2017 and 2016 there are no intangible assets securing bank loans.

The amounts for intangible assets acquired from group companies and associates at 31 December 2017 and 2016 are EUR 629 and EUR 193 thousand, respectively.

In 2017 and 2016, no intangible assets were sold to group companies.

IBERDROLA does not have intangible assets whose rights may be exercised outside of Spain in 2017 and 2016.

Fully amortised intangible assets amounted to EUR 118,952 thousand at 31 December 2016 (EUR 95,877 thousand at 31 December 2016).

At 31 December 2016 IBERDROLA's firm commitments to acquire intangible assets amounted to EUR 25,866 thousand (EUR 14,351 thousand at 31 December 2016). At 31 December 2017 and 2016 there were no firm commitments to sell intangible assets.

The expenses incurred in due to research and development activities amount to EUR 24,387 thousand in 2017 and EUR (17,449 thousand in 2016).

8. TANGIBLE FIXED ASSETS

The detail and movements of the balances of the “Property, plant and equipment” in 2017 and 2016 are as follows:

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

Thousand euros	Balance at 01.01.2016	Additions and allowances	Technology	Decreases, disposals or reductions	Balance at 31.12.2016
Cost					
Land	59,476	440	–	(440)	59,476
Buildings	109,606	19,516	–	–	129,122
Technical installations	–	–	453	–	453
Others in use	296,548	18,932	–	(5,466)	310,014
Total PP&E in use	465,630	38,888	453	(5,906)	499,065
Electricity plant under construction	402	107	(453)	–	56
Prepayments and other PP&E under construction	3,241	1,127	–	(332)	4,036
Total cost	469,273	40,122	–	(6,238)	503,157
Accumulated depreciation					
Buildings	(18,547)	(2,392)	–	–	(20,939)
Technical installations	–	(4)	–	–	(4)
Others in use	(253,351)	(14,993)	–	336	(268,008)
Total accumulated depreciation of PP&E	(271,898)	(17,389)	–	336	(288,951)
Total net cost	197,375	22,733	–	(5,902)	214,206

During the years 2017 and 2016, IBERDROLA has not capitalised financial expenses as additions to tangible assets.

In 2017 and 2016, staff costs directly or indirectly related to construction in progress and capitalised in the cost of those assets, amounted to EUR 210 and EUR 146 thousand, respectively.

The carrying amounts of Property, plant and equipment acquired from group companies and associates at 31 December 2017 and 2016 amounted to EUR 21 thousand and EUR 2,069 thousand, respectively. During the year 2017, no tangible assets with a carrying amount have been disposed of to group companies (EUR 5,129 thousand during the year 2016). The outcome of said transactions has been EUR 73 thousand.

IBERDROLA owned no Property, plant and equipment outside the Spanish territory in 2017 and 2016.

At 31 December 2017, IBERDROLA had fully depreciated Property, plant and equipment in use with a cost value of EUR 245,241 thousand, of which no amount corresponds to buildings. At 31 December 2016, the amount of Property, plant and equipment fully depreciated and in use amounted to EUR 154,918 thousand, of which none corresponded to building.

At 31 December 2017 and 2016 IBERDROLA had no Property, plant and equipment securing bank loans.

At 31 December 2017 and 2016, Property, plant and equipment include EUR 88,846 thousand and EUR 89,883 thousand, respectively, corresponding mainly to the carrying amount of the land and building in IBERDROLA's Madrid head office which is held under a finance lease. The amount for which the asset was recognised initially amounted to EUR 104,133 thousand corresponding to the present value of the minimum future payments to be made.

The information related to the minimum payments on the financial lease at 31 December 2017 is as follows:

Thousand euros	2017
2018	4,100
2019	4,100
2020	4,100
2021	4,100
2022	4,100
From 2023 onwards	69,206
Total	89,706

Thousand euros	2017
Financial Cost	27,310
Present value of the payments	62,396
Total	89,706

At 31 December 2017 IBERDROLA has firm commitments to acquire Property, plant and equipment amounting to EUR 34,246 thousand (EUR 34,479 thousand at 31 December 2016).

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9. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

At 31 December 2017 and 2016 the book value of each category of financial asset and liabilities, except for equity investments in group companies and associates, trade and other receivables, trade and other payables, tax receivables and payables, and cash, is as follows:

Thousand euros	Long-term assets									
	Equity instruments		Debt securities		Loans and receivables		Derivatives		Total	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Assets held for trading	–	–	–	–	–	–	25,420	48,735	25,420	48,735
Loans and receivables	–	–	–	10,100	106,217	128,159	–	–	106,217	138,259
Ready for sale assets valued at cost	412	412	–	–	–	–	–	–	412	412
Hedge derivatives	–	–	–	–	–	–	101,226	394,345	101,226	394,345
Total	412	412	–	10,100	106,217	128,159	126,646	443,080	233,275	581,751

Thousand euros	Short-term assets									
	Equity instruments		Debt securities		Loans and receivables		Derivatives		Total	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Assets held for trading	1,744	4,584	–	–	–	–	3,990	11,948	5,734	16,532
Loans and receivables	–	–	–	1,402	898,360	1,204,000	–	–	898,360	1,205,402
Hedge derivatives	–	–	–	–	–	–	180,035	140,946	180,035	140,946
Total	1,744	4,584	–	1,402	898,360	1,204,000	184,025	152,894	1,084,129	1,362,880

Thousand euros	Long-term liabilities							
	Bank borrowings		Derivatives		Other		Total	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Categories								
Liabilities held for trading	–	–	385	24,068	–	–	385	24,068
Loans and payables	1,053,785	1,292,520	–	–	3,373,610	7,707,669	4,427,395	9,000,189
Hedge derivatives	–	–	165,565	195,166	–	–	165,565	195,166
Total	1,053,785	1,292,520	165,950	219,234	3,373,610	7,707,669	4,593,345	9,219,423

Thousand euros	Long-term liabilities							
	Bank borrowings		Derivatives		Other		Total	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Categories								
Liabilities held for trading	–	–	1,095	8,765	–	–	1,095	8,765
Loans and payables	377,327	339,120	–	–	6,759,383	3,453,717	7,136,710	3,792,837
Hedge derivatives	–	–	109,013	378,290	–	–	109,013	378,290
Total	377,327	339,120	110,108	387,055	6,759,383	3,453,717	7,246,818	4,179,892

10. INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

Movements in the items included in the "Investments in group companies and associates" heading excluding derivatives during 2017 and 2016 are as follows:

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

Thousand euros	Balance at 01.01.2016	Additions and allowances	Technology	Decreases, disposals or reversals	Valuation of net investment hedges	Balance at 31.12.2016
Investments in group companies	46,544,779	–	–	(1,800,000)	37,217	44,781,996
Investments in associates	781	–	–	–	–	781
Remeasure of investments in group companies and associates	(752)	(82,258)	–	–	–	(83,010)
Total	46,544,808	(82,258)	–	(1,800,000)	37,217	44,699,767

The IBERDROLA Group companies and associates and data relating thereto at 31 December 2017 and 2016 are as follows:

						Thousand euros				
Company	Registered office	Currency	Share price at 12.31.2017	Activity	Percentage of ownership at 12.31.2017	Carrying amount 2017	Capital	Reserves	Profit/(Loss)	Dividends received in 2017
Iberdrola España, S.A.U. ⁽¹⁾	Bilbao	EUR	–	Holding	100%	10,434,812	3,245,816	7,594,005	967,354	1,443,090
Iberdrola Participaciones, S.A.U. ⁽¹⁾	Madrid	EUR	–	Holding	100%	2,306,833	60	2,297,445	42,480	–
Iberdrola Energía, S.A.U. ⁽¹⁾	Madrid	EUR	–	Holding	100%	2,263,426	1,477,831	993,700	117,996	240,577
Hidrola I, S.L.U. ⁽¹⁾	Madrid	EUR	–	Holding	100%	867,330	285,409	1,268,433	298,629	7,152
Iberdrola Financiación, S.A.U.	Bilbao	EUR	–	Financial – Instrumental	100%	1,962,993	2,000,060	24,186	15,472	–
Scottish Power Investments, Ltd. ⁽¹⁾	United Kingdom	GBP	–	Holding	100%	14,289,123	1,201	13,630,910	420,229	–
Avangrid, Inc. ⁽¹⁾	USA	USD	50.58 USD/Share	Holding	81.5%	11,295,363	2,297	14,744,291	1,588,381	392,696
Scottish Power Overseas Holdings, Ltd. ⁽¹⁾	United Kingdom	GBP	–	Energy	100%	105,040	–	240,601	(135,560)	–
Iberdrola Finanzas, S.A.U.	Bilbao	EUR	–	Financial – Instrumental	100%	100,061	100,061	28,221	(1,172)	–
Iberdrola International, B.V.	Holland	EUR	–	Financial – Instrumental	100%	388	388	345	6,683	8,000
Other companies	-	-	-	-	-	170,211	–	–	–	3,000
Total						43,795,580				2,094,515

						Thousand euros				
Company	Registered office	Currency	Share price at 12.31.2016	Activity	Percentage of ownership at 12.31.2016	Carrying amount 2016	Capital	Reserves	Profit/(Loss)	Dividends received in 2016
Iberdrola España, S.A.U. ⁽¹⁾	Bilbao	EUR	–	Holding	100%	10,436,810	3,245,816	7,593,279	1,416,271	1,330,784
Iberdrola Participaciones, S.A.U. ⁽¹⁾	Madrid	EUR	–	Holding	100%	2,306,833	60	2,313,175	(28,935)	–
Iberdrola Energía, S.A.U. ⁽¹⁾	Madrid	EUR	–	Holding	100%	2,263,426	1,477,831	1,369,993	96,333	–
Hidrola I, S.L.U. ⁽¹⁾	Madrid	EUR	–	Holding	100%	1,237,724	285,409	1,696,897	181,812	–
Iberdrola Financiación, S.A.U.	Bilbao	EUR	–	Financial – Instrumental	100%	1,919,697	2,000,060	(94,130)	10,803	36,001
Scottish Power Investments, Ltd. ⁽¹⁾	United Kingdom	GBP	–	Holding	100%	14,367,288	1,201	13,810,032	575,136	–
Avangrid, Inc. ⁽¹⁾	USA	USD	37.88 USD/Share	Holding	81.5%	11,599,992	2,297	16,829,913	532,117	395,957
Scottish Power Overseas Holdings, Ltd. ⁽¹⁾	United Kingdom	GBP	–	Energy	100%	293,412	–	257,168	(2,335)	–
Iberdrola Finanzas, S.A.U.	Bilbao	EUR	–	Financial – Instrumental	100%	100,061	100,061	29,201	(980)	–
Iberdrola International, B.V.	Holland	EUR	–	Financial – Instrumental	100%	388	388	1,057	7,061	5,000
Other companies	-	-	-	-	-	174,136	–	–	–	–
Total						44,699,767				1,767,742

(1) Holding companies The information regarding Capital, Reserves and Earnings for financial years 2017 and 2016 are presented in consolidated form.

Significant transactions in 2017 and 2016

The main transactions carried out in 2017 and 2016 involving equity stakes held by IBERDROLA were as follows:

- On 27 April 2017, the IBERDROLA Group sold its shareholding in Amara, S.A.U. for an amount of 8 million euros. The sale generated an excess of EUR 1,583 thousand, recognised under the "Impairment gains/(losses) on disposal of financial instruments of group companies and associates" heading in the 2017 Income statement.
- On 4 April 2017, Hidrola I, S.L.U. approved the distribution of a dividend to be paid from the share premium in the amount of €360.317 million., of which EUR 353,165 thousand have been recorded by reducing the book value of the investment recorded under "Long-term Investments in group companies and associates - Equity instruments" since it does not derive from results generated after its constitution (Note 4.4.2.).
- On 16 December 2016, Iberdrola España, S.A.U.. approved the return of share premium amounting to EUR 1,800,000 thousand also recorded by reducing the book value of the investment recorded under "Long-term Investments in group companies and associates - Equity instruments" since it does not derive from results generated after its constitution (Note 4.4.2.).

Moreover, at 31 December 2017 and 2016 AVANGRID's market value multiplied by IBERDROLA's stake in it, was lower than the book value. This was considered as a sign of impairment by the members of the Board of Directors, so they carried-out an impairment test.

The fundamental hypotheses from the analysis were the following:

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

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

The forecast period of future cash flows were of 10 years for the regulated business (being 1% and 0.8% for 2017 and 2016 respectively the growth nominal rate used to extrapolate these projections beyond the reporting period) and the remaining useful life of the assets for the rest of businesses.

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

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

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

The discount rates before taxes used for the impairment test were between 5.44% and 7.58% (in 2016, 5.44% and 6.43%) based on the businesses that were part of AVANGRID.

After the analysis on the recoverability of its assets, IBERDROLA concluded that it was not necessary to record any write-offs at 31 December 2017 and 2016.

11. EQUITY

11.1 Issued capital

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

	Date	% Capital	Number of shares	Nominal	Euros
Balance at 01.01.2016			6,336,870,000	0.75	4,752,652,500
Free capital increase	26 January 2016	0.952%	60,327,000	0.75	45,245,250
Share capital reduction	26 April 2016	2.457%	(157,197,000)	0.75	(117,897,750)
Free capital increase	22 July 2016	1.96%	122,079,000	0.75	91,559,250
Balance at 31.12.2016			6,362,079,000	0.75	4,771,559,250
Free capital increase	25 January 2017	1.539%	97,911,000	0.75	73,433,250
Share capital reduction	24 May 2017	3.405%	(219,990,000)	0.75	(164,992,500)
Free capital increase	21 July 2017	1.242%	77,515,000	0.75	58,136,250
Balance at 31.12.2017			6,317,515,000	0.75	4,738,136,250

The capital increases taken place in 2016 and 2017 correspond to the different execution approved by the General Shareholders' Meeting through which the Iberdrola Flexible Dividend system is implemented.

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

	Free of charges allocation rights		Rights waived ⁽¹⁾
	Number	Thousand euros	Number
Free capital increase			
26 January 2016	3,320,519,969	421,706	31
22 July 2016	746,444,927	92,559	43
25 January 2017	1,956,083,947	264,071	38
21 July 2017	2,596,794,942	381,729	37

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

Additionally, on 26 April 2016 and 24 April 2017, capital decreases were performed by redeeming treasury shares already held, as approved at the General Shareholders Meeting of 8 April 2016 and 31 March 2017, respectively, through the amortisation of treasury shares.

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

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

Major shareholders

Since IBERDROLA's shares are represented by the book-entry system, the exact stakes held by its shareholders are not known. The table below summarises major direct and indirect shareholdings in the share capital of IBERDROLA at 31 December 2017 and 2016, as well as the holdings of financial instruments disclosed by the owners of these stakes in compliance with the Royal Decree 1362/2007 of 19 October. This information is based on filings by the owners of the stakes in the official registers of the National Securities Market Commission (hereinafter, Comisión Nacional del Mercado de Valores - CNMV) or the company's financial statements or press releases, and it is presented in the 2017 IBERDROLA Group's Annual Corporate Governance Report.

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

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

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

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

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

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

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

At 31 December 2017, the direct and indirect stakes in the capital of IBERDROLA held by the members of the Board of Directors are as follows:

Directors	Number of shares			%
	Direct	Indirect	Total	
Mr José Ignacio Sánchez Galán	5,317,828	3,483,245	8,801,073	0.140
Iñigo Víctor De Oriol Ibarra	1,225,083	–	1,225,083	0.019
Inés Macho Stadler	63,114	–	63,114	0.001
Braulio Medel Cámara	28,420	–	28,420	–
Samantha Barber	1,809	–	1,809	–
María Helena Antolín Raybaud	3,178	–	3,178	–
Angel Jesús Acebes Paniagua	6,242	–	6,242	–
Georgina Kessel Martínez	4,186	–	4,186	–
Denise Mary Holt	530	–	530	–
José Walfredo Fernández	–	–	–	–
Manuel Moreu Munaiz	23,191	23,191	46,382	0.001
Xabier Sagredo Ormaza	–	–	–	–
Juan Manuel González Serna	41,548	366,539	408,087	0.006
Francisco Martínez Córcoles	303,423	–	303,423	0.005
Total	7,018,552	3,872,975	10,891,527	0.172

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

Powers delegated by the General Shareholders' Meeting

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

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

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

11.2 Share premium

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

11.3 Legal reserve

Under the Spanish Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

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

11.4 Revaluation reserves

This reserve, amounting to EUR 236,868 thousand included in the Balance sheet of the 1996 Financial statements, arose as a result of the revaluation of property, plant and equipment made by IBERDROLA pursuant to Royal Decree-Law 7/1996 of 7 June (Note 4.2).

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

11.5 Redeemed capital reserve

In 2017, IBERDROLA reduced capital by redeeming treasury shares, lowering its share capital by EUR 164,993 thousand and voluntary reserves by EUR 1,280,213 thousand, carrying out the resolution adopted at the General Shareholders Meeting held on 31 March 2017.

In accordance with article 335.c of the Revised Text of the Spanish Companies Law, IBERDROLA has a restricted "Redeemed capital reserve" of EUR 689,123 thousand, equivalent to the par value of the reduced share capital.

11.6 Treasury shares

The Company buys and sells treasury shares in accordance with the prevailing law and the resolutions of the General Shareholders Meeting. Such transactions include purchases and sales of company shares and of derivative instruments having company shares as the underlying asset.

At 31 December 2017 the balances of the various instruments were as follows:

	31.12.2017		31.12.2016	
	No. of shares	Thousand euros	No. of shares	Thousand euros
Treasury Stock	75,710,149	507,175	151,224,777	868,936
Swaps over treasury shares	6,000,000	41,646	1,867,929	11,899
Accumulators (exercised shares)	1,835,379	11,561	1,624,221	9,283
Accumulators (potential shares)	4,592,392	28,998	31,870,828	183,669
Total	88,137,920	589,380	186,587,755	1,073,787

a) Treasury Stock

Movements in treasury shares during 2017 and 2016 were as follows:

	No. of shares	Thousand euros
Balance at 01.01.2016	67,636,166	405,457
Additions	245,721,539	1,450,724
Share capital reduction	(157,197,000)	(946,566)
Disposals	(6,440,532)	(38,687)
<i>Iberdrola Flexible Dividend(1)</i>	1,504,604	–
<i>Iberdrola Flexible Dividend(2)</i>	–	(1,992)
Balance at 31.12.2016	151,224,777	868,936
Additions	154,508,438	1,002,731
Share capital reduction	(219,990,000)	(1,280,176)
Disposals	(11,929,704)	(74,937)
<i>Iberdrola Flexible Dividend(1)</i>	1,896,638	–
<i>Iberdrola Flexible Dividend(2)</i>	–	(9,379)
Balance at 31.12.2017	75,710,149	507,175

(1) Shares received

(2) Free of charges allocation rights disposed.

The results obtained by IBERDROLA in 2017 and 2016 due to the disposal of treasury shares amounted to a profit of EUR 2,950 thousand and EUR 2,706 thousand, respectively, which are recorded under the "Other reserves" heading in the Balance sheet.

b) Derivatives settled by physical delivery

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

– Total return swaps

IBERDROLA has also arranged four swaps on treasury shares with the following features: during the life of the contract IBERDROLA will pay the financial entity the 3-month Euribor plus a spread on the underlying notional and will receive the corresponding dividends with respect to the shares paid out to the financial entity. On the expiration date IBERDROLA will buy the shares at the strike price set out in the contract.

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

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

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

- Accumulators

The IBERDROLA Group holds several purchase accumulators on treasury shares.

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

The accumulation mechanism is as follows:

- when the spot price is below the strike price, two units of the underlying instrument are accumulated;
- when the spot price is between the strike price and the knockout level, only one unit of the underlying instrument is accumulated; and
- when the spot price is above the knockout level, no shares are accumulated.

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

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

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

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

11.7 Unrealised gains/(losses) reserve

Movements in this reserve in 2017 and 2016 due to impairment of available-for-sale financial assets and derivatives classified as cash-flow hedges are as follows:

Thousand euros	01.01.2017	Change in fair value and others	Amounts allocated to income	31.12.2017
Cash flow hedges				
Interest rate swaps	(124,415)	9,401	20,233	(94,781)
Collars	(1,947)	(128)	128	(1,947)
Currency forwards	2,213	–	–	2,213
Tax effect	31,042	(2,318)	(5,090)	23,634
Total	(93,107)	6,955	15,271	(70,881)

Thousand euros	01.01.2016	Change in fair value and others	Amounts allocated to income	31.12.2016
Cash flow hedges				
Interest rate swaps	(239,664)	(19,402)	134,651	(124,415)
Collars	(2,488)	(52)	593	(1,947)
Currency forwards	(14,839)	2,240	14,812	2,213
Tax effect	64,254	4,302	(37,514)	31,042
Total	(192,737)	(12,912)	112,542	(93,107)

The breakdown of the years in which is expected to affect the Income statement is as follows:

Thousand euros	2018	2019	2020	2021	2022 on	Total
Cash flow hedges						
Interest rate swaps	(24,671)	(17,578)	(17,190)	(14,959)	(20,383)	(94,781)
Collars	–	–	–	–	(1,947)	(1,947)
Currency forwards	–	–	–	–	2,213	2,213
Tax effect	6,100	4,395	4,298	3,740	5,101	23,634
Total	(18,571)	(13,183)	(12,892)	(11,219)	(15,016)	(70,881)

11.8 Share-based compensation plans

2011-2013 Strategic Bonus Programme

On 24 June 2014, based on a proposal from the former Appointments and Remuneration Committee, the Board of Directors resolved to settle, having met 93.20% of the targets set, the 2011-2013 Strategic Bonus, approved at the General Shareholders' Meeting of 27 May 2011 were also approved by the Board of Directors. In the first half of 2016, therefore, the three annual payments were made in the form of 1,579,128 shares. These shares included those delivered to executive directors (Note 20) and to senior management (Note 22).

The "Staff costs" heading in the 2017 Income statement does not include EUR 347 thousand in 2016).

2014-2016 Strategic Bonus Programme

On 25 April 2017 the Board of Directors, on the recommendation of the Appointments and Remuneration Committee, decided to pay the 2014 and -2016 Strategic Bonus on determining that 93.20% of the objectives had been met.

In the second half of 2017 the first annual payments were made in the form of 1,729,342 shares and EUR 760 thousand in cash. These shares included those delivered to executive directors (Note 20) and to senior management (Note 22).

The heading "Staff expenses" of the income statement from 2017 includes a charge of EUR 13,052 thousand respectively corresponding to the amount accrued for this incentive plan, which has been recorded with charge and debit to the sub-headings "Other reserves" and "Other liabilities – Other provisions" of the statement of financial position, EUR 11,806 and 1,246 thousand, respectively. The heading "Staff Costs" in the 2016 Income statement includes EUR 859 thousand for this item.

2017-2019 Strategic Bonus Programme

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

- a) Average annual accumulated growth of the net benefit during the period from 2017-2019 greater than 5%, calculated from the close of fiscal year 2016. It shall be understood that this target is not met if this growth does not improve the 2016 income.
- b) Total profitability for the shareholder during the period from 2017-2019 greater than the total profitability for the shareholder of EUROSTOXX UTILITIES INDEX. It shall be understood that this target is not met if the total profitability for the shareholder is 5 percentage points lower than the profitability of EUROSTOXX UTILITIES INDEX. It shall be understood that it is fully met if it is 5 percentage points greater.
- c) Financial strength as measured by the ratio FFO/Net Debt is maintained. It shall be understood that this target is not met if this ratio falls lower than at the close of fiscal year 2016.
- d) Reduction of CO2 emissions in line with UN ODS 7 and 13. The target shall be considered met if it reaches a reduction of 5% in the average intensity of emissions in the period from 2017-2019 compared with the average of the period from 2014-2016. This target will be treated as unmet if average emissions are not reduced.

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

The maximum number of shares to be delivered to the beneficiaries of the 2017-2019 Strategic Bonus will be 14,000,000 shares, equal to 0.22% of the share capital at the time this resolution is adopted. A maximum of 2,500,000 shares will be delivered to the executive directors in compliance with the terms and conditions of the scheme. As of 31 December 2017 6,915,000 shares were issued.

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

The heading "Staff expenses" of the income statement from 2017 includes a charge of EUR 5,796 thousand respectively corresponding to the amount accrued for this incentive plan, which has been recorded with charge and debit to the sub-headings "Other reserves" and "Other long-term liabilities – Other provisions" of the statement of financial position, EUR 5,433 and 363 thousand, respectively.

12. PROVISIONS AND CONTINGENT ASSETS AND LIABILITIES

12.1 Provisions for non-current employee benefits

The breakdown of this item in the Balance sheets at 31 December 2017 and 2016 is as follows:

Thousand euros	2017	2016
Remuneration stipulated in by-law 48.1 (Note 18.3)	26,567	25,320
Remuneration stipulated in by-law 48.4 (Note 18.3)	12,297	12,322
defined benefit plans	201,912	256,649
Long-term provisions	6,368	6,105
Restructuring plans	21,346	21,218
Total	268,490	321,614

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

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

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

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

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

- Also, in relation to serving employees and employees who have retired after 1996 and are subjected to IBERDROLA's Collective Labour Agreement and members/beneficiaries of the IBERDROLA Pension Plan, risk benefits (e.g. widowhood, permanent disability or orphanage) which guarantee a defined benefit at the time the event giving rise to such benefits occurs, are instrumented through a pluriannual insurance policy. The guaranteed benefit consists of the difference between the present actuarial value of the above mentioned defined benefit at the time of the event and the member's vested rights at the time of the event, if the latter were lower. The premiums on the insurance policy for 2017 and 2016 are recognised under "Staff costs" heading in the Income statement and came to EUR 778 thousand and EUR 777 thousand, respectively (Note 18.3).

- In addition, IBERDROLA maintains a provision against certain commitments to its employees other than those indicated above, which are covered by internal funds linked to social security benefits, consisting mainly of free electricity supply, with an annual consumption limit, for retired employees and other long term benefits, primarily consisting of long-service bonus for active employees at 10, 20 and 30 years of service.

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

Thousand euros	Electricity tariff	long-service bonus
Balance at 01.01.2016	247,811	5,341
Normal cost (Note 18.3)	385	476
Financial expenses (Note 18.5).	5,094	91
Actuarial gains and losses:		
To profit (Note 18.3)	-	609
To reserves	14,227	-
Payments and other	(10,868)	(412)
Balance at 31.12.2016	256,649	6,105
Normal cost (Note 18.3)	481	540
Other costs recognised under "Staff costs" (Note 18.3)	110	-
Financial expenses (Note 18.5).	3,786	49
Actuarial gains and losses:		
To profit (Note 18.3)	-	181
To reserves	(50,169)	-
Payments and other	(8,945)	(507)
Balance at 31.12.2017	201,912	6,368

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

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

2016				
	Discount rate	Wage increase	CPI increase	Survivorship table
Electricity tariff	1.50%	-	2017(1%)-2018 (1,30%)-2019 (1,5%)-2020 (1,60%)-2021 (1,80%)-2022 on (2%)	PERMF 2000P
long-service bonus	0.80%	1.00%	-	PERMF 2000P

b) Defined contribution plans

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

In accordance with this system and IBERDROLA's effective Collective Labour Agreement, the periodic contribution to be made is calculated as a percentage of the annual pensionable salary of each employee, except for employees joining the Company after 9 October 1996, who are subject to a contributory system where the Company pays 56.45% and the employee 43.55%. For the ones hired after 20 July 2015 the company pays 1/3 and the employee 2/3, until the date in which the employee takes part in the Base Salary Rating (SBC). At this moment the same criteria will be applied to those employees as the ones who were hired since 9 October 1996. The Company finances these contributions for all its respective current employees.

IBERDROLA's contributions in 2017 and 2016 were EUR 7,243 thousand and EUR 3,951 thousand, respectively, and are recognised under "Staff costs" heading in the Income statement (Note 18.3).

c) Restructuring plans

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

Thousand euros	31.12.2017		31.12.2016	
	Provisions	No. of contracts	Provisions	No. of contracts
2012 restructuring plan	648	14	2,418	43
2014 restructuring plan	12,966	57	17,498	65
2015 restructuring plan	414	2	701	3
2016 restructuring plan	465	2	601	2
2017 restructuring plan	6,853	13	–	–
Total	21,346	88	21,218	113

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

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

Thousand euros	2017	2016
Initial balance	21,218	29,799
Charges (Note 18.3)	6,851	601
Financial expenses (Note 18.5)	77	147
Actuarial gain and losses and other (Note 18.3)	(78)	(75)
Payments and other	(6,722)	(9,254)
Final balance	21,346	21,218

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

	2017		2016	
	Discount rate	CPI	Discount rate	CPI
Collective redundancy procedures and other early retirement plans for employees	0.32% / 0,38%/0,45%	0,70%/1,00%	0,40%/0,50%	0,70%/1,00%

12.2 Other current and non-current provisions

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

Thousand euros	2017	2016
Initial balance	174,188	205,996
Charges	58,213	332
Charge for discount to present value (Note 18.5)	10,000	12,000
Overprovisions	(8,448)	(132)
Provisions applied and payments	(3,005)	(44,008)
Final balance	230,948	174,188

12.3 Contingent assets and liabilities

IBERDROLA is party to legal and out-of-court disputes arising as part of their ordinary course of business (Note 4.11). IBERDROLA's legal advisors believe that these proceedings will not have a material impact on its financial position.

The main proceedings in which IBERDROLA is involved are as follows:

- On 9 May 2016, IBERDROLA filed a claim against Bankia, S.A. (BANKIA) to recover damages sustained as a consequence of IBERDROLA's purchase of shares in the context of the bank's IPO in 2011. IBERDROLA's decision to subscribe for shares was taken in reliance on the information provided in the prospectus published for that purpose by BANKIA, S.A. The business and financial information contained in that prospectus has been shown to be severely inaccurate, incorrect and false, with material omissions; therefore, IBERDROLA made a clear mistake when placing orders to subscribe shares, which mistake is excusable and invalidates the transaction.

The overruling judgement was received on 23 March 2017. IBERDROLA presented its appeal on 24 April 2017, which shall be ruled by the Provincial Court of Madrid. BANKIA presented its written opposition to the appeal and challenge of the sentence on 31 May 2017. On 27 June 2017, IBERDROLA presented its written opposition to the challenge of the sentence made by BANKIA, having forwarded the documents to the Provincial Court of Madrid for its decision.

The value of IBERDROLA's claim comes to EUR 12,400 thousand in respect of losses sustained as a result of that investment.

The contingent assets and liabilities at 31 December 2016 are described in the 2016 Financial statements of IBERDROLA.

13. BANK BORROWINGS AND CREDITORS FOR FINANCIAL LEASES

The detail of bank borrowings outstanding at 31 December 2017 and 2016, once considered foreign exchange hedges, and the repayment schedule are as follows:

Thousand euros	Short term					Long term			Total long term
	Balance at 31.12.2016	Balance at 31.12.2017	2018	2019	2020	2021	2022	2023 and following	
Euros	1,092,451	927,076	192,032	182,378	91,896	381,973	23,801	54,996	735,044
Sterling Pound	537,243	502,139	183,398	38,071	38,073	38,075	38,077	166,445	318,741
Total	1,629,694	1,429,215	375,430	220,449	129,969	420,048	61,878	221,441	1,053,785
Interests accrued	1,946	1,897	1,897	–	–	–	–	–	–
Total	1,631,640	1,431,112	377,327	220,449	129,969	420,048	61,878	221,441	1,053,785

Borrowings outstanding at 31 December 2017 and 2016 accrue a weighted average annual interest rate of 2.12% and 2.17%, respectively, once adjusted for the corresponding hedges.

The borrowings previously mentioned refer to the amounts drawn down and outstanding at 31 December 2017 and 2016. Additionally, at the end of 2017 and 2016 IBERDROLA had undrawn loans and credit facilities amounting to EUR 5,096,357 thousand and EUR 5,118,048 thousand, respectively, maturing between 2018 and 2022 and accrue a weighted average interest equivalent to the three-month Euribor rate plus 0.43%.

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

2017						
Lessor	Operation	Millions of euros	Currency	Coupon	Extension	Maturity
Main new financing transactions						
Iberdrola S.A. ⁽¹⁾	Bilateral loan	350	Euro	-	-	4 years
Main transaction for extending existing financing						
Iberdrola S.A.	Syndicated loan	1,856	Euro	-	+1 year	5 years
Iberdrola S.A.	Syndicated loan	2,331	Euro	-	+1 year	5 years
Iberdrola S.A.	Syndicated loan	500	Euro	-	+1 year	5 years

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

Significant transactions carried out by IBERDROLA during 2016 are as follows:

2016						
Lessor	Operation	Millions of euros	Currency	Coupon	Extension	Maturity
Main new financing transactions						
Iberdrola S.A. ⁽²⁾	Syndicated loan	500	Euro	-	-	5 years
Main transaction for extending existing financing						
Iberdrola S.A.	Syndicated loan	1,837	Euro	-	+1 year	5 years
Iberdrola S.A.	Syndicated loan	2,406	Euro	-	+1 year	5 years
Iberdrola S.A.	Leasing	91.8	Euro	-	+11.5 years	18.5 years
Iberdrola S.A.	Bilateral loans	150	Euro	-	+1 year	3 years

(2) option to extend it for 1 + 1 year.

At 31 December 2017 and 2016, IBERDROLA was fully up to date on all its financial debt payments. None of the amounts in the table above matured prior to 31 December 2017. The terms of the IBERDROLA's borrowings include the usual covenants applied to such agreements.

In relation to credit ratings covenants, IBERDROLA has arranged funding with the European Investment Bank, amounting to EUR 352 million and EUR 388 million at 31 December 2017 and 2016, respectively, which may have to be renegotiated or shored up with additional guarantees in the event of a significant rating downgrade. Moreover, these transactions contracted with the European Investment Bank amounting to EUR 192 million and EUR 200 million during 2017 and 2016 respectively, are likely to be declared overdue in advance or require additional guarantees in case of a change of control resulting from a takeover bid, unless the change is not considered harmful.

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

14. DERIVATIVES

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

Thousand euros	2017				2016			
	Short term		Long term		Short term		Long term	
With third parties non-group	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate options								
Cash flow hedges								
Interest rate swap	–	(8,622)	–	(44,420)	–	(9,284)	–	(54,285)
Collar	–	–	–	–	–	(29)	–	–
fair value hedges								
Interest rate swap	4,051	3,890	8,155	–	4,367	6,521	14,676	–
Exchange rate hedges								
Cash flow hedges								
Currency forwards	1,445	(17)	–	–	7,375	(12,754)	–	–
Currency swap	–	(28,834)	–	–	40,311	6,735	–	(32,526)
fair value hedges								
Currency swap	31,594	33,570	93,071	(107,655)	24,573	35,078	355,484	(58,961)
Fair value hedges (net investment abroad)								
Currency swap	(3,346)	(28,156)	–	–	(3,804)	(4,128)	–	(42,886)
Collar	–	–	–	–	–	(16,974)	–	–
Currency forwards	146,291	(80,844)	–	–	68,124	(341,075)	–	(6,508)
No Hedge derivatives								
Exchange rate derivatives								
Currency forwards	1,916	(1,895)	8,773	–	6,756	(8,542)	28,611	(373)
Interest rate derivatives								
Interest rate swap	–	1,525	1,830	–	–	(131)	2,097	–
Treasury shares derivatives								
Treasury shares derivatives	–	(2)	–	–	1	–	–	–
Total	181,951	(109,385)	111,829	(152,075)	147,703	(344,583)	400,868	(195,539)

Thousand euros	2017				2016			
	Short term		Long term		Short term		Long term	
With group companies and associates	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Exchange rate hedges								
Cash flow hedges								
Currency forwards	–	–	–	(13,490)	–	(42,380)	24,185	–
No Hedge derivatives								
Exchange rate derivatives								
Currency forwards	2,074	(723)	14,817	(385)	5,191	(92)	18,027	(23,695)
Total	2,074	(723)	14,817	(13,875)	5,191	(42,472)	42,212	(23,695)

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

Thousand euros	2018	2019	2020	2021	2022 and following	Total
Interest rate options						
Cash flow hedges						
Interest rate swap	–	–	60,000	84,657	169,314	313,971
fair value hedges						
Interest rate swap	100,000	120,000	–	75,000	–	295,000
Exchange rate hedges						
Cash flow hedges						
Currency swap	46,520	–	–	–	–	46,520
Currency forwards	238,099	–	–	–	263,196	501,295
fair value hedges						
Currency swap	–	1,283,363	223,288	886,980	125,260	2,518,891
Fair value hedges (net investment abroad)						
Currency swap	46,520	–	–	–	–	46,520
Currency forwards	4,545,104	–	–	–	–	4,545,104
No Hedge derivatives						
Exchange rate derivatives						
Currency forwards	88,752	36,989	71,749	58,937	229,253	485,680
Interest rate derivatives						
Interest rate swap	–	50,000	–	–	–	50,000
Treasury shares derivatives						
Treasury shares derivatives	33	–	–	–	–	33
Total	5,065,028	1,490,352	355,037	1,105,574	787,023	8,803,014

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

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

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

2017					
Thousands of	US dollars	Mexican Pesos	Japaneses Yens	Norwegian Kroner	Sterling Pound
Hedge rate					
Fair value	1,819,000	–	28,000,000	–	700,000
Cash flow	364,000	1,500,000	–	–	–

2016					
Thousands of	US dollars	Mexican Pesos	Japaneses Yens	Norwegian Kroner	Sterling Pound
Hedge rate					
Fair value	1,819,000	–	28,000,000	–	700,000
Cash flow	569,142	1,500,000	–	–	–

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

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

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

2016		
Thousands of	Euros	Sterling Pound
Hedge rate		
Fair value	495,000	–
Cash flow	110,000	225,000

15. MEASUREMENT OF FINANCIAL INSTRUMENTS

The comparison of the carrying amount and fair value of financial instruments, except equity investments in group companies, joint ventures and associates at 31 December 2017 and 2016 is as follows:

Thousand euros	2017		2016	
	Book value	Fair value	Book value	Fair value
Financial assets				
Investments in group companies and associates	956,954	956,954	1,325,744	1,325,744
Investment	359,259	359,259	616,977	616,977
Trade and other receivables	174,385	174,385	296,717	296,717
Total	1,490,598	1,490,598	2,239,438	2,239,438

Thousand euros	2017		2016	
	Book value	Fair value	Book value	Fair value
Financial liabilities				
Bank borrowings, obligations and other negotiable values and debts with group companies and associates	11,543,970	12,276,924	12,802,752	13,720,804
Other third-party borrowings	296,161	296,161	596,528	596,528
Trade and other payables	83,164	83,164	122,357	122,357
Total	11,923,295	12,656,249	13,521,637	14,439,689

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

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

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

Number of days	2017	2016
Average payment period to suppliers.	20.8	16.4
Paid transactions ratio	20.6	15.9
Outstanding payment transactions ratio	28.6	25.5
Thousand euros	2017	2016
Total payments made	622,905	815,592
Total payments due	12,687	40,514

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

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

17. TAXES

The breakdown of receivables from and payables to Public Administrations in Balance sheets at 31 December 2017 and 2016 is as follows:

Thousand euros	2017	2016
Public Administrations, receivables		
Public Treasury, VAT refundable	14	81
Public Treasury, Corporate income tax receivables	440,238	400,596
Social Security Agencies, receivables	3	39
Total	440,255	400,716
Public Administrations, Payables		
Public Treasury, VAT payable	65,124	18,531
Public Treasury, withholdings payable	1,979	8,466
Public Treasury, other payables	954	7,094
Social Security Agencies, payables	928	801
Total	68,985	34,892

In 2017, IBERDROLA, as the parent of the tax Group 2/86, filed a Consolidated Income Tax return. The tax Group will continue to be taxed under this tax regime indefinitely for as long as the related requirements are met and the Group does not expressly waive application of the regime by filing the related taxpayer registration form.

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

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

The reconciliation between the parent company's accounting profit and its taxable profit for Income Tax purposes in 2017 and 2016 is as follows:

2017

Thousand euros	Income statement Increases /(decreases)	Income and expense recognised directly in equity Increases /(decreases)
Income and expenses for the year	1,598,871	58,645
Corporate income tax	8,410	19,549
Permanent differences	(1,913,324)	–
Temporary differences		
Arising in the year	41,977	(59,441)
Arising in prior years	(39,609)	(20,361)
Tax base (tax profit)	(303,675)	(1,608)

2016

Thousand euros	Income statement Increases /(decreases)	Income and expense recognised directly in equity Increases /(decreases)
Income and expenses for the year	1,410,966	88,008
Corporate income tax	(43,670)	29,336
Permanent differences	(1,649,592)	–
Temporary differences		
Arising in the year	(579,459)	31,441
Arising in prior years	(86,986)	(150,056)
Tax base (tax profit)	(948,741)	(1,271)

The amount of income and expenses directly attributed to equity in the years 2017 and 2016, before taxes, includes capital reduction expenses and paid-up capital increase expenses and amounting to EUR 1,608 and EUR 1,271 thousand respectively (Note 11). These expenses, as well as their tax effect of EUR 402 thousand and EUR 381 thousand, respectively, are not reflected in the Statement of recognized income and expense.

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

The difference between the tax expense recognised in 2017 and 2016 and the tax payable in the followings years recognised under the "Deferred tax assets" and "Deferred tax liabilities" headings of the Balance sheets at 31 December 2017 and 2016 arises mainly as a result of the following:

- Temporary differences derived mainly, from the tax effect of expenses recorded for pension commitments and the restructuring plan (Notes 4.7 and 4.8) for the purpose of determining the taxable income for corporate Income Tax purposes for each year.
- Temporary differences arising from impairment losses on equity investments in entities that are not tax deductible in the year that they are provided for, or where tax deductions are not considered for accounting purposes.
- Temporary differences associated with the tax treatment of the financial goodwill generated in the acquisition of securities relating to holdings in non-resident entities.

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

2017		
Thousand euros	Income statement	Income and expense recognised directly in equity
Effective tax (Income) / Expense		
Current	97,147	(402)
Deferred	(88,737)	19,950
Total	8,410	19,548

2016		
Thousand euros	Income statement	Income and expense recognised directly in equity
Effective tax (Income) / Expense		
Current	19,219	(318)
Deferred	(62,889)	29,654
Total	(43,670)	29,336

The accrued Corporate Income Tax expense/(income) for 2017 and 2016 is calculated as follows:

Thousand euros	2017	2016
Accounting profit before tax	1,607,281	1,367,296
Permanent differences	(1,913,324)	(1,649,592)
Adjusted accounting result	(306,043)	(282,296)
Gross tax	(76,511)	(70,574)
Tax credit deductions (a)	(3,701)	(2,896)
Effect of consolidated taxation:		
Tax rate adjustment (b)	–	94
Adjustment of deferred tax assets and liabilities (c)	3,540	(10,614)
Other (d)	85,082	40,320
Income Tax	8,410	(43,670)

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

(d) In 2016 Deferred tax assets have been regularized in respect of valuation allowances for impairment of investments in group companies and associates for the amount EUR 36,203 thousand after the application of the Royal Decree-law 3/2016, of 2 December, by which measures are adopted in the tax field directed to the consolidation of the public finances and other urgent measures in social matter. Likewise, during 2016 deferred tax assets amounting to EUR 46,817 thousand have been registered when its recovered has been confirmed.

(c) It corresponds mainly to Income tax incurred abroad and provision allowance.

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

The movement in “Deferred tax assets” and “Deferred tax liabilities” in 2017 and 2016 is as follows:

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

Thousand euros	01.01.2016	Credit (charge) to income statement	Credit (charge) to “Other reserves”	Credit (charge) to “Unrealised gains/(losses) reserve”	31.12.2016
Deferred tax assets:					
Measurement of financial instruments					
Derivatives:					
Cash flow hedges	280,166	–	–	(44,312)	235,854
Pensions and similar commitments	68,331	33,084	3,557	–	104,972
Tax credits for losses and deductions	71,500	227,272	–	–	298,772
Other deferred tax assets	147,827	(114,741)	–	–	33,086
Total	567,824	145,615	3,557	(44,312)	672,684

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

Thousand euros	01.01.2017	Credit (charge) to income statement	Credit (charge) to “Unrealised gains/(losses) reserve”	31.12.2017
Deferred tax Liabilities				
Measurement of financial instruments				
Derivatives:				
Cash flow hedges	204,818	–	(204,818)	–
Accelerated depreciation	6,888	198	–	7,086
Overprice in business combinations	822,566	(148,063)	–	674,503
Other deferred tax Liabilities	44,031	1,012	–	45,043
Total	1,078,303	(146,853)	(204,818)	726,632

Thousand euros	01.01.2016	Credit (charge) to income statement	Credit (charge) to "Unrealised gains/(losses)"	31.12.2016
Deferred tax Liabilities				
Measurement of financial instruments				
Derivatives:				
Cash flow hedges	215,919	–	(11,101)	204,818
Accelerated depreciation	6,663	225	–	6,888
Overprice in business combinations	684,232	138,334	–	822,566
Other deferred tax Liabilities	99,864	(55,833)	–	44,031
Total	1,006,678	82,726	(11,101)	1,078,303

The breakdown of taxable income generated by the Tax Group for business in 2017 is as follows:

Thousand euros	31.12.2017
Deregulated Spain	596
Renewables business Spain	209,208
Renewables business Spain	2,994
Other businesses	68,653
Corporation	(336,047)
Total	(54,596)

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

Thousand euros	31.12.2017
Deregulated Spain	50,813
Renewables business Spain	(16,839)
Renewables business Spain	(97)
Other businesses	(20,928)
Corporation	54,440
Total	67,389

In general terms, the IBERDROLA companies keep 2014 and subsequent fiscal years open to fiscal inspection in relation to the principal taxes in which they are subject to, with the exception to the Income Tax which is open for 2012 and subsequent fiscal years. Nevertheless, the aforementioned period may vary for those entities of the Group subject to other tax legislations.

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

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

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

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

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

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

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

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

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

The IBERDROLA Group's directors and, where appropriate, their tax consultants consider that the current inspection process will not give rise to additional liabilities of significance for the IBERDROLA Group at 31 December 2017.

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

18. INCOME AND EXPENSES

18.1 Net revenue and ancillary income and other operating income

The detail of this item in the Income statements for 2017 and 2016 is as follows:

Thousand euros	2017	2016
Gas sales	385,331	611,624
Sale of products and services	9,984	20,468
Sales	395,315	632,092
Other income	332	–
Provision of services	332	–
Finance revenue from equity investments in group companies and associates (Note 10)	2,094,515	1,767,742
Finance revenue from debt securities and other financial instruments of group companies and associates	20,248	18,237
Total	2,510,410	2,418,071

The detail of this heading in the Income statements for 2017 and 2016 by geographic market is as follows:

Thousand euros	2017	2016
National	2,030,185	1,902,013
EU	19,579	118,680
ROW	460,646	397,378
Total	2,510,410	2,418,071

The heading “Ancillary income and other operating income” of the income statement for the years 2017 and 2016 includes EUR 220,402 and 221,166 thousand, respectively, for services rendered to Group companies (Note 23.2).

18.2 Provisions

The detail of this heading in the Income statements for 2017 and 2016 is as follows:

Thousand euros	2017	2016
Purchases		
Gas purchases	379,266	608,586
Domestic purchases	58,735	106,068
EU purchases	148,571	152,388
ROW	171,960	350,130
Other purchases	9,238	21,496
Total	388,504	630,082

At 31 December 2017, IBERDROLA has in place “take or pay” contracts with several natural and liquefied natural gas (hereinafter LNG) suppliers for the supply of 29 bcm of gas during the period from 2018 to 2039, earmarked for retailing and for consumption at the Group's electricity production facilities, which are transferred out at the moment of reception to its investee Iberdrola Generación España, S.A.U. The prices of these contracts are determined on the basis of formulas commonly used in the market, which index the price of gas to the performance of other energy variables.

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

Thousand euros	2017
2018	254,704
2019	341,649
2020	432,537
2021	458,485
2022	455,271
From 2023 onwards	5,245,588
Total	7,188,234

18.3 Social security costs

The detail of this heading in the Income statements for 2017 and 2016 is as follows:

Thousand euros	2017	2016
Company social security costs	9,544	8,228
Contribution to provisions for pensions and similar commitments (Note 12)	8,863	2,773
Contributions defined for the outsourced pension plan (Note 12)	7,243	3,951
Remuneration stipulated in by-law 48.1 (Note 20.1)	17,000	17,000
Token payments Art. 48.4	3,398	3,761
Other social expenses	5,592	(5,165)
Total	51,640	30,548

18.4 Operating leases

The “External services” heading on the Income statements includes operating lease payments of EUR 11,698 thousand and EUR 11,329 thousand for 2017 and 2016, respectively. The breakdown of future minimum payments under non-cancellable operating leases outstanding at 31 December 2016 is as follows:

Thousand euros	2017
2018	11,164
2019	11,339
2020	15,191
2021	14,633
2022	12,797
From 2023 onwards	86,318
Total	151,442

18.5 Financial expenses

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

Thousand euros	2017	2016
Financial costs related to liabilities at depreciated cost:		
With third parties	21,304	10,429
With group companies and associates	301,280	316,950
Increase/(decrease) in finance costs from fair-value hedges of interest rate	(72,902)	(79,026)
Increase/(decrease) in finance costs from cash flow hedges of interest rate	7,469	6,422
Increase/(decrease) in finance costs from discontinued hedges	7,391	7,681
Other financial expenses	15,443	40,377
Discount to present value of provisions (Note 15)	13,912	17,332
Total	293,897	320,165

18.6 Financial Income

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

Thousand euros	2017	2016
Financial income related to Assets at depreciated cost	1,460	3,565
Accrued interest on regulatory receivable (revenue shortfall)	5,414	9,306
Other financial Income	2,429	6,016
Total	9,303	18,887

18.7 Exchange gains/(losses)

The breakdown of exchange gains/losses in the Income statements for 2017 and 2016 is as follows:

Thousand euros	2017	2016
On transactions settled at year end	(2,876)	9,433
On transactions not settled at year end	10,095	(11,886)
Total income/(expense)	7,219	(2,453)

18.8 Employees

The average number of employees at IBERDROLA in 2017 and 2016, by professional category, is the following:

	2017	2016
University graduates	553	508
Qualified employees	41	37
Others	78	61
Total	672	606

Distribution by sex at the close of 2017 and 2016 for the IBERDROLA workforce, broken down by categories, is as follows:

	2017			2016		
	Women	Men	Total	Women	Men	Total
University graduates	247	344	591	210	310	520
Qualified employees	17	26	43	13	24	37
Others	66	19	85	51	12	63
Total	330	389	719	274	346	620

During 2017 and 2016, IBERDROLA does not have employees with disabilities greater than or equal to 33 percent.

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

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

- A corporate or civil contract with a special employment centre, or with a freelancer with a disability, to supply raw materials, machinery, equipment goods or any other kind of merchandise required for normal operation of the business of companies taking up this measure.
- Donations and sponsorships, always in a monetary format, to enable employment insertion activities to be carried out and jobs to be created for people with disabilities, when the organisation benefiting from these actions is a foundation or a public-interest association the purpose of which is, among other aspects, professional training, employment insertion or the creation of jobs for the disabled.
- Creation of an employment enclave, following the signature of the contract with a special employment centre, in accordance with the provisions of Royal Decree 290/2004 of 20 February regulating employment enclaves as a means of encouraging employment for the disabled.

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

19. GUARANTEE COMMITMENTS TO THIRD PARTIES

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

IBERDROLA also guarantees the business of IBERDROLA ESPAÑA with third parties in some of its commitments relating to the construction and bringing into service of its offshore renewable wind farms and in gas purchase and sale agreements in the Generation business.

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

In 2016, the signing of nonconformity has taken place regarding the corporate Income Tax for the years 2008 to 2011 and regarding the Value Added Tax, for years 2010 and 2011. IBERDROLA has filed the corresponding claims to the Economic Administrative Court against the liquidation agreements, which confirm the acts of nonconformity, requesting the automatic suspension of the execution of the settlements by means of the necessary bank guarantees (Note 17).

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

IBERDROLA considers that any additional liability other than those provisioned at 31 December 2016 and 2016, arising from the guarantees provided at that date, if any, would not be significant.

20. REMUNERATION OF THE BOARD OF DIRECTORS

20.1 2017 by-law stipulated remuneration

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

- a) To remunerate directors, in accordance to both, the positions they have held and their executive functions, considering their dedication and attendance at meetings of corporate bodies.
- b) To set up a fund to meet the Company's obligations in pensions, life insurance premiums and payment of indemnities to current and former directors.

In particular, the board of directors will receive a remuneration which consists of an annual fixed assignment, assistance fees and appropriate hedge risk benefits (death or permanent disability).

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

On the proposal of the Appointments and Remuneration Committee, the Board of Directors has decided to propose to the General Shareholders Meeting to assign by-law stipulated remuneration of EUR 17,000 thousand in 2017 and the same amount in 2015 and 2016.

These amounts have been registered under the "Staff costs" heading in the Income statements (Note 18.3) and the breakdown is as follows:

a) Fixed remuneration and attendance premium

The fixed annual remuneration and attendance premium received by board and committee members depends on the duties assigned to them in the Board of Directors and its commissions in 2017 and 2016. The detail of which is as follows:

Thousand euros	Fixed remuneration		Attendance premium	
	2017	2016	2017	2016
Chairman of the Board	567	567	4	4
Chairpeople of Committees	440	440	4	4
Committee members	253	253	2	2
Board members	165	165	2	2

b) Remuneration of the executive directors for their executive duties

The Board of Directors decided to maintain in 2017 the chairman and chief executive officer's fixed remuneration for the executive duties in EUR 2,250 thousand. The Board of Directors also decided to maintain the limit of variable annual remuneration in EUR 3,250 thousand.

Moreover, the Board of Directors decided on a fix remuneration in 2017 of EUR 1,000 thousand for the former business chief executive officer and set a limit of variable annual remuneration of EUR 1,000 thousand.

c) Member's remunerations paid and accrued

The detailed fixed remuneration accrued by the members of the Board of Directors, individually, during 2017 and 2016, respectively, is detailed as follows:

Thousand euros	Salaries	Fixed remuneration ⁽¹⁾	Remuneration for belonging to Committees ⁽¹⁾	Attendance premium	Short-term variable remuneration ⁽⁸⁾	Retribution in kind	Total 2017	Total 2016
Chairman of the Board								
Mr José Ignacio Sánchez Galán	2,250	567	–	92	3,185	55	6,149	6,219
Chairpeople of Committees								
Inés Macho Stadler	–	165	275	74	–	3	517	509
Samantha Barber	–	165	275	72	–	2	514	502
María Helena Antolín Raybaud	–	165	275	42	–	5	487	490
Georgina Kessel Martínez	–	165	275	58	–	1	499	501
Committee members								
Iñigo Víctor de Oriol Ibarra	–	165	88	42	–	4	299	300
Braulio Medel Cámara	–	165	88	32	–	3	288	286
Angel Jesús Acebes Paniagua	–	165	88	58	–	2	313	311
Denise Mary Holt	–	165	88	38	–	1	292	290
José Walfredo Fernández	–	165	88	38	–	1	292	288
Manuel Moreu Munaiz	–	165	88	60	–	2	315	313
Xabier Sagredo Ormaza ⁽²⁾	–	165	88	38	–	2	293	205
Juan Manuel González Serna ⁽³⁾	–	124	66	20	–	–	210	–
Francisco Martínez Córcoles ⁽⁴⁾	750	124	–	12	–	19	905	–
Ceased members								
Xabier de Irala Estévez ⁽⁵⁾	–	–	–	–	–	–	–	81
Santiago Martínez Lage ⁽⁶⁾	–	41	22	12	–	2	77	285
José Luis San Pedro Guerenabarrena ⁽⁷⁾	–	41	22	12	–	1	76	296
Total	3,000	2,712	1,826	700	3,185	103	11,526	10,876

(1) Remuneration accrued in 2017. These amounts not satisfied until the approval of 2017 by-law stipulated remuneration by the General Shareholders Meeting 2018.

(2) Appointed member on 8 April 2016. Furthermore, on 26 April 2016 the appointment was approved as a member of the Audit and Risk Supervision Committee.

(3) Appointed member on 31 March 2017. On that same date, the Board of Directors approved the appointment as a member of the Audit and Risk Supervision Committee.

(4) Appointed member-Business CEO on 31 March 2017. The remuneration received by Francisco Martínez Córcoles prior to his appointment as member-Business CEO is included in Note 22 dedicated to senior directive's remuneration.

(5) Ceased as member of Board of Directors at their meeting on 8 April 2016.

(6) Ceased as vice-chairman of Board of Directors at their meeting on 31 March 2017.

(7) Ceased as vice-chairman of Board of Directors at their meeting on 31 March 2017.

(8) Amount relates to variable remuneration received in the year, based on attainment of targets and personal performance in 2016.

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

d) Civil Liability Insurance

The premium paid to cover directors' Civil Liability Insurance amounts to EUR 71 thousand and EUR 62 thousand in 2017 and 2016, respectively.

e) Others

The expenses of the Board of Directors related to external services and other items during 2017 and 2016 amounted to EUR 1,855 thousand and EUR 1,826 thousand, respectively.

In 2017 and 2016 rebates were received amounting to EUR 53 thousand and EUR 287 thousand, respectively, with respect to the adjustment of the pension insurance policies relating to former Members of the Board of Directors.

The undistributed by-law stipulated remuneration for 2017 amounting to EUR 3,600 thousand can be externalized to cover the obligations incurred by the Company to ensure them, in the event they should be materialized.

The Company does not have any commitment, neither contribution or defined benefit, to any retirement scheme or long term savings for any director.

At 31 December 2017 and 2016 there are no loan or advance granted by the IBERDROLA Group to the members of the Board of Directors of IBERDROLA.

20.2 Remuneration through the delivery of Company shares

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

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

The General Shareholders Meeting of 27 May 2011 and 28 March 2014 approved the Strategic Bonus 2014-2016 as a long-term incentive tied to the IBERDROLA Group's performance in relation to certain metrics as described in Note 11.8.

Regarding the Strategic Bonus 2017-2016, during the first quarter of 2016 the third and last annual settlements were made. The Chairman and CEO received 536,359 IBERDROLA shares. The former Chief Operating Officer received 90,640 shares.

On 25 April 2017, the Board of Directors, at request from the Remuneration Committee, agreed to assess the degree of compliance of the Strategic Bonus 2017-2016. During the first quarter of 2017 the first of the three annual settlements was made. The Chairman and CEO received 510,596 IBERDROLA shares. The shares thus granted to Francisco Martínez Córcoles, 120,931 shares, correspond to his performance prior to his appointment as member-Business CEO.

20.3 Termination benefits

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

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

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

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

20.4 By-law stipulated remuneration in 2018

At the proposal of the Remuneration Committee, the Board of Directors unanimously resolved to freeze, for the 2017 fiscal year, directors' compensation in the form of fixed annual remuneration based on position and meeting attendance fees, as it has done since 2008.

Moreover, the Board of Directors decided on a fix remuneration in 2018 of EUR 2,250 and EUR 1,000 thousand respectively for the former business chief executive officer and maintain the limit of variable annual remuneration of EUR 3,250 and 1,000 thousand respectively.

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

As established in article 229 of the Spanish Companies Law (Ley de Sociedades de Capital) introduced by the Royal Decree-Law 1/2010 of 2 July 2010 and in the Law 31/2014, of 3 December 2014, modifying the Spanish Companies Law for the improvement of corporate governance, the conflicts of interest.

The president and CEO and the member-Business CEO were absent during the deliberation of all the agreements related to his system of remuneration and assurance.

Finally, Mr. Sagredo Ormaza was absent during the deliberation of that agreements involving Kutxabank, S.A.

22. REMUNERATION OF SENIOR EXECUTIVES

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

At 31 December 2017 and 2016, the Company had 5 and 6 senior executives respectively.

The staff costs relating to senior executives amounting to EUR 10,373 thousand and EUR 10,657 thousand in 2017 and 2016, respectively, are recognised under the "Staff costs" heading in the Income statements of the mentioned years.

The remuneration and other compensation received by senior executives in 2017 and 2016 are detailed below:

Thousand euros	31.12.2017 ⁽¹⁾	31.12.2016 (2)
Retribution in cash	4,227	5,447
Performance-based compensation	2,909	3,193
Retribution in kind	421	453
Payments to account not charged	36	58
Social Security	70	86
Promoter contribution pension plan	40	41
Complementary policy accrual	2,171	979
Complementary policy risk	499	400
Total	10,373	10,657

Number of shares	31.12.2017	31.12.2016
Share-based payment plan, strategic bonus	261,106	364,173
Charged taxes and payments in cash Strategic Bonus (thousand euros)	2,503	2,317

- (1) Includes the proportional part of remuneration and other payments the Business CEO until 31 March 2017, then appointed member-Business CEO.

Includes the proportional part of remuneration and other payments, as well as the settlement of the strategic bonus 2014-2016 for the Director of Internal Audit, until the date of retirement.

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

During the first semester of 2017, 261,106 shares corresponding to the Strategic Bonus 2014-2016, were delivered to senior management, as described in Note 11; thus, the members of senior management received IBERDROLA shares in equal amounts in 2017, 2018 and 2019.

- (2) Includes the proportional part of remuneration and other payments, as well as the settlement of the strategic bonus 2011-2013 for the General Secretary, until 9 January 2016.

Includes the proportional part for the Legal Services Director from 9 January 2016.

During the first semester of 2016, 364,173 shares corresponding to the Strategic Bonus 2011-2013, were delivered to senior management, as described in Note 11; thus, the members of senior management received IBERDROLA shares in equal amounts in 2014, 2015 and 2016.

A maximum of 1,000,000 shares in aggregate are to be delivered to senior executives under the 2017-2019 Strategic Bonus (Note 11), tied to their success in achievement of objectives. As of 31 December 2017, EUR 1,551 thousand have been provided for these commitments.

For senior executives, including executive directors, there are clauses providing guarantees or protection against different cases of contract termination. These contracts have been approved by the Board of Directors of IBERDROLA and are described in Note 20.

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

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

On the other hand, during 2017 and 2016 there were no other transactions with the executives outside the normal course of the business.

23. RELATED PARTY TRANSACTIONS AND BALANCES

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

23.1 Balances of IBERDROLA with group companies and associates

a) Financial balances with group companies and associates

Loans to group companies and associates

The detail of current and non-current "Loans to group companies and associates" in the Balance sheets at 31 December 2017 and 2016 is as follows:

Thousand euros	2017			2016		
	Short term	Long term	Total	Short term	Long term	Total
ScottishPower Renewable Energy, Ltd.	21,242	75,090	96,332	21,147	96,332	117,479
Other group companies	–	9,262	9,262	–	9,261	9,261
Unpaid accrued interest	5,638	550	6,188	5,542	691	6,233
Total	26,880	84,902	111,782	26,689	106,284	132,973

The transactions above are in euros.

The average interest rate on these loans is 0.93% and 1.16% at 31 December 2017 and 2016, respectively.

The maturity schedule for loans is as follows:

Years	Thousand euros
2018	26,880
2019	21,336
2020	21,430
2021	29,201
2022 and following	12,935
Total	111,782

Other financial assets/liabilities with group companies and associates

The detail of current and non-current “Other financial assets” and “Other financial liabilities” with group companies and associates in the Balance sheets at 31 December 2017 and 2016 is as follows:

Thousand euros	2017		2016	
	Receivables	Payables	Receivables	Payables
Long term				
Iberdrola Finance Ireland, DAC	–	1,053,086	–	1,211,345
Iberdrola Financiación, S.A.U.	–	–	–	3,200,000
Iberdrola Finanzas, S.A.U.	–	1,263,368	–	2,071,460
Iberdrola International, B.V.	–	1,051,539	–	1,219,598
Others	421	–	421	–
Total	421	3,367,993	421	7,702,403

Thousand euros	2017		2016	
	Receivables	Payables	Receivables	Payables
Short term				
Avangrid, Inc. (USD)	91,606	–	104,764	–
Hidro I, S.L.U.	–	143,565	–	369,604
Iberdrola Clientes Portugal, Unipessoal Ltda	86,948	–	61,978	–
Iberdrola Clientes, S.A.U.	–	101,883	–	148,737
Iberdrola Cogeneración, S.L.U.	–	53,210	–	29,587
Iberdrola Comercialización de Último Recurso, S.A.U.	130,758	–	83,720	–
Iberdrola Distribución Eléctrica, S.A.U.	72,555	–	232,864	–
Iberdrola Energía S.A.U.	–	35,517	–	242,691
Iberdrola Energy Projects Canada Corporation (Canadian dollar)	–	–	83,500	–
Iberdrola España, S.A.U.	–	162,608	9,835	217
Iberdrola Finance Ireland, DAC	–	79,886	–	51,023
Iberdrola Financiación, S.A.U.	–	4,163,331	123,711	2,584
Iberdrola Finanzas, S.A.U.	–	831,982	–	101,178
Iberdrola Generación España, S.A.U.	6,846	–	–	207,575
Iberdrola Generación S.A.U.	99,760	–	30,003	512
Iberdrola Ingeniería y Construcción, S.A.U.	64,695	–	–	78,721
Iberdrola Inmobiliaria Patrimonio, S.A.U.	–	–	–	60,498
Iberdrola Inmobiliaria, S.A.	–	165,335	2,072	–
Iberdrola International, B.V.	–	41,205	–	239,144
Iberdrola Re, S.A.	–	92,444	–	69,520
Iberdrola Redes España, S.A.U.	–	9,463	–	275,155
Iberdrola Participaciones, S.A.U.	101,908	26	–	42,719
Iberdrola Renovables Energía, S.A.U.	–	134,617	–	50,418
Iberdrola Renovables Magyarország, KFT. (Hungarian Forint)	–	92,847	–	63,848
Iberdrola Renovables Offshore Deutschland, GmbH.	–	179,363	60,231	–
Scottish Power. Ltd. (Sterling Pound)	–	32,820	98,479	97
SPW Investments. Ltd. (Sterling Pound)	–	–	–	915,743
Others	172,784	410,165	242,288	452,971
Total	827,860	6,730,267	1,133,445	3,402,542

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

On 31 December 2016 and 2016, Iberdrola International B.V., Iberdrola Finance Ireland DAC., Iberdrola Financiación, S.A.U. and Iberdrola Finanzas, S.A.U. had granted loans to IBERDROLA for the amounts of various bond issues in various currencies made by them and underwritten by IBERDROLA.

The maturity schedule for these unpaid loans at 31 December 2017 is as follows:

Thousand euros	31.12.2017
Expiry	
2018	5,116,404
2019	1,308,867
2020	77,457
2021	85,500
2022 and following	1,896,169
Total	8,484,397

The maturity schedule for these unpaid loans at 31 December 2017 is as follows:

Thousand euros	
Maturity	
2017	393,929
2018	3,967,165
2019	1,470,359
2020	90,158
2021 and following	2,174,721
Total	8,096,332

The breakdown by currency of these items at 31 December 2017 and 2016 is as follows:

Thousand euros	2017	2016
Currency		
Euros	5,439,924	4,485,025
US dollars	1,916,013	2,408,242
Sterling Pound	850,478	892,041
Yen	211,074	238,033
Other currencies	66,908	72,991
Total	8,484,397	8,096,332

These borrowings accrued a weighted average annual interest rate at 31 December 2017 and 2016 of 3.54% and 4.02%, respectively.

At the end of 2017 and 2016, the accrued unpaid interest payable on these borrowings was EUR 118,842 thousand and EUR 125,116 thousand, respectively.

b) Commercial balances with group companies and associates

The breakdown of IBERDROLA's payables and receivables with group companies and associates at 31 December 2017 and 2016 is as follows:

Thousand euros	2017		2016	
	Receivables	Payables	Receivables	Payables
Short term				
Avangrid Service Company (US\$)	144	–	26,913	–
Iberdrola Generación España, S.A.U.	15,758	12	67,172	16,620
Avangrid Management Company, LLC.	27,935	–	–	–
Others	18,333	698	17,721	197
Total	62,170	710	111,806	16,817

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

c) Derivatives group companies and associates

The breakdown of derivatives arranged by IBERDROLA with group companies and associates at 31 December 2017 and 2016 is as follows:

Thousand euros	2017		2016	
	Receivables	Payables	Receivables	Payables
Long term				
Iberdrola Financiación, S.A.U.	–	13,490	24,185	–
Iberdrola Generación, S.A.U.	14,817	385	17,648	23,695
Others	–	–	379	–
Total	14,817	13,875	42,212	23,695
Short term				
Iberdrola Financiación, S.A.U.	–	–	–	42,380
Others	2,074	723	5,191	92
Total (Note 14)	2,074	723	5,191	42,472

23.2 Related party transactions by IBERDROLA

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

The most noteworthy transactions in 2017 and 2016 are as follows:

Transactions with major shareholders

Thousand euros	Significant shareholders ⁽¹⁾	
	2017	2016
	Qatar Investment Authority	Qatar Investment Authority
Other transactions		
Dividends and other distributed profit (2)	18,948	21,571

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

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

Qatar Investment Authority is the only shareholders who satisfied that condition at the date of authorization for issue of these Financial statements

The amounts distributed as dividends and other benefits corresponding to dividends and attendance premium to the General Meetings of Shareholders

Transactions with other related parties

Thousand euros	2017			2016		
	Group entities or subsidiaries	Jointly controlled companies	Associated entities	Group entities or subsidiaries	Jointly controlled companies	Associated entities
Expenses and income						
Financial expenses	305,583	20	23	326,722	166	123
Leases	–	4,465	–	–	4,336	–
Received services	19,448	–	–	24,856	2	3
Provisions	61,117	–	–	106,341	–	25
Total expenses	386,148	4,485	23	457,919	4,504	151
Financial revenue	20,248	–	–	18,237	–	–
Dividends received	2,091,515	–	3,000	1,767,742	–	–
Rendering of services	220,164	24	214	219,929	18	1,219
Sales	341,420	–	–	510,250	–	–
Total income	2,673,347	24	3,214	2,516,158	18	1,219
Other transactions						
Purchase of tangible, intangible and other assets	650	–	–	2,241	–	25

23.3 Transactions with directors and senior executives

Thousand euros	2017		2016	
	Directors	Executives	Directors	Executives
Expenses and income				
Received services ⁽¹⁾	–	–	648	–
Total expenses	–	–	648	–
Other transactions				
Dividends and other distributed profit ⁽²⁾	765	179	649	81

(1) The contracts to which this amount is related to 2016, were awarded respecting the provisions of the Procedure, regarding conflicts of interest and transactions related to directors, significant shareholders and senior managers. Those contracts gather the billing of the company Soil Tratamiento de Aguas Industriales S.L. company's billing was USD 722 thousand (about EUR 648 thousand), linked to the member of the Board Iñigo Victor de Oriol Ibarra, contractor for the supply, transport, assembly and start-up of Cogeneración Ramos en México S.A.'s water treatment plant. There are no transactions in 2017.

(2) The amounts considered dividends and other distributed profit correspond to the free allocation rights arising from the scrip dividends agreed upon by the Shareholders at the General Meetings of 31 March 2017, 08 April 2016, and 27 March 2015, respectively have been sold to IBERDROLA at a guaranteed fixed price in accordance with the terms and conditions of the aforementioned increases.

24. FEES FOR SERVICES PROVIDED BY AUDITORS

The fees resulted from the services provided in 2017 and 2016 by the statutory auditor are detailed in the chart below:

Thousand euros	2017			2016		
	Main Auditor	Other auditors	Total	Main Auditor	Other auditors	Total
Auditing services	3,743	–	3,743	2,553	–	2,553
Other provided services related to auditing	1,387	–	1,387	918	–	918
	5,130	–	5,130	3,471	–	3,471
Other professional services	–	–	–	–	3,204	3,204
Total	5,130	–	5,130	3,471	3,204	6,675

25. SUBSEQUENT EVENTS

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

Iberdrola Flexible Dividend

On 09 January 2018, the facts in relation to the implementation of the second paid-up capital increase (*Iberdrola flexible dividend*) approved at the IBERDROLA General Shareholders' Meeting on 31 March 2017, under item 13 of the agenda, were determined and were as follows:

- The maximum number of shares to be issued under the capital increase is 137,337,282.
- The number of free allocation rights required to receive one new share is 46.
- The maximum nominal value of the capital increase amounts to EUR 103,002,962
- The acquisition price of the free allocation rights under the purchase commitment made by IBERDROLA is EUR 0.140.
- Gross dividend amount per share was €0.140.

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

- The holders of 699,283,602 free allocation rights have accepted the irrevocable commitment to purchase assumed by IBERDROLA. Accordingly, IBERDROLA will acquire such rights for a gross amount of EUR 97,900 thousand.
- During the period established for this purpose, the holders of 58,717,340 shares of the Company decided to receive interim dividends. Thus, the gross total of distributed interim dividends was €8,220,428. As a result, these shareholders have expressly forgone 58,717,340 free allotment rights and therefore 1,276,464 new shares.
- The final number of new ordinary shares with a nominal value of EUR 0.75 to be issued will be 120,859,000, giving a nominal capital increase from this implementation of EUR 90,644 thousand. This will add 1.913% to IBERDROLA's pre-issue share capital.

- As a result, the share capital of Iberdrola following the capital increase amounts to EUR 4,828,780,500, represented by 6,438,374,000 ordinary shares of EUR 0.75 par value each, fully subscribed and paid.
- Subject to compliance with on legal requirements (and verification of compliance by the Spanish National Security Market Commission), the new shares are expected to be admitted for trading on the continuous market of the Madrid, Barcelona, Bilbao and Valencia stock exchanges on 06 February 2018. The ordinary trading of new shares is expected to start on 07 February 2018.

Transactions with treasury shares

From the 2017 year-end until 16 February 2018 23,420,543 treasury shares have been acquired and 866,659 shares have been delivered. As of 16 February 2018 Iberdrola, S.A. had EUR 98,264,033 in treasury shares.

Banking Market

2017						
Lessor	Operation	Millions of euros	Currency	Coupon	Extension	Maturity
Main new financing transactions						
Iberdrola S.A. ⁽¹⁾	Syndicated loan	2,979	Euro	-	option to extend it for 1 +1 year	5 years
Iberdrola S.A. ⁽¹⁾	Syndicated loan	2,321	Euro	-	option to extend it for 1 +1 year	5 years

(1) Reconfiguration operation that includes the extension of the due date of the existing €4,187 million for 1 year and €213 million for 2 years, both already existing, and a credit increase of 900 million euros with the option of extension for 1+1 years.

26. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

APPENDIX I

YEAR 2017 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP

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

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

G Full consolidation

E: Integration by equity method

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
<u>Deregulated Business</u>					
Spain					
Cobane, A.I.E.	Spain	Energy	100.00	100.00	G
Cogeneración Gequisa, S.A.	Spain	Energy	50.00	50.00	E
Enercrisa, S.A.	Spain	Energy	50.00	50.00	E
Energía Portátil Cogeneración, S.A.	Spain	Energy	50.00	50.00	E
Energyworks Aranda, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Carballo, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Cartagena, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Fonz, S.L.	Spain	Energy	100.00	100.00	G
Energyworks Milagros, S.L.	Spain	Energy	100.00	100.00	G
Energyworks Monzón, S.L.	Spain	Energy	100.00	100.00	G
Energyworks San Millán, S.L.	Spain	Energy	100.00	100.00	G
Energyworks Villarrobledo, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Vit-Vall, S.L.	Spain	Energy	99.00	99.00	G
Fudepor, S.L.	Spain	Energy	50.00	50.00	E
Fuerzas Eléctricas de Navarra, S.A.	Spain	Energy	100.00	100.00	G
Hidroeléctrica Ibérica, S.L.U.	Spain	Energy	100.00	100.00	G
Iberdrola Clientes, S.A.U.	Spain	Retailer	100.00	100.00	G
Iberdrola Cogeneración, S.L.U.	Spain	Holding	100.00	100.00	G
Iberdrola Comercialización de Último Recurso, S.A.U.	Spain	Retailer	100.00	100.00	G
Iberdrola Generación España, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Generación Nuclear, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Generación, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Operación y Mantenimiento, S.A.U.	Spain	Services	100.00	100.00	G
Iberdrola Servicios Energéticos, S.A.U.	Spain	Services	100.00	100.00	G
Iberduero, S.L.U.	Spain	Energy	100.00	100.00	G
Intermalta Energía, S.A.	Spain	Energy	50.00	50.00	E
Nuclenor, S.A.	Spain	Energy	50.00	50.00	E
Peninsular Cogeneración, S.A.	Spain	Energy	50.00	50.00	E
Productos y Servicios de Confort, S.A.	Spain	Services	100.00	100.00	G
Subgrupo Tirme ⁽²⁾	Spain	Energy	20.00	20.00	E
Tarragona Power, S.L.U.	Spain	Energy	100.00	100.00	G
Tecnatom, S.A. ⁽⁵⁾	Spain	Services	30.00	30.00	-
Iberdrola Clientes Portugal, Unipessoal Ltda.	Portugal	Retailer	100.00	100.00	G
Ibertâmega – Sistema Electroprodutor Do Tâmega, S.A.	Portugal	Energy	100.00	-	G
Iberdrola Suporte Projecto Tamega, Unipessoal Lda. (Formerly Iberdrola Engenharia e Construção Portugal, Unipessoal Lda.)	Portugal	Energy	100.00	100.00	G
United Kingdom					
Manweb Energy Consultants, Ltd.	United Kingdom	Energy	100.00	100.00	G
Scottish Power Generation Holdings Ltd.	United Kingdom	Holding	100.00	100.00	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
ScottishPower (DCL), Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower (SCPL), Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower Energy Management (Agency), Ltd.	United Kingdom	Services	100.00	100.00	G
ScottishPower Energy Management, Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower Energy Retail, Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower Generation, Ltd.	United Kingdom	Energy	100.00	100.00	G
SMW, Ltd.	United Kingdom	Other	100.00	100.00	G
SP Dataserve, Ltd.	United Kingdom	Data management	100.00	100.00	G
SP Gas Transportation Cockenzie, Ltd.	United Kingdom	Inactive	100.00	100.00	G
SP Gas Transportation Hatfield, Ltd.	United Kingdom	Inactive	100.00	100.00	G
SP Smart Meter Assets, Ltd.	United Kingdom	Energy	100.00	-	G
Rest of Europe					
Iberdrola Energy Deutschland, GmbH.	Germany	Services	100.00	100.00	G
Iberdrola Energie France, S.A.S.	France	Services	100.00	100.00	G
Iberdrola Clienti Italia, S.R.L. (formerly Iberdrola Energía Italia, S.R.L.)	Italy	Services	100.00	100.00	G
United States					
Caledonia Energy Partners, LLC	USA	Energy	81.50	81.50	G
E.O. Resources, LLC	USA	Energy	81.50	81.50	G
Enstor Energy Services, LLC	USA	Energy	81.50	81.50	G
Enstor Gas, LLC	USA	Holding	81.50	81.50	G
Enstor Grama Ridge Storage and Transportation, LLC	USA	Energy	81.50	81.50	G
Enstor Houston Hub Storage and Transportation, Ltd.	USA	Energy	81.50	81.50	G
Enstor Inc.	USA	Holding	81.50	81.50	G
Enstor Katy Storage and Transportation, LLC	USA	Energy	81.50	81.50	G
Enstor Louisiana, LLC	USA	Energy	81.50	81.50	G
Enstor Operating Company, LLC	USA	Holding	81.50	81.50	G
Enstor Sundance Storage and Transportation, LLC	USA	Energy	81.50	81.50	G
Enstor Waha Storage and Transportation, LLC	USA	Energy	81.50	81.50	G
Freebird Assets Inc.	USA	Holding	81.50	81.50	G
Freebird Gas Storage, LLC	USA	Energy	81.50	81.50	G
Gemini Capital, LLC	USA	Energy	81.50	81.50	G
Mexico					
Hidrola I, S.L.U.	Spain	Holding	100.00	100.00	G
Cinergy, S.R.L. de C.V.	Mexico	Services	100.00	100.00	G
Electricidad de Veracruz, S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Enertek, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Iberdrola Clientes, S.A. de C.V.	Mexico	Retailer	100.00	100.00	G
Iberdrola Cogeneración Altamira, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Cogeneración Bajío, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Cogeneración Ramos, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Altamira de Servicios, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Iberdrola Energía Altamira, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Baja California, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía del Golfo, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Escobedo, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía La Laguna, S.A. de C.V.	Mexico	Energy	99.99	99.99	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Iberdrola Energía Monterrey, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Iberdrola Energía Noroeste, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Tamazunchale, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Iberdrola Energía Topolobampo, S.A. de C.V.	Mexico	Energy	100.00	-	G
Iberdrola Generación, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Iberdrola Generación México, S.A. de C.V.	Mexico	Holding	100.00	100.00	G
Iberdrola México, S.A. de C.V.	Mexico	Holding	100.00	100.00	G
Iberdrola Servicios Corporativos, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Administrative services Tamazunchale, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Servicios de Operación La Laguna, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Industrial and administrative services del Noreste, S.R.L. de C.V.	Mexico	Gas	51.12	51.12	G
Brazil					
Baguari Geração de Energia Elétrica, S.A.	Brazil	Energy	52.45	39.00	G
Bahia PCH II, S.A. Bahía Pequena C. Hidroeléctrica	Brazil	Energy	52.45	39.00	-
Bahia PCH III, S.A. Bahía Geração de Energia	Brazil	Energy	52.45	39.00	-
Belo Monte Participações, S.A.	Brazil	Energy	52.45	39.00	G
Companhia Hidrelétrica Teles Pires, S.A.	Brazil	Energy	26.75	19.89	E
Elektro Comercializadora de Energia Ltda.	Brazil	Retailer	52.45	100.00	G
Energetica Aguas da Pedra, S.A.	Brazil	Energy	26.75	19.89	E
Energética Corumba III, S.A. ⁽⁴⁾	Brazil	Energy	13.11	9.75	E
Geração Ceu Azul, S.A.	Brazil	Energy	52.45	39.00	G
Geração CIII, S.A.	Brazil	Energy	52.45	39.00	G
Itapebí Geração de Energia, S.A.	Brazil	Energy	52.45	39.00	G
Meridiano 1 Energia renovavel, S.A. ⁽⁵⁾	Brazil	Energy	52.45	39.00	-
Meridiano 2 Energia renovavel, S.A. ⁽⁵⁾	Brazil	Energy	52.45	39.00	-
Meridiano 3 Energia renovavel, S.A. ⁽⁵⁾	Brazil	Energy	52.45	39.00	-
Meridiano 4 Energia renovavel, S.A. ⁽⁵⁾	Brazil	Energy	52.45	39.00	-
Meridiano 5 Energia renovavel, S.A. ⁽⁵⁾	Brazil	Energy	52.45	39.00	-
Meridiano 6 Energia renovavel, S.A. ⁽⁵⁾	Brazil	Energy	52.45	39.00	-
NC Energia, S.A.	Brazil	Energy	52.45	39.00	G
Neoenergia Operação e Manutenção, S.A.	Brazil	Services	52.45	39.00	G
Norte Energia, S.A. ⁽⁴⁾	Brazil	Energy	5.25	3.90	E
PCH Alto do Rio Grande, S.A.	Brazil	Energy	52.45	39.00	G
Sever RJ Participacoes S.A. ⁽⁵⁾	Brazil	Energy	52.45	39.00	-
Soumaya RJ Participacoes S.A. ⁽⁵⁾	Brazil	Energy	52.45	39.00	-
Tacca RJ Participacoes S.A. ⁽⁵⁾	Brazil	Energy	52.45	39.00	-
Teles Pires Participações, S.A.	Brazil	Holding	26.52	19.72	E
Termopernambuco, S.A.	Brazil	Energy	52.45	39.00	G
Titanum RJ Participacoes S.A. ⁽⁵⁾	Brazil	Energy	52.45	39.00	-
Canada					
Iberdrola Canadá Energy Services, Ltd.	Canada	Gas	100.00	100.00	G
Renewable Business					
Spain					
Anselmo León Hidráulica, S.L. ⁽¹⁾	Spain	Energy	100.00	100.00	E
Biocantaber, S.L.	Spain	Energy	50.00	50.00	E
Bionor Eólica, S.A.	Spain	Energy	57.00	57.00	G
Biovent Energía, S.A.	Spain	Energy	95.00	95.00	G
Cantaber Generación Eólica, S.L.	Spain	Energy	69.01	69.01	G
Ciener, S.A.U.	Spain	Holding	100.00	100.00	G
Desarrollo de Energías Renovables de La Rioja, S.A. ⁽²⁾	Spain	Energy	40.51	40.51	E
Ecobarcial, S.A. ⁽²⁾	Spain	Energy	43.78	43.78	E
Electra de Malvana, S.A. ⁽²⁾	Spain	Energy	48.00	48.00	E
Electra Sierra de los Castillos, S.L.	Spain	Energy	97.00	97.00	G

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Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Electra Sierra de San Pedro, S.A.	Spain	Energy	80.00	80.00	G
Eléctricas de la Alcarria, S.L.	Spain	Energy	90.00	90.00	G
Eme Hueneja Cuatro, S.L.	Spain	Energy	100.00	100.00	G
Energía de Castilla y León, S.A.	Spain	Energy	85.50	85.50	G
Energías Ecológicas de Tenerife, S.A. ⁽³⁾	Spain	Energy	50.00	50.00	G
Energías Eólicas de Cuenca, S.A.U.	Spain	Energy	100.00	100.00	G
Energías Renovables de la Región de Murcia, S.A.U.	Spain	Energy	100.00	100.00	G
Eólica Campollano, S.A. ⁽²⁾	Spain	Energy	25.00	25.00	E
Eólica 2000, S.L.	Spain	Holding	51.00	51.00	G
Eólicas de Euskadi, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Energía Solar de Puertollano, S.A.	Spain	Energy	90.00	90.00	G
Iberdrola Eólica Marina, S.A.U.	Spain	Energy	100.00	-	G
Iberdrola Renewables Solutions, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Renovables Galicia, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables Andalucía, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables Aragón, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables Canarias, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables Castilla – La Mancha, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables Castilla y León, S.A.	Spain	Holding	95.00	95.00	G
Iberdrola Renovables Energía, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables La Rioja, S.A. ⁽²⁾	Spain	Holding	63.55	63.55	E
Ibernova Promociones, S.A.U.	Spain	Holding	100.00	100.00	G
Iberjalón, S.A.	Spain	Energy	80.00	80.00	G
Minicentrales del Tajo, S.A.	Spain	Energy	66.58	66.58	G
Molinos de La Rioja, S.A. ⁽²⁾	Spain	Energy	42.37	42.37	E
Molinos del Cidacos, S.A. ⁽²⁾	Spain	Energy	31.78	31.78	E
Parque Eólico Cruz del Carrutero, S.L.	Spain	Energy	76.00	76.00	G
Peache Energías Renovables, S.A.	Spain	Energy	95.00	95.00	G
Producciones Energéticas Asturianas, S.L.	Spain	Energy	80.00	80.00	G
Producciones Energéticas de Castilla y León, S.A. ⁽²⁾	Spain	Energy	85.50	85.50	E
Renovables de la Ribera, S.L. ⁽⁵⁾	Spain	Energy	50.00	50.00	-
Sistemas Energéticos Altamira, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos Chandrexa, S.A.	Spain	Energy	96.07	96.07	G
Sistemas Energéticos del Moncayo, S.A.	Spain	Energy	75.00	75.00	G
Sistemas Energéticos La Gomera, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos La Higuera, S.A.	Spain	Energy	55.00	55.00	G
Sistemas Energéticos de la Linera, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos La Muela, S.A.	Spain	Energy	80.00	80.00	G
Sistemas Energéticos Mas Garullo, S.A.	Spain	Energy	78.00	78.00	G
Sistemas Energéticos Nacimiento, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos Tacica de Plata, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos Torralba, S.A.	Spain	Energy	60.00	60.00	G
Sistemas Energetics Savalla del Comtat, S.A.U.	Spain	Energy	100.00	100.00	G
Sociedad Gestora de Parques Eólicos de Andalucía, S.A.	Spain	Energy	63.91	63.91	G
Sotavento Galicia, S.A. ⁽⁴⁾	Spain	Energy	8.00	8.00	E
United Kingdom					
Celtpower, Ltd.	United Kingdom	Energy	50.00	50.00	E
Coldham Windfarm, Ltd.	United Kingdom	Energy	80.00	80.00	G
East Anglia Offshore Wind, Ltd.	United Kingdom	Energy	50.00	50.00	E
East Anglia One, Ltd.	United Kingdom	Energy	100.00	100.00	G
East Anglia Three, Ltd.	United Kingdom	Energy	100.00	100.00	G
East Anglia One North Ltd.	United Kingdom	Energy	100.00	-	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
East Anglia Two Ltd.	United Kingdom	Energy	100.00	-	G
Morecambe Wind, Ltd.	United Kingdom	Energy	50.00	50.00	E
ScottishPower Renewable Energy, Ltd.	United Kingdom	Holding	100.00	100.00	G
ScottishPower Renewables (WODS), Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower Renewables UK, Ltd.	United Kingdom	Energy	100.00	100.00	G
United States					
Aeolus Wind Power II, LLC ⁽⁶⁾	USA	Holding	61.13	61.13	G
Aeolus Wind Power III, LLC	USA	Holding	81.50	61.13	G
Aeolus Wind Power IV, LLC ⁽⁶⁾	USA	Holding	61.13	61.13	G
Atlantic Renewable Energy Corporation	USA	Holding	81.50	81.50	G
Atlantic Renewable Projects II, LLC	USA	Holding	81.50	61.13	G
Atlantic Renewable Projects, LLC ⁽⁶⁾	USA	Holding	61.13	61.13	G
Atlantic Wind, LLC	USA	Holding	81.50	81.50	G
Aurora Solar, LLC	USA	Energy	81.50	81.50	G
Avangrid Arizona Renewables, LLC	USA	Energy	81.50	81.50	G
Avangrid Logistic Services, LLC	USA	Energy	81.50	81.50	G
Avangrid Renewables Holdings, Inc.	USA	Holding	81.50	81.50	G
Avangrid Renewables, LLC	USA	Holding	81.50	81.50	G
Avangrid Texas Renewables, LLC	USA	Energy	81.50	81.50	G
Avangrid Vineyard Wind, LLC	USA	Holding	81.50	-	G
Bakeoven Wind, LLC	USA	Energy	81.50	81.50	G
Barton Windpower, LLC	USA	Energy	81.50	81.50	G
Big Horn II Wind Project, LLC	USA	Energy	81.50	81.50	G
Big Horn Wind Project, LLC	USA	Energy	81.50	61.13	G
Blue Creek Wind Farm, LLC	USA	Energy	81.50	81.50	G
Buffalo Ridge I, LLC	USA	Energy	81.50	81.50	G
Buffalo Ridge II, LLC	USA	Energy	81.50	81.50	G
Casselman Wind Power, LLC ⁽⁶⁾	USA	Energy	61.13	61.13	G
Coyote Ridge Wind, LLC	USA	Energy	81.50	-	G
Deerfield Wind, LLC	USA	Energy	81.50	81.50	G
Desert Wind Farm, LLC	USA	Energy	81.50	81.50	G
Dillon Wind, LLC	USA	Energy	81.50	81.50	G
El Cabo Wind, LLC	USA	Energy	80.69	81.50	G
El Cabo Wind Holdings	USA	Holding	80.69	81.50	G
El Cabo Partners, LLC	USA	Energy	81.50	-	G
Elk River Wind Farm, LLC ⁽⁶⁾	USA	Energy	61.13	61.13	G
Elm Creek Wind II, LLC	USA	Energy	81.50	81.50	G
Elm Creek Wind, LLC	USA	Energy	81.50	81.50	G
Farmers City Wind, LLC	USA	Energy	81.50	81.50	G
Flat Rock Windpower II, LLC	USA	Energy	40.75	30.56	E
Flat Rock Windpower, LLC ⁽⁶⁾	USA	Energy	30.56	30.56	E
Flying Cloud Power Partners, LLC	USA	Energy	81.50	81.50	G
Golden Hills Wind Farm, LLC	USA	Energy	81.50	-	G
Goodland Wind, LLC	USA	Energy	81.50	81.50	G
Groton Wind, LLC	USA	Energy	81.50	81.50	G
Hardscrabble Wind Power, LLC	USA	Energy	81.50	81.50	G
Hay Canyon Wind, LLC	USA	Energy	81.50	81.50	G
Hazelwood Australia, Inc. ⁽⁵⁾	USA	Holding	81.50	81.50	-
Hazelwood Ventures, Inc. ⁽⁵⁾	USA	Holding	81.50	81.50	-
Heartland Wind, LLC	USA	Energy	81.50	81.50	G
Helix Wind Power Facility, LLC	USA	Energy	81.50	81.50	G
Juniper Canyon Wind Power II, LLC	USA	Energy	81.50	81.50	G
Juniper Canyon Wind Power, LLC	USA	Energy	81.50	81.50	G
Kitty Hawk Wind, LLC	USA	Energy	81.50	-	G
Klamath Energy, LLC	USA	Energy	81.50	81.50	G
Klamath Generation, LLC	USA	Energy	81.50	81.50	G
Klondike Wind Power II, LLC	USA	Energy	81.50	81.50	G
Klondike Wind Power III, LLC ⁽⁶⁾	USA	Energy	61.13	61.13	G
Klondike Wind Power, LLC	USA	Energy	81.50	81.50	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Lakeview Cogeneration, LLC	USA	Energy	81.50	81.50	G
Leaning Juniper Wind Power II, LLC	USA	Energy	81.50	81.50	G
Leipsic Wind, LLC	USA	Energy	81.50	81.50	G
Lempster Wind, LLC	USA	Energy	81.50	81.50	G
Locust Ridge II, LLC	USA	Energy	81.50	81.50	G
Locust Ridge Wind Farms, LLC ⁽³⁾	USA	Energy	37.74	37.74	G
Loma Vista, LLC	USA	Energy	81.50	81.50	G
Manzana Power Services, Inc.	USA	Services	81.50	81.50	G
Manzana Wind, LLC	USA	Energy	81.50	81.50	G
Midland Wind, LLC	USA	Energy	81.50	81.50	G
Minndakota Wind, LLC ⁽⁶⁾	USA	Energy	61.13	61.13	G
Mohawk Solar, LLC	USA	Energy	81.50	-	G
Montague Wind Power Facility, LLC	USA	Energy	81.50	81.50	G
Moraine Wind II, LLC	USA	Energy	81.50	81.50	G
Moraine Wind, LLC	USA	Energy	81.50	81.50	G
Mount Pleasant Wind, LLC	USA	Energy	81.50	81.50	G
Mountain View Power Partners III, LLC	USA	Energy	81.50	81.50	G
New England Wind, LLC	USA	Energy	81.50	81.50	G
New Harvest Wind Project, LLC	USA	Energy	81.50	81.50	G
Northern Iowa WindPower II, LLC ⁽⁶⁾	USA	Energy	61.13	61.13	G
Otter Creek Wind Farm, LLC	USA	Energy	81.50	81.50	G
Pacific Harbor Capital, Inc.	USA	Other	81.50	81.50	G
Pacific Solar Investments, Inc.	USA	Energy	81.50	81.50	G
Pacific Wind Development, LLC	USA	Energy	81.50	81.50	G
Pebble Springs Wind, LLC	USA	Energy	81.50	81.50	G
Phoenix Wind Power, LLC	USA	Energy	81.50	81.50	G
PPM Colorado Wind Ventures, Inc.	USA	Holding	81.50	81.50	G
PPM Roaring Brook, LLC	USA	Energy	81.50	81.50	G
PPM Technical Services, Inc.	USA	Services	81.50	81.50	G
PPM Wind Energy, LLC	USA	Holding	81.50	81.50	G
Providence Heights Wind, LLC	USA	Energy	81.50	81.50	G
Rugby Wind, LLC	USA	Energy	81.50	81.50	G
San Luis Solar, LLC	USA	Energy	81.50	81.50	G
ScottishPower Financial Services, Inc.	USA	Holding	81.50	81.50	G
ScottishPower Group Holdings Company	USA	Holding	81.50	81.50	G
ScottishPower International Group Holdings Company	USA	Holding	81.50	81.50	-
Shiloh I Wind Project, LLC ⁽⁶⁾	USA	Energy	61.13	61.13	G
Solar Star Oregon II, LLC	USA	Energy	81.50	-	G
South Chestnut, LLC	USA	Energy	81.50	81.50	G
Start Point Wind Project, LLC	USA	Energy	81.50	81.50	G
Streator Cayuga Ridge Wind Power, LLC	USA	Energy	81.50	81.50	G
Streator Deer Run Wind Farmer, LLC	USA	Energy	81.50	81.50	G
Tatanka Ridge Wind. LLC (antes Buffalo Ridge III, LLC)	USA	Energy	81.50	81.50	G
Trimont Wind I, LLC ⁽⁶⁾	USA	Energy	61.13	61.13	G
Tule Wind, LLC	USA	Energy	81.50	81.50	G
Twin Buttes Wind, LLC	USA	Energy	81.50	61.13	G
Twin Buttes Wind II, LLC	USA	Energy	81.50	81.50	G
Vineyard Wind, LLC	USA	Energy	40.75	-	E
West Valley Leasing Company, LLC	USA	Gas	81.50	81.50	-
Winnebago Windpower II, LLC	USA	Energy	81.50	81.50	G
Winnebago Windpower, LLC	USA	Energy	81.50	81.50	G
Wyeast Solar, LLC	USA	Energy	81.50	-	G
Mexico					
BII NEE Stipa Energía Eólica, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Corporativo Iberdrola Renovables México, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Energías Renovables Venta III, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Eólica Dos Arbolitos S.A.P.I. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Norte, S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Iberdrola Renovables Centro, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Renovables del Bajío, S.A. de C.V.	Mexico	Energy	100.00	100.00	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Impulsora de Generación Fotovoltaica de México, S.A. de C.V. (antes Iberdrola Renovables del Irapuato, S.A. de C.V.)	Mexico	Energy	100.00	100.00	G
Infraestructuras de Generación Eléctrica, S.A. de C.V. (antes Iberdrola Renovables del Zacatecas, S.A. de C.V.)	Mexico	Energy	100.00	100.00	G
Iberdrola Renovables México, S.A. de C.V.	Mexico	Holding	100.00	100.00	G
Iberdrola Renovables Noroeste, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Renovables Norte, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Parque de Generación Renovable, S.A. de C.V.	Mexico	Energy	100.00	-	G
Parque energías Renovables de México, S.A. de C.V.	Mexico	Energy	100.00	-	G
Parque Industrial de Energía Renovables, S.A. de C.V.	Mexico	Energy	51.00	51.00	G
Parques Ecológicos de México, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Pier II Quecholac Felipe Ángeles, S.A. de C.V.	Mexico	Energy	51.00	51.00	G
Pier IV, S.A. de C.V.	Mexico	Energy	51.00	51.00	G
Proyecto Alternativa Energética de México, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Servicios de Operación Eoloeléctrica de México, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Brazil					
Arizona 1 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Caetité 1 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Caetité 2 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Caetité 3 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 1 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 2 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 3 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 4 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 5 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Calango 6 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Canoas Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Elektro Renováveis do Brasil, S.A.	Brazil	Energy	52.45	100.00	G
Energias Renováveis do Brasil, S.A.	Brazil	Energy	52.45	100.00	G
FE Participações, S.A.	Brazil	Energy	52.45	69.50	G
Força Eólica do Brasil 1, S.A.	Brazil	Energy	52.45	69.50	G
Força Eólica do Brasil 2, S.A.	Brazil	Energy	52.45	69.50	G
Força Eólica do Brasil, S.A.	Brazil	Energy	52.45	69.50	G
Lagoa I, S.A.	Brazil	Energy	52.45	69.50	G
Lagoa II, S.A.	Brazil	Energy	52.45	69.50	G
Mel 2 Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Santana 1, Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
Santana 2, Energia Renovável, S.A.	Brazil	Energy	52.45	69.50	G
ROW					
Baltic Eagle, GmbH.	Germany	Energy	100.00	-	G
Iberdrola Renovables Offshore Deutschland, GmbH.	Germany	Energy	100.00	100.00	G
Iberdrola Renovables Deutschland, GmbH.	Germany	Energy	100.00	100.00	G
ScottishPower Hazelwood, Pty. Ltd.	Australia	Holding	100.00	100.00	-
Iberdrola Renewables Bulgaria, EOOD.	Bulgaria	Energy	100.00	100.00	G
Iberdrola Renewables Canadá, Ltd.	Canada	Holding	100.00	100.00	G
Rokas Aeoliki Cyprus, Ltd.	Cyprus	Energy	74.82	74.82	G
Ailes Marine, S.A.S.	France	Energy	70.00	70.00	G
Iberdrola Renovables France, S.A.S.	France	Energy	100.00	100.00	G
C. Rokas Industrial Commercial Company, S.A.	Greece	Holding	99.76	99.76	G
PPC Renewables Rokas, S.A.	Greece	Energy	50.88	50.88	G
Rokas Aeoliki Peloponnisos II, S.A.	Greece	Energy	99.76	99.76	G
Rokas Aeoliki Thraki III, S.A.	Greece	Energy	99.61	99.61	G
Rokas Construction, S.A.	Greece	Energy	99.76	99.76	G
Rokas Hydroelectric, S.A.	Greece	Energy	99.76	99.76	G
Iberdrola Renovables Magyarorszag, KFT.	Hungary	Holding	100.00	75.00	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Iberdrola Renovables Italia, S.p.A.	Italy	Holding	100.00	100.00	G
Società Energie Rinnovabili 2, S.p.A. (2)	Italy	Energy	50.00	50.00	E
Energi Energia Eólica, S.A.	Portugal	Energy	100.00	100.00	G
Iberdrola Renewables Portugal, S.A.	Portugal	Holding	100.00	100.00	G
Parque Eólico da Serra do Alvao, S.A.	Portugal	Energy	100.00	100.00	G
Eólica Dobrogea One, S.R.L.	Romania	Energy	100.00	100.00	G
Iberdrola Renewables Romania, S.R.L.	Romania	Holding	100.00	100.00	G
Iberdrola Renewables South Africa (PTY), Ltd.	South Africa	Energy	100.00	-	G
Innovation					
Algaenergy, S.A. (5)	Spain	Energy	17.81	17.81	-
Arborea Intellbird, S.L. (2) (4)	Spain	Services	18.89	18.89	E
Atten2 Advanced Monitoring Technologies, S.L. (2)	Spain	Services	21.22	21.22	E
GDES Technology for services, S.L. (2)	Spain	Services	40.00	40.00	E
Iberdrola Servicios de Innovación, S.L.	Spain	Services	100.00	100.00	G
Inversiones Financieras Perseo, S.L.	Spain	Holding	100.00	100.00	G
Oceantec Energías Marinas, S.L. (2)	Spain	Energy	44.39	44.39	E
Iberdrola QSTP, LLC	Qatar	Energy	100.00	100.00	G
Network Business					
Spain					
Anselmo León Distribución, S.L. (1)	Spain	Energy	100.00	100.00	E
Anselmo León, S.A.U. (1)	Spain	Holding	100.00	100.00	E
Distribuidora de Energía Eléctrica Enrique García Serrano, S.L. (1)	Spain	Energy	100.00	100.00	E
Distribuidora Eléctrica Navasfrías, S.L. (1)	Spain	Energy	100.00	100.00	E
Eléctrica Conquense Distribución, S.A.	Spain	Energy	53.59	53.59	G
Eléctrica Conquense, S.A.	Spain	Holding	53.59	53.59	G
Electro-Distribuidora Castellano-Leonesa, S.A. (1)	Spain	Energy	100.00	100.00	E
Empresa Eléctrica del Cabriel, S.L. (1)	Spain	Energy	100.00	100.00	E
Herederos María Alonso Calzada – Venta de Baños, S.L. (1)	Spain	Energy	100.00	100.00	E
San Cipriano de Rueda Distribución, S.L. (1)	Spain	Energy	100.00	100.00	E
Iberdrola Distribución Eléctrica, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Infraestructuras y Servicios de Redes, S.A.	Spain	Services	100.00	100.00	G
Iberdrola Redes España, S.A.U.	Spain	Holding	100.00	100.00	G
Sociedad Distribuidora de Electricidad de Elorrio, S.A. (1)	Spain	Energy	97.95	97.95	E
United Kingdom					
Manweb Services, Ltd.	United Kingdom	Energy	100.00	100.00	G
NGET/SPT Upgrades, Ltd.	United Kingdom	Energy	50.00	50.00	E
Scottish Power Energy Networks Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	G
SP Distribution, Plc.	United Kingdom	Energy	100.00	100.00	G
SP Gas, Ltd.	United Kingdom	Inactive	100.00	100.00	G
SP Manweb, Plc.	United Kingdom	Energy	100.00	100.00	G
SP Network Connections, Ltd.	United Kingdom	General use connections	100.00	100.00	G
SP Power Systems, Ltd.	United Kingdom	Asset management services	100.00	100.00	G
SP Manweb, Plc.	United Kingdom	Energy	100.00	100.00	G
United States					

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Avangrid, Inc.	USA	Holding	81.50	81.50	G
Avangrid Enterprises, Inc.	USA	Holding	81.50	81.50	G
Avangrid Management Company, LLC	USA	Holding	81.50	81.50	G
Avangrid Service Company	USA	Services	81.50	81.50	G
Avangrid New York TransCo, LLC	USA	Holding	81.50	81.50	G
Avangrid Networks, Inc.	USA	Holding	81.50	81.50	G
Avangrid Solutions, Inc.	USA	Marketing	81.50	81.50	G
Berkshire Energy Resources	USA	Holding	81.50	81.50	G
Cayuga Energy, Inc.	USA	Energy	81.50	81.50	G
Central Maine Power Company	USA	Electricity	81.50	81.50	G
Chester SVC Partnership ⁽³⁾	USA	Electricity	40.75	40.75	G
CMP Group, Inc.	USA	Holding	81.50	81.50	G
CNE Energy Services Group, LLC	USA	Services	81.50	81.50	G
CNE Peaking, LLC	USA	Services	81.50	81.50	G
Connecticut Energy Corporation	USA	Holding	81.50	81.50	G
Connecticut Natural Gas Corporation	USA	Gas	81.50	81.50	G
CTG Resources, Inc.	USA	Holding	81.50	81.50	G
GCE Holding, LLC	USA	Holding	40.75	40.75	-
GenConn Devon, LLC	USA	Generation	40.75	40.75	-
GenConn Energy, LLC	USA	Generation	40.75	40.75	-
GenConn Middletown, LLC	USA	Generation	40.75	40.75	-
Maine Electric Power Company, Inc.	USA	Energy	63.80	63.80	G
Maine Natural Gas Corporation	USA	Gas	81.50	81.50	G
Maine Yankee Atomic Power Company ⁽⁵⁾	USA	Electricity	30.97	30.97	-
MaineCom Services	USA	Telecommunications	81.50	81.50	G
New York State Electric & Gas Corporation	USA	Electricity and Gas	81.50	81.50	G
NORVARCO	USA	Holding	81.50	81.50	G
Nth Power Technologies Fund I, LP. (5)	USA	Other	21.92	21.92	-
RGS Energy Group, Inc.	USA	Holding	81.50	81.50	G
Rochester Gas and Electric Corporation	USA	Electricity and Gas	81.50	81.50	G
South Glens Falls Energy, LLC ⁽⁵⁾	USA	Energy	69.28	69.28	-
TEN Transmission Company	USA	Gas	81.50	81.50	G
The Berkshire Gas Company	USA	Gas	81.50	81.50	G
The Southern Connecticut Gas Company (SCG)	USA	Gas	81.50	81.50	G
The Union Water Power Company	USA	Services	81.50	81.50	G
The United Illuminating Company	USA	Energy	81.50	81.50	G
Thermal Energies, Inc. ⁽⁵⁾	USA	Inactive	81.50	81.50	-
Total Peaking Services, LLC	USA	Services	81.50	81.50	G
UIL Distributed Resources	USA	Services	81.50	81.50	G
UIL Group, LLC	USA	Holding	81.50	81.50	G
UIL Holdings Corporation	USA	Holding	81.50	81.50	G
United Capital Investments	USA	Inactive	81.50	81.50	G
United Resources, Inc.	USA	Holding	81.50	81.50	G
WGP Acquisition, LLC ⁽⁵⁾	USA	Inactive	81.50	81.50	-
Xcelcom Inc.	USA	Inactive	81.50	81.50	G
Xcel Services, Inc. ⁽⁵⁾	USA	Inactive	81.50	81.50	-
Brazil					
Afluenta Geração de Energia Elétrica, S.A.	Brazil	Energy	54.57	42.76	G
Companhia de Eletricidade do Estado do Bahia, S.A.	Brazil	Energy	50.53	37.57	G
Companhia Energética de Pernambuco, S.A.	Brazil	Energy	47.02	34.96	G
Companhia Energetica do Rio Grande do Norte, S.A.	Brazil	Energy	47.98	35.67	G
EKTT 12-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Inactive	52.45	-	G
EKTT 13-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Inactive	52.45	-	G
EKTT 14-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Inactive	52.45	-	G
EKTT 15-A Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Inactive	52.45	-	G
Elektro Operação e Manutenção, Ltda.	Brazil	Services	52.45	99.99	G
Elektro Redes, S.A.	Brazil	Energy	52.28	99.68	G

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Lanmóvil Amara Celular da Bahia Ltd. (Lanmara) ⁽¹⁾	Brazil	Comercialización	65.00	65.00	-
Neoenergia Investimentos, S.A.	Brazil	Services	52.45	39.00	G
Neoenergia Servicios, Ltd.	Brazil	Services	52.45	39.00	G
Neoenergia, S.A.	Brazil	Holding	52.45	39.00	G
Potiguar Sul Transmissao de Energia, S.A.	Brazil	Energy	52.45	39.00	G
S.E. Narandiba, S.A.	Brazil	Energy	52.45	39.00	G
Garter Properties, Inc.	Islas Vírg.Britan.	Inactive	52.45	39.00	G
Other businesses					
Engineering					
Adicora Servicios de Ingeniería, S.L.U.	Spain	Engineering	100.00	100.00	G
Empresarios Agrupados Internacional, S.A. ⁽²⁾	Spain	Engineering	25.46	25.46	E
Empresarios Agrupados, A.I.E. (2)	Spain	Engineering	25.46	25.46	E
Ghesa Ingeniería y Tecnología, S.A. ⁽²⁾	Spain	Engineering	42.15	41.18	E
Iberdrola Ingeniería de Explotación, S.A.U.	Spain	Engineering	100.00	100.00	G
Iberdrola Ingeniería y Construcción, S.A.U.	Spain	Engineering	100.00	100.00	G
Ingeniería, Estudios y Construcciones, S.A.	Spain	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction Saudi Arabia, LLC	Saudi Arabia	Engineering	100.00	100.00	G
Iberdrola Construção e Serviços, Ltd.	Brazil	Engineering	100.00	100.00	G
Iberdrola Energy Projects Canada Corporation	Canada	Engineering	100.00	100.00	G
Iberdrola Ingeniería y Construcción Costa Rica, S.A.	Costa Rica	Engineering	100.00	100.00	G
Iberdrola Energy Project, Inc.	USA	Engineering	100.00	100.00	G
Iberinco Hellas Techniki kai Kataskevastiki EPE	Greece	Engineering	100.00	100.00	G
Iberdrola Ingegneria e Costruzioni Italia, SRL.	Italy	Engineering	100.00	100.00	G
Enermón S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Iberdrola Ingeniería y Construcción México, S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Iberservicios, S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction Poland, SP. Z.O.O.	Poland	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction Networks, Ltd.	United Kingdom	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction UK, Ltd.	United Kingdom	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction Ro, SRL.	Romania	Engineering	100.00	100.00	G
Iberdrola Inzhiniring i Stroiteistvo, LLC	Russia	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction South Africa	South Africa	Engineering	100.00	100.00	G
Iberdrola Ingeniería y Construcción. Venezuela, S.A.	Venezuela	Engineering	99.81	99.81	G
Real Property					
Arrendamiento de Viviendas Protegidas Siglo XXI, S.L.	Spain	Real Property	100.00	100.00	G
Camarate Golf, S.A. ⁽²⁾	Spain	Real Property	26.00	26.00	E
Fiuna, S.A.	Spain	Real Property	100.00	100.00	G
Iberdrola Inmobiliaria Patrimonio, S.A.U.	Spain	Real Property	100.00	100.00	G
Iberdrola Inmobiliaria, S.A.	Spain	Real Property	100.00	100.00	G
Promotora la Castellana de Burgos, S.A.	Spain	Real Property	100.00	100.00	G
Urbanizadora Marina de Cope, S.L.	Spain	Real Property	80.00	80.00	G
Iberdrola Inmobiliaria Real State Investment, EOOD	Bulgary	Real Property	100.00	100.00	G
Desarrollos Inmobiliarias Laguna del Mar, S.A. de C.V.	Mexico	Real Property	100.00	100.00	G
Promociones La Malinche, S.A. de C.V.	Mexico	Real Property	50.00	50.00	E

Company	Registered office	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2017	31.12.2016	
Other businesses					
Subgrupo Corporación IBV Participaciones Empresariales	Spain	Inactive	50.00	50.00	E
Siemens Gamesa Renewable Energy, S.A. (antes Gamesa Corporación Tecnológica, S.A.) ⁽⁴⁾	Spain	Holding	8.07	19.69	E
Iberdrola Inversiones 2010, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Participaciones, S.A.U.	Spain	Holding	100.00	100.00	G
Investigación y Desarrollo de Equipos Avanzados, S.A.U. ⁽¹⁾	Spain	Services	100.00	100.00	E
Corporation					
CarteraPark, S.A.U. ⁽⁵⁾	Spain	Inactive	100.00	100.00	-
Iberdrola Corporación, S.A. ⁽⁵⁾	Spain	Inactive	100.00	100.00	-
Iberdrola España, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Energía, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Financiación, S.A.U.	Spain	Financial	100.00	100.00	G
Iberdrola Finanzas, S.A.U.	Spain	Financial	100.00	100.00	G
Iberdrola International, B.V.	Holland	Financial	100.00	100.00	G
Iberdrola Finance Ireland, DAC	Ireland	Financial	100.00	100.00	G
Iberdrola Re, S.A.	Luxembourg	Insurance	100.00	100.00	G
Demon Internet, Ltd. (5)	United Kingdom	Inactive	100.00	100.00	-
Manweb Nominees, Ltd. (5)	United Kingdom	Inactive	100.00	100.00	-
Manweb Share Scheme Trustees, Ltd. (5)	United Kingdom	Inactive	100.00	100.00	-
Scottish Power UK Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	G
Scottish Power UK, Plc	United Kingdom	Holding	100.00	100.00	G
Scottish Power, Ltd.	United Kingdom	Holding	100.00	100.00	G
ScottishPower Investments, Ltd.	United Kingdom	Holding	100.00	100.00	G
ScottishPower Overseas Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	G
SPW Investments Ltd.	United Kingdom	Holding	100.00	100.00	G

JOINT OPERATIONS OF THE GROUP STRUCTURED THROUGH AN INDEPENDENT VEHICLE FOR THE YEARS 2016 AND 2017

Company	Registered office	Activity	Percentage of direct or indirect stake	
			31.12.2017	31.12.2016
<u>Deregulated Business</u>				
Asociación Nuclear Ascó – Vandellós, A.I.E.	Spain	Energy	14.59	14.59
Centrales Nucleares Almaraz – Trillo, A.I.E.	Spain	Energy	51.44	51.44
<u>Renewable Business</u>				
Infraestructuras de Medinaceli, S.L.	Spain	Energy	39.69	39.69
Sistema Eléctrico de Conexión Hueneja, S.L.	Spain	Energy	47.36	47.36
Colorado Green Holdings, LLC	USA	Energy	40.75	40.75
Colorado Wind Ventures, LLC	USA	Holding	40.75	40.75
<u>Other businesses</u>				
Torre Iberdrola, A.I.E.	Spain	Real Property	68.10	68.10

GROUP COMPANIES AT 31 DECEMBER 2015 WHICH HAVE LEFT THE PERIMETER IN 2017 AS A RESULT OF DISPOSAL, MERGER OR LIQUIDATION

Company	Registered office	Activity	Percentage of direct or indirect stake	
			31.12.2017	31.12.2016
<u>Deregulated Business</u>				
S.E.D.A. Cogeneración, S.A.	Spain	Energy	-	50.00
Scotash, Ltd.	United Kingdom	Other	-	50.00
ScottishPower (DCOL), Ltd.	United Kingdom	Inactive	-	100.00
Iberdrola Energie Romania, S.R.L.	Romania	Energy	-	100.00
<u>Renewable Business</u>				
Rokas Aeoliki Achladotopos, S.A.	Greece	Energy	-	99.63
Rokas Aeoliki Macedonia I, Ltd.	Greece	Energy	-	99.76
Rokas Aeoliki Macedonia II, Ltd.	Greece	Energy	-	99.76
Rokas Aeoliki Peloponnisos I, Ltd.	Greece	Energy	-	99.76
Rokas Aeoliki Vorios Ellas I, Ltd.	Greece	Energy	-	99.76
Rokas Aeoliki Vorios Ellas II, Ltd.	Greece	Energy	-	99.76
Rokas Aeolos, Ltd.	Greece	Energy	-	99.76
Rokas Energy, S.A.	Greece	Energy	-	99.72
Eólica Lucana, S.R.L.	Italy	Energy	-	100.00
Uppm-Rokas Cranes, S.I.A	Latvia	Energy	-	49.88
<u>Network Business</u>				
Bidelek Sareak, A.I.E.	Spain	Other	-	54.00
Iberdrola Distribución de Gas, S.A.U.	Spain	Inactive	-	100.00
Aflunte Geração de Energia Elétrica, S.A.	Brazil	Energy	-	42.76
Bahia PCH I, S.A.	Brazil	Energy	-	39.00
Capuava Energy, Ltda.	Brazil	Energy	-	39.00
Elektro Holding, S.A.	Brazil	Holding	-	100.00
Energyworks do Brasil, Ltda.	Brazil	Energy	-	39.00
Goiás Sul Geração de Energia, S.A.	Brazil	Energy	-	39.00
Rio PCH I, S.A.	Brazil	Energy	-	27.30
<u>Other businesses</u>				
Amara, S.A.U.	Spain	Services and goods	-	100.00
Keytech Sistemas Integrales, S.A.	Spain	Security systems	-	37.00
Amara Brasil, Ltd.	Brazil	Services	-	100.00
Ergytech Inc.	USA	Purchases agent	-	100.00
Amergy Mexicana, S.A. de C.V.	Mexico	Retailing	-	100.00
Amergy Servicios de México S.A. de C.V.	Mexico	Services	-	99.00
<u>Corporation</u>				
Iberdrola Corporate Services, Inc.	USA	Services	-	100.00
Iberdrola Portugal Electricidade e Gas, S.A.	Portugal	Energy	-	100.00
Clubcall Telephone Services, Ltd.	United Kingdom	Inactive	-	100.00
Clubline Services, Ltd.	United Kingdom	Inactive	-	100.00
Manweb Pensions Trustee, Ltd.	United Kingdom	Inactive	-	100.00

Company	Registered office	Activity	Percentage of direct or indirect stake	
			31.12.2017	31.12.2016
Teledata (Holdings), Ltd.	United Kingdom	Inactive	-	100.00
Teledata (Outsourcing), Ltd.	United Kingdom	Inactive	-	100.00
Teledata Scotland, Ltd.	United Kingdom	Inactive	-	100.00
The CallCentre Service Limited	United Kingdom	Other	-	100.00
The Information Service, Ltd.	United Kingdom	Inactive	-	100.00

- (1) Companies that are controlled by the Group but due to their immateriality have been integrated using the equity method. At 31 December 2017, the total aggregate assets value and the profit for the year corresponding to these companies amounts to EUR 29,357 thousand and EUR 4,446 thousand, respectively. On 31 December 2016, the aggregate total assets and results of the corresponding period of such companies amounted to EUR 87,244 thousand and EUR 6,587 thousand, respectively.
- (2) Companies considered joint ventures, accounted for the equity method, where shareholders agreements just grant the right to the net assets of the business.
- (3) Companies, where despite holding a percentage of voting rights less than 51%, the Group holds the control through shareholders agreements.
- (4) Companies where the Group has significant influence despite holding a percentage of voting rights less than 20%, since it is represented these companies' Board of Directors.
- (5) Companies where the Group holds the control, joint control or significant influence, but given its limited relevance, they have not been included in the consolidation scope.
- (6) The ownership percentage in these companies corresponds to voting rights.

MANAGEMENT REPORT 2017

1. BUSINESS PERFORMANCE

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

2. SIGNIFICANT EVENTS 2017

2.1. Income statement highlights

Net revenue in 2017 was EUR 2,510 million, of which EUR 395 million correspond to sales (mainly gas to its subsidiary Iberdrola Generación España S.A.U.), EUR 2,095 million to dividends received from group companies and associates, and EUR 20 million to finance income related to financing of subsidiaries.

Cost of sales during the year totalled EUR 389 million, mainly of gas supplied on a wholesale basis and subsequently delivered to Iberdrola Generación España, S.A.U.

Other operating income of EUR 221 million, operating expenses of EUR 180 million, net staff costs of EUR 149 million, depreciation and amortisation of EUR 59 million, and EUR 143 million in impairments and disposals of non-current assets brought operating income to EUR 1,811 million.

The financial result was a EUR 204 million loss, due to, mainly, debts with group companies and associates.

Profit before tax was EUR 1,607 million, and corporate income tax stood at EUR 8 million, leaving net profit at EUR 1,599 million, against EUR 1,411 million in 2016.

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

- The reduction of gas wholesale activity in the year 2017 compared to 2016 due to the reduction of prices resulted in a decrease in net revenue of EUR 226 million (EUR 386 million in 2017 compared to EUR 612 million in 2016) and a decrease in supplies of EUR 241 million (EUR 389 million compared to EUR 630 million in 2016), of which EUR 230 million correspond to gas supplies (EUR 379 million in 2017 compared to EUR 609 million in 2016).
- On the other hand, the contributions of dividends from subsidiaries during 2017 amounted to EUR 2,095 million compared to EUR 1,768 million in 2016. The breakdown of dividends received by group companies and associates is as follows:

Thousand euros	2017	2016
Iberdrola España, S.A.U.	1,443,090	1,330,784
Avangrid, Inc. ⁽¹⁾	392,696	395,957
Iberdrola Energia, S.A.U.	240,577	-
Iberdrola Financiación, S.A.	-	36,001
Iberdrola International, B.V.	8,000	5,000
Hidro I, S.A.U.	7,152	-
Amara, S.A.	3,000	-
Total	2,094,515	1,767,742

(1) USD 435,862 million in 2017 and 2016.

- The favourable judgment regarding the financing of the Social tariff which resulted in the registration of EUR 70 million in the heading "Taxes" in the Income Statement 2016 explains the increase in "Other operating expenses".

2.2 Balance

On 31 December 2016, IBERDROLA presents a negative working capital of EUR 5,709 million, which will be covered by funds generated from its business and dividends from its subsidiaries.

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

As discussed in Note 16, the Company's average payment period for paying suppliers in 2017 was 20.8 days. This period represent a greater turnaround in the payment in comparison to the maximum payment period legally foreseen.

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

3.1 Risk Management System

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

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

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

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

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

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

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

- a) The ongoing identification of significant risks and threats based on their possible impact on key management objectives and the accounts (including contingent liabilities and other off-balance sheet risks).
- b) The analysis of such risks, both at each corporate business or function and taking into account their combined effect on the Group as a whole.
- c) The establishment of a structure of policies, guidelines, and limits, as well as of the corresponding mechanisms for the approval and implementation thereof, which effectively contribute to risk management being performed in accordance with the Company's risk appetite.
- d) The measurement and monitoring of risks, by following consistent procedures and homogeneous standards that are common to the Group as a whole.
- e) The analysis of risks associated with new investments, as an essential element of decision-making based upon profitability/risk.
- f) The maintenance of a system for monitoring of compliance with policies, guidelines, and limits, by means of appropriate procedures and systems, including the contingency plans needed to mitigate the impact of the materialisation of risks.

- g) The periodic monitoring and control of profit and loss account risks in order to control the volatility of the annual income of the Group.
- h) The ongoing evaluation of the suitability and efficiency of applying the system and the best practices and recommendations in the area of risks for eventual inclusion thereof in the model.
- i) The audit of the system by the Internal Audit Division.

In addition, the *General Risk Control and Management Policy* is further developed and supplemented by the corporate risk policies and the specific risk policies established in connection with certain businesses and/or companies of the Group, which are listed below and are also subject to approval by the Company's Board of Directors.

Structure of the Group's risk policies:

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

The *General Risk Control and Management Policy*, as well as a *Summary of the Corporate Risk Policies* and a *Summary of the Specific Risk Policies* for the various Group businesses, are available on the corporate website (www.iberdrola.com).

In order to align the risk impact with the established risk appetite, the Executive Committee of the Board of Directors, acting at the proposal of the business or corporate divisions involved and upon a prior report from the Group's Risk Committee, annually reviews and approves specific guidelines regarding the Group's risk limits.

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

The companies and corporate functions of the Group are responsible for implementing, within their areas of activity, the control systems required for compliance with the *General Risk Control and Management Policy* and with the limits thereunder.

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

- a) **Corporate Governance Risks:** the Company assumes the need to safeguard the interests of the Company and the strategy of sustained maximisation of the economic value of the Company and its long-term success, in accordance with the Group's corporate interest, culture, and corporate vision, taking into account the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders and communities and regions in which the Company and its employees act. A fundamental requirement for the foregoing is compliance with the Company's Corporate governance system, comprising the By-Laws, the Corporate policies, the internal corporate governance rules and the other internal codes and procedures approved by the competent decision-making bodies of the Company and inspired by the good governance recommendations generally recognised in international markets.
- b) **Market Risks:** defined as the exposure of the Group's results and equity to changes in market prices and variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO2 emission allowances, other fuel, etc.), prices of financial assets, and others.
- c) **Credit Risks:** defined as the possibility that a counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties can be final customers, counterparties in financial or energy markets, partners, suppliers, or contractors.
- d) **Business Risks:** defined as the uncertainty regarding the performance of key variables inherent to the business, such as the characteristics of demand, weather conditions, the strategies of different players, and others.
- e) **Political and Regulatory Risks:** defined as those arising from regulatory changes made by the various regulators, such as changes in compensation of regulated activities or in the required conditions of supply, or environmental or tax regulations, including risks related to political changes that could affect the legal security and to the legal framework applicable to the Group's businesses in each jurisdiction, the nationalization or expropriation of assets, the operating licenses cancelation and the previous end of the contracts of the administration.

- f) Operational Risks: defined as those related to direct or indirect economic losses resulting from inadequate internal procedures, technical failures, human error, or as a consequence of certain external events, including the economic, social, environmental, and reputational impact, as well as legal and fraud risks. These risks encompassed, among others, those related to technology information and the cybersecurity, such as the risk obsolescence technology.
- g) Reputational Risks: potential negative impact on the value of the Company resulting from the conduct of the Company that is below the expectations created among various stakeholders: shareholders, customers, media, analysts, Government, employees, and society in general. Due to its universal and dynamic nature, the comprehensive risk system allows for the consideration of new risks that may affect the Group following changes in its operating environment or revisions of objectives and strategies, as well as adjustments resulting from ongoing monitoring, verification, review and supervision activities.

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

The Audit and Risk Supervision Committee of the Board of Directors periodically monitors the evolution of the Company's risks:

- It reviews the Group's risk quarterly reports, which include monitoring compliance with risk limits and indicators and updated key risk maps, submitted by the Group's director of corporate risks.
- This helps to prepare, together with the appearances of the risk director, the risk report for the Board of Directors at least semi-annually.

For further details, see the section *Control systems and risk management* of the *Corporate Governance Report 2017*.

4. ENVIRONMENTAL ISSUES

IBERDROLA has incorporated the Sustainable Development Goals (SDG), defined by the United Nations, to its business strategy and its Sustainability Policy. These are global ambitious goals. They are a call for action for all countries and organisations and institutions to face the main environmental, social and economic challenges threatening the future of the planet. Companies play a key role in attaining the goals sets by these 17 ODS.

In line with its activity, IBERDROLA focuses its efforts on an affordable and non-contaminating energy supply (goal 7) and action for the climate (goal 13). In addition, the Group makes a direct contribution to guarantee clean water and sanitation (goal 6), has increased its investment in R&D&i activities (goal 9), promotes the respect for life on land (goal 15) and works to establish partnerships for the goals (goal 17). The company also has an indirect input into all the other Sustainable Development Goals. IBERDROLA's contribution to the social and economic development of the communities in which it operates and its protection of the environment is implemented through its sustainable energy business model.

IBERDROLA is dedicated to creating sustainable value for all its stakeholders and for the communities in which it operates. Its commitment to sustainability has made the Company a reference in ratings such as the Dow Jones Sustainability Index, the FTSE4Good and the Climate Disclosure Leadership Index. Sustainability, efficiency and competitiveness are the factors that have made IBERDROLA the number one electricity utility in the 2016 Dow Jones Sustainability index and the only energy company present in the 17 editions so far.

The Group has transformed its business model to make it more sustainable, and directed its development to satisfying the needs of the present without compromising the capacity of future generations to meet their own requirements. The company aims to continue spearheading this transformation by offering ever more competitive energy products, with the lowest possible environmental impact so it can guarantee its customers a reliable and quality supply. In addition, IBERDROLA contributes to the economic and social development of the communities where it operates through its business activities and the exercise of its social responsibility, with measures aimed at promoting education and culture, and protecting vulnerable groups.

The "Environmental Dimension" section of IBERDROLA's Sustainability Report contains an in-depth explanation of the specific management focus of IBERDROLA's environmental dimension.

5. RESEARCH AND DEVELOPMENT ACTIVITIES

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

Thanks to a constant commitment to innovation, Iberdrola is now Spain's most innovative utility and the third most innovative in Europe in the European Commission's classification. In 2016, IBERDROLA was the fourth utility in R+D+i investment.

Financial resources are mainly allocated to projects related to smart grids, clean generation, offshore wind power, digitisation, new technologies and business models.

IBERDROLA's R+D+i are based on three pillars:

- Efficiency, addressed towards a continuous streamlining of our operations, managing the lifespans of facilities and equipment, cutting operation and maintenance costs, and reducing our environmental footprint.
- New products and services in response to customers' needs in an increasingly global and competitive market using digitalisation, automation and tailored solutions.
- Disruptive business models and technology that assist us in undertaking the energy challenges ahead. IBERDROLA, through the Start-ups, the international corporate venture capital programme, invests in this field to guarantee the sustainability of the energy model.

The company also implements other programmes to further R&D&i through partnerships with its partners, for example, the Innovation with suppliers programme, which pursues the following main objectives:

- Improve access to financing mechanisms.
- Promote joint ventures (spin off with vendors).

- Promote innovative buying for SMEs.

Thanks to our human and economic resources allocated to innovation – EUR 24,387 thousand at IBERDROLA and EUR 246,392 thousand at Group level – we are now at the forefront of development of new products, services and business models that are transforming the energy sector.

6. TREASURY SHARES AND CAPITAL REDUCTION

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

- Acquisitions may be made directly by IBERDROLA or indirectly through their subsidiary companies. The subsidiary companies which develop regulated activities as prescribed in the electric sector and hydrocarbon laws are excluded.
- Acquisitions may be made up to the maximum legal threshold.
- Such acquisitions may not be made at a price higher than the market price or lower than the nominal value of the share.
- This authorization is granted for a maximum period of five years since the adoption of the agreement.

Movements in treasury shares of IBERDROLA during 2017 were as follow:

Treasury Stock	No. of shares	Nominal (Thousand euros)	Cost treasury shares (thousand euros)	Average share price (euros)	Total shares	% of capital
Balance at 01.01.2016	67,636,166	50,727	405,457	5.99	6,336,870,000	1.07
Additions	245,721,539	184,292	1,450,724	5.90		
Share capital reduction	(157,197,000)	(117,898)	(946,566)	6.02		
Disposals	(6,440,532)	(4,830)	(38,687)	6.01		
Iberdrola Flexible Dividend(1)	1,504,604	1,128	–	–		
Iberdrola Flexible Dividend(2)	–	–	(1,992)	–		
Balance at 31.12.2016	151,224,777	113,419	868,936	5.75	6,362,079,000	2.38
Additions	154,508,438	115,881	1,002,731	6.49		
Share capital reduction	(219,990,000)	(164,993)	(1,280,176)	5.82		
Disposals	(11,929,704)	(8,947)	(74,937)	6.28		
Iberdrola Flexible Dividend(1)	1,896,638	1,422	–	–		
Iberdrola Flexible Dividend(2)	–	–	(9,379)	–		
Balance at 31.12.2017	75,710,149	56,782	507,175	6.70	6,317,515,000	1.20

(1) Shares received

(2) Free of charges allocation rights disposed.

7. SUBSEQUENT EVENTS

Subsequent events to year end are described in Note 25 of the Financial statements.

Annual corporate governance report

**ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED COMPANIES**

Data identifying issuer

Ending date of reference financial year	31/12/2017
Tax Identification Code	A-48010615
Registered name	IBERDROLA, S.A.
Registered address	Plaza Euskadi número 5, Bilbao 48009 Bizkaia España

A. OWNERSHIP STRUCTURE

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

Date of last change	Share capital (€)	Number of shares	Number of voting rights
21/07/2017	4,738,136,250	6,317,515,000	6,317,515,000

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

Yes ☐ No ☒

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

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

Individual or company name of the shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
QATAR INVESTMENT AUTHORITY	-	QATAR HOLDING LUXEMBOURG II, S.À.R.L.	541,378,280	8.57
NORGES BANK	202,762,459	-	-	3.21
Capital Research and Management Company (CRMC)		CRMC GROUP	195,735,221	3.10
BLACKROCK, INC.	-	BLACKROCK GROUP	191,563,600	3.03

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

Individual or company name of the shareholder	Date of transaction	Description of transaction
KUTXABANK, S.A.	12/04/2017	Decrease to below 3% of share capital
NORGES BANK	10/07/2017	Decrease to below 3% of share capital
NORGES BANK	27/07/2017	Increase to above 3% of share capital
CAPITAL RESEARCH AND MANAGEMENT COMPANY	23/03/2017	Increase to above 3% of share capital
CAPITAL RESEARCH AND MANAGEMENT COMPANY	16/05/2017	Decrease to below 3% of share capital

CAPITAL RESEARCH AND MANAGEMENT COMPANY	07/06/2017	Increase to above 3% of share capital
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A.3. Complete the following tables about members of the board of directors of the company who have voting rights attaching to shares of the company:

Individual or company name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	5,433,431	-	-	0.14
	-	ROYAL PARK 2000, S.L.	3,558,967	
MR IÑIGO VÍCTOR DE ORIOL IBARRA	1,225,083	-	-	0.02
MS INÉS MACHO STADLER	64,485	-	-	0.00
MR BRAULIO MEDEL CÁMARA	29,037	-	-	0.00
MS SAMANTHA BARBER	1,848	-	-	0.00
MS MARÍA HELENA ANTOLÍN RAYBAUD	3,247	-	-	0.00
MR ÁNGEL JESÚS ACEBES PANIAGUA	6,377	-	-	0.00
MS GEORGINA KESSEL MARTÍNEZ	4,277	-	-	0.00
MS DENISE MARY HOLT	541	-	-	0.00
MR JOSÉ WALFREDO FERNÁNDEZ	0	-	-	0.00
MR MANUEL MOREU MUNAIZ	23,695	-	-	0.00
	-	MS MARÍA GAMAZO TRUEBA	23,695	
MR XABIER SAGREDO ORMAZA	0	-	-	0.00
MR JUAN MANUEL GONZÁLEZ SERNA	42,451	GRUPO SIRO CORPORATIVO, S.L.	374,507	0.01
MR FRANCISCO MARTÍNEZ	303,423	-	-	0.00

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

Individual or company name of director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	2,921,192	MR JOSÉ IGNACIO SÁNCHEZ GALÁN	2,921,192	2,921,192	0.05
MR FRANCISCO MARTÍNEZ CÓRCOLES	541,862	MR FRANCISCO MARTÍNEZ CÓRCOLES	541,862	541,862	0.00

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

Related individual or company name	Type of relationship	Brief description

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

Related individual or company name	Type of relationship	Brief description

A.6. State whether any private (paracorporate) shareholders' agreements affecting the company pursuant to the provisions of sections 530 and 531 of the Companies Act (Ley de Sociedades de Capital) have been reported to the company. If so, briefly describe them and list the shareholders bound by the agreement:

Yes ☐ No ☒

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

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

Yes ☐ No ☒

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

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

Not applicable.

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

Yes ☐ No ☒

Individual or company name
Comments

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

As of year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
75,710,149	0	1.198

(*) Through:

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

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

Explain any significant changes
<p>The Company sent to the CNMV three updates to its treasury share position in 2017 as a result of a change in the number of voting rights arising from corporate transactions:</p> <ul style="list-style-type: none"> - notices of direct acquisitions of a total of 21,605,738 shares (0.334%) were provided on 30 January, coinciding with the increase in capital resulting from the "Iberdrola Flexible Dividend" programme. - notices of direct acquisitions of a total of 52,670,619 shares (0.844%) were provided on 1 June, coinciding with the reduction in capital; and - notices of direct acquisitions of a total of 18,424,109 shares (0.292%) were provided on 31 August, coinciding with the increase in capital resulting from the "Iberdrola Flexible Dividend" programme. <p>During financial year 2017, the Company also provided a notice arising from consecutive direct</p>

acquisitions of own shares due to said acquisitions exceeding 1% of voting rights since the preceding notice:

- notices of direct acquisitions of a total of 69,572,560 shares (1.094%) were provided on 4 January 2017.

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

The shareholders acting at the General Shareholders' Meeting held on 28 March 2014 resolved to expressly authorise the Board of Directors, with the power of substitution, pursuant to the Companies Act (*Ley de Sociedades de Capital*), to carry out the derivative acquisition of the shares of Iberdrola on the following terms:

- a) Purchases may be made by Iberdrola directly, or indirectly through its subsidiaries. Subsidiaries carrying out regulated activities are excluded pursuant to the provisions of the Electricity Industry Act (*Ley del Sector Eléctrico*) and the Hydrocarbons Act (*Ley de Hidrocarburos*).
- b) Purchases shall be made by means of a purchase and sale agreement, a swap arrangement, or any other transaction permitted by law.
- c) Purchases may be made up to the maximum sum permitted by law (i.e. 10% of the share capital).
- d) Purchases may not be made at a higher price than that quoted on the Stock Exchange or at a price lower than the share's nominal value.
- e) The authorisation was granted for a period not to exceed five years as from the approval of the resolution.
- f) The acquiring company shall establish a restricted reserve in shareholders' equity equal to the amount of the shares of the controlling company recorded under assets. Such reserve shall be maintained for so long as the shares are not transferred or retired, in compliance with the provisions of the Companies Act.

The shares, if any, purchased as a result of the aforementioned authorisation could be used for either transfer or retirement or could be applied to the remuneration systems provided for in the Companies Act; added to the foregoing alternatives was the possible development of programmes fostering the acquisition of interests in the Company, such as, for example, dividend reinvestment plans, loyalty bonds or similar instruments.

Furthermore, at the General Shareholders' Meeting held on 8 April 2016, the shareholders resolved to authorise the Board of Directors to increase share capital upon the terms and within the limits set forth in section 297.1.b) of the Companies Act, with the power to exclude preemptive rights, limited to a maximum nominal amount of 20% of the share capital.

A.9.bis Estimated free-float:

	%
Estimated free-float:	80.72

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

Yes ☒ No ☐

Description of restrictions

Those having an interest equal to or greater than 3% of the capital or voting rights of two or more companies that have the status of Principal Operator in certain markets or sectors (including the generation and supply of electricity) may not exercise rights in excess of such percentage in more than one entity.

Article 29.2 of the By-Laws provides that no shareholder may cast a number of votes greater than those corresponding to shares representing 10% of the share capital.

According to article 28, a shareholder may not exercise their right to vote at the General Shareholders' Meeting if it deals with a resolution intended to: (a) relieve the shareholder of an obligation or grant the shareholder a right; (b) provide the shareholder with any kind of financial assistance, including the provision of guarantees in favour thereof; or (c) release the shareholder, if a director, from obligations arising from the duty of loyalty as provided by law.

Article 50 of the By-Laws provides that the by-law restrictions against the exercise of voting rights by shareholders affected by conflicts established in article 28 above and the limitation on the maximum number of votes that may be cast by a single shareholder contained in sections 2 and 4 of article 29 above shall be deprived of effect upon the occurrence of certain circumstances in the case of a takeover bid.

Furthermore, section 527 of the Companies Act provides that at listed companies (*sociedades anónimas cotizadas*), the by-law provisions that directly or indirectly set, as a general rule, the maximum number of votes that may be cast by the same shareholder, by the companies belonging to the same group or by those acting in concert with the foregoing shall be of no effect when, following a takeover bid, the bidder has reached a percentage that is equal to or greater than 70% of the voting share capital, unless such bidder is not subject to equivalent breakthrough measures or has not adopted them.

Pursuant to U.S. law, due to the business carried out by Avangrid, Inc. (a company belonging to the Iberdrola group) in that country, the acquisition of an interest giving rise to the holding of 10% or more of the share capital of Iberdrola will be subject to the prior approval of certain U.S. regulatory authorities.

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

Yes ☐ No ☒

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

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

Yes ☐ No ☒

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

B. GENERAL SHAREHOLDERS' MEETING

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

Yes ☒ No ☐

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

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

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

Yes ☒ No ☐

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

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

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

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

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

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

Attendance data					
Date of general shareholders meeting	% of shareholders present in person	% of shareholders represented by proxy	% absentee voting		Total
			Electronic voting	Other	
08/04/2016	8.00	69.68	0.19	0.04	77.91
31/03/2017	4.33	71.92	0.82	0.13	77.20

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

Yes ☐ No ☒

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

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

www.iberdrola.com > Corporate Governance.

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

C. STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1. Board of directors

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

Maximum number of directors	14
Minimum number of directors	9

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

Individual or company name of the director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	-	EXECUTIVE	CHAIRMAN/CEO	21/05/2001	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR IÑIGO VÍCTOR DE ORIOI IBARRA	-	OTHER EXTERNAL	DIRECTOR	26/04/2006	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS INÉS MACHO STADLER	-	INDEPENDENT	DIRECTOR	07/06/2006	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR BRAULIO MEDEL CÁMARA	-	INDEPENDENT	DIRECTOR	07/06/2006	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS SAMANTHA BARBER	-	INDEPENDENT	DIRECTOR	31/07/2008	08/04/2016	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS MARÍA HELENA ANTOLÍN RAYBAUD	-	INDEPENDENT	DIRECTOR	26/03/2010	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR ÁNGEL JESÚS ACEBES PANIAGUA	-	INDEPENDENT	DIRECTOR	24/04/2012	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS GEORGINA KESSEL MARTÍNEZ	-	INDEPENDENT	DIRECTOR	23/04/2013	28/03/2014	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MS DENISE MARY HOLT	-	INDEPENDENT	DIRECTOR	24/06/2014	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR JOSÉ WOLFREDO FERNÁNDEZ	-	INDEPENDENT	DIRECTOR	17/02/2015	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR MANUEL MOREU MUNAIZ	-	INDEPENDENT	DIRECTOR	17/02/2015	27/03/2015	GENERAL SHAREHOLDERS' MEETING RESOLUTION

MR XABIER SAGREDO ORMAZA	-	OTHER EXTERNAL	DIRECTOR	08/04/2016	08/04/2016	RESOLUTION GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR JUAN MANUEL GONZÁLEZ SERNA	-	INDEPENDENT	DIRECTOR	31/03/2017	31/03/2017	RESOLUTION GENERAL SHAREHOLDERS' MEETING RESOLUTION
MR FRANCISCO MARTÍNEZ CÓRCOLES	-	EXECUTIVE	DIRECTOR	31/03/2017	31/03/2017	RESOLUTION GENERAL SHAREHOLDERS' MEETING RESOLUTION

Total number of directors	14
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State the vacancies on the board of directors during the reporting period:

Individual or company name of director	Class of director at time of vacancy	Date of vacancy
MR SANTIAGO MARTÍNEZ LAGE	Independent director	31/03/2017
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	Other external	31/03/2017

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

EXECUTIVE DIRECTORS

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

Total number of executive directors	2
Total % of the board	14.29

EXTERNAL PROPRIETARY DIRECTORS

Individual or company name of director	Individual or company name of the significant shareholder represented by the director or that has proposed the director's appointment

Total number of proprietary directors	0
Total % of the board	

EXTERNAL INDEPENDENT DIRECTORS

Individual or company name of director	Profile
MS INÉS MACHO STADLER	<p>Bilbao, Spain, 1959</p> <p>She is a professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona and a professor of the Barcelona Graduate School of Economics. She is also a member of the Council of the French Economic Observatory (<i>Observatoire Français des Conjonctures Économiques</i>) (OFCE), and honorary member of the European Economic Association and of the Spanish Economic Association (<i>Asociación Española de Economía</i>).</p> <p>Academic training</p> <p>Degree in Economics from Universidad del País Vasco, Master in Economics from l'École des Hautes Études en Sciences Sociales, and Doctor in Economics (Ph.D.) from the same academic institution and from l'École Nationale de la Statistique et de l'Administration Économique (ENSAE) (Paris, France).</p> <p>Noteworthy experience in the energy and industrial economy sector</p> <p>She has been a member of the International Scientific Advisory Committee of the Basque Centre for Climate Change (bc3) and has served as chair of the Scientific Committee of the 2011 Conference of the Spanish Association for Energy Economics (<i>Asociación Española para la Economía Energética</i>).</p> <p>Noteworthy experience in other industries</p> <p>She has been president of the Spanish Economic Association, coordinator of the National Agency for Quality Evaluation and Accreditation (<i>Agencia Nacional de Evaluación y Prospectiva</i>), and representative at the European Science Foundation, as well as a member-elect of the Council of the European Economic Association and a member of the Executive Committee of the European Association for Research in Industrial Economics. She has been a member of the Advisory Board of the Research Service of Caja de Ahorros y Pensiones de Barcelona, "la Caixa".</p> <p>She has taught at universities in Germany, Belgium, Brazil, Denmark, France, Portugal, and Spain.</p>
MR BRAULIO MEDEL CÁMARA	<p>Marchena, Spain, 1947</p> <p>Braulio is chair of Fundación Bancaria Unicaja and of Hidralia, S.A., and vice-chair of Confederación Española de Cajas de Ahorros (CECA). He is an independent director of the listed company Acerinox, S.A. and a director of Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A., as well as a Professor of Public Finance at Universidad de Málaga.</p> <p>Academic training</p> <p>Degree in Economics and Business Administration from Universidad Complutense de Madrid and Doctorate in Economics and Business Administration from Universidad de Málaga.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been a member of the board of Compañía Sevillana de Electricidad, S.A., Retevisión, S.A. and Abertis Infraestructuras, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been executive chair of Unicaja Banco, S.A. and chair of Ahorro Corporación, S.A., of Federación de Cajas de Ahorros de Andalucía and of CECA, and a member of the board of Centros Comerciales Carrefour, S.A., and has been a member of the governance bodies of the World Savings and</p>

	<p>Retail Banking Institute and of the European Savings and Retail Banking Group, of which he was vice-chair.</p> <p>He has also served as Deputy Minister for Economy and Finance of the Autonomous Government of Andalusia and as chair of Consejo Andaluz de Colegios de Economistas. He has also been a member of the board of trustees of the following foundations: Tres Culturas del Mediterráneo, El Legado Andalusi, Doñana 21 and CIEDES (<i>Centro de Investigaciones Estratégicas y Desarrollo Económico y Social</i>).</p>
MS SAMANTHA BARBER	<p>Dunfermline, Scotland, 1969</p> <p>She is chair of Scottish Ensemble, vice-chair of Scotland's 2020 Climate Group, and member of the Board of Scottish Water and its Remuneration Committee, of the GlobalScot Network and of the Advisory Board for the Imperial College London MBA. She also performs advisory and business coaching work.</p> <p>Academic training</p> <p>Bachelor of Arts in Applied Foreign Languages and European Politics from the University of Northumbria, Newcastle (England, United Kingdom) and Post-Graduate degree in EU Law from the University of Nancy (France).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a member of the Advisory Council of Scottish Power following the integration of the Scottish company into the Iberdrola group.</p> <p>Noteworthy experience in other industries</p> <p>She has been a consultant within the European Parliament, where she provided support to the Economic and Monetary Affairs Committee, a board member of Business for Scotland, and the chief executive of Scottish Business in the Community.</p> <p>She has also been a member of the Advisory Board of Breakthrough Breast Cancer and of the Board of Directors of Right Track Scotland, an organisation dedicated to advancing educational, training, and employment opportunities for youths at risk of social exclusion.</p> <p>She was chosen as one of the "Top 100 Women to Watch" according to the FTSE list and Cranfield University, and was a finalist and earned second place in the annual Director of the Year Awards 2012 of IoD Scotland NED.</p>
MS MARÍA HELENA ANTOLÍN RAYBAUD	<p>Toulon, France, 1966</p> <p>She is vice-chair of the Board of Directors and member of the Management Committee of Grupo Antolín Irausa, S.A. She is also president of the Spanish Association of Automotive Equipment and Component Manufacturers (<i>Asociación Española de Fabricantes de Equipos y Componentes para Automoción</i>) (Sernauto), vice president of Excellence in Management Club (<i>Club de Excelencia en la Gestión</i>), and a board member of France Foreign Trade (<i>Comercio Exterior de Francia</i>), Spain section.</p> <p>Academic training</p> <p>Degree in International Business and Business Administration from Eckerd College, St. Petersburg, Florida (United States of America), and a Master of Business Administration from Anglia University, Cambridge (United Kingdom) and from Escuela Politécnica de Valencia (Spain).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has served as an independent director of Iberdrola Renovables, S.A. and a member of its Related-Party Transactions Committee.</p> <p>She has been in charge of the corporate Industrial and Strategy Divisions of Grupo Antolín Irausa, S.A., where she has also been a director of Human Resources and the head of Total Quality for the Group.</p>

<p>MR ÁNGEL JESÚS ACEBES PANIAGUA</p>	<p>Ávila, Spain, 1958</p> <p>He is chairman and founding partner of Grupo MA Abogados Estudio Jurídico, S.L., as well as sole director and professional partner of Doble A Estudios y Análisis, S.L.P. He is also a member of the Advisory Board of Wolters Kluwer España, and a trustee of Fundación para el Análisis y Estudios Sociales (FAES) and of Fundación Universitaria de Ávila, UCAV.</p> <p>Academic training</p> <p>Degree in Law from Universidad de Salamanca.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>As a lawyer, he has advised companies in the energy and technological/industrial sectors, among others. He also has significant knowledge of the regulatory area due to his work as a member of the Council of Ministers of the Government of Spain, a senator, and a national deputy.</p> <p>Noteworthy experience in other industries</p> <p>He has served on the board of Caja Madrid Cibeles, S.A., which manages the investments of Grupo Caja Madrid in other companies with activities in the financial and insurance sectors (like Mapfre Internacional, S.A.) as well as the retail banking sector outside of Spain. After the public listing of Bankia, S.A., he was a member of the board of Banco Financiero y de Ahorros, S.A. ("BFA"), chairing its Audit and Compliance Committee.</p> <p>In the institutional arena, he has been Minister for Public Administrations, Minister of Justice and Minister of the Interior of the Spanish Government.</p>
<p>MS GEORGINA KESSEL MARTÍNEZ</p>	<p>Mexico City, Mexico, 1950</p> <p>She is an independent director and chair of the Audit Committee of Grupo Financiero Scotiabank Inverlat, and a partner of Spectron E&I, as well as a member of the Business Board of Universidad de las Américas Puebla (UDLAP).</p> <p>Academic training</p> <p>Holder of a degree in Economics from Instituto Tecnológico Autónomo de México and of a Master's and Doctor's degree in Economics from Columbia University (New York).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been chair of the Energy Regulatory Commission (<i>Comisión Reguladora de Energía</i>) and Energy Secretary of the Government of Mexico.</p> <p>She has also been chair of the Board of Directors of Pemex (Petróleos Mexicanos) and of the Board of Directors of the Federal Electricity Commission (<i>Comisión Federal de Electricidad</i>) (CFE).</p> <p>She has participated in the Energy Council of the World Economic Forum and in the United Nations Organization Secretary General's advisory group (Sustainable Energy for All).</p> <p>Noteworthy experience in other industries</p> <p>She has been an adviser to the chair of the Federal Competition Commission (<i>Comisión Federal de Competencia</i>), head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit (<i>Unidad de Inversiones y Desincorporación de Entidades Paraestatales</i>) of the Office of the Secretary of Finance and Public Credit of Mexico, general manager of the National Mint of Mexico (<i>Casa de Moneda de México</i>), member of the boards of Nacional Financiera (Nafinsa) and of Banco Nacional de Comercio Exterior (Bancomext), and general manager of Banco Nacional de Obras y Servicios Públicos.</p> <p>In the academic field, she has been a professor in the Economics Department of Instituto Tecnológico Autónomo de México, deputy chair of the</p>

	<p>course towards a Degree in Economics, and chair of the Alumni Association. She was also holder of the Quintana Chair for Research in International Trade and is the author of many papers and specialised articles.</p>
MS DENISE MARY HOLT	<p>Vienna, Austria, 1949</p> <p>She is an independent director and member of the Risk Committee of HSBC Bank plc., chair and independent director of M&S Financial Services Ltd., independent director and member of the Quality and Safety and Compensation Committees of the Board of Directors of Nuffield Health, as well as a member of the Board of the University of Sussex.</p> <p>Academic training</p> <p>Degrees in Spanish Philology, French Philology, and Political Sciences from the University of Bristol and Doctor of Laws from the same university (England, United Kingdom).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been an independent director of Scottish Power Renewable Energy Ltd. and of Scottish Power Energy Networks Holdings Ltd.</p> <p>Noteworthy experience in other industries</p> <p>In her diplomatic career, she has been first secretary of the Embassy of the United Kingdom in Brazil, director of Human Resources, of Migration and of the Overseas Territories at the UK Foreign and Commonwealth Office, and ambassador of the United Kingdom to Mexico, Spain, and Andorra. For her contribution to the British diplomatic service, she was elevated to Dame Commander of the Order of St Michael and St George (DCMG).</p> <p>She has also been chair of the Anglo-Spanish Society and of the Institute of Latin American Studies at the University of London, and has chaired the Nominations Committee of the Alzheimer's Society.</p>
MR JOSÉ WALFREDO FERNÁNDEZ	<p>Cienfuegos, Cuba, 1955</p> <p>He is a partner of Gibson, Dunn & Crutcher and a member of the board of directors of the Council of the Americas and the Center for American Progress.</p> <p>Academic training</p> <p>Degree in History from Dartmouth College (New Hampshire, United States of America), and Juris Doctor from Columbia University (New York, United States of America).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been Assistant Secretary of State for Economic, Energy and Business Affairs for the United States of America. He has also been an independent director of Iberdrola USA, Inc.</p> <p>Noteworthy experience in other industries</p> <p>He has served on the boards of Dartmouth College, NPR Station WBGO-FM, the Middle East Institute, and Ballet Hispánico of New York and of non-governmental institutions such as Acción Internacional. He has also been the State Department's representative on the Committee on Foreign Investment in the United States.</p> <p>In addition, he was named one of the "World's Leading Lawyers" by Chambers Global for his M&A work, an "Expert" by the International Financial Law Review, one of the "World's Leading Privatization Lawyers" by Euromoney, and "Embajador de la Marca España" (Ambassador of the Spain Brand).</p>
MR MANUEL MOREU MUNAIZ	<p>Pontevedra, Spain, 1953</p> <p>He is president of the Seaplace, S.L., sole director of H.I. de Iberia Ingeniería</p>

	<p>y Proyectos, S.L. and of Howard Ingeniería y Desarrollo, S.L., an independent director of Tubacex, S.A. and a member of the Spanish Committee of Lloyd's Register EMEA. He is also a professor of the Master's Programme in Oil (ETSIN) at Universidad Politécnica de Madrid - ETSIN, of the Maritime Master's Programme of Instituto Marítimo Español and of Universidad Pontificia Comillas.</p> <p>Academic training</p> <p>Doctorate in naval engineering from Escuela Técnica Superior de Ingenieros Navales (ETSIN) of the Universidad Politécnica de Madrid, and Master's degree in Oceanic Engineering from the Massachusetts Institute of Technology (MIT).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been an independent director of Iberdrola Renovables, S.A., and an independent director and member of the Audit and Compliance Committee of Gamesa Corporación Tecnológica, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been a member of the board of Metalships and Docks, S.A., Neumáticas de Vigo, S.A. and Rodman Polyships, S.A., dean of the Colegio Oficial de Ingenieros Navales y Oceánicos de Madrid y de España and president of the Instituto de Ingeniería de España.</p>	
JUAN MANUEL GONZÁLEZ SERNA	<p>Madrid, Spain, 1955</p> <p>He is the chairman of SIRO Group, a business group in the food sector, and a member of the Governing Board of the Spanish Commercial Coding Association (<i>Asociación Española de Codificación Comercial</i>) (AECOC).</p> <p>He is also a founding trustee and chairman of Fundación Grupo SIRO as well as a member of the Executive Committee and trustee of Fundación SERES, an honorary member of the General Assembly of the Spanish Paralympics Committee, a trustee of the Fundación Casa Ducal de Medinaceli, and honorary president of Empresa Familiar de Castilla y León.</p> <p>Academic training</p> <p>Degree in Law, Economics and Business Studies from the Instituto Católico de Administración y Dirección de Empresas (ICADE) of Universidad Pontificia Comillas (Madrid) and a Masters in Business Administration (MBA) from the Escuela de Dirección del Instituto de Estudios Superiores de la Empresa de la Universidad de Navarra (IESE Business School) in Barcelona.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been an independent director of Iberdrola España, S.A.U. and of Iberdrola Renovables, S.A., as well as chair of the Appointments and Remuneration Committee of the latter company.</p> <p>Noteworthy experience in other industries</p> <p>Apart from the food sector, he also has extensive experience in the finance, venture capital and health sectors: he is a member of the advisory board of Rabobank in Spain and Europe and has been a member of the board of Banco Urquijo Sabadell Banca Privada, S.A. and of Sociedad para el Desarrollo Industrial de Castilla y León, Sociedad de Capital Riesgo, S.A. (SODICAL, now Ade Capital Social, Sociedad de Capital Riesgo de Régimen Común, S.A.). He is also a member of the board of directors of the HM Hospitales Group.</p>	
Total number of independent directors		10
Total % of the board		71.43

State whether any director classified as independent receives from the company or its group any amount or benefit for items other than director remuneration, or maintains or has maintained during the last financial

year a business relationship with the company or with any company of its group, whether in the director's own name or as a significant shareholder, director, or senior officer of an entity that maintains or has maintained such relationship. If applicable, include a reasoned statement of the director regarding the reasons for which it is believed that such director can carry out the duties thereof as an independent director.

Not applicable.

OTHER EXTERNAL DIRECTORS

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

Individual or company name of director	Reasons	Company, officer, or shareholder with which the director has ties
MR IÑIGO VÍCTOR DE ORIOL IBARRA	A company tied to the director billed the Iberdrola group for services during financial year 2016. The related-party transaction was fully reported in the Annual Corporate Governance Report for financial year 2015.	IBERDROLA
MR XABIER SAGREDO ORMAZA	He is chair of the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria, the principal shareholder of Kutxabank, S.A. and until April 2017 an indirect holder of a significant interest in the capital of the Company.	KUTXABANK

Total number of other external directors	2
Total % of the board	14.29

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

Individual or company name of director	Date of change	Former class	Current class

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

	Number of female directors				% of total directors of each class			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	-	-	-	-	-	-	-	-
Proprietary	-	-	-	-	-	-	-	-
Independent	5	5	5	5	50.00	50.00	50.00	50.00

Other external	-	-	-	-	-	-	-	-
Total	5	5	5	5	35.71	35.71	35.71	35.71

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

Explanation of measures
<p>The Company's Corporate Governance System, and particularly the <i>Board of Directors Diversity and Director Candidate Selection Policy</i>, entrusts the Appointments Committee with the duty to ensure that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, that such procedures do not hinder the selection of female directors. The goals thereof include ensuring that female directors continue to account for at least 30% of the Board of Directors by the year 2020.</p> <p>Five of the fourteen members of the Board of Directors are currently women.</p> <p>On 7 June 2006, the Board of Directors appointed Ms Inés Macho Stadler as independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 29 March 2007, where the shareholders also approved her re-election for a five-year period. On 22 September 2009, Ms Inés Macho Stadler was appointed as lead independent director (<i>consejera coordinadora</i>), which position she has continuously held through the date hereof.</p> <p>At its meeting of 31 July 2008, the Board of Directors resolved to appoint Ms Samantha Barber as an independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 20 March 2009. Ms Barber has also chaired the Corporate Social Responsibility Committee since 24 April 2012.</p> <p>The shareholders at the General Shareholders' Meeting held on 26 March 2010 approved the proposed appointment of Ms María Helena Antolín Raybaud, with the classification of external independent director.</p> <p>On 23 April 2013, Iberdrola's Board of Directors approved the interim appointment of Ms Georgina Kessel Martinez as an external independent director, which appointment was subsequently ratified by the shareholders at the General Shareholders' Meeting held on 28 March 2014. Furthermore, Ms Kessel Martinez was appointed chair of the Audit and Risk Supervision Committee on 17 February 2015.</p> <p>On 24 June 2014, the Board of Directors approved the interim appointment of Ms Denise Mary Holt as an external independent director. This appointment was ratified by the shareholders at the General Shareholders' Meeting held on 27 March 2015.</p> <p>Finally, the Appointments and Remuneration Committee was split into two separate committees on 27 March 2015. The appointment of Ms María Helena Antolín Raybaud and of Ms Inés Macho Stadler as chairs of the Appointments Committee and the Remuneration Committee, respectively, was approved for these purposes.</p> <p>As a result of the foregoing, all consultative committees of the Board of Directors are chaired by women.</p> <p>It should also be noted that the Board of Directors, at its meeting held on 19 December 2017, approved a <i>Board of Directors Diversity and Director Candidate Selection Policy</i>, the new name of the former <i>Director Candidate Selection Policy</i>, which is intended to cause the composition of the Board of Directors to reflect a maximum diversity of skills and viewpoints with special emphasis on issues such as age, gender, disability, training and professional experience. This Policy is available on the corporate website (www.iberdrola.com) where the Activities Report of the Board and of the Committees thereof can also be found. Among other issues, this Report details the professional skills and experience of the directors and is a good example of the application of the Policy.</p>

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

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

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

Explanation of reasons
Not applicable.

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

<p>The <i>Board of Directors Diversity and Director Candidate Selection Policy</i> conforms to the most stringent domestic and international corporate governance practices regarding appointments, seeking diversity of knowledge, experience, origin, nationality and gender within the Board of Directors. The Policy specifies the Company's commitment to eliminate any implied bias that hinders the selection of female directors, who currently represent more than 35% of the members of the Board of Directors, having already exceeded the commitment set out in the policy stating that the number of female directors would represent at least thirty per cent of all members of the Board of Directors by 2020. Finally, the Policy promotes the inclusion within the Board of Directors of candidates with experience on boards of directors of subsidiaries of the Iberdrola group, who thus contribute their knowledge of the Company's business through such subsidiaries.</p>
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C.1.7.Explain the form of representation on the board of shareholders with significant holdings.

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

Individual or company name of the shareholder	Reason

State whether there has been no answer to formal petitions for presence on the board received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been answered:

Yes ☐ No ☒

Individual or company name of the shareholder	Explanation

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

Name of director	Reason for withdrawal
MR SANTIAGO MARTÍNEZ LAGE	Sole Transitional Provision of the Regulations of the Board of Directors.
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	Sole Transitional Provision of the Regulations of the Board of Directors.

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

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

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

Individual or company name of director	Name of entity within the group	Position	Does he/she have executive duties?
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	SCOTTISH POWER LTD.	Chairman	NO
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	AVANGRID, INC.	Chairman	NO
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	NEOENERGIA, S.A.	Chairman	NO
MR FRANCISCO MARTÍNEZ CÓRCOLES	IBERDROLA ESPAÑA, S.A.	Chairman	NO
MR FRANCISCO MARTÍNEZ CÓRCOLES	IBERDROLA MÉXICO, S.A. DE C.V.	Director	NO

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

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

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

Yes ☒ No ☐

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

C.1.14. Section deleted.

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

Remuneration of the board of directors (thousands of euros)	16,686
Amount of pension rights accumulated by the current directors (thousands of euros)	0
Amount of pension rights accumulated by former directors (thousands of euros)	0

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

Individual or company name	Position(s)
MR JOSÉ SAINZ ARMADA	Chief Financial and Resources Officer (CFO)
MS SONSOLES RUBIO REINOSO	Director of Internal Audit
MR PEDRO AZAGRA BLÁZQUEZ	Director of Corporate Development
MR JUAN CARLOS REBOLLO LICEAGA	Director of Administration and Control
MR SANTIAGO MARTÍNEZ GARRIDO	Chief Legal Officer

Total senior management remuneration (in thousands of euros)	16,062
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C.1.17. State the identity of the members of the board, if any, who are also members of the board of directors of significant shareholders and/or in entities of their group:

Individual or company name of director	Company name of the significant shareholder	Position

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

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

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

Yes ☒ No ☐

Description of amendments
<p>Set out below are the main amendments to the Regulations of the Board of Directors during financial year 2017:</p> <ul style="list-style-type: none"> – The powers of the Board of Directors are updated to refer to its duties regarding the definition of the group's organisational model and the supervision of compliance and development thereof, and those regarding the appointment, removal and establishment of the basic terms of the contracts with officers are clarified. – References to the <i>Activities Report of the Board of Directors and of the Committees thereof</i> are added, particularly including the powers of the consultative committees. – A provision is included to the effect that communications and forms that the directors must send to the Company are generally sent through the directors' website, giving these communications the same effects as if signed copies were sent. – The definition of the position of senior officer (<i>alto directivo</i>) is homogenised with the one set out in other provisions of the Corporate Governance System. – The functions of the Office of the Secretary of the Board of Directors are strengthened regarding the coordination of the consultative committees as to the meeting schedules, agendas and appearances. – When there is an approval of minutes as a group at the next meeting, a portion of the minutes can be approved at the end of the meeting, provided that the text being approved has been published on the directors' website prior to the meeting or has been read aloud prior to adjournment of the meeting. – There is an inclusion of the best practices contained in the <i>Technical Guide 3/2017 on Audit Committee at Public Interest Entities</i> published by the National Securities Market Commission on 27 June 2017.

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

1. APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

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

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

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

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

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

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

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

If the Board of Directors deviates from the proposals and reports of the Appointments Committee, it shall give reasons for so acting and shall record such reasons in the minutes.

2. EVALUATION OF DIRECTORS

The Board of Directors annually evaluates: (i) its operation and the quality of its work; (ii) the performance of their duties by the chairman of the Board of Directors, by the CEO and by the Business CEO, based on the report submitted thereto by the Appointments Committee; and (iii) the operation of its committees, in view of the report submitted thereto by such committees. For such purpose, the chairman of the Board of Directors shall organise and coordinate the aforementioned evaluation process with the chair of each committee. The following section reports on the evaluation process during financial year 2017.

3. REMOVAL OF DIRECTORS

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

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

The Board of Directors may propose the removal of an independent director before the passage of the period provided for in the By-Laws only upon sufficient grounds, evaluated by the Board of Directors after a report from the Appointments Committee, or as a consequence of takeover bids, mergers, or other

similar corporate transactions resulting in a significant change in the structure of the Company's share capital, as recommended by the Good Governance Code of Listed Companies.

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

Description of amendments
<p>The Iberdrola group has an on-going commitment to the development of its corporate governance. In order to continue to permanently improve, Iberdrola evaluates the operation of its governance bodies on an annual basis, and based on the conclusions obtained, identifies the principal areas of work for the coming year.</p> <p>More than 95% of the work areas defined in the evaluation process from the prior year were met during 2017. Specifically, significant advancements were made in the following areas:</p> <ol style="list-style-type: none"> Renewal of the composition of governance bodies: <ul style="list-style-type: none"> -Strengthening of the checks-and-balances system with the appointment of Mr Francisco Martínez Córcoles as Business CEO (<i>consejero-director general de Negocios</i>). -Maintenance of a high percentage of independent directors (71%) after the appointment of Mr Juan Manuel González Serna as independent director. -Update and new name of the <i>Board of Directors Diversity and Director Candidate Selection Policy</i>. Operation: <ul style="list-style-type: none"> -Conformance of the Audit and Risk Supervision Committee and the Company's Corporate Governance System to the recommendations contained in Technical Guide 3/2017 on audit committees at public-interest entities published by the National Securities Market Commission. -Adaptation of the training programmes for the directors to their own needs and to critical areas of the market and improvement of the orientation programme for new directors. -Development and approval of an annual work plan for each of the consultative committees. -Expansion of the evaluation to include the opinion of the directors regarding the operation of the consultative committees. -Holding of several meetings of the Board of Directors in Scotland and of the Executive Committee in Mexico. Remuneration: <ul style="list-style-type: none"> -Publication of the weighting of each group of targets in the annual variable remuneration of the executive directors. -Inclusion of clawback clauses in the 2017-2019 Strategic Bonus. Transparency and stakeholder engagement: <ul style="list-style-type: none"> -Measurement of the group's social contribution through the <i>Iberdrola group's economic, social and environmental impact on the world</i> report, prepared by an external expert. -Update of the <i>Stakeholder Relations Policy</i> and of the <i>Policy on Respect for Human Rights</i>.

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

The Board of Directors evaluates its performance on an annual basis, and on 24 October 2017 it approved the commencement of the process of evaluation of the Board of Directors itself, the Executive Committee, its consultative committees, the chairman & CEO, the Business CEO and the other directors. The evaluation of the chairman & CEO was led by the lead independent director. The process concluded

at the meeting of the Board of Directors held on 20 February 2018, which approved the results of the evaluation of financial year 2017 and the Continuous Improvement Plan for financial year 2018.

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

The evaluation process verifies compliance with legal provisions and the Company's Corporate Governance System. It also includes a comparative analysis with more than 20 domestic and international companies and monitors the most advanced corporate governance trends. In addition, it evaluates the achievement of the areas of work identified in the evaluation from the prior year.

The evaluation also serves as an instrument to perfect corporate governance practices, as it allows for identification of opportunities for improvement that are specified in the Continuous Improvement Plan.

The conclusions of the evaluation process reflect absolute compliance with the indicators relating to mandatory legal rules and regulations and an alignment of more than 90% with the latest international trends and with the application of the areas for improvement identified during prior years.

The Continuous Improvement Plan 2018 deriving from the evaluation process focuses on continuing to advance in four areas, principally:

1. Supervision of critical issues like risks arising from climate change and the group's actions having an impact on the Social Dividend.
2. Continued evolution in the composition of the Board of Directors, improving the rationale for the proposed appointments of new directors.
3. Progress in shareholder engagement and in the information published on issues discussed with the shareholders.
4. Continue the comparison of market trends on remuneration and transparency in remuneration.

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

The business relationships of the consultant and the companies of its group with the Company and the group in 2017 came to the aggregate amount of 10.7 million euros, and were mainly focused on the following:

- Support in the tax area.
- Advice on systems.
- Support to the Board and to the Secretary of the Board of Directors.
- Expert reports.
- Pensions.

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

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

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

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

availability or commitment to their duties required to be a director of the Company.

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

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

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

C.1.22. Section deleted.

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

Yes ☒ No ☐

If so, describe the differences.

Description of differences
The Regulations of the Board of Directors require a majority of at least two-thirds of the directors present at the meeting in person or by proxy to approve the amendment thereof.
The serious reprimand of a director for having breached any of the duties entrusted thereto as director under the Regulations of the Board of Directors requires a majority of two-thirds of the directors.

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

Yes ☐ No ☒

Description of requirements

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

Yes ☒ No ☐

Matters on which a tie-breaking vote may be cast
In the event of a tie, the chairman has a tie-breaking vote on any matter unless he becomes subject to a

conflict of interest, in which case he must abstain from participating in the deliberation and voting stages of the respective resolution.

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

Yes ☐ No ☒

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

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

Yes ☐ No ☒

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

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

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

There is no maximum number of proxies provided per director.

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

Number of meetings of the board	9
Number of meetings of the board at which the chair was not in attendance	0

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

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

Number of meetings of the Executive Committee	14
Number of meetings of the Audit and Risk Supervision Committee	11
Number of meetings of the Appointments Committee	7
Number of meetings of the Remuneration Committee	8
Number of meetings of the Corporate Social Responsibility Committee	8

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

Number of meetings with the attendance of the directors	9
% in attendance of total votes during the financial year	100%

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

Yes ☒ No ☐

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

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

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

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

- Supervise the process of preparing and presenting regulated financial information relating to the Company, both individual and consolidated with its subsidiaries, reviewing compliance with legal requirements, the proper delimitation of the scope of consolidation and the correct application of accounting standards, and submit recommendations or proposals to the Board of Directors to safeguard the integrity thereof.
- Establish appropriate relationships with the auditor to receive information regarding matters that might entail a threat to the independence thereof, for examination by the Committee, and any other information related to the development of the audit procedure, as well as such other communications as are provided for in the laws on auditing of accounts and in other legal provisions on auditing. The Committee must receive written confirmation from the statutory auditors on an annual basis of their independence in relation to the Company or entities directly or indirectly related thereto, as well as a detailed breakdown of information on additional services of any kind provided to and the corresponding fees received from such entities by such statutory auditors or by persons or entities related thereto, pursuant to the legal provisions governing the auditing of accounts.
- On an annual basis, prior to the audit report, issue a report that will express an opinion on whether the independence of the statutory auditors is compromised, which shall be made available to the shareholders upon the terms set forth in the Regulations for the General Shareholders' Meeting. This report shall contain a reasoned assessment of the provision of each and every one of the additional services other than the legal audit referred to in the preceding point, considered individually and as a whole, and in relation to the rules on independence or the legal provisions regarding the auditing of accounts.

- Report in advance to the Board of Directors regarding the financial information that the Company must disclose on a regular basis because of its status as a listed company; the Committee shall make sure that the interim accounts are prepared in accordance with the same accounting standards as the annual accounts and, for such purpose, it shall consider the appropriateness of a limited review by the auditor.
- Review the contents of the audit reports on the accounts and of the reports on the limited review of interim accounts, if any, as well as other mandatory reports to be prepared by the auditor, prior to the issuance thereof, in order to avoid qualified reports.
- Evaluate the results of each audit of accounts and supervise the responses of the senior officers to the recommendations thereof.
- Act as a channel of communication between the Board of Directors and the auditors, causing them to hold an annual meeting with the Board of Directors to report thereto on the work performed and the accounting status and risks of the Company.

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

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

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

Accordingly, the Committee submitted to the Board of Directors the following reports regarding the annual and half-yearly financial reports and the interim management statements of the Company for financial year 2017:

- Report dated 24 April 2017 on the interim management statement for the first quarter of 2017.
- Report dated 17 July 2017 on the economic/financial report for the first half of 2017.
- Report dated 3 November 2017 on the interim management statement for the third quarter of 2017.
- Report dated 19 February 2018 regarding the annual accounts of Iberdrola and its consolidated group for financial year 2017.

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

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

Yes ☐ No ☒

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

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

C.1.34. Section deleted.

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

1. MECHANISMS TO PRESERVE THE INDEPENDENCE OF THE AUDITOR

The *Regulations of the Audit and Risk Supervision Committee* and the *Auditor Contracting and Relations Policy*, contained within the Company's Corporate Governance System, provide that:

- The relations of the Committee with the statutory auditor of the Company shall respect the independence thereof, in accordance with the provisions of the Corporate Governance System.
- The Audit and Risk Supervision Committee shall receive information from the auditor regarding matters that might entail risks to the independence thereof.
- The Committee shall request of the auditor, on an annual basis, a certificate of independence of the firm as a whole and of the team members participating in the process of auditing the annual accounts of the Group, as well as information regarding additional services of any kind provided by the auditors or by persons related thereto pursuant to the provisions of the laws on auditing of accounts. In addition, the auditor shall include in the annual certification that it sends to the Committee a statement in which it reports on compliance with the application of the internal procedures of quality assurance and protection of independence that have been implemented.
- The auditor shall provide to the Committee annual information regarding the profiles and the track record of the persons making up the audit teams of the Company and of the Iberdrola Group, stating the changes in the composition of such teams compared to the preceding financial year.
- The Committee shall issue, on an annual basis and prior to the issuance of the audit report, a report setting forth an opinion on the independence of the auditor. This report shall in any case pass upon the impact on the independence of the auditor of the provision of services additional to auditing and shall attach a reasoned assessment thereof.
- The Committee shall monitor the quality assurance and independence safeguarding internal procedures implemented by the auditor.
- The Committee shall not submit a proposal to the Board of Directors, which in turn shall not submit a proposal to the shareholders at a General Shareholders' Meeting, for appointment of firms as auditor when it has evidence that they are affected by a lack of independence, a prohibition, or pursuant to the law on auditing. In particular, if the fees accrued from the provision of audit services and services other than audit that the Company and any other entity of the Iberdrola Group expect to pay the auditor or audit firm or a member of its network during each of the last three consecutive financial years represent more than fifteen per cent of the total annual income of the auditor or audit firm and of said network.

The Audit and Risk Supervision Committee has also established a restrictive policy on the services provided by the statutory auditor to the Iberdrola group that are susceptible to being authorised.

As regards 2017:

- Iberdrola's statutory auditor appeared on nine occasions before the Audit and Risk Supervision Committee (three by "Ernst & Young" ("EY") and six by "KPMG Auditores, S.L." ("KPMG")) and EY on one occasion before the Board of Directors to report on various matters relating to the audit process. During these appearances, the auditor did not report issues that might put its independence at risk.
- On 15 February 2017 EY sent written confirmation of its independence with regard to the audit of financial information for financial year 2016.
- On 17 July 2017 KPMG sent written confirmation of its independence with regard to the limited review of financial information through 30 June 2017.
- On 19 February 2018 KPMG sent written confirmation of its independence with regard to the audit of financial information for financial year 2016.
- In the aforementioned letters, the corresponding auditor represents that it has implemented the internal procedures necessary to ensure its independence.
- The hiring of the auditor for services other than auditing is authorised in advance by the Committee. The hiring is supported by the respective letters of the partner responsible for the audit confirming the non-existence of restrictions on independence to perform this work.

- In its written confirmation of 19 February 2018, KPMG reported that it had no evidence that any member of the teams participating in the audit of the financial statements at 31 December 2017 of the significant components of the Iberdrola group had joined as an employee of the Company or of its related companies. The Audit and Risk Supervision Committee believes that these hirings do not affect the independence of the auditor, as they involve professionals with short-term professional experience and who held positions of medium/low responsibility at the audit firm.
- On 19 February 2018 the Committee issued its report to the Board of Directors regarding the independence of the Company's statutory auditor. The Committee concluded that the auditor performed its audit work with independence from the Company or entities related thereto.

2. MECHANISMS TO PRESERVE THE INDEPENDENCE OF FINANCIAL ANALYSTS, INVESTMENT BANKS, AND RATING AGENCIES

The principles which form the basis of the relations of the Company with financial analysts, investment banks, and rating agencies are contained in the Policy regarding Communication and Contacts with Shareholders, Institutional Investors, and Proxy Advisors and are transparency, non-discrimination, truthfulness, and trustworthiness of the information supplied. The Finance and Resource Division, through the Investor Relations Division, manages their requests for information and requests submitted by institutional or retail investors (in the case of retail investors, through the Office of the Shareholder). The Finance and Resource Division gives mandates to investment banks. The Development Division gives the appropriate advisory mandates to investment banks within the scope of its activities, in coordination with the Finance and Resource Division.

The independence of financial analysts is protected by the Investor Relations Division, which ensures the objective, fair, and non-discriminatory treatment thereof.

To actualise the principles of transparency and non-discrimination, always in strict compliance with regulations regarding the Securities Market, the Company has a number of communication channels:

- Personalised assistance for analysts, investors, and rating agencies.
- Publication of the information relating to quarterly results and other specific events, such as those relating to the submission of the Business Prospects or to corporate transactions.
- E-mail through the corporate website (accionistas@iberdrola.com) and a toll-free line for shareholders (+34 900 100 019).
- In-person and broadcasted presentations.
- Release of announcements and news.
- Visits to Company facilities.

C.1.36. State whether the Company has changed the external auditor during the financial year. If so, identify the incoming and the outgoing auditor:

Yes ☒ No ☐

Outgoing auditor	Incoming auditor
Ernst & Young, SA.	KPMG Auditores, S.L.

If there has been any disagreement with the outgoing auditor, provide an explanation thereof:

Yes ☐ No ☒

Description of the disagreement

C.1.37. State whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the company and/or its group:

Yes ☐ No ☒

C.1.38. State whether the audit report on the annual accounts for the prior financial year has observations or qualifications. If so, state the reasons given by the chair of the audit committee to explain the content and scope of such observations or qualifications.

Yes ☐ No ☒

Explanation of reasons

C.1.39. State the consecutive number of years for which the current audit firm has been auditing the annual accounts of the company and/or its group. In addition, state the percentage represented by such number of financial years audited by the current audit firm with respect to the total number of financial years in which the annual accounts have been audited:

	Company	Group
Number of continuous financial years	1	1

	Company	Group
Number of years audited by the current audit firm / Number of years in which the company has been audited (%)	4.00	4.00

C.1.40. State whether there is any procedure for directors to hire external advisory services, and if so, describe it:

Yes ☒ No ☐

Describe the procedure
<p>Pursuant to the Regulations of the Board of Directors, in order to be assisted in the performance of the duties entrusted thereto, any director may request the hiring of legal, accounting, technical, financial, commercial or other expert advisers, whose services shall be paid for by the Company.</p> <p>The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.</p> <p>The request for an expert to be hired shall be channelled through the secretary of the Board of Directors, who may subject it to the prior approval of the Board of Directors; such approval may be denied in well-founded instances, including the following circumstances:</p> <ul style="list-style-type: none"> a) That it is not necessary for the proper performance of the duties entrusted to the directors. b) That the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company. c) That the technical assistance sought may be adequately provided by the Company's own experts and technical personnel. d) That it may entail a risk to the confidentiality of the information that must be made available to the expert.

Furthermore, the Regulations of the Audit and Risk Supervision Committee, the Regulations of the Appointments Committee, the Regulations of the Remuneration Committee and the Regulations of the Corporate Social Responsibility Committee provide that such committees may seek advice from outside professionals, who shall submit their reports directly to the chair of the relevant committee. It shall also be ensured that conflicts of interest do not undermine the independence of any external advice received.

C.1.41. State whether there is any procedure for directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:

Yes ☒ No ☐

Describe the procedure

Section 16 of the General Corporate Governance Policy provides that “the Company has a programme to provide directors with information and updates in response to the need for professionalisation, diversification and qualification of the Board of Directors.

In order to improve their knowledge of the group, presentations are made to the directors regarding the businesses thereof. In addition, a portion of each meeting of the Board of Directors tends to be dedicated to a presentation on economic, legal or political/social issues of importance to the group.

The directors have access to a specific application, the directors’ website, that facilitates performance of their duties and the exercise of their right to receive information. This website includes information deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof in accordance with the agenda, as well as training materials intended for the directors and presentations made to the Board of Directors.

In addition, the directors shall be given access through the directors’ website to the minutes of the meetings of the Board of Directors and the committees thereof, as well as to any other information that the Board of Directors decides to include”.

Pursuant to the Regulations of the Board of Directors, there shall be an inclusion on the directors’ website of such information as is deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof, in accordance with the agenda included in the calls to meeting, as well as access to materials relating to director training programmes.

In addition, the Regulations of the Board of Directors provide that a director is specifically required to “properly prepare the meetings of the Board of Directors and, if applicable, the meetings of the Executive Committee or of the committees of which the director is a member, for which purposes the director must diligently become apprised of the running of the Company and the matters to be discussed at such meetings”.

C.1.42. State whether the company has established any rules requiring directors to inform the company —and, if applicable, resign from their position— in cases in which the credit and reputation of the company may be damaged, and if so provide a detailed description:

Yes ☒ No ☐

Explain the rules

The General Corporate Governance Policy sets out the obligations and duties of the directors, including, as a statement of the duty of loyalty, the duty to submit their resignation to the Board of Directors in the event of supervening disqualification, lack of competence, prohibition against holding office as a director, and other instances provided for in the Company’s Corporate Governance System.

As provided by the Regulations of the Board of Directors, the director must inform the Company of any judicial, administrative or other proceedings instituted against the director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company. In particular, if a director is subject to investigation or an order for further criminal prosecution upon indictment, or if an order for the commencement of an oral trial is issued against the director for the commission of any of the crimes contemplated in section 213 of the Companies Act, such director shall give notice thereof to the

Company, through the chairman of the Board of Directors. In such instance, the Board of Directors shall review this circumstance as soon as practicable and, following a report of the Appointments Committee, shall adopt the decisions it deems fit taking into account the interests of the Company.

In addition, the director must inform the Company of any fact or event that may be relevant to the holding of office as a director.

Directors must also submit their resignation to the Board of Directors and formally resign from their position in the events set forth in the Regulations of this body, particularly:

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

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

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

In any of the aforementioned instances, the Board of Directors shall request the director to resign from such position and, if applicable, shall propose the director's removal from office to the shareholders at the General Shareholders' Meeting.

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

C.1.43. State whether any member of the board of directors has informed the company that such member has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of an oral trial has been issued against such member for the commission of any of the crimes contemplated in section 213 of the Companies Act:

Yes ☒ No ☐

Name of director	Criminal case	Comments
ÁNGEL JESÚS ACEBES PANIAGUA	Alleged crime of false accounting as an independent director of Bankia, S.A.	Commencement of oral criminal trial ordered against various directors of Bankia, S.A., including Mr Acebes Paniagua, on 17 November 2017 by Central Investigative Court (Juzgado Central de Instrucción) number 4 of the National High Court (Audiencia Nacional).

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State whether the board of directors has analysed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the director should remain in office or, if applicable, describe the actions taken by the board of directors through the date of this report or that it plans to take.

Yes ☒ No ☐

Decision made / action taken	Duly substantiated explanation
It is considered that Mr Ángel Acebes meets the criteria set out in the Regulations of the Board of Directors to continue holding the position of director.	Both the Office of the Public Prosecutor (<i>Ministerio Fiscal</i>) and the Fund for the Orderly Restructuring of the Banking Sector (<i>Fondo de Reestructuración Ordenada Bancaria</i>) (FROB) requested dismissal of the case against him.

C.1.44. Describe the significant agreements entered into by the company that go into effect, are amended or terminate in the event of a change in control at the company as a result of a takeover bid, and effects thereof.

Not applicable.

C.1.45. Identify on an aggregate basis and provide a detailed description of the agreements between the company and its management level and decision-making positions or employees that provide for indemnities, guarantee or “golden parachute” clauses upon resignation or termination without cause, or if the contractual relationship is terminated as a result of a takeover bid or other type of transaction.

Number of beneficiaries	34
Type of beneficiary	Executive directors, officers, and employees

Description of agreement
<p>1. EXECUTIVE DIRECTORS</p> <p>Pursuant to the provisions of his contract, the chairman & chief executive officer has the right to receive a severance payment in the event of termination of his relationship with the Company, provided that such termination is not the consequence of a breach attributable thereto or exclusively due to his own decision to withdraw. The amount of the severance payment is three times annual salary. In the case of the Business CEO, the severance is two times annual salary.</p> <p>Furthermore, in consideration for the executive directors' non-compete commitment for a period of between one and two years, they shall be entitled to severance equal to the remuneration for such period.</p> <p>2. OFFICERS</p> <p>Some employment contracts with officers of Iberdrola include specific severance clauses. The purpose of such clauses is to obtain an effective and sufficient level of loyalty for the management of the Company and thus avoid a loss of experience and knowledge that might jeopardise the achievement of strategic objectives, more so for positions deemed to decisively contribute to the creation of value due to the responsibilities thereof. The amount of the severance is determined based on length of service and the reasons for the officer's withdrawal from office, up to a maximum of five times annual salary.</p> <p>Notwithstanding the foregoing, the Senior Officer Remuneration Policy provides since 2011 that the limit on the amount of the severance under new contracts with senior officers shall be two times their annual salary.</p> <p>3. EMPLOYEES</p> <p>The contracts of employees linked to Iberdrola by an ordinary employment relationship do not generally</p>

include specific severance clauses and, accordingly, the general provisions of labour law shall apply in the event of termination of the employment relationship.

State whether such agreements must be reported to and/or approved by the decision-making bodies of the company or its group:

	Board of directors	General Shareholders' Meeting
Decision-making body approving the provisions	X	

	Yes	No
Is information about these provisions provided to the shareholders at the general shareholders' meeting?	x	

C.2. Committees of the board of directors

C.2.1. Describe all of the committees of the board of directors, the members thereof, and the proportion of executive, proprietary, independent, and other external directors of which they are comprised:

EXECUTIVE COMMITTEE

Name	Position	Class
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	CHAIRMAN	Executive director
MS INÉS MACHO STADLER	MEMBER	Independent director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director
MR MANUEL MOREU MUNAIZ	MEMBER	Independent director
MS SAMANTHA BARBER	MEMBER	Independent director

% executive directors	20.00
% proprietary directors	0
% independent directors	80.00
% other external	0

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

The Executive Committee is assigned all the powers of the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions. The chairman of the Board of Directors and the chief executive officer, if any, are members in all cases. The secretary of the Board of Directors acts as secretary of the Committee.

The Executive Committee shall meet as many times as deemed necessary by the chair thereof. It shall also meet when so requested by a minimum of two of the directors forming part thereof.

Resolutions of the Committee shall be adopted by absolute majority of its members who are present at the meeting in person or by proxy.

The duties of this Committee consist of making proposals to the Board of Directors regarding strategic decisions, investments and divestitures that are significant for the Company or the group, assessing their conformity to the budget and the strategic plans and analysing and monitoring business risks. It also provides assistance to the Board of Directors in the ongoing supervision of compliance with the principles governing the organisation and coordination of the group and the strategic goals thereof.

The duties of the Committee are provided in article 38 of the By-Laws and are further developed in article 25 of the Regulations of the Board of Directors.

State whether the composition of the executive committee reflects the participation of the different directors within the board based on their class.

Yes ☒ No ☐

If no, explain the composition of your executive committee

AUDIT AND RISK SUPERVISION COMMITTEE

Name	Position	Class
MS GEORGINA KESSEL MARTÍNEZ	CHAIR	Independent director
MS DENISE MARY HOLT	MEMBER	Independent director
MR JOSÉ WALFREDO FERNÁNDEZ	MEMBER	Independent director
MR XABIER SAGREDO ORMAZA	MEMBER	Other external director

% executive directors	0
% proprietary directors	0
% independent directors	75.00
% other external	25.00

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

The Audit and Risk Supervision Committee is an internal informational and consultative body.

A majority of its members shall be independent, and at least one of them shall be appointed taking into account the knowledge and experience thereof in the areas of accounting, audit, and risk management.

The Board of Directors shall appoint a chair of the Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The members of the Audit and Risk Supervision Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length. The chair shall hold office for a maximum period of four years, after which period the director who has held

office as such may not be re-elected until the passage of at least one year from ceasing to act as such.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided in article 39 of the By-Laws and are further developed in article 26 of the Regulations of the Board of Directors, as well as in the Regulations of the Audit and Risk Supervision Committee.

Identify the director who is a member of the audit committee and who has been appointed taking into account the director's knowledge and experience in the areas of accounting, audit, or both, and report the number of years that the chair of this committee has held office.

Name of director with experience	MS GEORGINA KESSEL MARTÍNEZ
Number of years during which chair has held the position	3

APPOINTMENTS COMMITTEE

Name	Position	Class
MS MARÍA HELENA ANTOLÍN RAYBAUD	CHAIR	Independent director
MR IÑIGO VÍCTOR DE ORIOL IBARRA	MEMBER	Other external director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director

% executive directors	0
% proprietary directors	0
% independent directors	66.67
% other external	33.33

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

The Appointments Committee is an internal informational and consultative body.

A majority of the members of the Appointments Committee must be classified as independent. The Board also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The members of the Appointments Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are set out in article 27 of the Regulations of the Board of Directors, as well

as in the Regulations of the Appointments Committee.

REMUNERATION COMMITTEE

Name	Position	Class
MS INÉS MACHO STADLER	CHAIR	Independent director
MR IÑIGO VÍCTOR DE ORIOL IBARRA	MEMBER	Other external director
MR JUAN MANUEL GONZÁLEZ SERNA	MEMBER	Independent director

% executive directors	0
% proprietary directors	0
% independent directors	66.67
% other external	33.33

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

The Remuneration Committee is an internal informational and consultative body.

A majority of the members of the Remuneration Committee must be classified as independent. The Board also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The members of the Remuneration Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are set out in article 28 of the Regulations of the Board of Directors, as well as in the Regulations of the Remuneration Committee.

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Name	Position	Class
MS SAMANTHA BARBER	CHAIR	Independent director
MR BRAULIO MEDEL CÁMARA	MEMBER	Independent director
MR MANUEL MOREU MUNAIZ	MEMBER	Independent director

% executive directors	0
% proprietary directors	0

% independent directors	100.00
% other external	0

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

<p>The Corporate Social Responsibility Committee is an internal informational and consultative body.</p> <p>A majority of the members of the Corporate Social Responsibility Committee must be classified as independent. The Board of Directors shall appoint a chair of the Committee from among the members forming part thereof, as well as its secretary, who need not be a director.</p> <p>The members of the Corporate Social Responsibility Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.</p> <p>A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.</p> <p>The duties of the Committee are provided in article 41 of the By-Laws and are further developed in article 29 of the Regulations of the Board of Directors, as well as in the Regulations of the Corporate Social Responsibility Committee.</p>

C.2.2. Complete the following table with information regarding the number of female directors comprising the committees of the board of directors for the last four financial years:

	Number of female directors							
	Financial Year 2017		Financial Year 2016		Financial Year 2015		Financial Year 2014	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	2	40.00	1	20.00	1	20.00	1	20.00
Audit and Risk Supervision Committee	2	66.66	2	66.66	2	66.66	2	50.00
Appointments Committee	1	33.33	1	33.33	1	33.33	1	33.33
Remuneration Committee	1	33.33	1	33.33	1	33.33	1	33.33
Corporate Social Responsibility Committee	1	33.33	1	33.33	1	33.33	2	66.66

C.2.3. Section deleted.

C.2.4. Section deleted.

C.2.5. State, if applicable, the existence of regulations of the board committees, where such regulations may be consulted, and the amendments made during the financial year. Also state if any annual report of the activities performed by each committee has been voluntarily prepared.

1. AUDIT AND RISK SUPERVISION COMMITTEE

The Audit and Risk Supervision Committee has its own Regulations, which may be viewed by interested parties on the Company's website (www.iberdrola.com).

Article 23 of the *Regulations of the Audit and Risk Supervision Committee* provides that, pursuant to the provisions of the *Regulations of the Board of Directors*, the *Activities Report of the Board of Directors and of the Committees thereof*, which shall include information regarding the operation and the activities of the Committee during the preceding financial year, shall be made available to the shareholders and the other stakeholders for purposes of the call to the General Shareholders' Meeting. In particular, the section of the *Activities Report of the Board of Directors and of the Committees thereof* regarding the Committee must allow the shareholders and other interested parties to understand the activities performed by the Committee during the financial year in question.

As to financial year 2017, the Audit and Risk Supervision Committee approved the section corresponding to its report for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

2. APPOINTMENTS COMMITTEE

The Appointments Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website (www.iberdrola.com).

Article 26 of the *Regulations of the Appointments Committee* provides that, pursuant to the provisions of the *Regulations of the Board of Directors*, the *Activities Report of the Board of Directors and of the Committees thereof*, which shall include information regarding the operation and the activities of the Committee during the preceding financial year, shall be made available to the shareholders and the other stakeholders for purposes of the call to the General Shareholders' Meeting. In particular, the section of the *Activities Report of the Board of Directors and of the Committees thereof* regarding the Committee must allow the shareholders and other interested parties to understand the activities performed by the Committee during the financial year in question.

As to financial year 2017, the Appointments Committee approved the section corresponding to its report for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

3. REMUNERATION COMMITTEE

The Remuneration Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website (www.iberdrola.com).

Article 22 of the *Regulations of the Remuneration Committee* provides that within three months following the end of the Company's financial year, the Committee shall submit to the Board of Directors for approval a report detailing its work for the financial year covered by the report.

As to financial year 2017, the Remuneration Committee approved the section corresponding to its report for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

4. CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website (www.iberdrola.com).

Article 22 of the *Regulations of the Corporate Social Responsibility Committee* provides that, pursuant to the provisions of the *Regulations of the Board of Directors*, the *Activities Report of the Board of Directors and of the Committees thereof*, which shall include information regarding the operation and the activities of the Committee during the preceding financial year, shall be made available to the shareholders and the other stakeholders for purposes of the call to the General Shareholders' Meeting. In particular, the section of the *Activities Report of the Board of Directors and of the Committees thereof* regarding the Committee must allow the shareholders and other interested parties to understand the activities performed by the Committee during the financial year in question.

As to financial year 2017, the Corporate Social Responsibility Committee approved the section corresponding to its report for inclusion in the *Activities Report of the Board of Directors and of the Committees thereof*.

An Activities Report of the Board of Directors and of the Committees thereof for financial year 2017 is published for purposes of the call to the General Shareholders' Meeting.

This innovation is based on the Company's commitment to good corporate governance practices and transparency and to the growing demand by shareholders and proxy advisors for companies to report on the activities of their governance bodies.

C.2.6. Section deleted.

D. RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1. Explain any procedures for approving related-party and intragroup transactions.

Procedure for the approval of related-party transactions
<p>The Regulations of the Board of Directors provide that:</p> <ol style="list-style-type: none"> Any transaction by the Company or the companies forming part of its Group with directors, with shareholders that directly or indirectly own a shareholding interest that is equal to or greater than that legally regarded as significant at any time or that have proposed or caused the appointment of any of the directors of the Company, or with the respective related persons ("Related-Party Transactions"), shall be subject to the approval of the Board of Directors, or in urgent cases, of the Executive Committee, following a report from the Appointments Committee. In the event that authorisation has been granted by the Executive Committee due to the urgency of the matter, the Executive Committee shall give notice thereof to the Board of Directors at its next meeting in order for it to be ratified. The authorisation of Related-Party Transactions must be approved by the shareholders at the General Shareholders' Meeting in the instances provided by law, and particularly if it relates to a transaction having a value of more than ten per cent of the corporate assets. As an exception, Related-Party Transactions with any of the listed companies of the Group (as is the case of Avangrid, Inc.) or with the subsidiaries thereof shall not be subject to the provisions of article 43, provided that they have corporate governance rules similar to those of the Company. The execution of a Related-Party Transaction puts the director engaging in said transaction or who is related to the person engaging in the transaction in a conflict of interest, for which reason the provisions of article 39 of the Regulations of the Board of Directors shall apply, to the extent applicable. The Board of Directors, through the Appointments Committee, shall ensure that Related-Party Transactions are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders in the same situation. In the case of transactions to be carried out by companies of the Group, the scope of authorisation of the Board of Directors, or that of the Executive Committee, if applicable, referred to in the preceding sections, shall be circumscribed to the verification of compliance with such particulars. In the case of customary and recurring Related-Party Transactions in the ordinary course of business, it shall be sufficient for the Board of Directors to give prior generic approval of the kind of transaction and of the conditions for performance thereof, following a report from the Appointments Committee. If a Related-Party Transaction entails the successive performance of different transactions, of which the second and subsequent transactions are mere acts of execution of the first transaction, the provisions of article 43 shall only apply to the first transaction carried out. The authorisation shall not be required in connection with transactions that simultaneously satisfy the following three conditions: that they are conducted under contracts whose terms and conditions are standardised and apply on an across-the-board basis to a large number of customers; that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question, and that the amount thereof does not exceed one per cent of the consolidated annual income of the Group. The Company shall report Related-Party Transactions in the Half-Yearly Financial Report and in the Annual Corporate Governance Report, in the cases and to the extent provided by law. Likewise, the Company shall include in the notes accompanying the annual accounts information regarding the transactions by the Company or by the companies of the Group with the directors and with those persons who act for the account of the latter when such transactions are conducted other than in the ordinary course of the Company's business or other than under normal arm's length conditions. <p>To this end, the directors must give written notice to the secretary of the Board of Directors, on a semi-</p>

annual basis, within the first week of January and July of each year, regarding the Related-Party Transactions that they have engaged in. If they are not carried out, the directors shall so report. The secretary of the Board of Directors shall send a notice to the directors on a semi-annual basis requesting the appropriate information that must be sent to the Company.

11. The notice must include the following information: the nature of the transaction; the date on which the transaction originated; the conditions and periods for payment; the name of the person who carried out the transaction and the relationship, if any, with the director; the amount of the transaction; and other aspects, such as pricing policies, guarantees given and received, and any other feature of the transactions that allows for a proper assessment thereof, particularly such information as allows for verification that it has been carried out on arm's length conditions and in compliance with the principle of equal treatment.

12. The secretary of the Board of Directors shall prepare a register of Related-Party Transactions. The information set forth in such register shall be made available to the Compliance Unit when it so requests, and shall also periodically be made available to the Audit and Risk Supervision Committee through the Internal Audit Area Division.

D.2. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's significant shareholders:

Individual or company name of the significant shareholder	Individual or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
QATAR INVESTMENT AUTHORITY	IBERDROLA, S.A.	Corporate	Dividends and other distributed benefits	18,948

D.3. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's directors or officers:

Individual or company name of directors or officers	Individual or company name of related party	Relation	Nature of the relationship	Amount (thousands of euros)

D.4. Report the significant transactions made by the company with other entities belonging to the same group, provided they are not eliminated in the preparation of the consolidated accounts and they are not part of the ordinary course of business of the company as to their purpose and conditions.

In any case, report any intragroup transaction with entities established in countries or territories considered to be tax havens:

Name of the entity within the group	Brief description of the transaction	Amount (thousands of euros)
SIEMENS GAMESA RENEWABLE ENERGY GROUP	Purchase of material assets	365,038
SIEMENS GAMESA RENEWABLE ENERGY GROUP	Receipt of services	55,445

SIEMENS GAMESA RENEWABLE ENERGY GROUP	Purchase of goods (finished or in progress)	1,836
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D.5. State the amount of transactions with other related parties.

Amount (thousands of euros)	
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D.6. Describe the mechanisms used to detect, determine, and resolve potential conflicts of interest between the company and/or its group, and its directors, officers, or significant shareholders.

1. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE DIRECTORS

Pursuant to the Regulations of the Board of Directors, a conflict of interest shall be deemed to exist in those situations provided by law, particularly when the interests of the director, either for their own or another's account, directly or indirectly conflict with the interest of the Company or of companies within the Group and their duties to the Company. An interest of a director shall exist when a matter affects the director or a person related thereto or, in the case of a proprietary director, when it also affects the shareholder or shareholders that proposed or caused the appointment thereof or persons directly or indirectly related thereto.

Such article contains a list of persons deemed to be related for such purposes, distinguishing between an individual and a corporate director.

Conflicts of interest shall be governed by the following rules:

- a) Communication: once a director becomes aware of being in a situation of conflict of interest, the director must give written notice of the conflict to the Board of Directors, in the person of the secretary thereof. The secretary shall periodically submit a copy of the notices received to the Appointments Committee, in the person of the secretary thereof.

The notice shall contain a description of the situation giving rise to the conflict of interest, with a statement as to whether it is a direct conflict or an indirect conflict through a related person, in which case the latter person must be identified.

The description of the situation must describe, as applicable, the subject matter and the principal terms of the transaction or the planned decision, including the amount thereof or an approximate financial assessment thereof. If the situation giving rise to the conflict of interest is a Related-Party Transaction (as this term is defined in article 43), the notice shall also identify the department or person of the Company or of any of the companies of the Group with which the respective contacts were made.

Any question as to whether a director might be involved in a conflict of interest must be forwarded to the secretary of the Board of Directors, and the director must refrain from taking any action until it is resolved.

- b) Abstention: if the conflict arises from an operation, transaction, or circumstance that requires any kind of operation, report, decision, or acceptance, the director must refrain from taking any action until the Board of Directors studies the case and adopts and informs the director of the appropriate decision.

To this end, the director shall leave the meeting during the deliberation and voting on those matters in which the director is affected by a conflict of interest, and shall not be counted in the number of members attending for purposes of the calculation of a quorum and majorities.

At each meeting of the Board of Directors and of the committees thereof, the secretary reminds the directors, before dealing with the agenda, of the abstention rule established in this article.

- c) Transparency: whenever required by law, the Company shall report any cases of conflict of interest in which the directors have been involved during the financial year in question and of which the Company is aware by reason of notice given thereto by the director affected by such conflict or by any other means.

However, if the conflict of interest situation is, or may reasonably be expected to be, of a structural and permanent nature, it shall be deemed that there is a loss of the competence required to hold office. In this

regard, the Regulations of the Board of Directors provide that a loss of competence is an event of resignation, removal and cessation of the director.

2. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE SENIOR OFFICERS AND OTHER PERSONS SUBJECT TO CONFLICT OF INTEREST RULES

The Procedure for Conflicts of Interest and Related-Party Transactions with Senior Officers subjects these kinds of conflicts to the same rules of communication, abstention, and transparency.

3. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND SIGNIFICANT SHAREHOLDERS

Transactions between companies forming part of the group with significant shareholders or shareholders that have proposed the appointment of any of the directors and their respective related persons are also dealt with in the Regulations of the Board of Directors mentioned in section D.1. They must be carried out on arm's-length conditions and be previously approved by the Board of Directors. Thus, approval by the shareholders at a General Shareholders' Meeting shall be required if the value of the transaction exceeds 10% of the corporate assets, and all transactions shall be reported in the Annual Corporate Governance Report and in the Annual Financial Report.

4. CONFLICTS OF INTEREST WITH OTHER EMPLOYEES

The Code of Ethics, which dedicates a specific section to conflicts of interest, applies to all professionals within the group, regardless of rank.

D.7. Is more than one company of the group listed in Spain?

Yes ☐ No ☒

Identify the subsidiaries listed in Spain:

Listed subsidiaries

State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the group:

Yes ☐ No ☐

Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies within the group

Identify the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the group:

Mechanisms for the resolution of possible conflicts of interest

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1. Explain the scope of the company's Risk Management System, including the system for managing tax risks.

The General Risk Control and Management Policy and the Risk Policies that further develop such risks apply to all companies over which the Company has effective control, within the limits established by the laws applicable to the regulated activities carried out by the group in the various countries in which it operates.

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

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

Developed in accordance with the following basic action principles:

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

Crime Prevention Policy and in the Anti-Corruption and Anti-Fraud Policy.

Excluded from the scope of this policy are listed country subholding companies and the subsidiaries thereof which, pursuant to their own special framework of strengthened autonomy, have their own risk policies approved by their competent bodies. In any event, said risk policies must be in accord with the principles set forth in this *General Risk Control and Management Policy* and in the other *Risk Policies* of the Company.

At those companies in which the Company has an interest but which do not belong to the Group, the Company shall promote principles, guidelines and risk limits consistent with those established in the *General Risk Control and Management Policy* and in its supplemental *Risk Policies* and shall maintain appropriate channels of information to ensure a proper understanding of risks.

E.2. Identify the decision-making bodies of the company responsible for preparing and implementing the Risk Management System, including the system for managing tax risks.

1. BOARD OF DIRECTORS

Within the scope of its powers, and with the support of the Audit and Risk Supervision Committee, the Board of Directors undertakes to develop all of its capabilities in order for the significant risks to all the activities and businesses of the Group to be adequately identified, measured, managed and controlled, and to establish through the *General Risk Control and Management Policy* the mechanisms and basic principles for appropriate management of the risk/opportunity ratio. By virtue thereof, it defines the risk strategy and profile and approves the Group's *Risk Policies*.

2. EXECUTIVE COMMITTEE

In order to align the risk impact with the established risk appetite, the Executive Committee of the Board of Directors, acting at the proposal of the business or corporate divisions involved and upon a prior report from the Group's Risk Committee, annually reviews and approves specific guidelines regarding the risk limits from the *Corporate Risk Policies*.

3. AUDIT AND RISK SUPERVISION COMMITTEE

As a consultative body of the Board of Directors, it is vested with the following powers, among others, regarding the internal control and risk management systems:

- Directly supervise the Risk Division and maintain an appropriate relationship therewith and with the audit and compliance committees of the other companies of the Group.
- Continuously review the internal control and risk management systems, such that the principal risks are properly identified, managed, and reported.
- Supervise the effectiveness of the internal control and risk management systems, making proposals for improvement.
- Obtain information regarding any significant deficiency in internal control that the auditor detects while carrying out its audit work.
- Ensure that the Group's risk control and management system identifies at least:
 - The various risk factors to which the Company is exposed.
 - The establishment and review of the risk map and the risk levels deemed acceptable.
 - The measures in place to mitigate the potential impact of identified risks.
 - The internal control and reporting systems to be used to control and manage such risks.
- Promote (within the limits of its powers) a culture in which risk is a factor that is taken into account in the decisions of the Company.
- Identify and evaluate emerging risks, like those arising from technological, climactic, social and regulatory risks, as well as existing alert mechanisms, periodically evaluating the effectiveness thereof.
- Obtain creditable information as to whether the most significant risks are managed and maintained within the tolerance figures that have been established, and evaluate the various risk tolerance levels established in the *Risk Policies*, proposing the adjustment thereof based on

information received from the various divisions and areas.

- Annually receive the heads of the businesses of the Group for them to report on the trends of their respective businesses and the risks associated therewith.
- Report in advance on the risks of the Group to be included in the Company's *Annual Corporate Governance Report*.
- (Specifically in the tax area) Receive from the Company's tax director information on the tax guidelines used by the Company during the financial year and, in particular, on the level of compliance with the *Corporate Tax Policy*, and report to the Board of Directors on the tax policies applied and, in the case of transactions or matters that must be submitted to the Board of Directors for approval, regarding the tax consequences thereof when such consequences represent a significant issue.

4. BOARDS OF DIRECTORS OF COUNTRY SUBHOLDING COMPANIES OF THE PRINCIPAL COUNTRIES IN WHICH THE GROUP OPERATES

The country subholding companies adopt the Group's risk policies and specify the application thereof, approving the guidelines on specific risk limits based on the nature and particularities of the businesses in each country.

The management decision-making bodies of the head of business companies of each country must approve the specific risk limits applicable to each of them and implement the control systems required to ensure compliance therewith.

Pursuant to their framework of strengthened autonomy, Avangrid and Neoenergia have their own risk policies.

5. CORPORATE RISK COMMITTEE

The Risk Committee of the Iberdrola Group is a technical body chaired by the chief financial officer, and which performs executive duties in connection with customary risk management and gives advice to the Group's governance bodies.

The Committee meets at least once per month, with the participation of the Group's Director of Risk Management, those responsible for risks at the corporate businesses and areas that have a Risk Management function, the Internal Audit Division and the Administration and Control Division.

The Group's Risk Committee is complemented with the Corporate Credit Risk and Market Risk Committees, which report to said Risk Committee and which meet on a fortnightly and monthly basis, respectively, to discuss and decide on credit and market (financial and commodities) risk issues.

This Committee reviews the various risks and issues a *Group Quarterly Risk Report*, which includes the main risk positions, a report on compliance with limits and indicators, and an update of the key risk maps.

E.3. Point out the principal risks, including tax risks, that could affect the achievement of business goals.

The group is subject to various risks inherent in the different countries, industries and markets in which it does business and in the activities it carries out, which may prevent it from achieving its objectives and successfully implementing its strategies.

The section entitled "Main risks and uncertainties" of the *Management Report* within the *Annual Report for financial year 2017* provides a detailed description of the principal risks associated with the activities carried out by the main businesses of the group, as well as the risks of the corporation.

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

Pursuant to the definitions established by the *General Risk Control and Management Policy*, at the group level, risks are classified as follows:

- a) Corporate Governance Risks: the Company accepts the need to achieve the fulfilment of the corporate interest and the sustained maximisation of the economic value of the Company and its long-term success, in accordance with the Group's corporate interest, culture and corporate vision,

taking into account the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders and the communities and regions in which the Company and its employees act. A fundamental requirement for the foregoing is compliance with the Company's Corporate Governance System, made up of the *By-Laws*, the *Mission, Vision and Values of the Iberdrola group*, the *Corporate Policies*, the internal corporate governance rules and the other internal codes and procedures approved by the competent decision-making bodies of the Company and inspired by the good governance recommendations generally recognised in international markets.

- b) **Market Risks:** understood as the exposure of the Group's results and assets to changes in market prices and other variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO2 emission allowances, other fuel, etc.), prices of financial assets and others.
- c) **Credit Risks:** defined as the possibility that a counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties can be end customers, counterparties in financial or energy markets, partners, suppliers or contractors.
- d) **Business Risks:** defined as the uncertainty regarding the performance of key variables inherent in the different activities of the Group through its businesses, such as the characteristics of demand, weather conditions and the strategies of different players.
- e) **Regulatory and Political Risks:** are those arising from regulatory changes made by the various regulators, such as changes in compensation of regulated activities or in the required conditions of supply, or in environmental or tax regulations, including risks relating to political changes that might affect legal security and the legal framework applicable to the businesses of the Group in each jurisdiction, nationalisation or expropriation of assets, the cancellation of operating licences and the early termination of government contracts.
- f) **Operational, Technological, Environmental, Social and Legal Risks:** are those related to direct or indirect economic losses resulting from external events, inadequate internal procedures, technical failures, human error and/or fraud, including those relating to climate change, information technology, cybersecurity and the risk of technological obsolescence.
- g) **Reputational Risks:** potential negative impact on the value of the Company resulting from conduct on the part of the Company that is below the expectations created among various stakeholders, as defined in the *Stakeholder Relations Policy*.

E.4. Identify whether the entity has a risk tolerance level, including one for tax risk.

The Company's Board of Directors annually reviews and approves the acceptable risk tolerance levels for the group. The *General Risk Control and Management Policy*, together with the policies that develop and complement it, qualitatively and quantitatively establish, in sufficiently detailed form, the risk appetite that is annually accepted both at the Group level and at the level of each of its main businesses and corporate functions.

By way of supplement, once such limits and guidelines are considered in order to verify the risk assumed globally in the annual profit and loss account, the Administration and Control Division engages in a comprehensive probability analysis of the remaining global risk for the year at the time of approving the annual budget.

In addition, all new multi-year plans are accompanied by their associated risk analysis.

The *General Risk Control and Management Policy* is developed and supplemented through the following policies, which are also approved by the Company's Board of Directors:

Corporate risk policies and limits:

- *Corporate Credit Risk Policy*
- *Corporate Market Risk Policy*
- *Operational Risk in Market Transactions Policy*
- *Insurance Policy*
- *Investment Policy*

- *Financing and Financial Risk Policy*
- *Treasury Share Policy*
- *Risk Policy for Equity Interests in Listed Companies*
- *Reputational Risk Framework Policy*
- *Procurement Policy*
- *Information Technologies Policy*
- *Cybersecurity Risk Policy*

Risk policies for the various businesses of the Group:

- *Risk Policy for the Networks Businesses of the Iberdrola Group*
- *Risk Policy for the Renewable Energy Businesses of the Iberdrola Group*
- *Risk Policy for the Liberalised Businesses of the Iberdrola Group*
- *Risk Policy for the Real Estate Business*

The limits and indicators of the risk policies must be consistent with the annual Budget and the objectives established in the multi-annual investment plans. The numeric values of the limits and indicators set out in the various policies are based on probabilities or of a deterministic nature (like VaR or at-risk EBITDA) and are expressed in monetary units, indices or references upon which volumetric risk and/or figures are based, including:

- Limits on maximum global credit risk exposure by type of counterparty
- Limits to market risk proportional to the volume of activity of each business
- Strict global limit on discretionary energy trading
- Limits on operational risk through preventive maintenance programmes and insurance programmes
- Strict limits on activities not associated with the main energy business

The *Corporate Tax Policy* establishes the limits on tax risk by setting the tax strategy, principles of conduct and good tax practices assumed by the Company.

The *General Risk Control and Management Policy*, as well as a summary of the supplementary risk policies, are available on the corporate website (<https://www.iberdrola.com/corporate-governance/corporate-governance-system/corporate-policies>).

E.5. State what risks, including tax risks, have materialised during the financial year.

The group has been negatively affected during the year by events described further below, although these events have been offset at the net profit level by the following positive events:

- The merger of Gamesa Corporación Tecnológica with Siemens Wind Power, which contributed 255 million euros to net profit, including 198 million euros for the extraordinary merger dividend. As a result of this merger, the Company holds an 8.071% interest in the merged entity.
- The positive impact on the consolidated accounts of the group of 1,284 million euros after taxes as a result of the tax reform approved in the United States of America at the end of 2017.

Risks that have materialised include:

- The major drought that affected Spain during 2017, with the decrease in the Group's hydroelectric production to 7.9 TWh, compared to 18.3 TWh produced in 2016 (an exceptionally good year) and the steep drop in the Group's hydrological reserves, which were at historical minimums as at 31 December 2017.
- The adverse regulatory and market environment faced by the retail electricity and gas business in the United Kingdom.

- The recording in financial year 2017 results of extraordinary expenses in the amount of 129 million euros with respect to EBITDA as a result of the major storms affecting the networks businesses in the United States of America during the year (which expenses should be recovered in subsequent years, according to the applicable regulatory frameworks).
- The writeoff of 512 million euros after taxes for the gas storage and transport businesses in the United States of America and in Canada.
- The adverse performance of some of the projects of Iberdrola Engineering & Construction, the activities of which are now classified as discontinued operations, with a negative contribution to the consolidated net profit of the group in 2017 of 253 million euros after taxes.
- The required tax payment communicated in November 2017 by the Spanish Tax Agency in the amount of 665 million euros in enforcement of the obligation established in Commission Decision (EU) 2015/314 on the recovery of aid declared to be incompatible with the internal market (tax amortisation of goodwill generated by the acquisitions of Scottish Power, Energy East and Rokas). The payment of this amount is provisionally suspended by decision of the General Court of the European Union after the appeal of said Decision by Iberdrola. Most of this amount is covered by passive deferred taxes recorded in accordance with accounting rules, as the tax incentive is considered to be a temporary difference. It need not be provisioned to the extent that the Company, its tax advisors and its external auditors find the arguments used to be sound, which gives confidence in the future favourable resolution of the appeal that was filed.
- The international ransomware cyberattack that occurred on 12 May 2017, which only partially affected some of the Iberdrola group's activities in Spain. The cybersecurity measures implemented at all businesses and corporate functions and the current action protocols ensured that no critical service, operation or customers were at any time significantly affected.

Finally, it should be noted that activities in financial year 2018 will be subject to the following risk factors:

- Possible acceleration of the withdrawal of the monetary stimulus scheme of the European Central Bank, with the resulting risk of increases in interest rates, and thus in financial expenses.
- The process of negotiation of the exit of the United Kingdom from the European Union and the impact thereof on macroeconomic conditions in that country and on the pound/euro exchange rate.
- In Mexico, developments in the NAFTA negotiations among Mexico, the United States of America and Canada, and the potential impact thereof on the Mexican economy.
- In Brazil, the general elections to be held in October 2018 and the potential impact thereof on the strengthening of the economic recovery that began in 2017.
- A possible prolongation of the period for recovering the group's dam levels in Spain after the major drought in 2017, with the resulting impact on hydroelectric production capacity forecast for financial year 2018.
- The difficult regulatory and market environment that the retail electricity and gas business will continue to face in the United Kingdom after the announcement of the imposition of a future maximum value on "standard variable tariff" contracts.
- Growing competition in renewables auctions in various jurisdictions, due to the entry of new players that submit aggressive offers, which can make it difficult to obtain the award of new projects that are attractive in terms of profitability.
 - Changes in the prices of electricity and commodities in the various countries in which it operates.

E.6. Explain the plans for responding to and supervising the entity's main risks, including tax risks.

The Comprehensive Risk System, together with the Company's control and management policies and systems that develop it, including the Group's Risk Committee and the Company's Operating Committee,

have allowed for the identification of new risks and threats sufficiently in advance, and to establish appropriate mitigation plans.

The Company's Operating Committee meets on close to a weekly basis.

The Group's Risk Committee meets on a monthly basis, reviews the various risks, and on a quarterly basis approves a Quarterly Risk Report of the Group, which includes the main risk positions, a report on compliance with policies and limits, and an update of the key risk maps.

The Audit and Risk Supervision Committee of the Board of Directors periodically monitors the evolution of the Company's risks at least on a quarterly basis:

- It reviews the Quarterly Risk Reports of the Group, which include monitoring compliance with risk limits and indicators and updated key risk maps, submitted by the Group's director of Corporate Risks.
- It coordinates and reviews Risk Reports sent periodically (at least half-yearly) by the audit and compliance committees of the country subholding companies and head of business companies of the Group.
- It prepares a Risk Report for the Board of Directors at least half-yearly.

F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFRS)

Describe the mechanisms making up the risk control and management systems with respect to the process of issuing the entity's financial information (ICFRS)

F.1. Control environment at the entity

Indicate at least the following, specifying the main features thereof:

F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective internal control over financial reporting system (ICFRS); (ii) the implementation thereof; and (iii) oversight thereof.

The Board of Directors has the ultimate responsibility for the existence of an adequate and effective internal control over financial reporting system (ICFRS) lies with the Board of Directors of Iberdrola. The Boards of Directors of the country subholding companies and the head of business companies also have this responsibility within their various purviews.

The persons in charge of the country subholding companies and the head of business companies, together with the respective control officers, as well as the directors of the global corporate areas, are responsible for the design and implementation of the ICFRS. Such responsibility is expressly set forth in the certifications signed by such persons on a half-yearly basis in connection with the financial information for their respective areas of responsibility.

Pursuant to article 26.6.d of the *Regulations of the Board of Directors*, the Audit and Risk Supervision Committee has the power to monitor the effectiveness of the internal control of the Company and its Group. The Committee draws on the support of the Internal Audit Area Division to discharge such responsibility. Any audit and compliance committees at the country subholding and head of business companies have this power within their respective purviews.

F.1.2. Whether any of the following are in place, particularly as regards the financial information preparation process:

- **Departments and/or mechanisms in charge of: (i) the design and revision of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of work and duties; and (iii) ensuring that there are sufficient procedures for the proper dissemination thereof at the entity.**

The Board of Directors of Iberdrola defines the top-level organisational structure. The heads of such top-level organisations, together with the Human Resources Division, are responsible for deployment within their respective areas.

Each top-level division prepares a proposed organisation structure, including a description of the mission, duties and responsibilities of the various organisations deployed, which must then be validated by the Human Resources and General Services Division, as well as by the Finance and Resources Division.

Primary responsibility for the preparation of financial information lies with the corporate Administration and Control Division. This division proposes the structure of those responsible for Control at the country subholding and head of business companies and is in charge of coordinating and supervising their activities.

- **Code of conduct, body that approves it, degree of dissemination and instruction, principles and values included (indicating whether the recording of transactions and the preparation of financial information are specifically mentioned), body in charge of reviewing breaches and of proposing corrective actions and penalties.**

The Iberdrola Group has a Code of Ethics, approved by the Board of Directors.

According to article 2.1 thereof, “the principles and guidelines for conduct contained in the Code of Ethics apply to all of the Group’s professionals, regardless of seniority, geographic or functional location, or the company of the Group for which they provide their services”. The Code of Ethics is communicated to and disseminated among the professionals of the Iberdrola Group in accordance with the plan approved for such purpose by the Compliance Unit.

Article 31 of the *Code of Ethics* expressly provides as follows:

“The Group shall provide true, proper, useful and consistent information regarding its programmes and actions. The transparency of the information required to be disclosed is a basic principle that must govern the actions of Group professionals.

The economic/financial information of the Group (especially the annual accounts) shall faithfully reflect its economic and financial position and its net worth, in accordance with generally accepted accounting principles and applicable international financial reporting standards. For such purposes, no professional shall conceal or distort the information set forth in the accounting records and reports of the Group, which shall be complete, accurate and truthful.

A lack of honesty in the communication of information, whether internally within the Group (to employees, subsidiaries, departments, internal bodies, management decision-making bodies, etc.) or outside the Group (to auditors, shareholders and investors, regulatory entities, the media, etc.) is a breach of the *Code of Ethics*. This includes delivering incorrect information, organising it in an incorrect manner or seeking to confuse those who receive it”.

Control of the application of the Company’s Compliance System is a duty of the Compliance Unit, a body linked to the Corporate Social Responsibility Committee of the Company’s Board of Directors, with duties in the area of regulatory compliance and the Company’s Corporate Governance System. This Unit approves the *General Compliance System Framework of the Iberdrola group*, which contains the basic principles of structure and operation of the Group’s Compliance System as well as the duties and responsibilities of the various bodies involved. The Unit also evaluates and prepares an annual report on the effectiveness of the Compliance System of the Company and of the other companies of the Group. The report is submitted to the Corporate Social Responsibility Committee, which renders its opinion and forwards it to the Board of Directors.

The Compliance Unit also has the duty to determine whether a Group professional has conducted activities in violation of the law or of the *Code of Ethics* and, if applicable, to direct the Human Resources Division, or the Division responsible for the human resources function at the relevant group company, to apply disciplinary measures in accordance with the rules on breach of duties and penalties contained in the collective bargaining agreement to which the professional belongs or in applicable labour law provisions.

Pursuant to article 41.1 thereof, the professionals of the Group expressly accept the rules of conduct established in the *Code of Ethics*.

In addition, pursuant to article 41.2, professionals who join or become part of the Group in the future shall expressly accept the principles and rules of conduct set forth in the *Code of Ethics*, which document shall be attached to their respective employment contracts.

- **Reporting channel that makes it possible to report any irregularities of a financial or accounting nature to the audit committee, as well as any possible breach of the code of conduct and irregular activities at the organisation, specifying, if appropriate, whether it is confidential.**

Iberdrola has a procedure in place that must be followed by all employees of the Group who wish to report potentially significant irregularities of a financial and accounting nature and that allows them to report such irregularities, by e-mail or regular mail, to the chair of the Audit and Risk Supervision Committee.

As established in the procedure itself, the Company’s Board of Directors guarantees that the name of the reporting person and the irregularity reported shall be treated in the strictest confidence, both in the reporting process and in any process for the assessment and clarification of the facts conducted by the Audit and Risk Supervision Committee and the organisations of the Company or third parties participating at the request of such Committee.

In accordance with the above-mentioned procedure, the chair of the Audit and Risk Supervision Committee receives and admits the report for further processing. Such admission is made on the basis of the requirements established in the procedure (name of the sender, sufficiently detailed information on the situation reported, need for the report to fall within the scope of the channel, confidentiality guarantee, personal data protection, etc.).

No reports were received during financial year 2017.

- **Regular training and update programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, covering at least accounting standards, auditing, internal control and risk management.**

Personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, receives regular training on accounting standards, auditing, internal control, and risk management, according to its specific responsibilities.

In accordance with the organisational structure of the Iberdrola Group, the divisions that have a direct relationship with these types of duties are the Internal Audit Division, the Administration and Control Division and the Finance and Resources Division.

During financial year 2017, the personnel involved in these duties received 8,013 hours of training in these areas, which are further described below:

	Training Sessions	Participants	Total Hours
Brazil	18	88	739
United States	24	801	1,094
Spain	82	472	3,617
Mexico	20	248	547
United Kingdom	34	815	2,017
Total	178	2,424	8,013

Most of these courses are provided by external entities: business schools, universities or consulting firms specialising in economic/financial issues.

The technical training activities in which these professionals engaged include:

- Payroll Issues for Multi-State Employers
- Income & Sales tax School
- NAMS-PPM training
- UK VAT & International Trade
- VAT & Custom duty control import cost
- Corporate accounts payable model
- Electronic billing
- Audit techniques
- Procurement procedure
- FIDIC Rules (Mexico)

Also noteworthy is attendance at various conferences, symposia and seminars in the areas of accounting, tax and internal audit, at both the local and international levels.

Generally, these professionals have taken various courses to improve their qualifications in the use of the office automation tools required to perform their duties, mainly Excel and the management of databases.

It should be noted that several international meetings were organised during 2017 among the professionals in these areas, like the "XI Global Internal Audit Days", "V-Global Tax Meeting" and "Finance & Treasury Global Meeting".

F.2 Risk assessment of financial information

Indicate at least the following:

F.2.1. What are the main features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:

- **Whether the process exists and is documented.**

The process for the identification of risks of error in financial information is one of the most important steps in the method for the development of internal control of the financial information of Iberdrola, and the goals, implementation and results thereof are documented.

The method starts with a review of the consolidated financial information of the Iberdrola Group and of the various country subholding companies in order to select the most significant accounts and notes to the accounts, in accordance with both quantitative (materiality) and qualitative (business risk and visibility to third parties) standards. The selected accounts and notes are grouped into management cycles or large processes in which the selected information is generated. The cycles are analysed and a description of each is prepared, as a way of identifying possible risks of error in the financial information, in connection with attributes such as completeness, presentation, assessment, cut-off, recording, and validity. The identified risks are submitted to a process of prioritisation, such that the most significant ones are selected by applying professional judgement on a number of indicators (existence of documented processes and controls, existence of systems that automate the processes, whether there have been any incidents in the past, whether the process is known and mature, or whether judgements need to be made to make estimates). The risks of fraud are not explicitly identified, although they are taken into account to the extent that they might generate material errors in financial information.

Once the most significant risks have been selected, the controls needed to mitigate or manage them are selected and designed; such controls are monitored, documented, and systematically reviewed by the Internal Audit Area.

The risks selected are reviewed at least on an annual basis, within the framework of the assessment of the effectiveness of internal control carried out by the persons or divisions responsible therefor. The purpose of such review is to adjust the risks to the changing circumstances in which the Company operates, particularly in the event of changes in the organisation, information technology systems, regulations, products, or the situation of the markets.

- **Whether the process covers all the objectives of financial information (existence and occurrence; completeness; assessment; presentation, breakdown and comparability, and rights and obligations), whether it is updated, and how often.**

As mentioned above, the cycles or large processes in which financial information is generated are reviewed at least on an annual basis in order to identify possible risks of error, in connection with attributes such as validity (existence and authorisation), completeness, assessment, presentation, cut-off, and recording.

- **The existence of a process for the identification of the scope of consolidation, taking into account, among other matters, the possible existence of complex corporate structures, holding entities, or special purpose entities.**

The scope of consolidation is identified on a monthly basis, and the result thereof is the updated corporate map, which expressly identifies the changes that occurred in each period.

This review covers all companies in which Iberdrola or any of its subsidiaries has an interest, no matter how small.

In accordance with the provisions of section 529 of the *Companies Act*, the *Regulations of the Board of Directors* provide that the Board of Directors has the power to, among other things, approve the creation or acquisition of equity interests in special purpose entities ("SPEs") or entities registered in countries or territories that are considered to be tax havens ("THEs"), as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the Group.

In accordance with the same law, the *Regulations of the Audit and Risk Supervision Committee* of Iberdrola provide that the Audit Committee must report to the Board of Directors prior to such decisions being adopted on the creation or acquisition of said entities.

Accordingly, whenever the Company intends to create a special purpose entity or an entity registered in a tax haven, or to acquire an interest in one, the transaction requires a favourable report of the Audit and Risk Supervision Committee and subsequent approval of the Board of Directors.

There are specific procedures for such purpose, tailored to the current corporate governance model, according to which such initiative is to be taken by the Division of the Group or country subholding company, head of business company or company in which an interest is held through them, that intends to create or acquire a special purpose company or a company registered in a tax haven. In the case of listed country subholding companies of the Group or subsidiaries thereof, the audit and compliance committee or equivalent body of said listed country subholding company will issue the relevant report.

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.**

The process for the identification of risks of error in financial information takes into account the effects of other types of risks (operational, technological, legal, tax, reputational, environmental, etc.) to the extent that they affect the accounts; such risks are assessed and managed by different corporate units such as the Risk Division or Legal Services, among others. However, no express identification of such other types of risks is carried out to identify financial information risks.

- **What governance body of the entity supervises the process.**

The governance body that supervises the process is the Audit and Risk Supervision Committee, which draws on the support of the Internal Audit Area Division to discharge this responsibility.

F.3. Control activities

Indicate whether at least the following are in place and describe their main features:

F.3.1. Procedures for review and authorisation of financial information, and description of the internal control over financial reporting system to be published in the securities market, indicating the persons or divisions responsible therefor, as well as documentation describing the flows of activities and controls (including those relating to risk of fraud) of the various types of transactions that could materially affect the financial statements, including the closing process and the specific review of significant judgements, estimates, assessments, and projections.

The process or structure of certification of financial information, conducted formally on a half-yearly basis, on the dates of the year-end and interim closing processes, reflects the manner in which financial information is generated in the Group.

In such structure, the persons in charge of the country subholding companies and those responsible for the head of business companies, together with the respective directors of control, and the heads of the global corporate areas, certify both the reliability of the financial information in the areas under their responsibility (which is the information they provide for purposes of consolidation at the Group level) and

the effectiveness of the internal control system established to reasonably ensure such reliability. Finally, the chairman & chief executive officer, as the highest executive authority, and the director of Administration and Control, as the person responsible for the preparation of financial information, certify the reliability of the consolidated accounts to the Board of Directors.

The Audit and Risk Supervision Committee, with the support of the Internal Audit Area Division, supervises the entire certification process, and submits the conclusions of such review to the Board of Directors at the meetings at which the accounts are formally approved.

As regards the description of the internal control over financial reporting system (ICFRS) to be published in the securities markets, the review and authorisation procedure is the same as that used for all contents of an economic and financial nature of the *Annual Corporate Governance Report*.

The documentation of the internal control over financial reporting system includes high-level descriptions of the cycles of generation of selected significant financial information, as well as detailed descriptions of the prioritised risks of error and of the controls designed to mitigate or manage them. The description of the controls includes the evidence to be obtained in the implementation thereof, which is necessary for its review.

Each of the closing processes performed at the business units is regarded as a cycle, and the same is true of all the closing activities performed at the corporate level, of the global consolidation process, and of the process for preparation of the notes to the accounts. As a result, all such activities are subject to the methodological process described in the section relating to risks.

The specific review of critical accounting judgements and significant estimates, assessments, and projections is subject to specific controls within the model, since this type of matter entails the identification of risks of error in the different cycles in which they are made. In many cases, the evidence of such specific controls is the media supporting such reviews.

Independently of the certification process followed in the countries, businesses, and corporate areas, the Audit and Risk Supervision Committee, again with the support of the Internal Audit Division, performs an overall review of financial information on a quarterly basis, ensuring that the half-yearly financial reports and the quarterly management statements are prepared using the same accounting standards as the annual financial reports, verifying the proper delimitation of the scope of consolidation as well as the proper application of generally accepted accounting principles and international financial reporting standards.

F.3.2. Policies and procedures of internal control over reporting systems (including, among others, security of access, control of changes, operation thereof, operational continuity, and segregation of duties) that provide support for the significant processes of the entity in connection with the preparation and publication of financial information.

The controls used to mitigate or manage the risks of error in financial information include controls relating to the most significant computer applications, such as controls of user access permissions or of the integrity of the transfer of information between applications, the transaction, and change management.

In addition, the Iberdrola Group has guidelines or regulations as well as procedures for internal control over reporting systems in connection with software acquisition and development, the acquisition of system infrastructure, software installation and testing, change management, service level management, management of the services provided by third parties, system security and access thereto, management of incidents, operation management, continuity of operations, and segregation of duties.

Such guidelines and procedures (which, in some cases, differ according to geographical area or type of solution and are in the process of progressive standardisation) are applied across all information systems supporting significant financial information generation processes, and on the infrastructure required for the operation thereof.

The Iberdrola Group also has an *Information Technologies Policy* that contemplates the management of risks associated with the use, ownership, operation, participation, influence and adoption of specific information technology and the processes for the management and control thereof.

This provides a general controls model integrated with the risk management model that allows for a global evaluation of the risks relating to information technology.

This model includes a periodic evaluation of the effectiveness of the controls on information technologies implemented in the area of the financial systems, adopting the appropriate measures if any incident is

detected.

The heads of the Iberdrola Group's information technology systems certify the effectiveness of the internal controls established on financial information systems on an annual basis.

F.3.3. Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as those aspects of assessment, calculation or valuation entrusted to independent experts, which may materially affect the accounts.

Generally speaking, the Iberdrola Group has no significant duties outsourced to third parties that have a direct impact on financial information. The assessments, calculations, or valuations entrusted to third parties that may materially affect the accounts are regarded as significant financial information generating activities that lead, if appropriate, to the identification of high-priority risks of error, which, in turn, entails the design of associated internal controls. Such controls cover the review and internal approval of the basic assumptions to be used, as well as the review of the assessments, calculations, or valuations made by outside parties, by verifying them against calculations made internally.

F.4. Information and communication

Indicate whether at least the following are in place and describe their main features:

F.4.1. A specific function charged with defining and updating accounting policies (accounting policy area or department) and with resolving questions or conflicts arising from the interpretation thereof, maintaining fluid communications with those responsible for operations at the organisation, as well as an updated accounting policy manual that has been communicated to the units through which the entity operates.

The Accounting Practices Division, reporting directly to the director of Administration and Control, is responsible for defining and updating accounting policies, as well as for resolving questions or conflicts stemming from the interpretation thereof. It maintains fluid communications with those responsible for the operation of the organisation and, especially, with those responsible for accounting functions. It publishes a quarterly newsletter, widely disseminated within the Group, on new accounting developments in connection with IFRS, which includes regulation updates (laws and regulations that come into force, drafts issued, laws and regulations enacted, laws approved and pending approval by the European Union, and expected future laws and regulations) as well as accounting questions asked internally, together with the conclusions in respect thereof.

The Accounting Practices Division is also responsible for continuously updating the Group's accounting practices manual and for the appropriate dissemination thereof.

The accounting manual is updated continuously. For this purpose, the Accounting Practices Division analyses whether new developments or changes in accounting matters have an effect on the Group's accounting policies, as well as the effective date of each of such laws or regulations. When a new law or regulation, or interpretation thereof, is identified as having an effect on the Group's accounting policies, it is included in the manual and is also communicated to those responsible for preparing the Group's financial information by means of the quarterly newsletters mentioned above, and there is an update of the application in which the manual is maintained.

The updated version of the manual is available in an application on the Group's internal network. This application is also accessible by VPN over the internet and can be linked to e-mail. Any change or the inclusion of a document within the manual generates a notice by e-mail to all users.

F.4.2. Mechanisms to capture and prepare financial information with standardised formats, to be applied and used by all units of the entity or the group, supporting the principal accounts and the notes thereto, as well as the information provided on the internal control over financial reporting system.

The mechanism to capture and prepare the information supporting the principal accounts of the Iberdrola Group is based primarily on the use of a unified management consolidation tool (known as BPC)

accessible from all geographical areas, currently deployed across the entire Group.

A large portion of the information supporting the breakdowns in and notes to the financial information is included in the consolidation tool, and the rest is captured on standardised spreadsheets known as reporting packages, which are prepared for the half-year and year-end closing processes.

F.5. Supervision of the operation of the system

Indicate and describe the main features of at least the following:

F.5.1. The activities of supervision of the internal control over financial reporting system (ICFRS) performed by the audit committee, as well as whether the entity has an internal audit function whose duties include providing support to the committee in its work of supervising the internal control system, including the internal control over financial reporting system. Information is also to be provided concerning the scope of the assessment of the internal control over financial reporting system performed during the financial year and on the procedure whereby the person or division charged with performing the assessment reports the results thereof, whether the entity has an action plan in place describing possible corrective measures, and whether the impact thereof on financial information has been considered.

The activities of supervision of the internal control over financial reporting system carried out by the Audit and Risk Supervision Committee include basically: (i) monitoring compliance with the certification process by the various persons or divisions responsible for financial information, (ii) reviewing the design and operation of the internal control system, with the support of the Internal Audit Area Division, to assess the effectiveness thereof, and (iii) periodic meetings with external auditors, internal auditors and senior management to review, analyse and discuss financial information, the group companies covered and the accounting standards applied, as well as, where appropriate, the significant internal control weaknesses detected.

It should be noted that on an annual basis, those responsible for the preparation of the financial information of each country subholding company, each head of business company and each corporate area carry out a review of the design and operation of the internal control system within their area of responsibility in order to assess the effectiveness thereof, in a process coordinated by the Internal Control Division.

To that end, an analysis is made of whether, as a result of the changing circumstances in which the Group operates (changes in organisation, systems, processes, products, regulation, etc.), changes in identified risks need to be included and prioritised. A review is also made of whether the design of the controls to mitigate or manage the risks that may have changed is appropriate, as well as whether the controls have functioned properly, in accordance with their design.

The conclusions of this annual review, both as regards the deficiencies detected (which are classified as serious, medium, or slight, according precisely to their possible impact on financial information) and with respect to the action plans to correct them, are submitted at an annual seminar session chaired by the director of Administration and Control, at which the Internal Audit Area Division is also in attendance. At such meeting, conclusions are reached concerning the effectiveness of the internal control system at each of the different areas for which they are responsible and, overall, at the Group as a whole.

The most significant conclusions of the review performed are subsequently submitted to the Audit and Risk Supervision Committee within the framework of the periodic meetings with the director of Administration and Control.

Independently of the foregoing, the Internal Audit Area (which reports to the chairman & chief executive officer and is functionally controlled by the Audit and Risk Supervision Committee, and which, as provided in the Basic Internal Audit Regulations of Iberdrola, S.A. and the Companies of its Group, has the primary roles of working with the Audit and Risk Supervision Committee to further develop the powers thereof and to proactively ensure the proper operation of the information technology, internal control, and risk management systems of the Company), conducts an independent review of the design and operation of the internal control system in support of said Committee, identifies deficiencies, and draws up recommendations for improvement.

As a result thereof, the Internal Audit Area Division continuously monitors the various action plans agreed with the different organisations to correct the deficiencies detected and to implement the suggestions for

improvement agreed with the organisations.

The period that the Internal Audit Area Division plans for an in-depth review of the entire internal control system is five years.

Specifically, during financial year 2017, more than 34 cycles corresponding to the companies Avangrid, Inc., Scottish Power, Ltd., Iberdrola España, S.A., Iberdrola México, S.A. de C.V., Elektro Redes, S.A. and Iberdrola Inmobiliaria, S.A.U., as well as Administration and Control, were reviewed. As a result of the integration process of Neoenergía, S.A., it is expected that its internal control system will be included within the methodology of the Group as from financial year 2018.

In addition, the Internal Audit Area Division performs a review of the operation of the internal controls regarded as most critical on a half-yearly basis, on the dates of the half-year and year-end closing.

The combination of the periodic reviews and the half-yearly reviews of the most critical controls enables the Internal Audit Area Division to perform an assessment of the internal control system, as regards the design and operation thereof, and to issue an opinion on the effectiveness of the internal controls established to ensure the reliability of financial information, which it submits to the Audit and Risk Supervision Committee within the framework of their periodic meetings.

F.5.2. Whether it has a discussion procedure whereby the auditor (as provided in the Technical Auditing Standards), the internal audit function and other experts can inform senior management and the audit committee or the directors of the entity of the significant internal control weaknesses detected during the review of the annual accounts or such other reviews as may have been entrusted to them. Information shall also be provided on whether it has an action plan to seek to correct or mitigate the weaknesses found.

Generally speaking, the procedure for discussion of significant internal control weaknesses detected is based on periodic meetings of the various agents.

Thus, the Audit and Risk Supervision Committee holds meetings, both at the half-year and at the year-end closing, with the external auditors, the internal auditors and the division responsible for preparing financial information, in order to discuss any significant aspect of the preparation process and of the resulting financial information.

Specifically, pursuant to its *Regulations* (scope of authority), the Audit and Risk Supervision Committee of Iberdrola has, among other duties, the duty of reviewing, together with the auditors, the significant weaknesses of the internal control system detected in the course of the audit. To such end, the auditor appears before such Committee on an annual basis to submit recommendations in connection with the internal control weaknesses identified during the review of the accounts. Any weaknesses described by the auditor are monitored on an ongoing basis by the Committee, with the support of the Internal Audit Area Division. Furthermore, the division responsible for preparing the consolidated accounts also holds meetings with the external auditors and with the internal auditors, both at the half-year and at the year-end closing, to discuss significant issues relating to financial information.

F.6. Other significant information.

Iberdrola has an internal model or system for control over financial reporting, the purpose of which is to reasonably ensure the reliability of the financial information. It is important to note that the development of this model, which commenced in 2006, was not the product of a legal requirement, but rather derived from the firm belief of both the Board of Directors and the senior management of the Company that in a context of growth and internationalisation as the one that could already be envisaged for the Group, an explicit and auditable internal control system would contribute to maintaining and improving its control environment and the quality of financial information; it would also boost investors' trust because of its effects on the transparency, reputation, and good governance of Iberdrola and of the subsidiaries making up the Iberdrola Group.

The Internal Control over Financial Reporting Model or System (ICFRS) of the Iberdrola Group rests on two main pillars: certification and internal control proper.

Certification is a half-yearly process in which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and

the financial condition within their area of responsibility, and (ii) they are responsible for establishing the ICFRS within their area of responsibility and have found, upon evaluation, that the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the half-yearly process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The other pillar supporting this model, i.e. internal control proper, is patterned on the reference framework described in the report entitled "Internal Control Integrated Framework" of the Committee of Sponsoring Organisations of the Treadway Commission (COSO), and is primarily aimed at providing a reasonable level of security in achieving the aim of reliability of the financial information.

The methodology used by Iberdrola for the development and continuous update of internal control consists of the following stages or steps: (i) analysis and selection of significant financial information, (ii) grouping such information into cycles or large processes in which it is generated, (iii) identification, assessment, and prioritisation of risks of error in financial information within selected cycles, (iv) design and operation of controls in order to mitigate or manage selected risks, and (v) monitoring and update of the previous steps in order to continuously adapt the model to the circumstances of corporate activities.

One of the salient features of the design of this model is that it seeks to guarantee the quality of financial information during all months of the year, such that it is not limited only to the periods of year-end or half-year closings.

This feature is strengthened through the use of a specific software application developed in-house by the Group that allows for monitoring of the status of controls at all times.

Another important feature of the model is that it extends the culture of internal control to all of the organisations, both corporate and business, that significantly contribute to generating financial information, by assigning personal responsibility for the implementation and documentation of controls.

All relevant documents in connection with Iberdrola's ICFRS, both regarding the certification process and internal control proper, are contained in the aforementioned computer application.

Those responsible for implementing the controls enter into the computer application evidence of such controls having been performed, and then evaluate the results obtained, which they rate as satisfactory or non-satisfactory. This allows for the internal control situation to be monitored in real time, and also makes it possible to act promptly on any deficiencies detected.

In addition, those responsible for control at the country subholding and head of business companies, as well as those responsible for the corporate areas, carry out an annual review of the design and operation of the SCIIF, as a systematic process for updating such model in order to adapt it to the changing circumstances of corporate activities.

The annual review is coordinated by the Internal Control Division, which is also responsible for managing the computer application and coordinating the development of the ICFRS in the various business units and corporate areas of the Group.

Moreover, the Internal Audit Area Division, which is responsible for supervising internal control as part of its duty of support of the Audit and Risk Supervision Committee, performs an independent review of the design and operation of the ICFRS, identifying deficiencies and formulating recommendations for improvement. This review is performed applying a mixed model for selecting cycles based on risk and on a minimum rotation of five years.

The Internal Audit Area Division also performs a half-yearly independent review of the effectiveness of the internal controls established to guarantee the reliability of financial information. It also reviews the process for certification of financial information on a half-yearly basis. The conclusions of such reviews are submitted to the Audit and Risk Supervision Committee, which, if appropriate, adopts such conclusions and submits them in turn to the Board of Directors.

The current scope of the ICFRS is such that, based on materiality standards, it covers the entire Iberdrola Group. At present, more than 1,200 persons within the Group use the software application, both to document evidence of the performance of more than 2,800 controls (which mitigate or manage more than 1,000 risks of error in financial information that have been prioritised) and to monitor, analyse, adjust and assess the ICFRS.

Furthermore, approximately 70 officers who participate in the process of certification of the accuracy of information under their responsibility do so by using an electronic signature directly on the computer application.

As a consequence of all of the foregoing, the final result of the certification process, which is based on the

situation of internal control proper, can be reviewed by the Board of Directors of Iberdrola as one of the significant guarantees of reliability in connection with the preparation of the Group's annual and interim financial information.

F.7 External audit report

Report on:

F.7.1. Whether the information on the internal control over financial reporting system has been reviewed by the external auditor, in which case the entity should include the respective report as an exhibit. Otherwise, it should provide the reasons therefor.

The information on the internal control over financial reporting system sent to the markets has not been reviewed by the external auditor for reasons of consistency with the fact that the rest of the information set forth in the Annual Corporate Governance Report is only reviewed by the auditor in connection with the accounting information contained in said Report. It is also believed that having the information on the internal control over financial reporting system reviewed externally would in a certain manner overlap the internal control review to be performed by the external auditor, according to technical auditing standards, within the context of the audit of the accounts.

G. DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

State the company's degree of compliance with the recommendations of the Good Governance Code of Listed Companies.

If the company does not comply with any recommendation or follows it partially, there must be a detailed explanation of the reasons providing shareholders, investors, and the market in general with sufficient information to assess the company's course of action. Generalised explanations will not be acceptable.

- 1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market**

Complies ☐ Explain ☒

Article 29.2 of the By-Laws provides that "No shareholder may cast a number of votes greater than those corresponding to shares representing ten (10%) per cent of share capital, even if the number of shares held exceeds such percentage of the share capital. This limitation does not affect votes corresponding to shares with respect to which a shareholder is holding a proxy as a result of the provisions of article 23 above, provided, however, that with respect to the number of votes corresponding to the shares of each shareholder represented by proxy, the limitation set forth above shall apply".

Section 3 of such article adds: "The limitation set forth in the preceding section shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholders that are entities or companies belonging to the same group. Such limitation shall also apply to the number of votes that may be cast collectively or individually by an individual and the shareholder entity, entities, or companies controlled by such individual. A group shall be deemed to exist under the circumstances provided by law, and also when a person controls one or more entities or companies".

Iberdrola believes that the limitation on the maximum number of votes that may be cast by a single shareholder, or by several shareholders belonging to the same group or, if applicable, acting in concert, is a measure to protect shareholders at companies with dispersed share ownership, whose investment is thus guarded from any transaction that is contrary to the corporate interest. In this regard, most shareholders, especially including but not limited to small individual investors, who represent approximately one-fourth of Iberdrola's capital, have little room to manoeuvre and respond to a potential shareholder owning a non-controlling interest and not reaching the threshold requiring a takeover bid but seeking influence over the Company and whose own interest is not totally in line with the corporate interest.

It should also be noted that such voting limitation has been in effect since 16 June 1990, the date on which the General Shareholders' Meeting was held at which it was resolved, by unanimous vote of the attendees, to bring

the By-Laws of the Company (then doing business as Iberduero, S.A.) into line with the restated text of the Companies Act approved by Royal Legislative Decree 1564/1989 of 22 December. This shows the level of corporate consensus that has existed on such voting limitation from the very beginning, which has been confirmed by the fact that such limitation has remained unchanged through various by-law amendments passed by the shareholders at General Shareholders' Meetings. In turn, it reflects the will of the shareholders to increase their bargaining power in the event of hostile offers or transactions.

In any event, article 50 of the current By-Laws establishes the instances of removal of such voting limitation in the event that the Company is the target of a takeover bid that receives the required shareholder approval, in which case the provisions of section 527 of the Companies Act prevail. Pursuant to the foregoing, it cannot be deemed that the limitation on the maximum number of votes that may be cast by a shareholder constitutes an obstacle to a takeover bid.

2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:

a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies ☒ Complies in part ☐ Explain ☐

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies ☒ Complies in part ☐ Explain ☐

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies ☒ Complies in part ☐ Explain ☐

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory.

- a) Report on auditor independence.
- b) Reviews of the operation of the audit committee and the nomination and remuneration committee.
- c) Audit committee report on third-party transactions.
- d) Report on the corporate social responsibility policy.

Complies ☒ Complies in part ☐ Explain ☐

7. The committee should broadcast its general meetings live on the corporate website.

Complies ☒ Explain ☐

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies ☒ Complies in part ☐ Explain ☐

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies ☒ Complies in part ☐ Explain ☐

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies ☒ Complies in part ☐ Explain ☐

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies ☒ Explain ☐

14. The board of directors should approve a director selection policy that:

- a) Is concrete and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies ☒ Complies in part ☐ Explain ☐

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies ☒ Complies in part ☐ Explain ☐

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies ☒ Explain ☐

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies ☒ Explain ☐

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Professional profile and biographical data.
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
- d) Dates of their first appointment as a board member and subsequent re-elections.
- e) Shares held in the company, and any options on the same.

Complies ☒ Complies in part ☐ Explain ☐

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies ☐ Complies in part ☐ Explain ☐ Not applicable ☒

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies ☒ Explain ☐

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies ☒ Complies in part ☐ Explain ☐

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Complies ☒ Complies in part ☐ Explain ☐

- 26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.**

Complies ☒ Complies in part ☐ Explain ☐

- 27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.**

Complies ☒ Complies in part ☐ Explain ☐

- 28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.**

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

- 29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.**

Complies ☒ Complies in part ☐ Explain ☐

- 30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Complies ☒ Explain ☐ Not applicable ☐

- 31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.**

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies ☒ Complies in part ☐ Explain ☐

- 32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.**

Complies ☒ Complies in part ☐ Explain ☐

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies ☒ Complies in part ☐ Explain ☐

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies ☒ Explain ☐

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies ☒ Complies in part ☐ Explain ☐

- 37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.**

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

- 38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.**

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

- 39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.**

Complies ☒ Complies in part ☐ Explain ☐

- 40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.**

Complies ☒ Complies in part ☐ Explain ☐

- 41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.**

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

- 42. The audit committee should have the following functions over and above those legally assigned:**

1. With respect to internal control and reporting systems

- a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies ☒ Complies in part ☐ Explain ☐

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies ☒ Explain ☐

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

45. The risk control and management policy should identify at least:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.
- c) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance- sheet risks.

Complies ☒ Complies in part ☐ Explain ☐

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies ☒ Complies in part ☐ Explain ☐

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies ☒ Complies in part ☐ Explain ☐

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Complies ☒ Complies in part ☐ Explain ☐

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Complies ☒ Complies in part ☐ Explain ☐

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the board the standard conditions for senior officer contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies ☒ Complies in part ☐ Explain ☐

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies ☒ Complies in part ☐ Explain ☐

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established *ad hoc* by the board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

- f) Monitor and evaluate the company's interaction with its stakeholder groups.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies ☒ Complies in part ☐ Explain ☐

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.
- f) Channels for stakeholder communication, participation and dialogue.
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies ☒ Complies in part ☐ Explain ☐

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies ☒ Explain ☐

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies ☒ Explain ☐

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies ☒ Complies in part ☐ Explain ☐

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies ☒ Complies in part ☐ Explain ☐ Not applicable ☐

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies ☐ Complies in part ☒ Explain ☐ Not applicable ☐

Contracts with executive directors and senior officers signed as from 2011 provide severance for contractual termination equal to a maximum of two times annual salary in the event of termination of their relationship with the Company, provided that termination of the relationship is not the result of a breach attributable thereto or solely due to a voluntary decision thereof. This is the case of the Business CEO.

The Company included guarantee clauses of up to five years in contracts with its key officers in the year 2000. Subsequently, in 2001, when the current chairman & CEO joined Iberdrola, he received the treatment in effect for such officers, in order to achieve an effective and sufficient level of loyalty. As chairman & CEO, he is currently entitled to three times his annual salary.

The Board of Directors has analysed this situation, the treatment of which is necessarily collective in nature. Any reduction in the salary multiples would carry high costs for the Company, for which reason the Board of Directors believes that it is most appropriate not to change the status quo. Any proposed reduction in the salary multiples would have a higher cost for the Company, as the amount of the contingency will gradually decrease due to the passage of time, resulting in payments far smaller than any possible reduction in the agreed severance payment, taking into account the average age of the affected group (58 years) and the low likelihood of the guarantees being enforced. In this regard, it should be pointed out that at year-end 2014, there were 62 officers with a right to severance pay greater than two years in case of termination. By year-end 2017, the number has decreased again to 34, without the enforcement of any guarantee clause.

H. OTHER INFORMATION OF INTEREST

1. If there are any significant aspects regarding corporate governance at the company or at entities of the group that is not included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the corporate governance structure and practices at the entity or its group, briefly describe them.
2. In this section, you may also include any other information, clarification, or comment relating to the prior sections of this report to the extent they are relevant and not repetitive.

Specifically, state whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this report.

3. The company may also state whether it has voluntarily adhered to other international, industrial, or other codes of ethical principles or good practices. If so, identify the code in question and the date of adherence thereto.

SECTION A.2

The sources of the information provided are the notices sent by the shareholders to the CNMV and to the Company itself, and the information contained in their respective annual reports and press releases, and the information that the Company obtains from Iberclear.

Pursuant to the provisions of section 23.1 of Royal Decree 1362/2007 of 19 October, further developing Law 24/1988 of 28 July on the Securities Market, in connection with the transparency requirements relating to the information on issuers whose securities have been admitted to trading on an official secondary market or other regulated market in the European Union, it is deemed that significant shareholders are the holders of at least 3% of voting rights.

On 12 January 2018, Capital Research and Management Company reported that it held a 5.117% interest in the share capital of Iberdrola.

On 15 February 2018, BlackRock Inc. reported to the CNMV that its interest in the capital of Iberdrola was 5.00%.

According to available information, the approximate breakdown of the interests in the share capital by type of shareholder is as follows:

- Foreign investors	66.28%
- Domestic entities	10.17%
- Domestic retail investors	23.55%

SECTION A.3

Data at the date of approval of this Report.

For the chairman & CEO, there is a deferral of the second (510,596 shares in 2018) and third (510,596 shares in 2019) delivery of shares corresponding to the 2014-2016 Strategic Bonus approved by shareholders at the General Shareholders' Meeting. Each of the deliveries of said shares is subject to confirmation by the Board of Directors, after a report from the Remuneration Committee, on the currency of the circumstances on which the performance evaluation was based.

Furthermore, pursuant to the provisions of the 2017-2019 Strategic Bonus approved at the General Shareholders' Meeting, the chairman & CEO may receive up to a maximum of 1,900,000 shares based on the performance evaluation for the 2017-2019 period, which if awarded will be paid in three equal parts in 2020, 2021 and 2022.

For the Business CEO, there is a deferral of the second (120,931 shares in 2018) and third (120,931 shares in 2019) delivery of shares corresponding to the 2014-2016 Strategic Bonus approved by shareholders at the General Shareholders' Meeting. Each of the deliveries of said shares is subject to confirmation by the Board of Directors, after a report from the Remuneration Committee, on the currency of the circumstances on which the performance evaluation was based.

Furthermore, pursuant to the provisions of the 2017-2019 Strategic Bonus, the Business CEO may receive up to a maximum of 300,000 shares based on the performance evaluation for the 2017-2019 period, which if awarded will be paid in three equal parts in 2020, 2021 and 2022.

SECTION A.8

Iberdrola maintains in treasury 75,710,149 own shares and 6,427,771 shares accumulated through derivatives contracts pending settlement and that are recorded as treasury shares in the consolidated financial statements at 31 December 2017, representing 1.30% of the capital. It also maintains 6,000,000 shares in total return swaps with physical settlement.

Pursuant to the authorisations granted to the Board of Directors by the shareholders at the General Shareholders' Meeting, during financial year 2017 Iberdrola acquired 156,414,422 shares for 1,002,999 thousand euros, of which 72,905,834 shares were acquired through discretionary market transactions, while the remaining 83,508,588 shares were acquired through derivatives contracts.

In addition, 11,939,050 own shares were sold for 84,382 thousand euros.

Under such authorisations, Iberdrola has also retired 219,990,000 own shares.

SECTION B.4

The percentage of absentee voting (others) reflects the votes received by mail. Absentee voting is not included within voting in person.

SECTION C.1.3

The complete professional profiles of all the directors are available on the Company's corporate website (www.iberdrola.com).

SECTION C.1.29

Within the framework of the process of evaluation of the Board of Directors, the lead independent director met individually with each of the directors in order to identify possible improvements in the operation thereof.

SECTION C.1.30

Below is the data on attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2017: See Annex.

SECTION C.1.31

The Iberdrola Group has established a certification process by which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and the financial condition within their area of responsibility, and (ii) they are responsible for establishing the ICFRS within their area of responsibility and have found, upon evaluation, that the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The process is carried out by means of electronic signature in a software application which manages the areas of responsibility and time periods and which serves as a repository of all the documentation generated, allowing for periodic review by the supervision and control bodies of the Group.

SECTION D.2

Transactions by shareholders exercising a significant influence on participation in the entity's financial and operating decisions, with significant influence being understood as having a member of the Board of Directors.

Shareholders who are able to exercise the proportional representation system due to their interest in the capital of the Company are also considered to have such influence.

As of the date of this report, only Qatar Investment Authority meets this condition, for which reason the amounts reflected in the period refer to the transactions with this shareholder.

The amounts set forth as "profits and other dividends paid" correspond to the cash dividend distributed by the Company and to the free-of-charge allocation rights stemming from the two increases in share capital by means of a scrip issue approved by the shareholders at the General Shareholders' Meetings, which were sold to the Company at a guaranteed fixed price pursuant to the terms and conditions of such increases.

SECTION D.4

Transactions with subsidiaries and companies in which the Company has an interest that have not been eliminated in the process of consolidation were made in the ordinary course of business of the Company, were carried out under arm's-length conditions, and are of little significance to accurately reflect the assets, financial condition, and results of operations of the Company.

On 20 July 2010, the Company adhered to the Code of Good Tax Practices, a document approved at the full Forum of Large Businesses (*Foro de Grandes Empresas*) created by the National Tax Administration Agency (*Agencia Estatal de Administración Tributaria*) and certain large companies, and which was held on that date.

Pursuant to the provisions of section 2 of the annex of adherence to the Good Tax Practices Code and of subsection 4.a) of the Corporate Tax Policy, the Company reports that it has complied with the provisions of such Code as from the time of approval thereof.

Specifically, it is reported that, during financial year 2017, the Company's head of tax matters appeared on 22 February 2017 and 17 July 2017 before Iberdrola's Audit and Risk Supervision Committee to report on compliance with the Corporate Tax Policy, which includes the good tax practices contained in the aforementioned Code, all of which was reported to the Board of Directors.

This annual corporate governance report was approved by the Board of Directors of the company at its meeting of 20 February 2018.

State whether any directors voted against or abstained in connection with the approval of this Report.

Yes ☐ No ☒

Individual or company name of director that did not vote in favour of the approval of this report	Reasons (opposed, abstained, absent)	Explain the reasons

ANNEX – SECTION H

SECTION C.1.30

Below is the data on attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2017: Proxies granted with specific voting instructions are considered to be attendances.

Directors	Board	Committees				
		EC	ARSC	AC	RC	CSRC
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	9/9	14/14	--	--	--	--
MR IÑIGO VÍCTOR DE ORIOL IBARRA	9/9	--	--	7/7	8/8	--
MS INÉS MACHO STADLER	9/9	14/14	--	--	8/8	--
MR BRAULIO MEDEL CÁMARA	9/9	--	--	--	--	8/8
MS SAMANTHA BARBER	9/9	11/11	--	--	--	8/8
MS MARÍA HELENA ANTOLÍN RAYBAUD	9/9	--	--	7/7	--	--
MR SANTIAGO MARTÍNEZ LAGE	3/3	--	--	--	3/3	--
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	3/3	3/3	--	--	--	--
MR ÁNGEL JESÚS ACEBES PANIAGUA	9/9	14/14	--	7/7	--	--
MS GEORGINA KESSEL MARTÍNEZ	9/9	--	11/11	--	--	--
MS DENISE MARY HOLT	9/9	--	11/11	--	--	--
MR JOSÉ WALFREDO FERNÁNDEZ	9/9	--	11/11	--	--	--
MR MANUEL MOREU MUNAIZ	9/9	14/14	--	--	--	8/8
MR XABIER SAGREDO ORMAZA	9/9	--	11/11	--	--	--
MR JUAN MANUEL GONZÁLEZ SERNA	6/6	--	--	--	5/5	--
MR FRANCISCO MARTÍNEZ CÓRCOLES	6/6	--	--	--	--	--

Notes:

- The denominator indicates the number of meetings held during the period of the year in which the director served as such or as a member of the respective Committee.
- EC: Executive Committee.
- ARSC: Audit and Risk Supervision Committee.
- AC: Appointments Committee.
- RC: Remuneration Committee
- CSRC: Corporate Social Responsibility Committee.

NON-FINANCIAL INFORMATION AND DIVERSITY

This report has been prepared in accordance with the reporting requirements and recommendations of the Consolidated Set of GRI Sustainability Reporting Standards 2016 and the Electric Utilities Sector Supplement, both of the Global Reporting Initiative (GRI).

GRI Content Index

External assurance: the contents of this index have been externally assured by an independent entity (PwC). The corresponding assurance report can be found in the corporate website (www.iberdrola.es) in the Sustainability Report section.

Electric Utilities Sector Supplement: this index incorporates the topics and disclosures required by such supplement, published by GRI in 2014. They symbol * indicates those general standard disclosures and topics of the GRI Standards where specific sector information is requested.

GRI Standard	Description	Page	External assurance	Relationship with SDGs
GRI 100 UNIVERSAL STANDARDS				
GRI 101 Foundation 2016 (Note: does not require disclosure of information)				
GRI 102 General disclosures 2016				
1.- Organisational profile *				
102-1	Name of the organisation	37	✓	
102-2	Primary activities, brands, products and services	37	✓	
102-3	Location of headquarters	38	✓	
102-4	Location of operations	38	✓	
102-5	Ownership and legal form	39	✓	
102-6	Markets served	40	✓	
102-7	Scale of the organisation	40	✓	
102-8	Information on employees and other workers	42	✓	8
102-9	Supply chain	42	✓	
102-10	Significant changes to the organisation and its supply chain	46	✓	
102-11	Precautionary Principle or approach	47	✓	
102-12	External initiatives to which the organisation subscribes or which it endorses	47	✓	
102-13	Main memberships of associations	49	✓	
EU1*	Installed capacity	51	✓	7
EU2*	Energy output	52	✓	7, 14
EU3*	Electricity users and producers	52	✓	
EU4*	Transmission and distribution lines	52	✓	
EU5*	Allocation of CO ₂ emissions allowances or equivalent	53	✓	14, 15
2.- Strategy				
102-14	Statement from senior decision-maker	55	✓	
102-15	Key impacts, risks and opportunities	55	✓	
3.- Ethics and integrity				
102-16	Values, principles, standards and norms of behaviour	62	✓	16
102-17	Mechanisms for advice and concerns about ethics	63	✓	16
4.- Governance				
102-18	Governance structure	67	✓	
102-19	Delegating authority	69	✓	
102-20	Executive-level positions with responsibility for economic, social and environmental topics	69	✓	
102-21	Processes for consultation between Stakeholders and the Board of Directors	69	✓	16

102-22	Composition of the highest governance body and its committees	72	✓	5, 16
102-23	Chair of the highest governance body	72	✓	16
102-24	Selection and nomination of the members of the highest governance body	73	✓	5, 16
102-25	Processes for the highest governance body to avoid conflicts of interest	74	✓	16
102-26	Role of highest governance body in setting purpose, values and strategy	75	✓	
102-27	Collective knowledge of highest governance body	77	✓	4
102-28	Evaluating the highest governance body's performance	79	✓	
102-29	Identifying and managing economic, environmental and social impacts	79	✓	16
102-30	Effectiveness of risk management processes	80	✓	
102-31	Review of economic, environmental and social topics	80	✓	
102-32	Highest governance body's role in sustainability reporting	81	✓	
102-33	Communicating critical concerns	81	✓	
102-34	Nature and total number of critical concerns	81	✓	
102-35	Remuneration policies	82	✓	
102-36	Process for determining remuneration	82	✓	
102-37	Stakeholders' involvement in remuneration	83	✓	16
102-38	Annual total compensation ratio	83	✓	
102-39	Percentage increase in annual total compensation ratio	83	✓	
5.-Stakeholder engagement				
102-40	Stakeholder groups engaged by the organisation	85	✓	
102-41	Collective bargaining agreements	85		8
102-42	Identifying and selecting stakeholders	85	✓	
102-43	Approach to stakeholder engagement	85	✓	
102-44	Key topics and concerns raised	88	✓	
6.-Reporting practice				
102-45	Entities included in the consolidated financial statements and in the boundary of this report	92	✓	
102-46	Defining report content and scope and topic boundaries	95	✓	
102-47	List of material topics	95	✓	
102-48	Restatements of information provided in previous reports	99	✓	
102-49	Significant changes in scope and topic boundaries	99	✓	
102-50	Reporting period	99	✓	
102-51	Date of most recent report	100	✓	
102-52	Reporting cycle	100	✓	
102-53	Contact point for questions regarding the report	100	✓	
102-54	Claims of reporting in accordance with the GRI Standards	100	✓	
102-55	GRI content index	100	✓	
102-56	External assurance	100	✓	
GRI 103 Management approach 2016				

General management approach, applicable to all aspects of this report.	32	✓	1.5, 8, 12, 13, 14, 15, 16
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GRI 200 ECONOMIC DIMENSION

Material topics	Reporting on management approach and corresponding disclosures	Page	Omissions	External assurance	Relationship with SDGs
Topics of the GRI Standards					
- GRI 201 Economic performance 2016	From 201-1 to 201-4	105		✓	2, 5, 7, 8, 9, 13
- GRI 202 Market presence 2016	202-1 and 202-2	110		✓	1, 5, 8
- GRI 203 Indirect economic impacts 2016	203-1 and 203-2	111		✓	1, 2, 3, 5, 7, 8, 9, 10, 11, 17
- GRI 204 Procurement practices 2016	204-1	114		✓	12
- GRI 205 Anti-corruption 2016	From 205-1 to 205-3	115		✓	16
- GRI 206 Anti-competitive behavior 2016	206-1	122		✓	16
Specific topics of the electric utilities sector supplement					
- Availability and reliability	EU10	128		✓	7
- System efficiency	EU11 and EU12	128		✓	7, 8, 12, 13, 14
- Demand-side management	No specific disclosures	129		✓	
- Research and development	No specific disclosures	131		✓	
- Nuclear plant decommissioning	No specific disclosures	133		✓	
Specific topics of the Iberdrola group					
- Supply costs		135		✓	
- Green financing		137		✓	
- Fiscal responsibility		138		✓	
- Cybersecurity		140		✓	
- Privacy of the personal information of Stakeholders		141		✓	

GRI 300 ENVIRONMENTAL DIMENSION

Material topics	Reporting on management approach and corresponding disclosures	Page	Omissions	External assurance	Relationship with SDGs
Specific management approach to the environmental dimension		144		✓	
Topics of the GRI Standards					
- GRI 301 Materials * 2016	From 301-1 to 301-3	149		✓	8, 12
- GRI 302 Energy 2016	From 302-1 to 302-5	151		✓	7, 8, 12, 13
- GRI 303 Water * 2016	From 303-1 to 303-3	156		✓	6, 8, 12
- GRI 304 Biodiversity * 2016	From 304-1 to 301-4, EU13	159		✓	6, 14, 15
- GRI 305 Emissions * 2016	From 305-1 to 305-7	169		✓	3, 12, 13, 14, 15
- GRI 306 Effluents and waste * 2016	From 306-1 to 306-5	176		✓	3, 6, 12, 13, 14, 15
- GRI 307 Environmental compliance 2016	307-1	180		✓	12, 13, 14, 15, 16
- GRI 308 Supplier environmental assessment 2016	308-1 and 301-2	181		✓	

GRI 400 SOCIAL DIMENSION

Material topics	Reporting on management approach and corresponding disclosures	Page	Omissions	External assurance	Relationship with SDGs
Specific management approach to the Social Dimension		186		✓	
Topics of the GRI Standards					
- GRI 401 Employment * 2016	From 401-1 to 401-3	189		✓	5, 8
- GRI 402 Labour/management relations* 2016	402-1, EU15, EU17 and EU18	194		✓	8
- GRI 403 Occupational health and safety * 2016	From 403-1 to 401-4	198		✓	3, 8
- GRI 404 Training and education 2016	From 404-1 to 404-3	205		✓	4, 5, 8
- GRI 405 Diversity and equal opportunity 2016	405-1 and 405-2	212		✓	5, 8, 10
- GRI 406 Non-discrimination 2016	406-1	213		✓	5, 8, 16
- GRI 407 Freedom of association and collective bargaining* 2016	407-1	214		✓	8
- GRI 408 Child labour 2016	408-1	214		✓	8, 16
- GRI 409 Forced or compulsory labour 2016	409-1	214		✓	8
- GRI 410 Security practices 2016	410-1	215		✓	16

-	GRI 411 Rights of indigenous peoples 2016	411-1	216	✓	2
-	GRI 412 Human rights assessment 2016	From 412-1 to 412-3	218	✓	
-	GRI 413 Local communities * 2016	413-1 and 413-2, EU22	222	✓	1, 2
-	GRI 414 Supplier social assessment 2016	414-1 and 414-2	227	✓	5, 8, 16
-	GRI 415 Public policy 2016	From 415-1	232	✓	16
-	GRI 416 Customer health and safety *2016	416-1 and 416-2	235	✓	16
-	GRI 417 Marketing and labelling 2016	From 417-1 to 417-3	238	✓	12, 16
-	GRI 418 Customer privacy 2016	418-1	240	✓	16
-	GRI 419 Socioeconomic compliance 2016	419-1	241	✓	16
Specific topics of the electric utilities sector supplement					
-	Disaster/emergency planning and response	No specific disclosures	242	✓	
-	Access to electricity	EU26 to EU30	245	✓	1, 7
-	Access to adequate information	No specific disclosures	247	✓	
Specific topics of the Iberdrola group					
-	Iberdrola and the Global Compact		250	✓	
-	Iberdrola's contribution to the community		251	✓	
-	Iberdrola, promoting women's sport		263	✓	

PART I.

General

Disclosures

General management approach, applicable to all topics of this report

Policies and commitments

The company's [Corporate Governance System](#) is made up of the [By-Laws](#), the [Mission, Vision and Values of the Iberdrola group](#), the [corporate policies](#), the [governance rules of the corporate decision-making bodies and internal committees](#) and [Compliance](#).

The commitments of Iberdrola defined in this System materialise daily in all business activities of the group, as well as in its strategy to maximise the social dividend, social responsibility and respect for Human Rights, encouraging initiatives that contribute to achieving a more healthy, equal and just society, and particularly to the achievement of the Sustainable Development Goals, especially the goals relating to universal access to electricity and the fight against climate change.

In sum, it is a search for Shared Value, i.e. the sum of all economic and social values that a company generates through its activities, within the surroundings in which it carries them out, and in the case of Iberdrola, which is expressed through the social dividend.

The Iberdrola group has a set of corporate policies for this purpose that develop the principles reflected in the Corporate Governance System and that contain the guidelines governing the actions of the company and the companies of its group, as well as those of the directors, officers and employees thereof, within the framework of the vision and values of the company.

The companies of the group assume a set of principles and values that express their commitment to corporate governance, business ethics and corporate social responsibility. The awareness, dissemination and implementation thereof serve to guide the activities of the Board of Directors and its committees and of the decision-making bodies of the company in their relations with the company's various Stakeholders.

These policies, which can be viewed in full or in summary in the [Corporate Governance](#) tab of the website, are grouped into three categories:

- Corporate Governance and Regulatory Compliance Policies.
- Risk Policies.
- Social Responsibility Policies.

Iberdrola has also assumed certain public commitments that guide the activities of the group:

- By subscribing to various initiatives relating to the environmental and social dimension of its activities, included in disclosure 102-12 of this report.
- Through its membership in certain business and social organisations, such as those described in disclosure 102-13 of this report, and which are identified by their objectives and purposes.

These policies and commitments serve to guide the company and its workforce to manage their activities, and specifically the material topics dealt with in this document.

Responsibilities

Disclosure 102-26 of this report describes the organisational model of the Iberdrola group and its responsible persons. The responsibilities of the corporate functions or business units regarding the various aspects dealt with in this report are the following:

- Aspects relating to corporate governance and that affect the legal area are the responsibility of the Office of the Secretary of the Board of Directors.
- Aspects relating to labour practices are the responsibility of the Human Resources and General Services Division, within the Finance and Resources Division.
- Aspects relating to the environment are the responsibility of the Innovation, Sustainability and Quality Division, which reports directly to the chairman & CEO.
- Aspects relating to procurement are the responsibility of the Procurement and Insurance Division, within the Finance and Resources Division if referring to general supplies, and the responsibility of the Wholesale and Retail Business, within the group's General Business Division, if referring to the procurement of fuel.
- Aspects relating to regulation and public policies are the responsibility of the Global Regulation Division of the General Business Division of the group.
- Aspects relating to the products sold, demand, customers and other related topics are the responsibility of the Wholesale and Retail Business if referring to liberalised markets like Spain or the United Kingdom, and of the Networks Business if referring to regulated markets like the United States or Brazil.
- Aspects relating to production facilities are the responsibility of the Wholesale and Retail Business or the Renewables Business, each within their scope of activity, and those relating to transmission and distribution facilities are the responsibility of the Networks Business. These three businesses are within the General Businesses Division of the group.

By way of complement:

- The Operating Committee, made up of the chairman & CEO, the Business CEO and the directors of corporate functions and business units, is an internal committee providing technical support, information and management, with respect to both the duties of supervision and monitoring as well as the strategic organisation and coordination of the group through the dissemination, implementation and monitoring of the general strategy and the basic management guidelines established by the Board of Directors, while always respecting the scope of day-to-day management and effective decision-making corresponding to the governance and management bodies of the head of business companies of each of the businesses.
- The Compliance Unit, as an internal and permanent decision-making body linked to the company's Corporate Social Responsibility Committee, responsible for proactively ensuring the effective operation of the company's Compliance System, which is made up of all of the rules, formal procedures and significant actions intended to ensure that the company conducts itself in accordance with ethical principles and applicable law and to prevent improper conduct or conduct that is contrary to ethics, the law or the Corporate Governance System that might be committed by the professionals thereof within the organisation.
- Internal Audit, which promotes the proper operation of the information technology and internal control, risk management and governance systems of the company and of the group. Its activities are governed by the provisions of the Corporate Governance System, the [*Basic Internal Audit Regulations of Iberdrola, S.A. and its group \(BIAR\)*](#) approved by the Board of Directors and the other internal rules of the company, as well as the *International Standards for the Professional*

Practice of Internal Auditing approved by the Global Institute of Internal Auditors (IIA). The BIAR is required knowledge of the professionals of the group that it affects, and describes the nature, organisation, competencies, resources, activities, powers and duties of the function and establishes the relations between the Internal Audit Area of Iberdrola, S.A. and the Internal Audit divisions of the other companies of the group.

To exercise these responsibilities, the Iberdrola model provides that they are assumed in a decentralised manner by the country subholding companies and head of business companies in each country, which are organised through their respective boards of directors. The head of business companies occupy themselves with the effective management thereof, as well as the day-to-day management and control thereof.

Goals, resources and results

Iberdrola periodically publicises its medium- and long-term goals using various formats: [Investor Day](#) is one of the most important events to externally communicate the future outlook of the company. As additional information, Iberdrola annually publishes its [Integrated Report](#), which is also available on the corporate website.

Internally, the various businesses and corporate organisations determine their annual goals in harmony with the strategic goals of the company, both financial and non-financial, directed specifically towards the activities for which they are responsible. The results obtained with respect to the established goals are used to establish the annual variable remuneration of the company's management team by means of a procedure audited by the company's Internal Audit Division.

To reach these goals, Iberdrola has an annual process for assigning resources, by establishing the corresponding income and expense budgets, which are approved by the company's Board of Directors. The achievements obtained by Iberdrola are reflected in the performance of the various quantitative indicators covered by the various aspects dealt with in this report.

By way of complement, the businesses and corporate areas have defined specific goals in the area of corporate social responsibility, which are contained in the *CSR Plan 2015-2017*.

This plan is based on goals linked to the business model and to the management of tangible and intangible assets of the company, focusing on each of them: financial, industrial, intellectual, human, natural, social and relational capital. Based on these goals, more than 150 activities were established through which each organisation of the company has contributed to the achievement of the plan, in order to consistently promote the progress of CSR in all countries, businesses and corporate areas. Approximately 98% of this plan has been achieved, with significant progress in cross-sectional topics like Stakeholder relations, the protection of human rights, and the inclusion of CSR tools in the management systems of the businesses and corporate areas in all countries in which the group does business.

These goals are monitored on a half-yearly basis by the group's Corporate Social Responsibility and Reputation Committee, and by the Corporate Social Responsibility Committee of the Board of Directors when the latter so requests.

Iberdrola is currently preparing a new plan for the entire group for the coming years, for the purpose of increasing transparency and the number of social responsibility activities in the businesses and corporate areas.

Report boundary

The information boundary of this report is described in detail in section 102-45.

Due to its significance, it should be noted that due to the merger in Brazil of all of the businesses of the company Elektro Holding into Neoenergia in August 2017, it was deemed necessary to reformulate the information for financial year 2016 applying the same standards as financial year 2017, in order for the information for both financial years to be homogenous and comparable. The reformulation involves the consideration of 100% of the socio-economic and environmental parameters of Neoenergia (thus reflecting the control position of the group) instead of the 39% that was used through the prior year. The economic/financial figures follow accounting standards.

Furthermore, the information in all the tables of this report has been limited to financial years 2017 and 2016. Maintaining the scorecards and tables with information for three financial years, as was Iberdrola's customary practice, would have involved a lack of homogeneity between the information from financial year 2015 and that from the following years. This limitation will already be corrected in the next report.

1.

Organisational profile

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



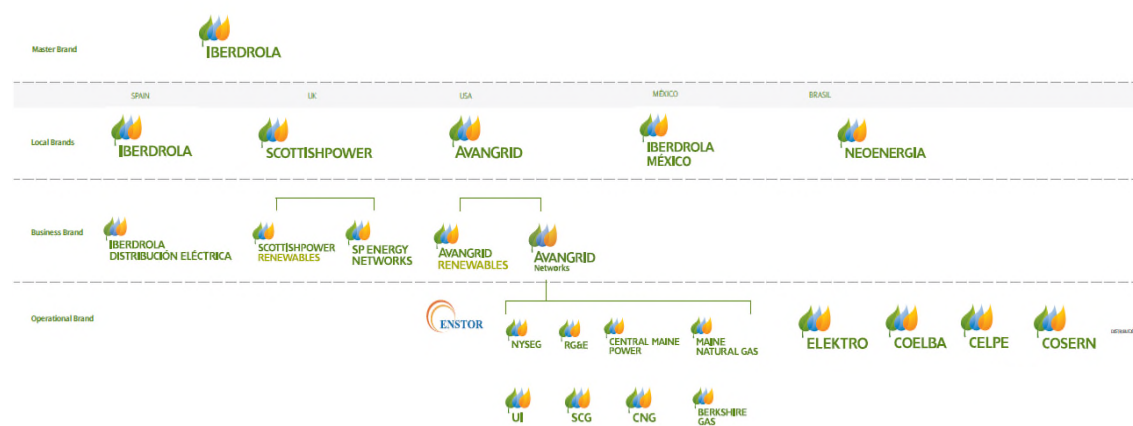
102-1 Name of the organisation

Iberdrola, S.A.

102-2 Primary activities, brands, products and services

The [“Iberdrola” brand](#) reflects the corporate mission, vision and values, is based on the company's strategy, which gives it credibility and strength, and conveys its commitment: the sustainable creation of value for all of its Stakeholders, contributing to the development of the communities in which we do business and to the well-being of people, providing a high-quality service and offering environmentally-friendly, efficient and innovative energy solutions.

Iberdrola knows how to identify and adjust to the needs of each country in which it does business. The company has used its experience in each market to strengthen its brand value, and beyond the location of the business, it has created a brand culture based on a global/local balance. Iberdrola has the brand names listed in the table below at year-end 2017:



The table above shows the most important brands having the largest operational and market presence in each country. The company has other brands at the local and business level.

The main products that Iberdrola makes available to its customers are electricity and natural gas. It also offers a broad array of products, services and solutions in the areas of:

- Improvement in the consumer's quality of life, peace of mind and safety.

- Efficiency, digitalisation and energy services.
- Protection of the environment: renewable energy and sustainable mobility.
- Quality of electricity supply and safety of facilities.
- Assembly of electricity infrastructure.
- Comprehensive management of energy facilities and supplies.

It also provides the following services through its subsidiaries: engineering and construction of electricity generation, distribution and control facilities; operation and maintenance of electricity generation facilities; land management and development; and the sale and lease of housing, offices and retail premises. More detailed information in this regard can be in the [“Group structure”](#) section of the website.

102-3 Location of headquarters

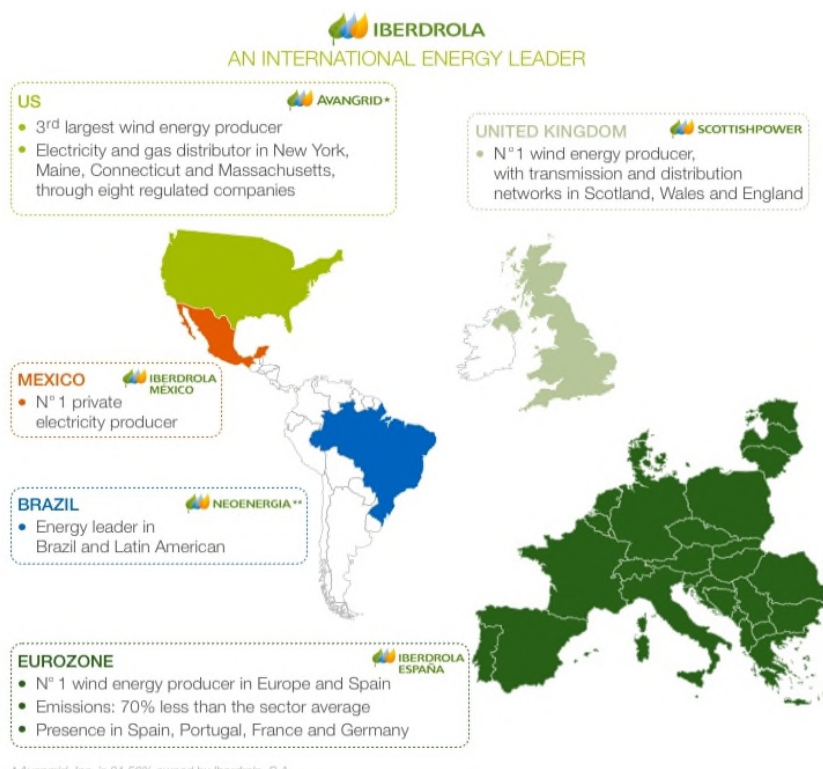
The registered office of Iberdrola is:

Plaza Euskadi número 5
48009 Bilbao, Biscay
Spain

102-4 Location of operations

Iberdrola and its subsidiaries and affiliates carry out their activities in almost twenty countries, fourteen of which are considered significant with respect to sustainability issues. However, for operational and economic/financial purposes, Iberdrola concentrates 97.5% of its business activities (measured by turnover) in five principal countries: Spain, United Kingdom, United States, Brazil and Mexico.

The following infographic shows the group's principal areas of activity. The countries in which it operates, the activities performed in each of them and the criteria used to define the significance thereof are set forth in disclosure 102-45 of this report.

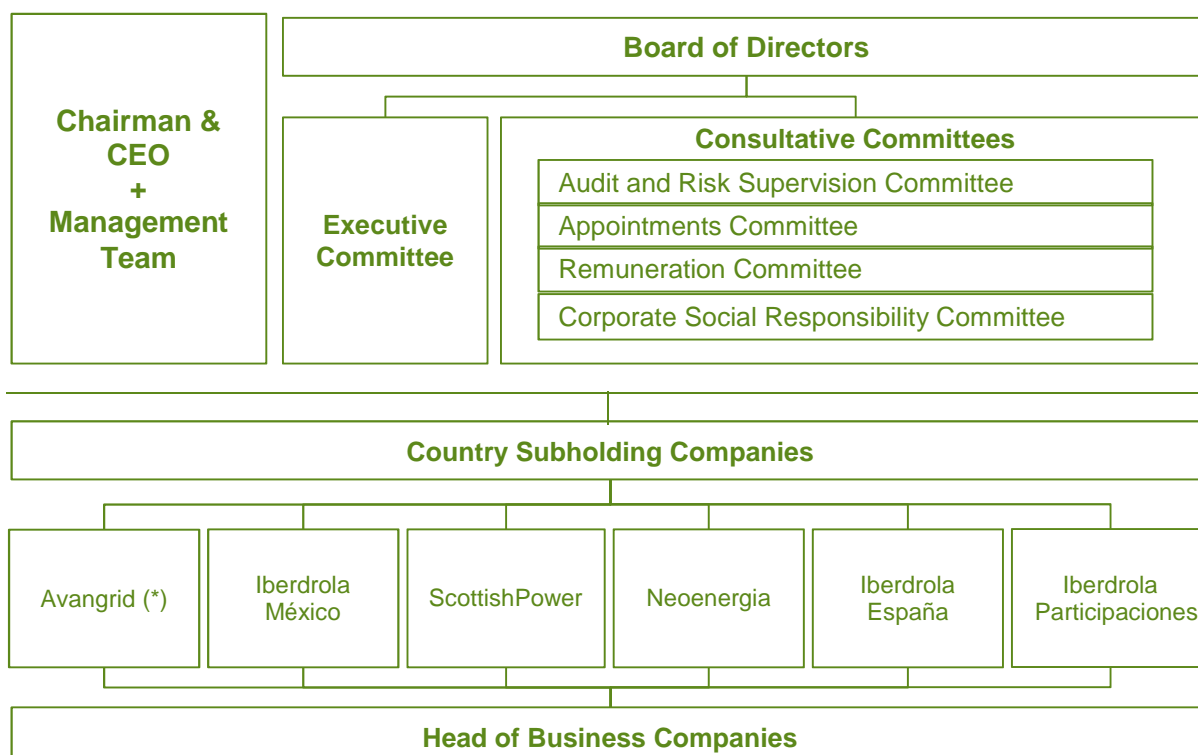


102-5 Ownership and legal form

Iberdrola is a *sociedad anónima* (public limited company) organised under Spanish law.

The corporate and governance structure of the company and of the group, which forms an essential part of the company's Corporate Governance System, is reflected in the following chart:

Corporate and governance structure of Iberdrola, S.A.



(*) Company listed on the New York Stock Exchange.

At 31 December 2017, its share capital totalled 4,738,136,250 euros, represented by 6,317,515,000 shares of the same class and series, each having a nominal value of 0.75 euro. All shares give the holders thereof the same rights. The approximate distribution of equity interests is as follows:

- Foreign entities	66.28%
- Domestic entities	10.17%
- Retail investors	23.55%

As at the date of approval of this report, the share capital of Iberdrola, S.A. totals 4,828,780,500.00 euros and is made up of 6,438,374,000 shares of the same class and series, each having a nominal value of 0.75 euro, which are totally subscribed and paid up.

102-6 Markets served

In the countries of operation, described in section 102-45, the Iberdrola group provides the products and services described in section 102-2 to many different types of customers in the residential, commercial and corporate spheres, as reflected in indicator EU3. The same types of products and services may be provided in other countries should legal, economic and social circumstances be appropriate, in line with the company's strategic approach.

102-7 Scale of the organisation

The following sections include the key figures for Iberdrola, the corporate structure of which is set forth in indicator 102-26 of this report.

Employees

Employees ¹	2017	2016
Spain	10,296	10,395
United Kingdom	6,067	6,373
United States	6,561	6,849
Brazil	10,096	9,429
Mexico	944	874
Other countries	291	162
Report boundary	34,255	34,082

Operations (centres of activity)

The Iberdrola group has identified more than 1,200 sites at which the company operates. In order to adequately manage such a large number of them from the viewpoint of the "Topics" dealt with in the GRI Standards, rationalisation criteria have been used to address them; accordingly, the number of Iberdrola's locations of operation at year-end 2017 is deemed to be 114 for purposes of this report.

¹ The figures in the table reflect the number of employees at year-end 2017, without distinguishing between full-time/part-time employees. To perform statistical analysis regarding labour costs, it is recommended to use the number of employees in terms of Full Time Equivalents (FTEs): 28,355 in financial year 2016, without including the consolidation of Neoenergia, and 33,772 in financial year 2017.

Detailed information on these locations and on the criteria used to define them can be found in Annex 3 Supplementary information.

Net sales (net revenue)

Net sales (€ millions)	2017	2016
Iberdrola consolidated total	31,263	29,216

Total capitalisation, broken down in terms of debt and equity

Total market capitalisation (€ millions)	2017	2016
Equity of controlling company	35,509	36,691
Bank borrowings, gross	37,115	32,025
Gross property, plant and equipment in use	101,765	103,312
Accumulated amortisation and depreciation	(37,683)	(39,477)

Products or services provided

Products or services provided	2017	2016
Iberdrola total		
Net electricity production (GWh)	137,632	142,466
Electric power distributed (GWh)	230,122	229,920
Gas supplies to users (GWh)	122,010	127,425

Total assets

Total assets (€ millions)	2017	2016
Iberdrola consolidated total	110,689	106,706

Beneficial ownership

No shareholder holds a controlling interest in the equity structure of the company. Below is a table showing those shareholders who hold a significant interest² in the share capital of, or voting rights in, Iberdrola as of 31 December 2016 and 2017.

Significant shareholders and percentage of direct and indirect voting rights (%)	31/12/2017	31/12/2016
Qatar Investment Authority	8.57	8.51
Norges Bank	3.21	3.20
Capital Research and Management Company	3.10	N/A
BlackRock, Inc.	3.03	3.01
Kutxabank, S.A.	N/A	3.00

² Defined according to Royal Decree 1362/2007 and Circular 2/2007, of 19 December, of the National Securities Market Commission.

At the date of approval of this report, Capital Research and Management Company has reported that its interest has increased to 5.117% of share capital and BlackRock, Inc. to 5.000%.

Sales and costs by geographic area

Sales (net amount in € millions)	2017	2016
Spain	13,261	13,454
United Kingdom	5,973	6,628
United States	5,190	5,213
Brazil	3,436	1,578
Mexico	2,617	1,630
Other countries	786	713
Iberdrola consolidated total	31,263	29,216

Operating costs (€ millions)	2017	2016
Spain	8,412	8,472
United Kingdom	4,080	4,621
United States	2,545	2,474
Brazil	2,682	1,268
Mexico	1,999	1,120
Other countries	728	669
Iberdrola consolidated total	20,446	18,624

102-8 Information on employees and other workers

Employees ³	2017			2016		
	Men	Women	Total	Men	Women	Total
By employment type						
Full-time	26,050	7,182	33,232	25,720	7,252	32,972
Part-time	179	844	1,023	205	905	1,110
By type of contract						
Permanent	26,073	7,965	34,038	25,531	8,018	33,549
Temporary	156	61	217	394	139	533
Report boundary	26,229	8,026	34,255	25,925	8,157	34,082

The policies followed with subcontracted personnel are described in disclosure EU17.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

102-9 Supply chain

Introduction

The Iberdrola group's supply chain consists of two different processes:

- The acquisition of material and equipment and the procurement of works and services, handled by the group's Procurement Division, which is within the Finance and Resources Division.

³ The total number of employees and the definitions of the boundary can be found in disclosures 102-7 and 102-45 of this report.

- The acquisition of fuel, handled by the Wholesale and Retail Business.

Both processes are guided by the same principles emanating from the [corporate policies](#) and the [Code of Ethics](#), which are approved by the company's Board of Directors. However, each of them have specific characteristics in their various phases: registration and classification of suppliers, bidding process, execution of contracts, monitoring of contractual terms, and quality control.

Acquisition of material and equipment and procurement of works and services

Iberdrola placed orders with approximately 22,000 suppliers during 2017. The following table shows the economic volume of purchases by Iberdrola for these types of supplies, as well as a geographic breakdown thereof:

General supply of equipment, materials, works and services (€ millions)	2017 ⁴	2016
Spain	1,406	1,354
United Kingdom	1,663	2,134
United States	2,467	2,146
Brazil	1,500	1,242
Mexico	902	453
Other countries	676	179
Total	8,614	7,508

These high purchase volumes are a driver of growth for those countries in which the company engages in procurement, favouring their business, industrial and social development through the creation of employment at service providers and their auxiliary industries.

Acquisition of fuel

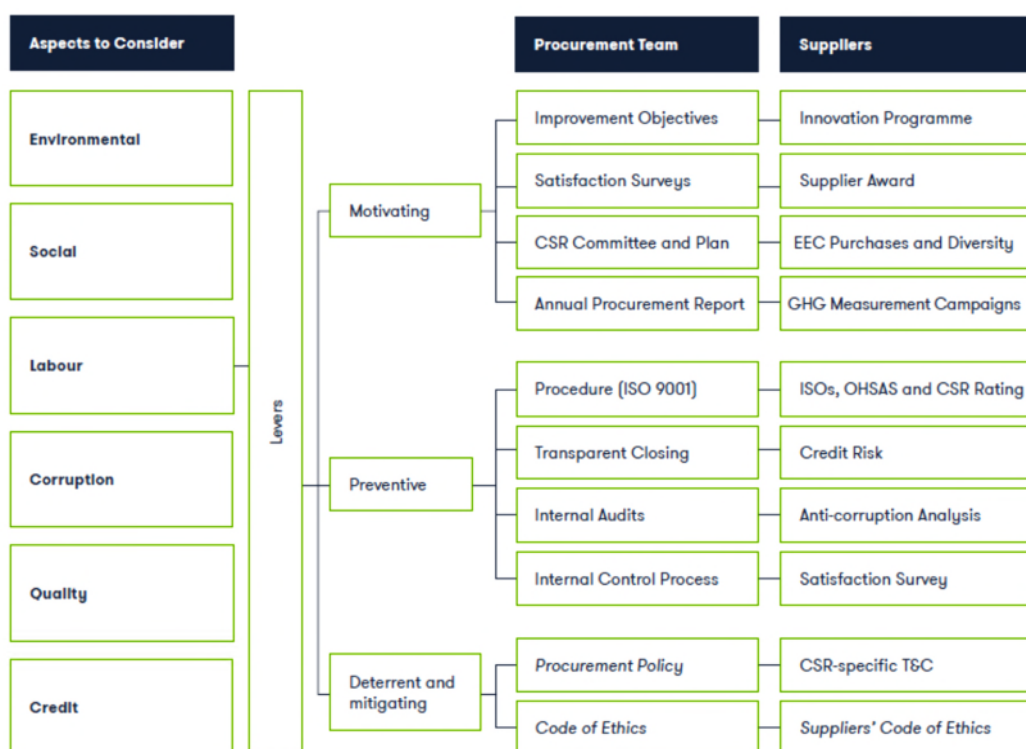
Iberdrola dedicated more than 3,400 million euros to the acquisition of coal, natural gas and uranium in 2017. Except for uranium, which is acquired in Spain exclusively through Empresa Nacional del Uranio (Enusa), acquisitions of coal and natural gas are made on the international market, mainly through long-term commercial relationships with some 16 large domestic and international suppliers and market operators (producers and traders).

Management of supply chain

In its day-to-day management, the Procurement and Insurance Division assumes and promotes the values and commitments of the group in the area of ethics and corporate social responsibility set out in the group's *Code of Ethics* and in the social responsibility policies. Therefore, mechanisms have been implemented in the procurement process designed to ensure transparent, integral and responsible management in the supply chain, which has allowed the company to confront the globalisation and internationalisation process with confidence that its values and ethical and responsibility commitments are conveyed to the suppliers, regardless of their geographic location or area of business activity.

The chart below shows the main mechanisms of the supplier management model:

⁴ Volume billed during the financial year.



Promotion of sustainability and social responsibility

The Procurement Division develops various initiatives designed to ensure sustainability in the supply chain, especially ones that impact ethical commitments, respect for human rights and the fight against corruption, taking as a starting point the principles established in the *Policy on Respect for Human Rights*, in the *Procurement Policy* and in the *Suppliers' Code of Ethics*. The most significant ones are set out below:

a) Policies and procedures.

- *Procurement Policy* and procurement procedures: these establish the global framework for the control and management of procurement processes, with particular emphasis on fulfilment of the ethical commitments of the professionals of the group and of its suppliers.
- *Suppliers' Code of Ethics*: considering that suppliers are a strategic Stakeholder, the company has established specific principles of conduct for them in their area of activity, always aligned with the principles and values of the group. This Code is communicated to all suppliers during the bidding phase and is part of the documentation both of the request for bids and of the final contract documentation with the successful bidder.

b) Specific clauses in the contracting terms of the Iberdrola group.

These contractual provisions require the parties to act within the most stringent levels of safety, occupational risk prevention, environmental protection and respect for and protection of human rights, as well as to eliminate all forms of forced and compulsory labour, prevent any form of child labour, eliminate all discriminatory practices, fight corruption, etc.

c) Register and classification.

Suppliers (both new and existing) are reviewed and classified internally within the context of the proposed purchase transaction, according to their specialisation, the criticality of supply and the total amount of the purchase, as well as the low possibility of substitution, inasmuch as the foregoing may negatively and significantly affect the achievement of the company's strategic objectives in the event of non-performance or defective performance.

In this connection, priority will be given to suppliers that have advanced management systems certified by a third party and, in particular:

- Environmental management system.
- Quality management system.
- Occupational risk prevention system.
- Action plan for corporate social responsibility and respect for human rights.

In the initial classification of the supplier, sustainability has a weight of 40% in the total score, with the other 60% being its financial situation and technical solvency.

d) Evaluation of risks of supplier corruption.

The procurement process carried out by the Procurement Division includes an evaluation of the risk of supplier corruption and the performance of due diligence reviews on suppliers considered to present the greatest risk. More than 80% of total purchases were analysed in 2017.

e) Credit risk review at suppliers.

In order to prevent the potential negative consequences for Iberdrola of suppliers failing to honour their commitments, the Procurement Division has a Credit Risk Management System for the main suppliers of the group. More than 76% of total purchases were analysed in 2017.

f) Improvement goals linked to the remuneration of the Procurement team.

The Procurement Division actively participates in the Corporate Social Responsibility Committee, as it is especially sensitive to the demands and interests of suppliers as strategic Stakeholders. For this reason and in order to achieve continued improvement with this group, annual objectives have been defined that are linked to the remuneration of the Procurement Division, focused on improvement of the supplier profile in the area of corporate social responsibility. Consequently, the supplier is motivated to improve its profile by actions promoting excellence in business management, as well as the Procurement Division being incentivized through quantifiable objectives to choose those companies showing good performance over the long term in the areas to be developed.

Fuel purchases are also subject to the general principles stemming from Iberdrola's social responsibility policies in order to foster socially responsible actions, respect for the environment and the prevention of occupational risks at supplier companies.

Iberdrola carries out an internal evaluation of its main fuel suppliers in accordance with economic, logistics, environmental and social standards. Aspects assessed are: the existence of an environmental policy, information regarding CO₂ emissions, emission reduction initiatives, energy efficiency, biodiversity conservation, occupational health and safety, equal opportunity, human rights and ethical behaviour (anti-bribery and anti-corruption practices).

When establishing supply contracts, apart from agreeing on contractual elements that respect the law applicable in the countries involved in the transaction, Iberdrola negotiates the inclusion of clauses regarding social responsibility. Currently, all contracts for imported coal and for uranium have these types of clauses. The inclusion of these clauses will be negotiated for the new natural gas contracts.

Iberdrola belongs to the international BetterCoal platform, which includes some of the leading European coal-purchasing energy companies. Its aim is to set a standard for ethical, environmental and social conduct; evaluate the conduct of producers through audits; create a database with the results of such evaluations; and improve producers' actions.

During 2017, Iberdrola received no external complaints from authorised channels with respect to the supply chain, and has not cancelled any supply contract or order upon grounds relating to human rights, corruption, labour practices or environmental practices.

102-10 Significant changes to the organisation and its supply chain

Changes in activities and/or in operations

In the course of their business, the various subsidiaries and affiliates of Iberdrola have carried out transactions that change the composition of their assets, including the following:

- 3 August 2017 saw the publication in the Official Gazette (*Boletín Oficial del Estado*) (BOE N° 184) of *Order ETU/754/2017 of 1 August* denying renewal of the authorisation for operation of the Santa María de Garoña nuclear power plant and declaring a definitive halt to the operation thereof, without prejudice to supplementary technical instructions that the Nuclear Safety Council might issue with respect to the application thereof.
- On 25 August 2017, the CNMV was notified of the consummation of the inclusion of the businesses of Elektro Holding, S.A. within Neoenergia, S.A. After this transaction became effective, BB Banco de Investimento, S.A. and Caixa de Previdência dos Funcionários do Banco do Brasil became the owners of approximately 9.35% and 38.21%, respectively, of the capital of Neoenergia, S.A., with Iberdrola Energía, S.A. (Sociedad Unipersonal) owning the remaining 52.45% of the share capital.
- After the merger by absorption of Siemens Wind Holdco, S.L. (the wind head of business company of Siemens Aktiengesellschaft), as absorbed company, by Gamesa Corporación Tecnológica, S.A., as absorbing company, the interest of Iberdrola Participaciones, S.A. (Sociedad Unipersonal) in the resulting company, Siemens Gamesa Renewable Energy, S.A. (Gamesa), was reduced to 8.071% of its share capital.
- Start-up of 21 new facilities by the Renewables Business, of which 6 are in the United States with an installed capacity of 593.5 MW, 4 in the United Kingdom with a total of 290.5 MW, and 11 in Brazil with a total of 328.5 MW.
- In Mexico the commercial start-up of the Baja California III combined cycle plant (314 MW), the Altamira cogeneration plant (57 MW) and the Bajío cogeneration plant (50 MW).

Changes in capital structure

The shareholders acting at the General Shareholders' Meeting of Iberdrola held on 31 March 2017 approved two increases in capital by means of a scrip issue in order to once again implement the *Iberdrola Flexible Dividend* system, implementing the first increase in capital in July 2017 and the second in January 2018.

Changes in supply chain

There were no significant changes in the company's supply chain during the financial year.

102-11 Precautionary Principle or approach

The precautionary principle in environmental matters is included in Iberdrola's [Environmental Policy](#) approved by its Board of Directors. The practical application thereof is reflected in the wager on more

efficient technologies and processes that contribute to confronting climate change and other environmental challenges, with a precautionary approach that allows for greater respect towards biodiversity and a more sustainable use of natural resources.

The Iberdrola group operates its Management System under an environmental management model that includes a life cycle analysis perspective to evaluate the environmental impacts of the activities and facilities of the company through the calculation of the *Corporate Environmental Footprint*. This leads to a consideration of the impacts of all activities of the process, both its own as well as those of the upstream (suppliers) and downstream (customers) supply chain in all countries in which Iberdrola has a presence. This system identifies the environmental risks of the group and manages them with specific prevention and mitigation instruments, as well as the widespread use of environmental impact assessments as a precautionary tool used in the development of infrastructure projects. The precautionary approach also takes shape through continuous awareness and assessment of the environmental risks of production facilities, preventing such risks from occurring and, where applicable, minimising the consequences if they occur.

Based on the precautionary principle, Iberdrola commits to knowing the surroundings of its facilities in order to establish and improve the foundations for making decisions on investments in the restoration and improvement of natural capital, and in the selection of the most appropriate infrastructure. This includes the various studies performed to understand the behaviour of species in the habitats in which it operates, as well as studies focused on the assessment of eco-systemic services, like the pilot *Cumbernauld Living Landscape Pilot Project: Natural Capital Assessment* and the *Socioeconomic evaluation of eco-systemic services*.

102-12 External initiatives to which the organisation subscribes or which it endorses

The company has subscribed to or endorsed external initiatives aligned with sustainable development and encouraged its affiliated companies to adhere to them. Iberdrola supports or subscribes to:

- Iberdrola is fully aligned with the [Sustainable Development Goals \(SDGs\)](#), including them in its business strategy and its *Sustainability Policy*. In addition to meeting its goals to reduce the intensity of CO₂ emissions 50% by 2030 and being carbon-neutral by 2050, Iberdrola is actively working to contribute to the success of the SDGs and for other citizens and companies to be aware of them and contribute to the achievement thereof. Along these lines, it is working with universities (Universidad de Salamanca and Universidad Politécnica de Madrid), organising informational seminars at the Iberdrola Campus, publishing materials and participating in forums ("Youth Speak Forum", of which Iberdrola is a Gold Partner, of the AIESEC initiative). A partial summary of the organisations and initiatives with which it has collaborated more actively during the whole process is provided below:
 - o World Economic Forum (WEF) –CEO Climate Leaders–.
 - o World Business Council of Sustainable Development (WBCSD) –Low Carbon Technology Partnership Initiative–.
 - o Global Compact LEAD.
 - o The Prince of Wales's Corporate Leaders Group. Green Growth Platform.
 - o Carbon Pricing Leadership Coalition.
 - o SE4ALL.
 - o We Mean Business.
 - o The Climate Group.
 - o Bruegel.

- Items of note in the Spanish context are a very active collaboration with the Spanish Office of Climate Change and Iberdrola's participation in the Spanish Green Growth Group, of which it is vice-president.
- The *Good Tax Practices Code* of the Large Business Forum of the Spanish Tax Agency, part of the Ministry of Economy and Public Finance since 2010, which involves following a course of conduct that goes beyond respect for and strict compliance with statutes and regulations, to contribute actively and voluntarily to economic, social and environmental improvement.
- The Global Compact since 2002. Iberdrola also participates in other initiatives of the Global Compact, such as the *Global LEAD Programme*, projects regarding human rights, the fight against climate change and other activities of the Red Española del Pacto Mundial (Spanish Global Compact Network). Iberdrola's *Progress Report* reaches the maximum level, defined as *Advanced*. This report is prepared by the company annually to report the progress made in complying with and disseminating the *Principles of the Global Compact*.
- In Spain, Iberdrola also adhered to an SF6 emissions reduction initiative, within the framework of an agreement between the Spanish Electrical Industry Association (*Asociación Española de la Industria Eléctrica*) (Unesa) and the Ministry of Agriculture and Fisheries, Food and Environment.

In the United Kingdom, ScottishPower forms part of influential organisations in the energy sector like the Scottish Power Fuel Poverty Forum, and notably also collaborates with the University of Strathclyde on topics of innovation.

At ScottishPower, a team has also been created dedicated to coordinating activities with the Cancer Research association, and all joint actions carried out since it joined an initiative in 2012 in order to procure funds to investigate this illness. Since then, they have amply achieved their goals, and there have been countless initiatives by ScottishPower employees helping to raise awareness of the treatment of this illness: "Race to Life", "Stand up to Cancer" and "Help Beat Cancer".

Along these lines, within the framework of collaboration with the Spanish Cancer Association (*Asociación Española Contra el Cáncer*) (AECC), the *Together against cancer (Juntos contra el cáncer)* initiative was launched in Spain in October 2016, offering the opportunity to make small monthly donations via one's electricity bill with a commitment from Iberdrola to double the amount donated by its customers. This initiative continued in 2017, and more than 45,000 customers have already joined to collect funds.

The Agreement continues with the UN in Brazil, and Neoenergia has continued since 2007 with its participation in the Global Compact, which aims to mobilise the business community to adopt the social responsibility principles expressed through ten universal principles in different areas, like the environment and human rights.

Iberdrola has provided another year of support to the Mexican Red Cross for its 2017 national collection and has launched a campaign to promote social welfare actions under the auspices of Fundación Iberdrola México in order to collect funds to help those affected by the earthquakes in Mexico.

Finally, in the United States, Avangrid participates in *Reforming Energy Vision (REV)* to promote a more efficient use of energy and greater penetration of renewables in the country, as in the case of the *CT Grid Side Enhancement initiative*, which promotes the development of energy policies that support the integration of energy sources distributed through the grid. It is also a member of *The Partnership on Climate Resilience* of the U.S. Department of Energy to combat the effects of climate change and modernise energy infrastructures for the future.

102-13 Main membership of associations

Iberdrola is a member of numerous organisations related to its activities, the most significant of which are listed in the following table:

International	
World Association Nuclear Operator (WANO)	WindEurope
CSR Europe	Union of the Electricity Industry EURELECTRIC
World Economic Forum	European Distribution System Operators (EDSO)
United Nations Global Compact	Global Wind Energy Council (GWEC)
Scotland Europa	Nuclear Industry Association (NIA)
International Electrotechnical Commission/European Committee for Electrotechnical Standardisation (IEC/Cenelec)	International Council on Large Electric Systems (CIGRE)
Energy Institute for G9 (Offshore Wind Health and Safety Association)	World Energy Council
BetterCoal	European Utilities Telecom Council-EUTC
World Business Council for Sustainable Development (WBCSD)	International Conference on Electricity Distribution (CIRED)
The Prince of Wales's Corporate Leaders Group	Smart Life
European Round Table (ERT)	European Electric Grid Initiative (EEGI)
Association for Advancement of Cost Engineering	Caring for Climate
Prime Alliance	Institute of Electrical and Electronics Engineers
Electric Power Research Institute – EPRI	International Council on Large Electric Systems (CIGRE)
Center for Energy Efficiency and Renewable Technologies	IHS Global
Solar Power Europe	European Technology Platform Smart Grids
European Network Energy of Transmission System Operator for Electricity (ENTSOE)	International Emissions Trading Association (IETA)
Spain	
Sociedad Nuclear Española	Asociación empresarial Eólica (AEE)
Foro de la Industria Nuclear Española	Unión Española Fotovoltaica (UNEF)
Asociación Española del Gas (Sedigas)	Red Española del Pacto Mundial
Plataforma Española de Redes Eléctricas (FUTURED)	Confederación Española de Organizaciones empresariales (CEOE/Cepyme)
Asociación Española de la Industria Eléctrica (UNESA)	Círculo de empresarios
Instituto Tecnológico de la Energía (ITE)	Cámara de Comercio de España
Asociación Española de Normalización (AENOR)	Club de Excelencia en Sostenibilidad
Fundación COTEC para la Innovación	Club Español de la Energía
Asociación Española para la Promoción de la Cogeneración	Foro de Marcas Renombradas Españolas
Corporate Excellence	
United Kingdom	
The Confederation of British Industry	Aviation Investment Fund Company Limited
The Scottish Council for Development and Industry	Ynni Cymunedol Cymru Community Energy Wales
Energy UK-ECO Group	ECO Quarterly Supplier Forum Ofgem
Energy Networks Association	Industrial & Power Association Ofgem's ECO Industry Fraud Prevention and Compliance Committee
Scottish Renewables	Offshore Wind Accelerator
Energy & Utility Skills	CIGRÉ United Kingdom National Committee
Radar Working Group (Aviation Investment Fund Company Limited)	European Network of Transmission System Operators for Electricity (ENTSOE)

National Skills Academy for Power	Joint Environment Programme
Institute of Engineering & Technology	Gas Storage Operators Group
National Energy Action	Renewable UK
Scottish Windfarm Bird Steering Group	Scottish Hydrogen and Fuel Cell Association
Energy Action Scotland	Technology Innovation Centre
United States	
Business Council of New York State	American Wind Energy Association (AWEA)
Mid-Atlantic Renewable Energy Coalition (PJM States)	Rochester Business Alliance
Maine Better Transportation Assn	The Nature Conservancy-Maine (TNC)
NY State Economic Development Council	Maine Audubon Society
Greater Binghamton Chamber of Commerce	E2Tech
Maine & Company	Maine State Chamber of Commerce (MSCC)
Northeast Gas Association (NGA)	Renewable Northwest (RENEW)
Renewable Energy Northeast (RENEW)	The Wind Coalition (TWC)
Gas Technology Institute	Independent Energy Producers Association of California
Edison Electric Institute (EEI)	Wind on the Wires (WOW)
Interwest Energy Alliance	Alliance for Clean Energy - New York (ACE-NY)
Center for Energy Efficiency and Renewable Technologies (CEERT)	American Gas Association (AGA)
Northeast Underground Committee (NEUC)	New England Power Pool
National Electrical Safe Code	New England-Canada Business Council
Mid-Atlantic Renewable Energy Coalition (MAREC)	North American Transmission Owner and Operator Forum (NATF)
North American Electric Reliability Corporation (NERC)	Northeast Transmission Group (NETG)
ISO New England (ISO-NE)	Energy Council of the Northeast (ECNE)
Connecticut Energy Workforce Development Consortium (CTEWDC)	Electric Power Research Institute (EPRI)
Call Before You Dig, Connecticut	Center for Energy Workforce Development (CEWD)
American National Standards Institute (ANSI)	Association of Edison Illuminating Companies
Mexico	
Asociación Mexicana de Energía Eólica (AMDEE)	Cámara Española de Comercio, A.C. (CEE)
Asociación Mexicana de Energía, A.C	Consejo Coordinador empresarial A.C
Confederación Patronal de la República Mexicana (Coparmex)	Cámara Nacional de la Industria de Transformación Ensenada
Cámara de la Industria de Transformación de Nuevo León	Consejo Ejecutivo de empresas Globales, AC
Empre-Bask México, A.C	Consejo Consultivo del Agua A.C.
Brazil	
Associação Brasileira de Distribuidores de Energia Elétrica	Instituto Brasileiro de Executivos de Finanças
Associação Brasileira das Relações empresa Cliente	Comitê Brasileiro da Comissão de Integração Energética Regional
Instituto ABRADDEE da Energia	Associação Cultural Ecológica do Vale do Ribeira
Associação Brasileira de Energia Solar (ABSOLAR)	Câmara Americana de Comércio
Serviço Brasileiro de Apoio as Micro e Pequenas empresas	Associação Brasileira de Energia Eólica ABEEOLICA
Instituto Ethos de Responsabilidade Social	Associação Brasileira de Recursos Humanos
Conselho Municipal de Defesa do Meio Ambiente	Federação das Indústrias do Estado de São Paulo
Associação da Indústria de Cogeração de Energia	Associação Paulista das Cerâmicas de Revestimento

Consórcio Intermunicipal das Bacias dos Rios Piracicaba, Capivari e Jundiá	Associação de Educação do Homem de Amanhã de Araras
Agência de Desenvolvimento Tietê Paraná	Fundação Comitê de Gestão empresarial (COGE)
Associação Brasileira dos Contadores do Setor de Energia Elétrica (ABRACONE)	Fundação Nacional de Qualidade (FNQ)
Movimiento Pernambuco Empresarial (ABERJE)	

For more details on the company's commitment to the above, its participation within various committees, the contributions it makes or its strategic involvement, please consult public information or visit the websites of these organisations.

GRI Sector Supplement Disclosures

EU1 Installed capacity

Installed capacity by energy source (MW)	2017	2016
Renewables	29,112	27,813
Onshore wind	15,533	14,820
Offshore wind	544	194
Hydroelectric	12,513	12,378
Mini-hydro	303	302
Solar and others	219	120
Nuclear	3,177	3,410
Combined cycle	13,985	13,637
Cogeneration	1,299	1,315
Coal	874	874
Iberdrola total	48,447	47,049

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

EU2 Energy output

Net energy output by source of energy (GWh)	2017	2016
Renewables	50,745	56,443
Onshore wind	33,878	32,162
Offshore wind	821	728
Hydroelectric	15,320	22,597
Mini-hydro	394	686
Solar and others	333	270
Nuclear	23,249	24,381
Combined cycle	54,144	50,892
Cogeneration	6,853	6,947

Coal	2,642	3,803
Iberdrola total	137,632	142,466

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

EU3 Electricity users and producers

Electricity users (%)	2017	2016
Iberdrola total		
Residential	90.1	90.2
Industrial	1.0	1.0
Institutional	1.0	0.9
Commercial	5.8	5.8
Other	2.1	2.1
Users who are producers (no.)	2017	2016
Iberdrola total		
Users that are also producers of electricity	72,073	83,626

At year-end 2017, the companies of the group covered by this report, as a whole, handle a total of 30.33 million electricity supply points.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

EU4 Transmission and distribution lines

Power lines ⁵ (Km)	2017	2016
Transmission		
Overhead	48,088	48,032
Underground	1,999	987
Iberdrola total	50,087	49,019
Distribution		
Overhead	911,474	875,140
Underground	195,050	193,285
Iberdrola total	1,106,524	1,068,425

Due to the nature of the respective electric systems, the voltage levels used for the transmission and distribution of power are not the same in all countries. In Latin America, transmission lines are deemed to be those with a nominal voltage equal to or greater than 69 kV; in the United States and in the United Kingdom, transmission lines are deemed to be those with a nominal voltage equal to or greater than 132 kV; in Spain, transmission lines are deemed to be those with a nominal voltage greater than 220 kV.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

EU5 Allocation of CO₂ emissions allowances or equivalent

⁵ Lengths of lines are calculated by circuit, regardless of the number of circuits for each power line. A double-circuit 5-km line is considered to be 10 km.

Only the generation facilities located in Europe are subject to an emission rights trading system, for which reason this indicator does not affect the thermal generation facilities in Mexico, Brazil or the United States.

The European facilities (Spain and United Kingdom) have not received free trading rights since 2013, for which reason they have to acquire the necessary rights at auction to offset the emissions produced.

Total emissions of the European facilities in 2017 increased to 8.84 million tonnes and were covered by purchases on the market and surpluses from prior years.

24,858 emission rights of Tarragona Power were reported and reflected in the Official Gazette of Spain (*Boletín Oficial del Estado de España*) (BOE) in 2017.

After closing its last coal plant in the United Kingdom, Iberdrola also intends to close the last two coal facilities that are currently in operation.

2. Strategy

102-14 Statement from senior decision-maker

The statement of Iberdrola's chairman & CEO, Ignacio S. Galán, can be found in the corporate website (www.iberdrola.es) in the Sustainability Report section.

102-15 Key impacts, risks and opportunities

1. Strategy

Iberdrola is one of world's largest utilities, which focuses its activities on:

- Production of electricity from renewable and conventional sources.
- Purchase/sale of electricity and gas on wholesale markets.
- Transmission and distribution of electricity.
- Supply of electricity, gas and related energy services.
- Other activities, mainly linked to the energy sector.

Iberdrola carries out its activities mainly in the five countries of the Atlantic area: Spain, the United Kingdom, the United States, Brazil and Mexico.

The purpose of the business model defined by the Iberdrola group is the "supply of reliable, high-quality and environmentally-friendly energy", through a sustainable, long-term industrial enterprise. Under this consideration, and taking into account the long-term consensus energy scenarios, Iberdrola is developing a strategy with the following main characteristics:

- The organic growth of the company is focused on major investments in the five countries referred to above. The international diversification in terms of contribution to results will continue to grow in the coming years.
- The investment will preferably focus on the networks and renewables businesses, which, apart from being regulated businesses with long-term contracts, contribute decisively to the fight against climate change.
- The strategic pillars defined by the company are profitable growth, operational excellence, customer-focused operations, the optimisation of capital, and innovation.
- The company has publicly announced its commitment to decarbonisation, setting high goals for 2030 and 2050.
- Operational efficiency is a characteristic of Iberdrola, and is based on internal innovation and the rapid adoption of available technology.
- Financial stability is considered key for balanced growth. It seeks to maintain high levels of solvency and liquidity, which ensure the normal development of operations, good access to the capital markets, and a sustainable dividend policy.

- The commitment to social responsibility and sustainability is reflected by the inclusion of the concept of the Social Dividend as part of the company's strategy. It is defined as the sustainable creation of value for its Stakeholders through the performance of all of its activities.

2. Iberdrola's key impacts on sustainability

The group's commitment to sustainability takes shape in five basic principles of conduct pursuant to its *Sustainability Policy*:

- Competitiveness of the energy products supplied.
- Safety in the supply of energy products.
- Reduction in environmental impact of all of the activities performed by the companies of the group.
- Creation of value for shareholders, customers and suppliers, looking after business profits as one of the foundations for the future sustainability of the company and of the group.
- Driving the social dimension of the activities of the group.

Competitiveness

Iberdrola seeks the competitiveness of the energy products it supplies through constant improvement in all business processes (generation, transport, distribution and sale), which has led it to high levels of operational efficiency. This focus allows it to offer products at the best price possible thanks to the use of technologies with low operation and maintenance costs, and a combination of diversified generation technologies with the most competitive energy sources based on climatological and market conditions.

Safety of supply

The design of operating procedures prioritises safety in the supply of energy products, using locally produced energy sources to the extent possible, employing renewable energy resources, and ensuring the reliability and availability of generation, transport and distribution facilities.

The group also works to maintain a high quality of service that ensures the availability of energy for customers. In this regard, the requirements for investment in the transmission and distribution networks is constantly analysed in order to ensure resistance against extraordinary events; with the availability of the technical and human means needed to restore service as quickly as possible. The group also encourages the responsible use of energy, supporting energy savings and efficiency measures.

Reduction of environmental impact

The production and distribution of electricity are industrial activities that are indispensable for today's society, but they have a potential impact on the environment. A detailed description of these types of impacts can be found in "[Environment](#)". Actions to control and reduce these impacts are described in both the part of this report dedicated to the environmental dimension and in the corporate website.

The development of clean energy and respect for the environment are the foundations of the group's energy production model. Various actions are taken in order to achieve a reduction in the environmental impact of its operations, like investment in lower-emission power generation, the launch of biodiversity programmes, improvement in the efficiency of operations (entailing the sustainable use of natural resources), the prevention of pollution, and proper management of the waste generated by activities. The group also attempts to use water rationally and sustainably and to manage the risks associated with the scarcity thereof.

Creation of value

Iberdrola has a clear economic impact on the areas in which it operates, as a company driving industrial activity through its investments and the corresponding creation of jobs. It also generates a wide array of services activities in these areas and contributes economic resources to public administrations.

The group works to develop excellent management of customer relations, offering them energy products tailored to their needs, promoting efficiency, and ensuring the availability of competitive, sustainable and high-quality energy.

The group also deploys the best corporate governance systems available to it, including those of compliance and risk management, as well as codes of conduct, to ensure the transparency of information and to preserve the creation of value for shareholders.

Boosting the social dimension

The company progressively strengthens its commitment to the social dimension, with the additional goal of strengthening ethical and responsible behaviour throughout the value chain and in all of the countries in which it operates.

Iberdrola thus promotes responsible and excellent management of human resources, with teams engaged through the recognition of work performed, training appropriate to the skills of its employees, and the encouragement of equal opportunities in all of its activities.

The company also considers as essential the relations with its Stakeholders (as shown by the various chapters of this report), and more specifically with the communities in which it does business. For this reason, it promotes mechanisms of dialogue and communication, which allow for a better understanding of local Stakeholders' expectations, and thus to contribute to the economic and social development of the various territories.

3. Long-term risks and opportunities. Comprehensive risk system

The Iberdrola group is subject to various risks inherent to the different countries, industries and markets in which it does business and to the activities it carries out, which may prevent it from achieving its objectives and successfully implementing its strategies.

Aware of the significance of this issue, the Board of Directors of the company undertakes to develop all of its capabilities in order to adequately identify, measure, manage and control the significant risks to all the activities and businesses of the group, and to establish through the *General Risk Control and Management Policy* the mechanisms and basic principles for appropriate management of the risk/opportunity ratio.

All actions aimed at controlling and mitigating risks shall conform to the following main principles of conduct, among others:

- a) Segregate functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control and monitoring thereof.
- b) Act at all times in compliance with the law and the company's Corporate Governance System and, specifically, with due observance of the conduct values and standards reflected in the *Code of Ethics* and the principles and good practices reflected in the *Corporate Tax Policy*, under the principle of "zero tolerance" for the commission of unlawful acts and situations of fraud set forth in the *Crime Prevention and Anti-Fraud Policy*.

The *General Risk Control and Management Policy* and the basic principles underpinning it are implemented by means of a *Comprehensive Risk Control and Management System*, supported by a Risk Committee of the group and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon supporting procedures, methodologies and tools suitable for the various stages and activities within the system, including:

- a) The establishment of a structure of risk policies, guidelines, limits and indicators, as well as of the corresponding mechanisms for the approval and implementation thereof.
- b) The on-going identification and analysis of significant risks and threats (including passive liabilities and other off-balance sheet risks), both for each corporate business or function and taking into account their combined effect on the group as a whole. To the extent possible, risks will be measured following homogenous procedures and standards common to the entire group.
- c) The analysis of risks associated with new facilities, as an essential element in risk/return-based decision-making.
- d) The audit of the system by the Internal Audit Division.

The risk factors to which the group is subject are generally grouped into the following categories:

- Corporate governance
- Market
- Credit
- Business
- Regulatory and political
- Operational, technological, environmental, climatic, social and legal
- Reputational

A more detailed description can be found in the following public documents, available on the website:

- The [General Risk Control and Management Policy](#)
- Section "E" of the [Annual Corporate Governance Report](#) for financial year 2017.
- The "Principal risks and uncertainties" section of the [Consolidated Management Report](#) for financial year 2017.
- The [Integrated Report](#). February 2018.

As a whole, the group's *Comprehensive Risk Control and Management System* makes it possible to handle the risks associated with the economic, environmental and social dimensions, as well as the impact that the materialisation of any of them might have on the public perception of the company.

In relation to climate change, the group recognizes the seriousness of the threat that global warming entails, which must be faced in a collective and coordinated manner by governments, multilateral agencies, the private sector and society as a whole. Along these lines, the company undertakes to assume a position of leadership in the fight against climate change and to develop the following principles of conduct, among others: i) prevent pollution by gradually reducing the intensity of greenhouse gas emissions, ii) promote electrification, energy efficiency and smart grids, iii) support international negotiation processes and the significant participation of the private sector to achieve goals 7 and 13 of the SDGs approved by the UN and the climate goal included in the Paris Climate Conference, iv) advocate an emissions market that generates a strong and sustainable price signal, and v) support a tax system that includes the "polluting party pays" principle and that does not only include the electricity production industry.

Climate change could entail the following risks in the medium term:

- More extreme weather conditions with an impact on generation and distribution assets, such as increased operation and maintenance costs and insurance premiums.
- Changes in wind and hydraulic resources.
- Changes in levels of demand for gas and electricity (due to the effect of temperatures).
- Lower profitability than forecast for existing thermal plants (due to regulatory restrictions, CO₂ prices, operational events, etc.).
- Impact on the wholesale electricity markets due to widespread development of renewables.
- Legislative and regulatory changes.

On the other hand, although they represent an enormous challenge, climate change and the necessary transition towards decarbonisation of the energy model are also an opportunity compatible with growth and profitability for the company. Iberdrola has undergone a profound transition in this regard in the last 15 years, clearly anticipating the energy transition to face the challenges of climate change and the need for clean electricity. Today, the group is perfectly positioned to take advantage of the following opportunities, among others, thanks to its leadership in renewable energy and its commitment to the transition towards a low-carbon economy:

- **Investment opportunities and improved competitive advantage.** Legislative and regulatory changes encouraging decarbonisation through the development of renewable energy, increased electrification, smart grids, integration of renewable energy into the electricity system and backup capacity, technological innovation, etc.
- **New services and markets.** Demand for new energy services and products related to the energy transition (e.g. electric mobility, demand-side management, smart grids, energy storage, etc.), as well as the impacts of climate change (e.g., increases in energy demand associated with changes in temperature patterns).
- **Advantages in the acquisition of financing.** Growing pressure on the financial sector and capital markets, which favours those companies with an ambitious decarbonisation strategy, low exposure to assets linked to climate change and good positioning on the sustainability and transparency indexes.
- **Strengthening of corporate reputation,** resulting from a leadership position in the energy transition.
- **Sustainable creation of value and maximisation of the Social Dividend** for all Stakeholders.

3.

Ethics and integrity

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



102-16 Values, principles, standards and norms of behaviour

Ethics is a key value that inspires and guides the Iberdrola group's strategy, business model, actions and decisions. Iberdrola therefore works in order to ensure that its commitment to ethics and respect for the environment are the foundation for a sense of belonging and for the trust of all the people and the various stakeholders with whom the company interacts.

As a reflection of this business culture that is respectful of the natural and social environment, the company has formulated its [Mission, Vision and Values of the Iberdrola group](#), applicable to all the companies included therein.

The basic objectives on which the group's vision is based include its firm commitment to ethics, good corporate governance and transparency. Iberdrola thus aspires for its conduct and that of the persons related to the group, including all participants in the value chain, to conform and adhere not only to applicable law and the Corporate Governance System, but also to ethical principles and generally accepted principles of social responsibility.

Far from constituting a mere declaration of principles, the *Mission, Vision and Values of the Iberdrola group* are integrated into its day-to-day management and into all its areas of activity, and are inspired by and take shape in the *Corporate Policies*, the [Code of Ethics](#) (in existence since 2002), and the other regulations of the Corporate Governance System.

The company's *Code of Ethics* establishes a set of principles and guidelines for conduct (applicable to all professionals of the group, regardless of their rank, their geographical or functional location or the group company to which they provide their services) intended to ensure the ethical and responsible behaviour of the group's professionals in the performance of their activities.

The body charged with ensuring that the *Code of Ethics* is applied is the Compliance Unit (hereinafter, the "Unit"), which was set up by the Board of Directors in 2012, following the highest corporate ethics standards, as an internal and permanent body connected to the Corporate Social Responsibility Committee of the Board and with duties in the regulatory compliance area. The Unit's main duties include ensuring that the *Code of Ethics* is applied and the dissemination of a preventative culture based on "zero-tolerance" towards the commission of unlawful acts and fraud. The operation and main powers thereof are set forth in the [Regulations of the Compliance Unit](#).

In addition, Compliance Divisions have been established at each country subholding company and/or head of business company of the group, which are structured as internal independent areas linked to the respective Audit and Compliance Committee, with duties in the area of regulatory compliance and in the prevention and correction of unlawful or fraudulent conduct. These Compliance Divisions relate to the Unit in accordance with a coordination, collaboration and reporting protocol established to such end and in accordance with the group's Corporate Governance System.

The group also has policies, codes and procedures to govern conduct in various areas relating to these matters, including the following, among others: *Crime Prevention Policy*, *Anti-Corruption and Anti-Fraud Policy*, *Directors' Code of Ethics*, *Procedure for Conflicts of Interest and Related-Party Transactions with Senior Officers*, *Internal Regulations for Conduct in the Securities Market* and *Internal Rules for the Processing of Inside Information*.

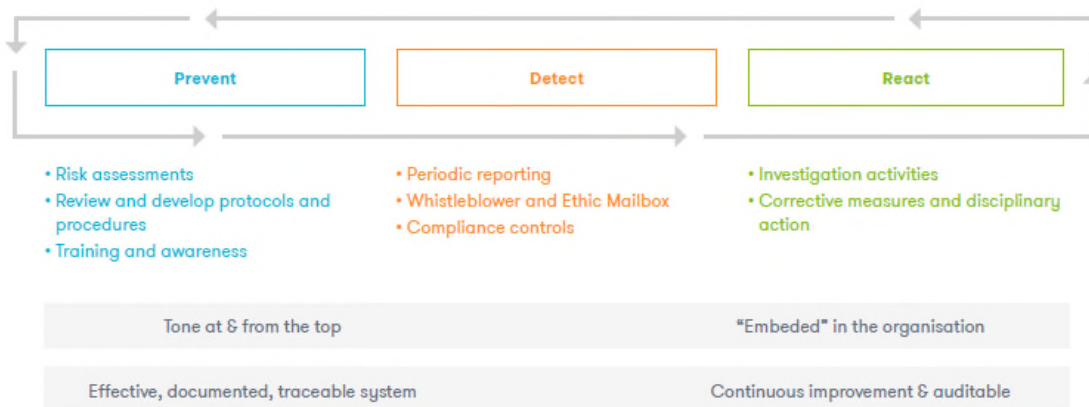
This ethical and good governance commitment is transmitted in turn to the third parties with which the group is connected through various initiatives, which include the *Suppliers' Code of Ethics*, which sets forth the firm commitment to not allow any corrupt, fraudulent or illegal practice, or practices contrary to the policies and principles of the company in the area of corporate social responsibility in its supply chain.

102-17 Mechanisms for advice and concerns about ethics

The Iberdrola group's Compliance System

Since its inception, the Compliance Unit has established a global operating framework through the definition and monitoring of a robust and traceable Compliance System of the group, designed on the basis of the parameters set forth in best international practices on control, compliance, fraud prevention and the fight against corruption.

The Compliance System can thus be defined as a set of substantive rules, formal procedures and material actions intended to prevent, avoid and mitigate the risk of conduct that is improper or contrary to ethics or the law that may be committed by professionals of Iberdrola within the organisation, and to ensure that the conduct is in accordance with ethical principles and applicable law.



The group's reporting channels

One of the basic elements of the Compliance System is to establish detection and/or monitoring mechanisms to verify the effectiveness of the controls and prevention activities carried out at the group. Such mechanisms include the ethics mailboxes, which constitute transparent tools to report conduct that could entail an irregularity or an act contrary to the law or to the rules of conduct set forth in the *Code of Ethics* or other internal rules or procedures. In addition to potential grievances, queries are also made through these channels on matters relating to the interpretation of and compliance with the *Code of Ethics* and the other internal compliance rules of the group. All communications sent through these mailboxes are deemed confidential information, and may be anonymous in those jurisdictions in which the law so allows.

In any event, there is an express commitment of the group, reflected in the *Code of Ethics*, in the *Anti-Corruption and Anti-Fraud Policy* and in the other internal procedures and rules in this area, not to take

reprisals against those using the aforementioned mailboxes, with the logical exception of cases of bad faith.

All professionals who have reasonable indications that any irregularity or any act contrary to the law or to the rules of conduct of the *Code of Ethics* has been committed must report it through the aforementioned mailboxes.

The group also has suppliers' ethics mailboxes. Such mailboxes are communication channels to enable the suppliers of the group, as well as any companies that they hire to provide services or supplies, their respective employees and the companies that have participated in a tender for services or supplies to become suppliers, to report conduct that could entail (i) infringement by any group professional of the Corporate Governance System, the *Code of Ethics* or applicable law, or (ii) the commission by a supplier, its subcontractors or their respective employees of any act contrary to the law or to the provisions of the [*Suppliers' Code of Ethics*](#) within the framework of their business relations with the group. These [mailboxes](#) are available in the purchasing portal of the website.

The group also has a shareholders' ethics mailbox. This mailbox represents a channel of communication through which shareholders can report conduct that might involve a breach of the company's Corporate Governance System or the commission by any professional of the group of an act contrary to the law or to the rules of conduct of the *Code of Ethics*. This mailbox is available on the group's corporate website, specifically within the interactive system provided for the shareholders known as "OLS – On-Line Shareholders".

The management of the ethics mailbox for group professionals, established in the *Code of Ethics*, of the suppliers' ethics mailbox, established in the *Suppliers' Code of Ethics* and included in the *Procurement Policy*, and of the shareholders' ethics mailbox, established in the *Policy regarding Communication and Contacts with Shareholders, Institutional Investors and Proxy Advisors*, is the responsibility of the Compliance Unit and of the Compliance Divisions of the group.

Processing and investigation

As laid down in the *Regulations of the Compliance Unit*, it falls upon the Compliance Unit to handle communications made through the ethics mailboxes, except in cases where the report affects an employee of a country subholding company or head of business company that has its own Compliance Division.

The right to privacy, to a defence and to the presumption of innocence of the persons under investigation are guaranteed in all investigations.

In addition to the investigation work and the possible disciplinary action that may derive from it, the situations reported through the ethics mailboxes are analysed by the Compliance Unit and Compliance Divisions in order to identify possible corrective actions and suggest improvements in the control, prevention and mitigation systems so as to attempt to prevent a future repetition of the irregular situations detected.

Communications received during financial year 2017

As regards the communications received through the channels established in the group, a total of 1,391 communications were received in financial year 2017, of which 567 were queries and 824 were complaints. 13% of the complaints allowed to proceed arose from some type of disciplinary action taken during the financial year, upon a showing that there had been improper conduct or conduct contrary to the *Code of Ethics*.

Disciplinary action with respect to communications from prior years has also been taking during financial year 2017 regarding 4 complaints allowed to proceed in 2016 and another relating to 1 complaint allowed to proceed during 2015.

4. Governance

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



102-18 Governance structure

Board of Directors					
Position	Director	Status	Nationality	Date of first appointment	Ending date
Chairman & CEO	José Ignacio Sánchez Galán	Executive	Spain	21-05-2001	27-03-2019
Director	Íñigo Víctor de Oriol Ibarra	Other external	Spain	26-04-2006	08-04-2020
Director	Inés Macho Stadler	Independent ⁽¹⁾	Spain	07-06-2006	08-04-2020
Director	Braulio Medel Cámara	Independent	Spain	07-06-2006	08-04-2020
Director	Samantha Barber	Independent	United Kingdom	31-07-2008	08-04-2020
Director	María Helena Antolín Raybaud	Independent	Spain - France	26-03-2010	27-03-2019
Director	Ángel Jesús Acebes Paniagua	Independent	Spain	24-04-2012	27-03-2019
Director	Georgina Kessel Martínez	Independent	Mexico	23-04-2013	28-03-2018
Director	Denise Mary Holt	Independent	United Kingdom	24-06-2014	27-03-2019
Director	José W. Fernández	Independent	United States	17-02-2015	27-03-2019
Director	Manuel Moreu Munaiz	Independent	Spain	17-02-2015	27-03-2019
Director	Xabier Sagredo Ormaza	Other external	Spain	08-04-2016	08-04-2020
Director	Juan Manuel González Serna	Independent	Spain	31-03-2017	31-03-2021
Director	Francisco Martínez Córcoles	Executive	Spain	31-03-2017	31-03-2021

Secretary (non-member): Julián Martínez-Simancas Sánchez.

Deputy Secretary (non-member): Santiago Martínez Garrido.

Counsel (non-member): Rafael Mateu de Ros Cerezo.

⁽¹⁾ Inés Macho Stadler is the lead independent director

Executive Committee

The Executive Committee has all the powers inherent to the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions.

The core activities of this Committee consist of assisting the Board of Directors in the on-going supervision of the implementation of the strategy and on compliance with objectives and the governance model and submitting proposals to the Board of Directors or making decisions in urgent cases regarding all strategic decisions, investments and divestitures that are significant for the company or its group, assessing their alignment with the budget and the strategy of the company, and analysing and monitoring business risks, taking into consideration the environmental and social aspects thereof.

Executive Committee		
Position	Director	Status
Chair	José Ignacio Sánchez Galán	Executive
Member	Inés Macho Stadler	Independent
Member	Ángel Jesús Acebes Paniagua	Independent
Member	Manuel Moreu Munaiz	Independent
Member	Samantha Barber	Independent

Secretary (non-member): Julián Martínez-Simancas Sánchez.

Consultative Committees

Permanent internal informational and consultative bodies within the Board of Directors, without executive powers, with informational, advisory and proposal-making powers within their scope of activity.

- **Audit and Risk Supervision Committee.** Carries out duties relating to the supervision of the internal audit function, the review of the internal control and risk monitoring systems, the process of preparing the economic and financial information, the auditing of accounts and compliance, all upon the terms established in its [Regulations](#).

Audit and Risk Supervision Committee		
Position	Director	Status
Chair	Georgina Kessel Martínez	Independent
Member	Denise Mary Holt	Independent
Member	José W. Fernández	Independent
Member	Xabier Sagredo Ormaza	Other external

Secretary (non-member): Rafael Sebastián Quetglas.

- **Appointments Committee.** Performs duties relating to the selection, appointment, re-election and cessation in office of the company's directors and senior officers upon the terms established in its [Regulations](#).

Appointments Committee		
Position	Director	Status
Chair	María Helena Antolín Raybaud	Independent
Member	Iñigo Víctor de Oriol Ibarra	Other external
Member	Ángel Jesús Acebes Paniagua	Independent

Secretary (non-member): Iñigo Gómez-Jordana Moya.

- **Remuneration Committee.** Performs duties relating to the remuneration of the company's directors and senior officers upon the terms established in its [Regulations](#).

Remuneration Committee		
Position	Director	Status
Chair	Inés Macho Stadler	Independent
Member	Iñigo Víctor de Oriol Ibarra	Other external
Member	Juan Manuel González Serna	Independent

Secretary (non-member): Rafael Mateu de Ros Cerezo.

- **Corporate Social Responsibility Committee.** Performs duties relating to the revision and update of the Corporate Governance System and supervision of the social responsibility, sustainability and reputation policies, upon the terms established in its [Regulations](#).

Corporate Social Responsibility Committee		
Position	Director	Status
Chair	Samantha Barber	Independent
Member	Braulio Medel Cámara	Independent
Member	Manuel Moreu Munaiz	Independent

Secretary (non-member): Fernando Bautista Sagüés.

102-19 Delegating authority

The Executive Committee and the chairman & CEO have all the powers of the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions. The company also has a Business CEO (*consejero director-general de negocios*). In addition, the company has a structure of executives and employees authorised to implement its strategy and basic management guidelines, with powers provided under two operating principles: (i) the principle of joint action, which governs the exercise of the powers that are of a decision-making or organisational nature; and (ii) the principle of severability, which governs the exercise of powers of mere representation.

Furthermore, the group has *Internal Rules on Powers of Attorney* which generally define the system for representational powers of the group, which is governed by the principle of separation of representatives pursuant to which each company will appoint its representatives from among its own employees rather than from the employees of another company of the group, and by the establishment of limitations on time, quantity and the substitution of powers, among others.

102-20 Executive-level positions with responsibility for economic, social and environmental topics

The company's organisation has various divisions, the responsibilities of which are as follows: the Finance and Resources, Administration and Control and Compliance divisions and the Office of the Secretary of the Board are responsible for financial and social matters, and the Office of the Chairman is mainly responsible for environmental matters.

The chairman & CEO of the Board of Directors, together with the Business CEO and the rest of the management team, assumes the duty of strategic organisation and coordination of the group through the dissemination, implementation and monitoring of the general strategy and the basic management guidelines established by the Board of Directors.

102-21 Consulting stakeholders on economic, environmental and social topics

Iberdrola has a *General Corporate Social Responsibility Policy*, which is further developed and supplemented by various social responsibility policies addressing specific needs and expectations of the Stakeholders.

In this section, it is noteworthy that in 2015 Iberdrola approved its [Shareholder Engagement Policy](#) in order to establish a permanent dialogue with its shareholders, and its [Stakeholder Relations Policy](#) in order to promote a framework of relationships that favours the inclusion of Stakeholders in the businesses and activities of the group.

Stakeholder Relations Model and CSR Committee

The company establishes channels for dialogue with its Stakeholders in order to know their needs and expectations. These channels are constantly reviewed to adjust them to the appropriate level of relations with each Stakeholder group. Apart from the corporate website, which is one of the main channels for the company's relations with its Stakeholders, it has numerous other means of dialogue, which are set out in section 5 (Stakeholder participation) of this report.

That section contains a description of Iberdrola's *Stakeholder Relations Model*, which is implemented globally and which ensures both the existence of appropriate channels of communication with each Stakeholder group as well as the detection of significant issues and the adoption of action plans to respond to such issues.

The Board of Directors has a [Corporate Social Responsibility Committee](#), the composition and duties of which are described in section 102-18. Among other things, it has the power to “*analyse the expectations of Stakeholders and endeavour to ensure that they are taken into account when formulating Social Responsibility Policies, and supervise and evaluate the application of the Stakeholder Relations Policy*”.

The [Activities Report of the Board of Directors and of the Committees thereof](#) for financial year 2017, available on the corporate website, identifies the reports prepared by this Committee and the appearances that took place during the year.

The Corporate Committee on Corporate Social Responsibility and Reputation is ultimately responsible for supervising and coordinating the development of the strategy for relations between the group companies and Stakeholders.

Shareholder relations

With specific regard to the shareholders, the General Meeting is their main channel for participation in corporate life. It is held within the framework of Shareholder Day, during which there are activities seeking to bring the company closer to the shareholders and encourage a constructive dialogue with them.

The idea is to thus allow the Board of Directors to become acquainted with the opinions and concerns of the shareholders and to keep them in mind when establishing the agenda, drawing up proposed resolutions and deciding on other aspects relating to the holding of the General Shareholders' Meeting.

The Board of Directors also actively promotes the informed participation of the shareholders at the General Meeting, facilitating access to all documentation of the [General Shareholders' Meeting](#) through the website, including a [Shareholder's Guide](#) that describes all of the facilities that the company offers to attend, grant a proxy or cast an absentee vote; and for each Meeting it approves certain *Rules of Implementation for the Management of the General Shareholders' Meeting*, which have incorporated the latest technological advances in electronic participation, always in accordance with the guarantees required by law and by the Corporate Governance System. Along these lines, with a view to the upcoming General Shareholders' Meeting, Iberdrola has developed a new application that will allow shareholders to grant their proxy and cast an absentee vote from any device with access to the internet (including mobile phones and tablets), verifying their status as shareholders in real time. Also, for the first time, individual shareholders will be able to grant their proxy or cast an absentee vote by telephone through the free phone number of the Office of the Shareholder, through which they may also request any information about the event. These electronic and telephonic channels are in addition to the traditional forms of participation, in person, by post or through the shareholder service desks, which Iberdrola will continue to offer to its shareholders in order for them to have all of the alternatives for participating in the General Meeting.

Other proactive actions are also carried out to foster the maximum possible participation of the shareholders, such as telephone information campaigns.

To promote accessibility, the understanding of information, and ultimately the engagement of the shareholders, the company has implemented several specific channels of communication for providing information to shareholders and investors, including the following:

- a) The Shareholders' Office (*Oficina del Accionista*). From the call to the General Shareholders' Meeting through the end thereof, the shareholders can rely on the support of the Shareholders' Office, which has a specific site for such purpose at the premises of the meeting in order to resolve any issues that the attendees may raise prior to the commencement of the meeting, as well as to serve and provide information to the shareholders who wish to use the floor.

Furthermore, the Shareholders' Office is in permanent contact with those shareholders who have voluntarily entered their names in its database, and provides a specific service to minority shareholders for the organisation of presentations and events prior to the General Shareholders' Meeting.

- b) The Shareholders' Club (*Club del Accionista*). This is an open and permanent participation channel between the company and the financial community and shareholders who voluntarily join such Club and are interested in monitoring the evolution of the company on an ongoing basis.
- c) The Investor Relations Office (*Oficina de Relaciones con Inversores*). This responds on a regular and personalised basis to the questions of analysts and institutional and qualified investors in equities, fixed-income securities and socially responsible investments.
- d) Interactive [OLS - On Line Shareholders system](#). The website has an interactive system that allows shareholders (who may access the system with their user name and password) to ask questions of interest either publicly or confidentially, access frequently asked questions regarding various topics, and, with respect to the General Shareholders' Meeting, request information or clarifications or ask questions regarding the items on the agenda, as well as to view the live proceedings.
- e) Relations with shareholder associations and institutional shareholders. Both shareholder associations and institutional shareholders may request meetings with representatives of the company through the Investor Relations Division. Long-term engagement plans may also be developed with those shareholders who express their intention to have a stable and continuous presence in the company's shareholder base, and appropriate mechanisms for dialogue may be established regarding the performance of the company.
- f) Last, the Corporate Governance System makes provision for the ability of the Board of Directors or its chairman & CEO to empower the lead independent director or other directors to engage in dialogue with specific shareholders on certain issues relating to the corporate governance of the company.

Iberdrola's General Shareholders' Meeting, a sustainable event

Notably, in 2016 Iberdrola was the first Ibex-35 company to certify its General Shareholders' Meeting as a [sustainable event](#), in accordance with international ISO 20121 standard. This means that all the processes of the General Shareholders' Meeting (from its planning to its subsequent holding) follow criteria of sustainability, inclusivity and accessibility, with the ultimate goal of optimising Iberdrola's contribution to the local economy, to improving the environment and to its social commitments.

The company implemented more than 70 initiatives for this purpose, including the following:

- Hiring of local suppliers.

- Hiring of persons in vulnerable situations.
- Measures aimed at improving energy efficiency.
- Advancement of sustainable transport.
- Actions to guarantee accessibility for groups with different abilities.
- Use of recyclable and reusable materials.
- Collaboration with certain local NGOs.
- Childcare service as a measure to promote work-life balance.

102-22 Composition of the highest governance body and its committees

As stated in section 102-18, the Board of Directors has fourteen members, two of whom are executive, two are assigned to the category of other external and the other ten are independent. Within this last category, five are women, one of whom, Inés Macho Stadler, is the lead independent director and chair of the Remuneration Committee, as well as a member of the Executive Committee. In addition, María Helena Antolín Raybaud, Samantha Barber and Georgina Kessel Martínez are the chairs of the Appointments Committee, the Corporate Social Responsibility Committee and the Audit and Risk Supervision Committee, respectively.

This section also breaks down the composition of the aforementioned consultative committees of the Board of Directors:

For more information regarding the composition of the Board and its committees, see the [Activities Report of the Board of Directors and of the Committees thereof](#) for financial year 2017.

102-23 State whether the chair of the highest governance body is also an executive officer and the reasons for this arrangement.

The chairman of the Board of Directors is also the chief executive of Iberdrola. He has been granted by delegation all the powers of the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions.

At the General Shareholders' Meeting held on 27 March 2015, the shareholders approved the re-election of the chairman & CEO as executive director by a large majority. Such proposal was supported by two reports: one prepared by an independent expert of recognised standing (PricewaterhouseCoopers Asesores de Negocios, S.L.) and the other by the Board of Directors itself. It was also favourably reported upon by the former Appointments and Remuneration Committee.

The initiative for such proposal was led by the lead independent director, who called the independent directors to a meeting on 15 December 2014. At such meeting, it was unanimously resolved to submit the proposal to the Board of Directors and to ask PricewaterhouseCoopers Asesores de Negocios, S.L. to prepare a report thereon. In light of the unanimous opinion of the independent directors, of the report of the Appointments and Remuneration Committee and of the content of the independent expert's report, the Board submitted the corresponding proposed resolution to the shareholders at the General Shareholders' Meeting on the basis of:

- The demonstrated capability and competence of the candidate to hold such position and the specific provisions of the Corporate Governance System of the company, whose decentralised governance model requires a leadership that necessarily entails a high level of professional commitment and a level of depth, presence and involvement in such person's work that means that whoever takes on such duties will be considered an "executive" of the company.

- The practical application of such governance model, which confirms the validity thereof, reflects a better economic and financial performance than that of comparable companies and has historically been supported by the shareholders at General Shareholders' Meetings and by the capital markets.
- The sound checks and balances system implemented by the company, which: (i) separates oversight and management duties; (ii) ensures that there is a majority of independent directors; (iii) ensures a high level of professional diversity and diversity of gender and origin on the Board of Directors; (iv) grants very significant powers to the lead independent director; (v) establishes a succession plan for the chairman; (vi) decentralises the executive duties of the group among the various country subholding and head of business companies; and (vii) makes Iberdrola, S.A. a holding company with duties that relate solely to the strategic supervision and coordination of the businesses conducted by the group.

102-24 Selection and nomination of the members of the highest governance body

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

Vacancies that occur may be filled by the Board of Directors on an interim basis until the next General Shareholders' Meeting, whereat the shareholders shall confirm the appointments or elect the persons who should replace directors who are not ratified, or it shall withdraw the vacant positions.

To such end, the Board of Directors has approved a [*Board of Directors Diversity and Director Candidate Selection Policy*](#), which ensures that proposals for the appointment of directors are based on a prior and objective analysis of the needs of the Board of Directors.

The Appointments Committee advises the Board of Directors regarding the most appropriate configuration of such body and of its committees as regards size and balance among the various classes of directors existing at any time and the personal requirements that the candidates must fulfil. For such purpose, the Committee will review the structure of each body on a regular basis, particularly when vacancies occur within such bodies. Furthermore, independent directors are appointed on the basis of a proposal of the Appointments Committee, while the other appointments require a report of such Committee.

In any event, the Board of Directors, and the Appointments Committee within the scope of its powers, will endeavour to ensure that the candidates submitted to the shareholders at a General Shareholders' Meeting for appointment or re-election as directors, as well as the directors appointed directly to fill vacancies in the exercise of the power of the Board of Directors to make interim appointments, are respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability and commitment to their duties, while at the same time endeavouring to ensure gender diversity in the composition of the Board of Directors.

They must be irreproachable professionals, whose professional conduct and background is aligned with the principles set forth in the *Directors' Code of Ethics* and the corporate values contained in the *Mission, Vision and Values of the Iberdrola group*.

If the Board of Directors deviates from the proposals and reports of the Appointments Committee, it shall give reasons for so acting and shall record such reasons in the minutes.

In addition, the selection of candidates shall endeavour to ensure that a diverse and balanced composition of the Board of Directors as a whole is achieved, such that decision-making is enriched and multiple

viewpoints are contributed to the discussion of the matters within its power. To this end, the selection process shall promote a search for candidates with knowledge and experience in the main countries and sectors in which the group does or will do business. The directors must also have sufficient knowledge of the Spanish and English languages to be able to perform their duties.

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

102-25 Processes for the highest governance body to avoid conflicts of interest

The *Regulations of the Board of Directors* provide that having interests in any way opposed to those of the company constitutes a ground of disqualification for appointment as director and, if applicable, triggers the director's obligation to resign.

They also provide that competence to hold office is a requirement to be appointed as director of the company.

Therefore, it is expressly provided that directors must resign due to their loss of suitability (particularly when their continuance in office may jeopardise, directly, indirectly or through persons related thereto, the faithful and diligent performance of their duties in furtherance of the corporate interest, which is understood as the common interest of all shareholders of an independent company, oriented towards the creation of sustainable value through the activities included in its corporate object, taking into consideration the other Stakeholders related to its business activities and institutional reality, pursuant to the *Mission, Vision and Values of the Iberdrola group*), or when owing to supervening circumstances, they fall within any of the instances of disqualification from or prohibition against holding such office established in the law or in the Corporate Governance System.

The Board of Directors may request a director subject to any circumstance of disqualification to resign from office and, if applicable, may propose the director's removal from office to the shareholders at a General Shareholders' Meeting.

For such purposes, the aforementioned Regulations provide that it shall be deemed that a director lacks or, if applicable, has ceased to possess, the competence required to hold office when there is a structural and permanent situation of conflict between the director (or persons related thereto or, in the case of a proprietary director, the shareholder or shareholders that proposed or appointed the director or the persons directly or indirectly related thereto) and the company or the companies forming part of the group.

Independently of the foregoing, the *Regulations of the Board of Directors* also regulate the specific conflict of interest situations that might affect the directors and that involve a direct or indirect conflict of their personal interest or that of persons related thereto with that of the company or the companies within its group. As provided therein, the directors must give notice of conflicts of interest in which they are involved and must abstain during the deliberations and voting on the matter in question. Section D.6 of the *Annual Corporate Governance Report* for financial year 2017 describes the mechanisms used to detect, determine and resolve potential conflicts of interest between Iberdrola and its directors, officers and significant shareholders.

For its part, article 43 of the *Regulations of the Board of Directors* provides that “any transaction by the Company or the companies forming part of its group with directors, with shareholders that directly or indirectly own a shareholding interest that is equal to or greater than that legally regarded as significant at any time or that have proposed the appointment of any of the directors of the Company, or with the respective related persons (“Related-Party Transactions”), shall be subject to the approval of the Board of Directors, or in urgent cases, of the Executive Committee, following a report from the Appointments Committee.

In the event that authorisation has been granted by the Executive Committee due to the urgency of the matter, the Executive Committee shall give notice thereof to the Board of Directors at its next meeting in order for it to be ratified”.

Furthermore, section six of said article provides that “the Board of Directors, through the Appointments Committee, shall ensure that transactions are carried out under arm’s length conditions and with due observance of the principle of equal treatment of shareholders in the same situation. In the case of transactions to be carried out by companies of the group, the scope of authorisation of the Board of Directors, or that of the Executive Committee, if applicable, referred to in the preceding sections, shall be circumscribed to the verification of compliance with such particulars.”

102-26 Role of highest governance body in setting purpose, values and strategy

Iberdrola and its group of companies are committed to a mission, vision and values.

This mission of the group is to create value sustainably, considering the Social Dividend as a basic element for the definition of its strategy, in carrying out its activities for society, citizens, customers, employees, shareholders and other Stakeholders, as the leading multinational group in the energy sector providing a quality service through the use of environmentally-friendly energy sources, which engages in innovation, leads the process of digital transformation in its area of activity, and is committed to the fight against climate change through all of its business activities, with the generation of employment and wealth, considering its employees to be a strategic asset. Along these lines, it fosters their development, training and measures of reconciliation, favouring a good working environment and equal opportunity. All of the foregoing is within the framework of its strategy of social responsibility and compliance with tax rules.

This mission is supplemented by a vision, based on the ambition of being at the forefront of a better future, creating value sustainably with a quality service for the people and communities in which the group carries out its activities, as well as by twelve values: creation of sustainable value, observance of ethical principles, good corporate governance and transparency, development of the group’s workforce, social commitment, encouragement of a sense of belonging among the Stakeholders, safety and reliability of supply, quality, innovation, respect for the environment, customer focus and institutional loyalty.

The corporate and governance structure of the company and of the group, the layout of which is reflected in disclosure 102-5 of this chapter, is defined on the grounds described below, which duly differentiate between the duties of day-to-day administration and effective management, on the one hand, and those of supervision and control, on the other:

- a) Vesting in the company’s Board of Directors of powers regarding approval of the strategic goals of the group and the definition of its organisational model, as well as supervision of compliance therewith and development thereof.
- b) Assumption by the chairman & CEO of the Board of Directors, with the technical support of the Operating Committee, by the Business CEO, with overall responsibility for all the businesses of the

group, and by the rest of the management team of the duty of organisation and strategic coordination within the group.

- c) The function of organisation and strategic coordination is strengthened through country subholding companies in those countries where the Board of Directors of the company has so decided. Such entities group together equity stakes in the energy head of business companies carrying out their activities within the various countries in which the group operates. This structure is completed with a country subholding company that groups together certain stakes in other entities, including non-energy head of business companies, with a presence in several countries. One of the main duties of country subholding companies is to centralise the provision of services common to head of business companies, always in accordance with the provisions of applicable law and especially the legal provisions regarding the separation of regulated activities.

Country subholding companies have boards of directors that include independent directors and their own audit committees, internal audit areas and compliance units or divisions.

Country subholding companies are responsible for disseminating, implementing and supervising the general strategy and the basic management guidelines at the country level with respect to the head of business companies grouped within each of them, taking into account the characteristics and unique aspects thereof.

- d) The group's listed country subholding companies (currently Avangrid, Inc.) have a special framework with greater autonomy that extends to the regulatory, related-party transactions and management areas.

In particular, all transactions between a listed country subholding company and its subsidiaries and the other companies of the group require the approval of a committee of the Board of Directors of such country subholding company made up exclusively of directors not related to the company.

The special strengthened autonomy framework is further developed in the respective agreements executed by the company with each listed country subholding company.

- e) The head of business companies of the group assume decentralised executive responsibilities, enjoy the autonomy required for the day-to-day and effective management of each business, and are responsible for the day-to-day control thereof.

Such head of business companies are organised through their respective boards of directors, which include independent directors, where appropriate, and their own management bodies; they may also have their own audit committees, internal audit areas and compliance units or divisions.

The corporate configuration and governance principles described above make up the corporate and governance structure of the group. This structure operates jointly with the group's Business Model, which entails the global integration of the businesses and aims to maximise the operational efficiency of the various business units. It also assures the dissemination, implementation and monitoring of the general strategy and of the basic management guidelines for each of the businesses, mainly through the exchange of best practices among the various companies of the group, without reducing the decision-making autonomy of each of them.

Within the group's corporate and governance structure, the Operating Committee is an internal committee of the company, the essential function of which is to provide technical, information and management support to the chairman & CEO of the Board of Directors, in order to facilitate the development of the group's Business Model.

The organisational model is structured into the decentralised business units and the centralised corporate governance and control functions, which can be viewed in the "[Corporate structure](#)" section of the corporate website.

102-27 Collective knowledge of highest governance body

The *General Corporate Governance Policy* provides that the company has a programme to provide directors with information and updates in response to the need for professionalisation, diversification and qualification of the Board of Directors.

Furthermore, to improve the knowledge of the group and of the businesses that it carries out and the environment in which it operates, presentations are made to the directors regarding the businesses of the group, which is supplemented by articles and publications of interest made available to the directors through the directors' website, a software application that has a specific section dedicated to training.

In turn, the directors' website facilitates the performance of the directors' duties and the exercise of their right to receive information. Information deemed appropriate for the preparation of meetings of the Board of Directors and the committees thereof in accordance with the agenda, as well as the materials, presentations and expositions made to the Board of Directors, is posted on such website.

In addition, a portion of each meeting of the Board of Directors is dedicated to a presentation on financial, legal or socio-political issues of significance to the group.

During financial year 2017, the directors' website was also used to provide the directors with various training sessions deemed to be of interest for the performance of their duties:

- *Shareholder control of the remuneration of the executive directors*
- *On-site informational meeting about investments and initiatives of the Iberdrola group regarding cybersecurity*
- *Fiscal transparency*
- *Digital transformation*
- *Regulatory positioning of Iberdrola. The EU winter package*
- *The Iberdrola group's governance model with respect to cybersecurity and data protection*
- *The Iberdrola group's Compliance System*
- *Iberdrola and the evolution of corporate governance practices*
- *Corporate governance in the United States. Analysis of the U.S. model using the Spanish model as a reference*
- *Relations with Stakeholders at Iberdrola*
- *Occupational Safety and Health at Iberdrola*
- *Analysis of the climate commitments of the jurisdictions in which Iberdrola has a presence*
- *The Iberdrola group's commitment to the Sustainable Development Goals*
- *Market Abuse and its implications for the Board of Directors of Iberdrola, S.A.*

The consultative committees have developed their own training programmes, either in-person or through the publication of the corresponding article on the directors' website, which have dealt with various topics:

- *Report of the CNMV regarding supervision of the financial information of Ibex 35 companies in 2016*
- *Evolution of the remuneration of the managing board*
- *The relevance of Responsible Steel*
- *Status of the renewables business*
- *New techniques in the electricity sector*
- *Monitoring of the application of the Information Technologies Policy*
- *Best corporate governance practices*
- *Report of the CNMV regarding ACGR of Ibex 35 companies. Powers of the Appointments Committee*
- *Aspects of the Annual Corporate Governance Report of Ibex 35 companies relating to audit committees*
- *Liberalised Business*
- *Networks Business*
- *Director remuneration trends*
- *Risks in the financial sector and provisions of investment funds*
- *New accounting developments and recent changes in the regulation of the annual accounts*

102-28 Evaluating the highest governance body's performance

The *Regulations of the Board of Directors* provides that the Board shall annually evaluate: its operation and the quality of its work; the performance of duties by the chairman & CEO of the Board of Directors, based on the report submitted thereto by the Appointments Committee; and the operation of its committees, in view of the report submitted thereto by such committees. For such purpose, the chairman of the Board of Directors organises and coordinates the aforementioned evaluation process with the chair of each committee.

The *General Corporate Governance Policy* provides that the annual evaluation shall be conducted with the cooperation of an independent firm of recognised standing.

Within the framework of the evaluation process of financial year 2017, Iberdrola has decided to draw on the cooperation of PricewaterhouseCoopers Asesores de Negocios, S.L., the independence of which was verified by the Appointments Committee at its meeting of 11 October 2017.

This process is based on the review of a large number of objectively quantifiable and measurable indicators that are updated every year in accordance with the latest trends, and is supplemented by a comparison with the companies identified as having the best market practices. As a result of this process, the company develops and adopts on-going improvement plans designed to implement the specific measures that may help to further perfect corporate governance practices. The Board of Directors completed this evaluation process for financial year 2017 through the adoption of the corresponding resolution at its meeting of 20 February 2018.

102-29 Identifying and managing economic, environmental and social impacts

The Board of Directors of Iberdrola is structured as described in section 102-18 of this report, with monitoring duties being carried out by the consultative committees thereof that supervise the economic, social and environmental performance of the company. Such duties include both the supervision of the risks and opportunities generated by the group's activities and compliance with international principles, codes and standards applicable to high-responsibility tasks. The Board of Directors and its consultative committees perform periodic evaluations of the aforementioned aspects of performance, drawing for such purpose on external information of interest thereto, with the assistance of external independent advisers, and on information provided to them by the rest of the organisation itself, primarily through periodic appearances of the group's officers at committee meetings.

These appearances are described in the [Activities Report of the Board of Directors and of the Committees thereof](#) for financial year 2017, available on the corporate website.

The Corporate Social Responsibility Committee has supervised the company's conduct in the area of sustainability, corporate reputation, corporate governance and compliance. Various external advisors have also appeared before this Committee:

- a) Recurring appearances:
 - Compliance Unit.
 - Investor Relations and Communication.
- b) Particular appearances:
 - Secretary of the Board of Directors.
 - Energy Policies and Climate Change.
 - Innovation, Sustainability and Quality.
 - Human Resources.
 - Iberdrola Foundation.

The issues dealt with during these appearances are described in disclosure 102-27 of this chapter.

102-30 Effectiveness of risk management processes

Generally, the group's *Comprehensive Risk Control and Management System* allows for proper *ex ante* identification of risks or sounds alarms that allow for the making of decisions tending to minimise the impact of the risks.

The pillars of the system include the on-going evaluation of the suitability and efficiency thereof, as well as best practices and recommendations in the area of risks for eventual inclusion thereof in the model.

The company's Operating Committee meets on an approximately weekly basis, while the group's Risk Committee does so monthly. This committee is supplemented with the Credit Risk and Market Risk Committee, which report to said Risk Committee, and which meet on a fortnightly and monthly basis, respectively.

On at least a quarterly basis, the Audit and Risk Supervision Committee of the Board of Directors monitors trends in the group's risks:

- It reviews the group's quarterly risk report.
- It coordinates and reviews the Risk Reports sent periodically (at least half-yearly) by the Audit and Compliance Committees of the companies of the group that have such a body.

- It prepares (at least half-yearly) a risk report for the Board of Directors.

102-31 Review of economic, environmental and social topics

This information is available in disclosure 102-29 of this chapter.

102-32 Highest governance body's role in sustainability reporting

Iberdrola's Board of Directors is the body responsible for reviewing the *Sustainability Report 2017*, which was approved on 20 February 2018 (following a report from the Corporate Social Responsibility Committee), the date of preparation of the company's annual accounts for financial year 2017.

102-33 Communicating critical concerns

102-34 Nature and total number of critical concerns

The highest-level persons in charge of the various business divisions and corporate divisions have a presence on the Operating Committee referred to in section 102-26 of this report. It is chaired by the chairman & CEO, who reports in turn to the Board of Directors.

For their part, the critical concerns considered by the Board of Directors are principally:

- Preparation of the annual accounts and proposed allocation of profits/losses.
- Approval of periodic financial information.
- Approval of budgets and definition of goals of the Iberdrola group.
- Authorisation or acknowledgement, as appropriate, of significant awards, investments and divestments of the Iberdrola group.
- Grant of powers of attorney.
- Setting of the remuneration of the Board of Directors and of the senior management of Iberdrola, S.A.
- Approval of various annual reports.
- Call to the General Shareholders' Meeting, formulation of proposed resolutions and the corresponding reports of the directors.
- On-going update of the Corporate Governance System.
- Evaluation of the Board of Directors.
- Approval of risk limits and indicators.
- Implementation of resolutions adopted by the shareholders at the General Shareholders' Meeting, and particularly increases and reductions in capital.
- Authorisation or acknowledgement, as appropriate, of financial transactions of the Iberdrola group (debt and equity).
- Authorisation or acknowledgement, as appropriate, of proposals for the appointment of directors in companies in which the Iberdrola group has an interest.
- Authorisation or acknowledgement, as appropriate, of corporate or business restructurings.

The [*Activities Report of the Board of Directors and of the Committees thereof*](#) for financial year 2017 provides a detailed description of the composition, operation and activities of the governance bodies of the company.

102-35 Remuneration policies

The [*Annual Director Remuneration Report*](#) for financial year 2017 will be submitted to a consultative vote of the shareholders at the General Shareholders' Meeting called to be held on 13 April 2018.

The [Director Remuneration Policy](#) applicable during the next three financial years will be submitted for the approval of the shareholders at the General Shareholders' Meeting called to be held on 13 April 2018. This policy implements, among other things, the structure of the remuneration of the directors for their activities as such and the structure of the executive directors' remuneration for the performance of their executive duties, based on a series of parameters that are in line with the standard remuneration of comparable companies. It also sets forth the corporate social responsibility parameters to which the variable remuneration of the chairman & CEO is linked.

The *Director Remuneration Policy* and the *Senior Officer Remuneration Policy* seek to comply with the good governance recommendations generally recognised in the international markets on remuneration issues. In particular, the remuneration structure for the executive directors and the senior officers includes a significant variable component linked mainly to the performance of the company with respect to certain specific and pre-established economic/financial, industrial and operational parameters that are quantifiable and aligned with the strategic goals of the company and the group for the purpose of retaining and motivating the executive directors and senior officers and for the creation of long-term value. Weight is also to be given to goals in the areas of corporate governance and corporate social responsibility, as well as to the individual performance of the executive directors. This is set out in the current Strategic Bonus 2017-2019 approved by shareholders at the General Shareholders' Meeting of 31 March 2017, which makes the reduction of CO₂ emissions a strategic goal.

As regards aspects relating to the company's economic, environmental and social performance, variable remuneration for the management team of the Iberdrola group takes into account variable parameters linked to financial as well as environmental and social aspects.

102-36 Process for determining remuneration

As provided in the *By-Laws* and the *Regulations of the Board of Directors* of Iberdrola, the Board of Directors, at the proposal of the Remuneration Committee, is the body with power to set the remuneration of directors within the overall limit set by the By-Laws and in accordance with law, except for such remuneration as consists of the delivery of shares of Iberdrola or of options thereon or which is indexed to the price of the shares of Iberdrola, which must be submitted to the shareholders for approval at the General Shareholders' Meeting. The Remuneration Committee is a consultative committee chaired by and made up mostly of independent directors.

The Remuneration Committee is responsible for evaluating the level of attainment of the targets to which variable annual and multi-annual remuneration is linked and for submitting it to the Board of Directors for approval. To such end, in financial year 2017 it drew on the advisory services of PricewaterhouseCoopers Asesores de Negocio, S.L. The independence thereof has been evaluated by the Appointments Committee. Section C.1.20 of the [Annual Corporate Governance Report](#) for financial year 2017 describes the business relations of the company with this advisor during the financial year.

Pursuant to the *By-Laws* and the *Director Remuneration Policy*, the limit to the amounts that Iberdrola may annually allocate to the directors each year as an expense, including, in the case of executive directors, remuneration payable for performing executive duties, as well as the funding of a reserve to meet the liabilities assumed by the company in connection with pensions, payment of life insurance premiums and payment of severance to former and current directors, is 2% of the consolidated group's profit for the financial year, after allocations to cover the legal and other mandatory reserves and after declaring a dividend to the shareholders of not less than 4% of the share capital. As stated, for the purpose of establishing such limit, the quoted price of shares or options thereon or remuneration indexed to the listing

price of the shares shall not be calculated, which remuneration shall in all cases require the separate approval of the shareholders at a General Shareholders' Meeting. Both the [Director Remuneration Policy](#) and the [Senior Officer Remuneration Policy](#) are available on the website.

102-37 Stakeholders' involvement in remuneration

The *Director Remuneration Report* for financial year 2016 was submitted to a consultative vote of the shareholders at the General Shareholders' Meeting held on 31 March 2017, which had a quorum of 77.20%, and was approved with only 3.26% of the shares represented in person and by proxy voting against.

102-38 Annual total compensation ratio

102-39 Percentage increase in annual total compensation ratio

Iberdrola's Corporate Governance Model provides for the existence of a holding company, Iberdrola S.A., and for country subholding companies in the main countries in which it does business, as shown in disclosures 102-5 and 102-26 of this report and described on the company's website.

The main countries in which the Iberdrola group does business are Spain, the United Kingdom, the United States, Brazil and Mexico, and the remuneration ratios are set forth in the table below.

Country ⁶	Highest level of remuneration	Disclosure 102-38		Disclosure 102-39	
		2017	2016	2017	2016
Spain	Director	21.08 ⁷	30.30	-1.15 ⁸	6.78
United States	Director (CEO) ⁹	22.22	16.66	4.54	N/A
United Kingdom	Director (CCO) ¹⁰	12.09	11.83	1.60	3.31
Brazil	Director/Chair	22.43 ¹¹	41.00	N/A ¹²	0.16
Mexico	Director	7.63 ¹³	7.21	1.48	-0.73 ¹⁴

⁶ Country composition:

Spain: Generation, Distribution, Retail, Renewables and Engineering .

United States: Avangrid, Inc.

United Kingdom: ScottishPower (includes Renewables and Engineering).

Brazil: Neoenergia (change in boundary compared to 2016).

Mexico: Generation, Renewables and Engineering.

⁷ Spain: the highest remunerated position changes compared to the one considered in 2016.

⁸ Spain: the result of the ratio is negative because total annual 2017 remuneration of the person with the highest remuneration is less than that of 2016.

⁹ CEO: Chief Executive Officer.

¹⁰ CCO: Chief Corporate Officer.

¹¹ Brazil: the highest remunerated position changes compared to the one considered in 2016.

¹² Brazil: result not reported due to change in boundary compared to 2016.

¹³ Mexico: the highest remunerated position changes compared to the one considered in 2016.

¹⁴ The result of the ratio is negative because total annual 2016 remuneration of the person with the highest remuneration is less than that of 2015.

5.

Stakeholder engagement

102-40 Stakeholder groups engaged by the organisation

Iberdrola's [Stakeholder Relations Policy](#) (approved by the Board of Directors in February 2015 and updated in December 2017) explicitly states that the company believes "*that its relations with those groups that may influence or that are affected by the decisions or the value of the Company and the group are significant*". The value chain comprised of Iberdrola's businesses means that there is a large number of these groups, for which reason the company has decided to group them into eight different categories that constitute its Stakeholders:

- Workforce
- Shareholders and financial community
- Regulatory entities
- Customers
- Suppliers
- Media
- Society in general
- Environment

102-41 Employees covered by collective bargaining agreements

This information is available in the "Collective Bargaining Agreements" section of the Management approach of topics GRI 401 Employment and GRI 402 Labour/management relations, included in the "Social Dimension" chapter of this report.

102-42 Identifying and selecting stakeholders

The initial identification and selection of the Stakeholders of Iberdrola was carried out through processes of internal reflection conducted by the management team. Subsequently, in 2015, the *Stakeholder Relations Policy* ratified the Stakeholder categories described in disclosure 102-40.

However, for the proper management of each of the Stakeholders, the various areas and businesses identify different subgroups that they deem relevant for more specific treatment.

102-43 Approach to stakeholder engagement

Iberdrola develops a responsible and sustainable business model, which puts [Stakeholders](#) at the centre of its strategy. The company's intent is thus to build relations of confidence with the various Stakeholders, as well as to deepen their participation, engagement and sense of belonging to Iberdrola.

The [By-Laws](#) themselves include a specific article dedicated to Stakeholder relations, establishing the principles and objectives that govern these relations:

Principles:

- Two-way communication
- Transparency
- Active listening
- Equal treatment

Objectives:

- Take into consideration the legitimate interests of the Stakeholders
- Effectively disclose information regarding the activities and businesses of the group

Iberdrola has decisively driven compliance with its *Stakeholder Relations Policy* (mentioned above), which has resulted in the approval and implementation of a new *Global Stakeholder Relations Model*, based on the *AA1000 Stakeholder Engagement Standard (AA1000SES) 2015* standard and in its three requirements of inclusiveness, materiality and responsiveness¹⁵.

This Model seeks to achieve the following goals:

- To systematise Stakeholder relations throughout the Iberdrola group, in all countries and businesses.
- To create a corporate culture with respect to the significance of dialogue with the Stakeholders for more sustainable performance by Iberdrola.

The Model in itself is a process of continuous improvement structured into ten phases, which allows for: segmenting Stakeholders and prioritising the resulting Subgroups; distinguishing the various levels of relations; constantly updating relationship channels to favour engagement; identifying significant issues, with related risks and opportunities; establishing action plans to respond to significant issues; and finally, to enrich the reporting systems, as is the case of this report. The detailed process is set out in the following image:



This Model was implemented for the first time in 2017 to manage eight of Iberdrola's Stakeholder groups in the five main countries and at numerous Generation and Renewables facilities, as well as in the various geographic areas of the Networks business. To assist with this implementation, the Iberdrola Stakeholders' Hub, an internal coordination body in which the areas responsible for management of the Stakeholders at the global corporate and business level participate, was also created in 2017.

Relationship channels

As regards the relationship channels with the Stakeholders, the *By-Laws* state that the "the company's corporate website, its presence on social media, and its digital communication strategy generally are channels of communication serving the *Stakeholder Relations Policy*". Conventional channels of communication other than this media are also used (phone, electronic mailboxes, communications, meetings, etc.) and other more specific channels like those below¹⁶:

¹⁵ Iberdrola has been continuously applying Assurance Standard AA1000 for the last eleven years. In 2016 Iberdrola's Operating Committee approved a new *Global Stakeholder Relations Model* (referred to in this report), which was implemented for the first time in 2017.

¹⁶ Pursuant to its *Global Stakeholder Relations Model*, Iberdrola has a list of communication channels by Stakeholder and country, which are included in the *Management Report on Iberdrola's Relations with Stakeholders* for financial year 2017.

<p>WORKFORCE</p> <ul style="list-style-type: none"> • Mixed subcommittees and committees • Employee portal (Intranet) • Global employee office • Satisfaction surveys • Subject-specific meetings, events and conferences • Newsletters, reports, bulletins, etc. • Informational screens at offices • Ethics mailbox 	<p>SHAREHOLDERS AND FINANCIAL COMMUNITY</p> <ul style="list-style-type: none"> • General Shareholders' Meeting • Shareholder Day • Shareholders' Club and Shareholders' Office • OLS - On Line Shareholders • Opinion surveys • Investors Day • Personal contact with investors, analysts, ratings agencies and shareholders • Mobile app • Reports and bulletins • Shareholders' Ethics Mailbox
<p>REGULATORY ENTITIES</p> <ul style="list-style-type: none"> • Consultation and official formalities with various regulatory entities • Relationship through industry organisations • Meetings and direct contacts • Participation in workshops, events, debates, etc. • Preparation of informational memos 	<p>SUPPLIERS</p> <ul style="list-style-type: none"> • Supplier portal • Satisfaction surveys • Supplier of the Year Award • Supplier registration and classification processes • Supplier involvement campaigns • Participation in responsible procurement events • Suppliers' ethics mailboxes
<p>CUSTOMERS</p> <ul style="list-style-type: none"> • On-site (customer service points) and off-site channels for direct customer service • Digital channels (websites, social media, sms, mobile apps) • Customer satisfaction surveys • Relationships with consumer associations • Awareness-raising campaigns • Systems for claims and complaints • 	<p>MEDIA</p> <ul style="list-style-type: none"> • Press releases and informational notes • Direct conversations and informational meetings • Visits to company facilities • Press room on the corporate website • Blogs • Events
<p>SOCIETY</p> <ul style="list-style-type: none"> • Direct relations with State institutions and heads of the various government administrations • Active presence within business and industry organisations; academic and educational institutions; organisations related to innovation, etc. • Participation in events, conferences and working groups • Reports and summaries • Visits to facilities • Cooperation agreements 	<p>ENVIRONMENT</p> <ul style="list-style-type: none"> • Sustainability index surveys • Participation in events, conferences and roadshows • Reports and summaries • Inspections and audits • Alliances and collaboration agreements • Visits to facilities <p>Stakeholder panels are also formed, to which Stakeholder representatives are invited</p>

102-44 Key topics and concerns raised

The *Global Stakeholder Relations Model* described above contributes to identifying the issues that are most important to the different Stakeholders. An analysis thereof shows that there are many significant issues that are common to Iberdrola's five main countries, while there are others exclusive to each geographical area.¹⁷

Set out below is a summary of those global issues¹⁸ detected in 2017:

Stakeholder group	Main issues raised by each group
Workforce	<ul style="list-style-type: none"> - Quality and maintenance of employment - Career plan and development: training and internal mobility - Safety, health and occupational risk prevention - Benefits and compensation - Internal communication - CSR issues
Shareholders and financial community	<ul style="list-style-type: none"> - Long-term strategy - Financial and economic situation of the company - Plans and performance of the company - Financial strength and leveraging - Corporate governance - Industry regulation - Energy markets - Dividend policy - Share price - Sustainability and CSR
Regulatory entities	<ul style="list-style-type: none"> - Remuneration schemes (generation, storage and/or distribution) in Europe, the U.S. and Brazil. - Goals for energy efficiency, use of alternative energies and reduction of emissions in Europe and the U.S. - Internal consumption in Europe, the U.S., Mexico and Brazil - Auction of generation and transmission lines in Mexico and Brazil - Capacity mechanisms in Europe
Customers	<ul style="list-style-type: none"> - Aspects relating to billing (information, comprehension and amount) - Issues relating to the customer's overall experience (attention received, channels, claims management, etc.) - Supply quality - Services allowing for reduced consumption - Vulnerable customers
Suppliers	<ul style="list-style-type: none"> - Standards for award and contract and payment terms - Ethical behaviour and CSR - Information on Iberdrola's strategy - Industry regulatory measures - Supplier stimulus campaigns - Fostering of innovation - Stability in commercial relationships

¹⁷ Pursuant to its *Global Stakeholder Relations Model*, Iberdrola has a list of major topics by Stakeholder group and country, which are included in the *Management Report on Iberdrola's Relations with Stakeholders* for financial year 2017.

¹⁸ In the case of regulatory entities, the issues appear by country due to the high geographic component thereof.

Media	<ul style="list-style-type: none"> - Iberdrola's strategy - Economic, operational and corporate governance performance - Investment and economic impact in each of the countries and communities - Energy policy and industry regulation - Service quality - CSR plans
Society	<ul style="list-style-type: none"> - Alignment with SDGs - Transparency and improvement of the social and environmental performance of the company and its facilities - Iberdrola's investments in each of the countries - Iberdrola's contribution to the community - Encouragement of innovation, information or training on energy issues - Support of the company for most vulnerable groups through specific programmes and projects - Encouragement of activities of public and private entities in the economic/business, social and environmental areas
Environment	<ul style="list-style-type: none"> - Climate change and energy transition (participation in large initiatives, alliances, social awareness-raising, Iberdrola's position) - Environmental management - Environmental investments and innovation - Quantification of natural capital - Protection of biodiversity - Carbon footprint - Circular economy - Water management - Sustainability indexes

Iberdrola's Wholesale, Networks and Renewables facilities mainly manage three Stakeholder groups: Regulatory entities, Society and Environmental¹⁹. The most significant issues of interest refer to regulatory compliance; the economic and social impact of the facilities on local communities; and environmental impacts and the mitigation thereof.

Iberdrola's response to all of these significant issues is set out not only in the various indicators of this *Sustainability Report*, but also in the *Integrated Report*, on the corporate website, on the websites through the following [link](#), and on the websites of the businesses and the foundations, and in the various specific reports, including: *Annual Financial Report*, *Annual Corporate Governance Report*, *Shareholder Engagement Report*, *Report on Procurement Activities and Supplier Management and the Contribution thereof to the Group's Sustainability*, *Innovation Report*, *Corporate Footprint Report*, *Biodiversity Report*, and Sustainability Balance Sheet.

The methodology described in the preceding sections (102-40 to 102-44) enables the company to identify material issues through direct sources. Such review is completed with that made through indirect sources, such as the *Dow Jones Sustainability Index*, the *Carbon Disclosure Project*, the *Materiality Analysis*, etc., described in disclosures 102-46 and 102-47.

Considering all of the foregoing, Iberdrola has a complete Stakeholder Management System, which allows it to respond to the various major issues both directly through the channels of dialogue and indirectly through public information (*Sustainability Report*, *Integrated Report* and the [website](#)).²⁰

¹⁹ In the case of the cogeneration plants, the main Stakeholder group is 'Customers', for whom the most significant issue is compliance with contracts.

²⁰ Iberdrola prepares an annual *Management Report on Iberdrola's Stakeholder Relations*, which summarises issues of interest detected within the various communication channels, as well as the company's response through action plans.

6.

Reporting practice

102-45 Entities included in the consolidated financial statements and in the boundary of this report

A. Introduction

Iberdrola, with a presence in almost twenty countries, has followed the GRI recommendations in defining the boundary of this report, taking into account the entities in which it has control, those in which it has significant influence, and the activities that are significant for the group from the economic, environmental and social standpoint.

For purposes of this report, the following terms have the meanings set forth below:

- “Iberdrola” or the “company”: the Spanish company Iberdrola, S.A., parent company of the Iberdrola group.
- “Iberdrola group” or the “group”: Iberdrola (as parent company) and the group of subsidiaries over which Iberdrola has the power of control or joint control.
- “Affiliated companies” or “affiliates”: the group of companies in which Iberdrola has a percentage interest but not the power to exercise control. At these affiliated companies Iberdrola promotes the policies approved within the group through the decision-making bodies of such companies and includes information on those considered significant in terms of sustainability.

The companies in which Iberdrola owns a direct or indirect equity interest are listed in the document *Consolidated Annual Financial Statements and Audit Report* for financial year 2017.

B. Information boundaries of this report

The presentation of the company’s public information is subject to the following external factors:

- The scope and basis of presentation of financial information must comply with established statutory requirements.
- The environmental and social information is presented in accordance with the new legal requirements as to content, leaving open the reporting framework to be used. This is the reason why Iberdrola has voluntarily elected to use the GRI Standards in the preparation of this report.

To reconcile these factors, Iberdrola has established two quantitative information boundaries: global boundary and report boundary.

B.1. Global boundary (Iberdrola Total)

This includes all of the activities carried out by the group, its subsidiaries and its affiliates.

The financial information included in this *Sustainability Report 2017* is taken from the document *Financial Statements, Management Report and Audit Report* for financial year 2017.

Other non-financial information, such as operating information of the group, results from adding to the “report boundary” the information of affiliates consolidated by the equity method that are not considered significant for purposes of this report, as well as the information on the activities included in table B.2.2, which is included under the heading “Other”.

B.2. Report boundary

This boundary is formed by Iberdrola, S.A., its significant subsidiaries for sustainability purposes and its fully or proportionately consolidated affiliates that are significant for sustainability purposes.

The subsidiaries or affiliates within this boundary are all those that operate in the countries listed in table B.2.1 and that carry out the activities described therein.

B.2.1 Significant countries and activities for the Iberdrola group in terms of sustainability and included in the 2017¹ reporting boundary.

	Group office	Electricity production		Transmission and/or Distribution of electricity or gas	Electricity and/or gas supply (2) (3)		Gas storage	Real estate
		Conventional	Renewable (4)		Wholesale market	Retail market		
Spain (5)	X	X	X	X	LIB	LIB		X
United Kingdom	X	X	X ⁽⁶⁾	X	LIB	LIB	X	
United States	X	X	X	X	LIB	REG	X ⁽¹²⁾	
Brazil (7)	X	X ⁽⁸⁾	X	X	LIB	REG		
Mexico	X	X	X		LIB	LIB		
Portugal (9)	X		X		LIB	LIB ⁽¹⁰⁾		
Germany	X		X ⁽¹¹⁾		LIB	LIB		
Canada	X						X ⁽¹²⁾	
Greece	X		X ⁽⁶⁾					
Hungary	X		X					
Poland	X							
Romania	X		X					
France	X				LIB	LIB		
Italy	X				LIB	LIB		

- 1) Most of the Engineering and Construction activities at year-end were included in the Wholesale and Retail Businesses (Germany, United States and Canada), Networks Business (Spain, United Kingdom, Brazil and Mexico) and Renewables Business (Spain, United Kingdom, United States, Brazil and Mexico).
- 2) Types of sales activities:
LIB: activities in liberalised markets, independent of distribution activities.
REG: activities in regulated markets, together with distribution activities. The supply to these markets has not been considered as an activity in the wholesale market.
- 3) Environmental information on supply activities in Germany, France and Italy is not included as it is not deemed relevant in terms of sustainability.
- 4) No social or environmental information is included on facilities in which the company has an interest of less than 50% in Spain, the United Kingdom or the United States.
- 5) Any reference to the 7th Collective Bargaining Agreement includes the following companies at 31 December 2017: Iberdrola, S.A., Iberdrola España, S.A.U., Iberdrola Generación, S.A.U., Iberdrola Generación España, S.A.U., Iberdrola Generación Nuclear, S.A.U., Iberdrola Clientes, S.A.U., Iberdrola Operación y Mantenimiento, S.A.U., Iberdrola Distribución Eléctrica, S.A.U. Iberdrola Infraestructuras y Servicios de Redes, S.A.U., Iberdrola Renovables Energía, S.A.U. and Iberdrola Ingeniería y Construcción, S.A.U.
- 6) Renewables activities from the Republic of Ireland are included in the United Kingdom and renewables activities from Cyprus are included in Greece.
- 7) Information corresponding to the Neoenergia group is 100% included in this report, except for financial data.
- 8) Also included in the environmental information are the Baguari and Dardanelos plants, which are not significant in labour matters, while NC Energia is not included therein as it is not significant for environmental purposes. The social information includes the Belo Monte and Baixo Iguaçu plants under construction in those indicators that are deemed significant based on their activities.
- 9) No environmental or social information is included on construction projects in Portugal.
- 10) The activities of electricity and/or gas supply in Portugal are included in Spain.
- 11) Activities relating to the 350 MW Wikingen offshore wind farm: construction of the 70 turbines and other components of the farm ended in October 2017; there was a successful connection to the national electric grid in December, and renewable energy will be supplied to approximately 350,000 German homes.

- 12) These activities are not significant from the environmental standpoint. In the case of Canada, labour information is included in the information for the United States.

At affiliate nuclear plants, the percentage interest held by Iberdrola in each of them is used to consolidate environmental performance data: Vandellós (28%), Almaraz (52.69%); Trillo (49%) and Ascó (15%). For social information, on the other hand, because of the structure of the available information systems, nuclear plants are consolidated according to the percentage interest held by Iberdrola in the economic interest grouping created for that purpose; such interest is 51.44% in the case of Trillo-Almaraz and 14.59% in the case of Ascó-Vandellós. A 50% share of the environmental and social data corresponding to the activities of Nuclenor, S.A. is applied according to consolidation by the equity method.

The subsidiaries or affiliates operating in the countries shown in table B.2.2. below are excluded from the report boundary because their activities are considered to be non-significant for the group.

B.2.2. Non-significant countries and activities in countries of the Iberdrola group in terms of sustainability, excluded from the boundary of the 2017 report.

	Group office	Electricity production	Electricity or gas supply and/or gas storage	Engineering and construction	Real estate
Belgium	X				
Italy		X			
Netherlands			X		
Germany, Bulgaria, Costa Rica and Montenegro				X	
Bulgaria and Mexico					X

Despite the fact that they are not included in the charts and tables of the boundary of the report, these activities are managed by Iberdrola in the same manner as significant activities, and the following standards are applied:

- The qualitative aspects set forth in this report, such as the principles and corporate policies that the Iberdrola group adopts and publishes, as well as business strategies, apply to all activities of the subsidiaries of the group, in all countries in which they operate, without prejudice to the effective decision-making capacity of regulated companies in accordance with laws and regulations governing the separation of activities. This includes the information on management focus, objectives and performance set forth in this report.
- In the countries and activities that are not included in the boundary of the report, the application is ensured of the same procedures and processes as those applied within the group, thus ensuring the guarantees as to work, basic rights and environmental protection that derive therefrom.

As a supplement and to the extent deemed relevant, the information on the boundary of the report may include significant events concerning specific activities included in the foregoing table B.2.2.

B.3. Summary of the information boundaries by country.

Following the GRI recommendation, the information in this report is structured by country. The table below shows the structure of information by country applied to the boundaries described above:

Structure of information by country in this report	
Report boundary = Iberdrola, S.A., subsidiaries and affiliates considered to be significant for sustainability purposes.	Spain United Kingdom United States Brazil Mexico Other countries Report boundary
Global boundary = report boundary plus the information of affiliates consolidated by the equity method that are not considered significant for purposes of this report, as well as the information on the activities included in table B.2.2.	Other Iberdrola total

C. Limitations on scope of information

Based on the standards set forth above, Iberdrola believes that this report reflects the economic, environmental and social performance of the company in a reasonable and balanced manner. Existing limitations and differences between both boundaries, described in the preceding sections, have a limited influence on aggregate overall data, which, in the opinion of Iberdrola, would not affect a reader's assessment of the company's performance.

In the future, quantitative information may be included with respect to other activities of subsidiaries or affiliates to the extent that such information contributes to an understanding of the activities carried out by Iberdrola.

102-46 Defining report content and topic boundaries

102-47 List of material topics

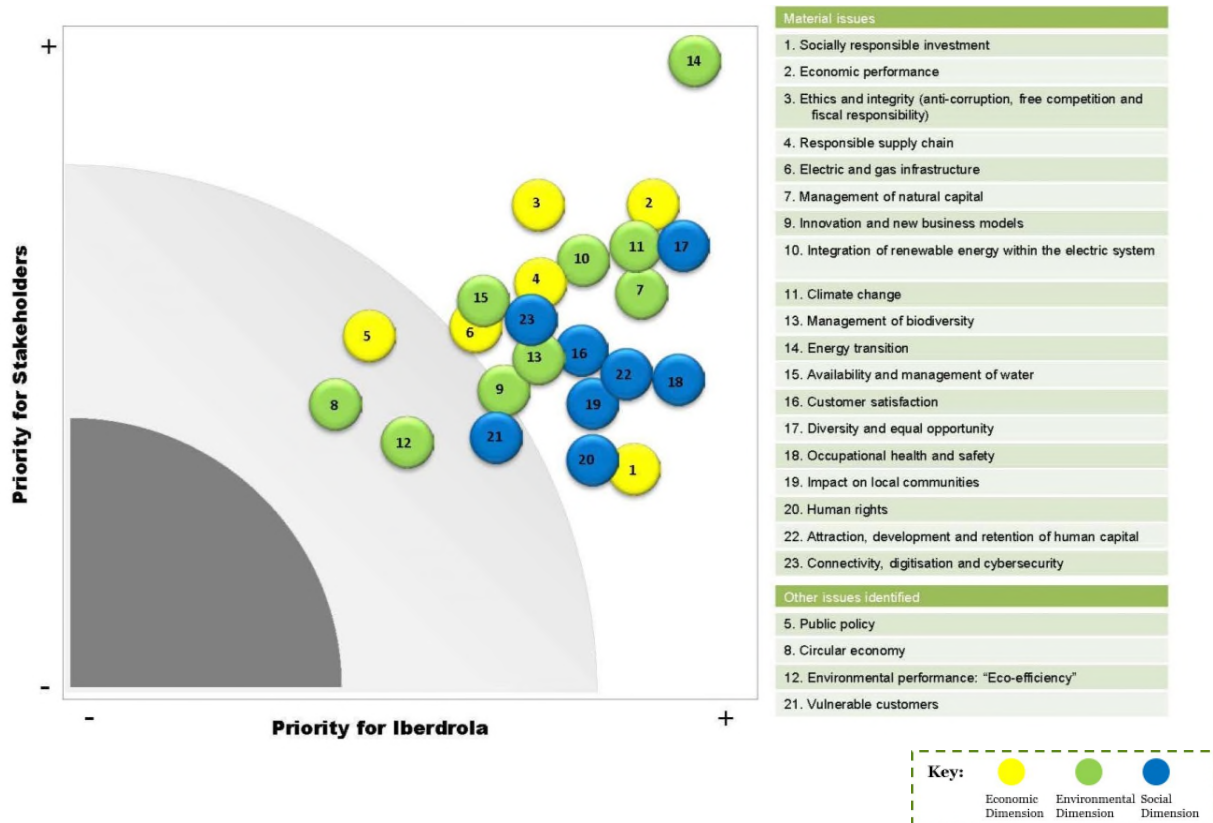
Iberdrola has indirectly identified its material aspects since 2003, using the *GRI Sustainability Reporting Standards* (and prior versions) as well as the *Electric Utility Sector Supplement*, both of the Global Reporting Initiative (GRI), as a model for preparing its annual sustainability report.

These guidelines are the result of a process in which various Stakeholders throughout the world have participated, with representatives from business, unions, civil society, the financial markets, auditors and specialists from various disciplines in the business area, regulators and governmental bodies from various countries.

The company, with a presence in countries on various continents, conforms to the various regional socioeconomic development models and has developed systems and processes to obtain the information needed to meet requests on matters of sustainability made both by GRI, with its recommendations, and by other areas of heightened awareness such as the Dow Jones Sustainability Index or the Carbon Disclosure Project. Iberdrola uses its *Sustainability Report* to provide an annual report on these issues, adhering to the materiality requirements, following macro-trends in corporate social responsibility and generally meeting Stakeholder expectations.

For greater precision, Iberdrola also directly identifies its own material aspects by preparing its own *Materiality Study* with the advice of an independent outside firm, with the aim of identifying the specific aspects of interest related to the company's activity by consulting in-house and outside sources. Iberdrola uses this process to identify social, environmental and ethics issues that are significant to its focus on social responsibility.

The analysis for 2017 prioritises those matters of interest identified through the analysis in accordance with their significance both to Stakeholders as well as to the company's strategy. In this way, 23 topics, shown in the following chart, have been identified as "material":



The coverage of the material topics; that is, whether the topics are significant within the organisation (internal impact on the company or its employees) or outside it (impact outside the company, outside its scope of control or on outside Stakeholders) is reflected in detail in the management approaches throughout this report. In general terms, Iberdrola considers that its material topics have both internal and external coverage, since they directly affect the company as well as the different Stakeholders with which it has relationships

The various sections of this report offer a concrete response to the aspects identified, as shown in the following table:

Most significant issues	Special interest topics	Iberdrola's response
Socially responsible investment	Inclusion of ESG aspects/criteria in evaluations for making investment decisions.	
Economic performance	Economic value generated and distributed. Tax policy and strategy, cooperation with tax authority, tax contributions, etc.	102-7 and 102-15 GRI 201 Economic performance.
Ethics and integrity	Anti-corruption, free competition and fiscal responsibility.	Section 3 Ethics and integrity. GRI 205 Anti-corruption GRI 206 Anti-competitive behaviour Management approach "Fiscal responsibility". GRI 307 Environmental compliance GRI 419 Socioeconomic compliance
Responsible supply chain	Assessment of environmental, social and economic impacts of the suppliers. Strategies and KPIs for critical suppliers.	102-9 and EU18. GRI 308 Supplier environmental assessment GRI 414 Supplier social assessment
Electric and gas infrastructure	Need for efficiency improvements in transport (networks and smart meters) and for new infrastructure that improves the quality of supply. Access to electricity in developing countries.	Management approaches: "Availability and reliability" and "System efficiency", "Research and development" and "Access". EU4, EU12, EU26, EU28 and EU29.
Management of natural capital	Management of natural resources to ensure the future quality and availability of natural capital, as well as the sustainability of operations in the future. Identification of impacts on environment, communities, ecosystemic services, etc.	201-2 GRI 203 Indirect economic impacts GRI 301 Materials
Innovation and new business models	Products and services favouring efficiency and energy savings, certified energy from renewable sources, distributed generation, offshore wind energy projects, development of electric vehicles, etc.	Management approaches: "Availability and reliability", "Research and development", "System efficiency" and "Demand management". EU10 GRI 302 Energy
Integration of renewable energy within the electric system	Development of and investment in renewable energy. Work with strategic partners, startups, research centres and experts in the development of batteries and energy storage systems.	Management approaches: "Research and development", "Availability and reliability" and "System efficiency". 102-11, EU1 and EU10. GRI 305 Emissions.
Climate change	Science-based goals for reduction of emissions, emissions trading, CO ₂ storage systems, available adaptation and mitigation mechanisms, economic impacts from climate change, evaluation of risks and opportunities, etc.	Management approaches: "Research and Development". Specific management approach to the environmental dimension. 102-15, EU5 and 201-2. GRI 305 Emissions.
Management of biodiversity	Identification of principal impacts on biodiversity, mainly from the construction of new infrastructure.	GRI 304 Biodiversity.

Energy transition	Energy efficiency to reduce the industry's energy requirements. Encouragement of energy with lower CO ₂ emissions. Regulatory changes to encourage greater inclusion of renewable energies in the "mix". Improvements in the systems for inclusion of renewable production within the grid.	Management approaches: "Availability and reliability" and "System efficiency", "Demand-side management" and "Access to electricity". 102-15, EU1, EU2, EU10, EU11 and EU30. GRI 302 Energy.
Availability and management of water	Water stress. Evaluation and minimisation of impacts, especially in thermal generation.	GRI 303 Water GRI 306 Effluents and waste
Customer satisfaction	Evaluation of customer satisfaction and establishment of targets for improvement, management of information security and privacy, grievances and claims and other matters related to meter reading, billing, rates and contracts.	Management approaches: "Access to adequate information" and "Access to electricity". GRI 416 Customer health and safety. GRI 417 Marketing and labelling. GRI 418 Customer privacy.
Diversity and equal opportunity	Non-discrimination against women in the labour world and especially in management positions.	GRI 405 Diversity and equal opportunity. GRI 406 Non-discrimination.
Occupational health and safety	Employee and contractor health and safety management. Definition of health and safety policies. Prevention plans. Establishment of injury rate targets. Injury, casualty and absenteeism rates.	GRI 401 Employment. GRI 402 Labor/management relations. GRI 403 Occupational health and safety. EU18
Impact on local communities	Evaluation of the socioeconomic impact on local communities in the development of new infrastructures or on operating activities. Communication and reporting mechanisms.	GRI 203 Indirect economic impacts. GRI 413 Local communities. GRI 414 Supplier social assessment. EU22 and EU25. Management approaches: "Iberdrola's contribution to the community" and "Access to electricity".
Human rights	Definition of a formal policy. Analysis of risk of violating human rights in the principal areas of operation. Employee training. Management of related grievances. Rights of indigenous or minority communities.	GRI 406 Non-discrimination. GRI 407 Freedom of association and collective bargaining. GRI 408 Child labor. GRI 409 Forced or compulsory labor. GRI 410 Security practices. GRI 411 Rights of indigenous peoples. GRI 412 Human rights assessment. GRI 414 Supplier social assessment.
Attraction, development and retention of human capital	Employee satisfaction. Boosting reconciliation. Systems for evaluation of performance and variable remuneration tied thereto. Adjustment to needs of the new generations.	GRI 202 Market presence. GRI 401 Employment. GRI 402 Labor/management relations. GRI 404 Training and education. GRI 405 Diversity and equal opportunity.
Connectivity, digitisation and cybersecurity	Risks regarding connectivity and cybersecurity. Preparation of digital risk maps, definition of strategy and mitigation thereof.	Management approach: "Cybersecurity" and "Privacy of the personal information of Stakeholders".

In its commitment to transparency with its Stakeholders, apart from the topics of the GRI Standards identified as material in the table above, Iberdrola also reports on other topics included in such Standards, providing continuity with information for previous financial years. All topics reported are specifically identified in the GRI Content Index presented at the beginning of this report.

Together with these global processes of identification of and response to material issues, which Iberdrola strengthens in its public information, the company has launched a new *Global Stakeholder Relations Model*, based on the *AA1000 Stakeholder Engagement Standard (AA1000SES) 2015* standard and on its

three requirements of inclusiveness, materiality and responsiveness²¹, as described in section 5. "Stakeholder engagement".

102-48 Restatements of information provided in previous reports

During 2017, due to the merger in Brazil of all of the businesses of the company Elektro Holding into Neoenergia, it was deemed necessary to reformulate the information for financial year 2016 applying the same standards as in financial year 2017, in order for the information for both financial years to be homogenous and comparable. The reformulation involves the consideration of 100% of the socio-economic and environmental parameters of Neoenergia (thus reflecting the control position of the group) instead of the 39% that was used through the prior year. The economic/financial figures follow accounting standards.

Furthermore, the information in all the tables of this report has been limited to financial years 2017 and 2016. Maintaining the scorecards and tables with information for three financial years, as was Iberdrola's customary practice, would have involved a lack of homogeneity between the information from financial year 2015 and that from the following years. This limitation will already be corrected in the next report.

102-49 Significant changes in scope and topic boundaries

On 24 August 2017, all of the businesses of the company Elektro Holding were incorporated into Neoenergia. As a result of this transaction, Iberdrola increased its interest in the Neoenergia group from 39% to 52%.

The information corresponding to Neoenergia in this report is included upon the terms specified in GRI disclosure 102-45.

102-50 Reporting period

2017

102-51 Date of most recent report

2016

102-52 Reporting cycle

Annual

102-53 Contact point for questions regarding the report

General questions regarding this report may be addressed to Iberdrola's Investor Relations and External Communication Division at C/ Tomás Redondo, 1 - 28033 Madrid – Spain, or via responsabilidad_social@iberdrola.com.

²¹ Iberdrola has been continuously applying Assurance Standard AA1000 for the last eleven years. In 2016 Iberdrola's Operating Committee approved a new *Global Stakeholder Relations Model* (referred to in this report), which was implemented for the first time in 2017.

Specific questions relating to the environment may be addressed to Iberdrola's Innovation, Sustainability and Quality Division at C/ Tomás Redondo, 1 - 28033 Madrid – Spain, or via medioambiente@iberdrola.es.

The addresses and telephone numbers of the various Iberdrola centres worldwide, available channels of contact, customer service and the query mailboxes can be found in the [Contact](#) section of the website.

102-54 Claims of reporting in accordance with the GRI Standards

This report has been prepared in accordance with the GRI Standards: Comprehensive option.

102-55 GRI content index

The GRI content index is located at the beginning of this Report.

102-56 External assurance

Iberdrola obtains independent external assurance of its annual information, the annual accounts and management reports (individual and consolidated with those of its subsidiaries) by KPMG Auditores, S.L. and the *Sustainability Report* by PricewaterhouseCoopers Asesores de Negocio, S.L..

Part II.

Topic-Specific Disclosures

This section provides a description of the material aspects affecting the Iberdrola group, defined based on the standard described in GRI disclosures 102-46 and 102-47 of this report.

In each "Topic", there is a description of the company's focus to properly manage and report on the results achieved, by means of the corresponding performance indicators pursuant to the disclosures of the GRI Standards. If several of these topics are managed with a similar focus, the focus is described for one of them and a corresponding cross-reference is made in the others.

In managing the material aspects identified, there are also tools, processes and procedures that are generalised throughout the company and apply to all of them, and which are described in "General management approach" and should be taken into account in order to understand the manner in which Iberdrola carries out its activities and manages the economic, environmental and social impacts thereof.

A. ECONOMIC DIMENSION

Contents of the chapter

The topics dealt with in this chapter are the following:

A. Topics of the GRI Standards

- GRI 201 Economic performance
 - o Management approach and disclosures 201-1, 201-2, 201-3 and 201-4
- GRI 202 Market presence
 - o Management approach and disclosures 202-1 and 202-2
- GRI 203 Indirect economic impacts
 - o Management approach and disclosures 203-1 and 203-2
- GRI 204 Procurement practices
 - o Management approach and disclosures 204-1
- GRI 205 Anti-corruption
 - o Management approach and disclosures 205-1, 205-2 and 205-3
- GRI 206 Anti-competitive practices
 - o Management approach and disclosures 206-1

B. Specific topics of the electric utilities sector supplement

- Availability and reliability
 - o Management approach and indicator EU10
- System efficiency
 - o Management approach and indicators EU11 and EU12
- Demand-side management
 - o Management approach (no related indicators)
- Research and development
 - o Management approach (no related indicators)
- Nuclear plant decommissioning
 - o Management approach (no related disclosures)

C. Specific topics of the Iberdrola group

- Costs of Supply
 - o Management approach (no related disclosures)
- “Green Financing”
 - o Management approach (no related indicators)
- Fiscal responsibility
 - o Management approach (no related indicators)
- Cybersecurity
 - o Management approach (no related indicators)
- Privacy of the personal information of Stakeholders
 - o Management approach (no related indicators)

Scope of information

The information boundaries used in this chapter are defined in indicator disclosure GRI 102-45 of this report.

A. Topics of the GRI Standards

GRI 201 Economic performance

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

The electricity sector is a significant driver of the economy, to which it continuously contributes through significant investments and the creation of high-quality jobs, both direct and indirect. Its function is to provide safe, competitive and sustainable supply. Generation technologies using renewable sources are decisive in the fight against climate change, as they allow for increased electrification of the economy, thus reducing dependency on fossil fuels.

Iberdrola continues to engage in a process of growth and internationalisation that has made it one of the leading electric companies in the world. This strong position was achieved through a sound, long-term industrial plan that is both profitable and creates value, supported by a business strategy of sustainable growth and geographic diversification.

Analysts describe a global scenario for the energy sector characterised by an increase in energy demand, tied to a need to reduce CO₂ emissions. Estimates call for high growth in demand in the medium and long term in emerging countries and moderate growth in the developed world. In any event, this energy transition will require extremely large investments in renewable generation facilities, in smart grids and in efficient storage; all accompanied by greater digitisation to support efficiency and the development of new products.

Iberdrola's strategy, implemented more than a decade ago, has been based precisely on these growth vectors: investment in renewables, smart grids, efficient storage and digitisation. The strategic pillars defined by the company are profitable growth, operational excellence, customer-focused operations, the optimisation of capital, and innovation. Its current leadership position reflects the benefits of its forward vision and diversification of businesses and areas. During the 2018-2022 period, the company expects to invest approximately 32,000 million euros, of which 90% will be dedicated to regulated activities (mainly networks) or long-term contracted assets.

A summary of the Iberdrola strategy can be found in the document *Outlook 2018-2022* (or in the document superseding it in a subsequent period), which can be accessed through its corporate website in the [About US](#) section.

Iberdrola's financial results for the year are summarised in the [Results](#) section of the website. Alongside these results, the company also requires its companies to explain how they are achieved and to evaluate them in terms of sustainability, understanding that adequate disclosure of non-financial information is an essential element for the sustainability of financing activities.

Directive 2014/95/EU of the European Parliament and of the Council as regards disclosure of non-financial and diversity information by certain large undertakings and groups (the "Directive") entered into force in 2014, and was transposed into the Spanish legal system in 2017 with the approval of *Royal Decree-law 18/2017 of 24 November*.

To respond to the new legal demands, companies to which they apply must include in their management reports or in a specific separate report information regarding their management of environmental and social aspects, as well as aspects relating to the management of people, diversity, respect for human rights and the fight against corruption and bribery, describing the risks, policies and results connected to these issues.

This *Sustainability Report 2017* covers the requirements arising from the entry into force of the new legal provision, forming an integral part of the company's management report. The [Annual Reports](#), the *Integrated Report. February 2018*, the quarterly results reports and other operational and financial information of interest can also be found on the website.

201-1 Direct economic value generated and distributed

Direct economic value generated, distributed and retained (€millions)	2017	2016
Iberdrola consolidated		
Revenue (sales and other income)	⁽¹⁾ 32,714 ²²	30,706
Operating costs	20,446	18,588
Employee remuneration (excluding company social security costs)	2,517	2,260
Payments to providers of capital	2,916	2,692
Payments to government administrations	2,723	2,740
Community investments (verified according to the LBG Model)	63	36
Economic value retained	4,049	4,390

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

201-2 Financial implications and other risks and opportunities for the organisation's activities due to climate change.

²² Includes Turnover in the amount of €31,263 million and Other revenue €1,451 million.

The risks to which the group's activities are exposed differ based on the nature and dependency of the activity and of the country in which it operates. Apart from the risks detected during the operation of the facilities, Iberdrola is performing an analysis and studies of the generation, distribution and transmission businesses in order to anticipate other future risks as a result of climate change. These studies will allow for anticipatory action to adapt the business, investing in the most appropriate technologies for the planet and for Iberdrola.

The main risks arising from climate change in the medium term, as well as the principles of conduct to which the company commits and manages through its Comprehensive Risk Management System, are described in disclosure 102-15 "Key impacts, risks and opportunities" of this report. This section also describes the opportunities for the company arising from the necessary transition towards decarbonisation of the energy model, thanks to its position of leadership in renewable energy and its commitment to the transition towards a low-carbon economy.

The strong commitment and involvement of Iberdrola's senior management in the management of the group's risk is noteworthy. Their participation in the Climate Conference held in Bonn in 2017 has been equally proactive as in prior years. Iberdrola believes that the solution is in promoting clean energy, increased storage capacity and more smart grids, supporting projects of innovation and digitisation of the systems.

This commitment has allowed for the detection of a broad array of opportunities, recognising the need to deal with an ambitious scenario of decarbonisation, which means moving towards an efficient energy model, assuming that electrification is the key to facing the challenge of climate change. Along these lines, the company continues with its commitment to achieving a 50% reduction in its greenhouse gas emissions intensity by 2030 compared to 2007 levels, and to be carbon neutral by 2050.

Iberdrola commits to the transparency and communication of its climate change policies and is taking the steps needed to reduce emissions (category A within CDP Climate Change). The company has a [Policy against Climate Change](#), approved by the Board of Directors, in which the company commits to supporting international conventions to address this environmental problem, encouraging the development of efficient technologies from the standpoint of greenhouse gas emissions, boosting efficient energy use and increasing its customers' awareness of the importance of engaging in responsible energy consumption.

It has also endorsed and supports the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD), created by the Financial Stability Board (FSB), the objective of which is transparency regarding risks associated with climate change. Iberdrola believes that disclosure of the financial risks relating to climate change in a consistent and improved manner will allow for the establishment of a constructive and well-informed dialogue amongst investors and companies regarding the opportunities and risks relating to their activities.

Similarly, Iberdrola has joined a number of initiatives, the most high profile of which are: Terrawatt, United Nations Climate, We mean business, CEO Climate Leaders (World Economic Forum), Un millón de Compromisos por el Clima (MAGRAMA), Comunidad por el Clima (Red Española Pacto Mundial), Carbon Pricing Leadership Coalition, World Business Council for Sustainable Development, Corporate Leaders Group, grupo Español de Crecimiento Verde, Powering Past Coal Alliance, Plataforma Nacional de Acción Climática, Asociación Española para la Economía Energética, UN Global Compact (Action Platform).

Iberdrola has a specific section on its website called [Against Climate Change](#) in order to show the company's efforts to mitigate and adapt to the consequences of climate change.

201-3 Coverage of the organisation's defined benefit plan obligations.

Spain

The companies signing the *7th Collective Bargaining Agreement* jointly sponsor a voluntary employee pension plan in which 98% of the workforce participates. The periodic contributions made under said Collective Bargaining Agreement are determined as a percentage of each employee's annual pensionable salary. Iberdrola does not have any unmet financial commitments pending with respect to this plan.

United Kingdom

98% of the workforce participate in the pension plans of the workforce in one form or another:

- The defined-benefit plan has two pension plan structures, based on company and seniority. They have been closed to new members since 1 April 2006.
- The defined-contribution plan has a pension scheme that is based on a percentage of each employee's annual pensionable salary. This scheme is optional for employees and is co-funded by the company and employees.

United States

- The Networks Business has twelve defined-benefit plans, covering union and non-union employees, for which the company makes the contribution, with benefits being based on salary and years of service. As of 1 January 2014, all defined-benefit plans were closed to new members, except for the plans of The Berkshire Gas Company Pension Plan, Connecticut Natural Gas Corporation Pension Plan and Southern Connecticut Gas Company Pension Plan for Salaried and Certain Other Employees. The Networks Business also has defined-contribution plans with distinct and separate operations covering employees who are both subject and not subject to the collective bargaining agreement. Employees can make contributions as a percentage of their pre-tax salary (generally up to 50%). Almost 100% of the workforce is eligible to join these defined-contribution plans, with some 91% having signed up.
- The Renewables Business has a corporate defined-benefit plan, with contributions assumed by the company and benefits determined based on salary and years of service. Vesting in this plan was frozen as at 30 April 2011. It also has a defined-contribution plan with three different types of company contributions. Employees can make contributions as a percentage of their pre-tax salary. 100% of the workforce are members of these defined-contribution plans.

Brazil

After the integration of all of the businesses of the company Elektro Holding into Neoenergia on 24 August 2017, the pension plan scheme is as follows:

- At Elektro, the Networks Business has a defined-benefit plan for employees who joined before 31 December 1997, and a mixed plan (70% of salary as defined benefit and 30% as defined contribution) for those who joined after 1 January 1998, which is closed to new entrants as from 31 December 2016. 84% of the workforce are members of both plans. For the companies of Elektro Holding (Elektro Redes S.A., Elektro Comercializadora de Energia LTDA, Elektro Holding S.A., Elektro Renováveis Do Brasil S.A., Enerbrasil-Energias Renováveis Do Brasil S.A., Elektro Operação and Manutenção LTDA.), as at 31 October 2016, a defined-contribution plan was implemented by means of which employees may make contributions as a percentage of their salary, with the business contributing the same amount.

- Coelba has a defined-benefit plan for employees who joined before 1 October 1998 (closed to new participants), and a defined-contribution plan for those joining after such date. 98% of the workforce are members of both plans.
- Celpe has a defined-benefit plan for employees who joined before 1 May 2006 (closed to new participants), and a defined-contribution plan for those joining after such date. 97% of the workforce are members of both plans.
- Cosem has a defined-benefit plan for employees who joined before 1 March 1999 (closed to new participants), and a defined-contribution plan for those joining after such date. 98% of the workforce are members of both plans.

Mexico

The commitments to the organised employees of Iberdrola Mexico, arising from the auctions by the Federal Electricity Commission, in which Iberdrola is required to apply a Collective Labour Agreement for organised staff, are provisioned as internal funds. A defined-contribution pension plan was implemented in 2015, with 62% of the non-organised workforce with pension plan rights signing up.

201-4 Financial assistance received from governments

Financial assistance received

Financial assistance received by the Iberdrola group is shown in the following table on a consolidated basis:

Financial assistance (€ millions)	2017	2016
Capital subsidies	10	13
Investment tax credits	30	0
Emissions rights	0	0
Assistance for other items included in the GRI Protocol	0	0
Iberdrola consolidated total	40	13

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

Government participation in shareholding structure

The Iberdrola group is not aware of government participation in the shareholding structure.

GRI 202 Market presence

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



Management approach

Consistent with its presence in the international market, the Iberdrola group has a global tool that allows for monitoring of the selection process, and a unique reporting system (SAP OneHR). Both elements allow for the internal and external publication of vacancies at the international level, and favour the mobility of employees through the various organisations and companies of the group. 2,223 internal vacancies were published in 2017, with the participation of more than 5,000 employees.

The global publication of external vacancies ensures the inclusion of all candidates within the company's processes on equal terms. More than 230,000 external candidates were recorded during financial year 2017.

The management approaches described in section 406 "Non-discrimination" of the "Social dimension" chapter of this report are applied to both remuneration as well as the selection of professionals.

202-1 Ratios of entry level wage to local minimum wage

The current collective bargaining agreements at the companies of the Iberdrola group ensure equality in starting wages for men and women.

Entry-level wage compared to legal minimum wage (%)	2017	2016
Spain	140.72	150.63
United Kingdom	125.52	127.32
United States	125.00	137.50
Brazil	135.18	N/A ²³
Mexico ²⁴	464.09	480.24

202-2 Senior management hired from the local community

Iberdrola's approach is to promote and favour the hiring of employees in the geographic boundaries within which it does business, also encouraging these individuals to reach executive positions in the corresponding companies. In 2017, 98.65% of executive officers at the companies of the group were local managers, defined as anyone with management responsibilities in a particular geographic area coming from the local community, therefore excluding professionals of other nationalities who are assigned there temporarily under an international mobility programme.

GRI 203 Indirect economic impacts

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



²³ Data from Brazil for prior year not provided due to change in boundary.

²⁴ In Mexico, the minimum wage is generally not used as a reference for market wages; it is applied in sanctions by the labour authority, fines and limits on tax deductibility.



Management approach

In addition to the direct economic impacts that occur as a result of the cash flows that are generated, the Iberdrola group also induces additional effects or indirect impacts such as those described in this aspect.

203-1 Development and impact of infrastructure investments and services supported

During the construction and operation of its facilities, Iberdrola carries out certain infrastructure activities that are unrelated to its facilities and without a specific commercial purpose, but rather that are intended to meet the needs of the social environment, resolving existing shortcomings in the local communities. A summary of these projects with strong social impact during 2017 is provided below:

Infrastructure

In Spain, it has cooperated on the refurbishment of various municipal infrastructures.

In Mexico, it has participated in the construction and/or improvement of various recreational, educational and health centres, as well as infrastructure improvement and expansions of potable water and sewerage networks.

In the United Kingdom, action has been taken to improve the various infrastructures as well as landscape improvements for the enjoyment of the people near the different production centres.

In Brazil, there has been a continuation of the energy efficiency programme, both at the level of awareness-raising and disclosure as well as review and adjustment of lighting, with an expected savings of 800 MWh / year.

Services

Significant service activities include support for professional formation and training in areas near Iberdrola's facilities. In 2017, more than 12,000 people visited the Energy Classrooms near the windfarms in Spain. There are also two visitor centres in the United Kingdom, located at the Cruachan hydroelectric plant and at the Whitelee windfarm, where visits are received from the general public and from school groups.

Of note is the collaboration with Hydrographic Confederations and other bodies in Spain to enable various activities near the hydroelectric reservoirs (sports events, support for reproduction of certain species, etc.), by adjusting flows at certain times, as well as specific assistance in the repopulation of species.

203-2 Significant indirect economic impacts

Indirect impacts of the businesses and facilities

From an economic standpoint, the expansion of electricity systems drives the regional economy in the region where it occurs and creates employment opportunities, contributing to economic and social enhancement.

Positive effects include:

- Facilities for the production, transmission and distribution of electrical energy are built in dispersed geographic locations. This contributes to the generation of economic activity and jobs in urban and rural environments. This can also support the revitalisation and repopulation of underpopulated rural areas.
- These same facilities create significant indirect employment in the region in the form of local contracting companies, creating demand for various lodging, security, health, mechanical, supplier services, etc.
- In local communities, professional training is promoted and skilled labour, such as services for building and maintaining wind farms, is boosted.
- Local communities are supported through sponsorship of the initiatives of social and environmental institutions and organisations.
- Due to their geographic reach, electricity activities generate fees, taxes and duties at the local, regional and national levels.

Negative effects can be considered to include the following:

- The landscape impact of the facilities, especially large ones, and the possible negative effects (during construction or operation) on traditional activities, particularly in the rural environment, such as ranching, hunting or fishing.
- Environmental risks, which may give rise to undesirable consequences for the environment, such as spills and improper emissions, or waste management; these situations might occur despite the ever more demanding operational practices developed by the group.

Indirect impacts of the supply chain

The high volumes of Iberdrola's purchases (described in disclosure 102-9) of equipment, works and services, as well as fuel, becomes an engine for growth in the countries in which the company is present.

Entrepreneurial support

Iberdrola supports the creation and strengthening of new entrepreneurial projects through a number of significant initiatives, including the following during 2017:

- In 2017 Iberdrola procured a volume equivalent to 38 million euros from companies in Spain that have been operating for less than 5 years, which is clear support for entrepreneurship.
- Inclusion of the specific category *Generation of employment and employment of youth* at the Supplier of the Year Awards in Spain: incentivising the suppliers to commit to youth and female employment and encouraging them to offer high-quality professional opportunities to youth, which will undoubtedly lead to an improvement in competitiveness and innovation at the companies and will allow them to retain talent.
- Iberdrola's venture capital program, *Iberdrola Ventures - Perseo*, funded with 70 million euros, is an opportunity for companies dedicated to innovative technologies and business models, ensuring the sustainability of the energy model.

GRI 204 Procurement practices

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

A description of the Iberdrola group's supply chain can be found in disclosure 102-9 of this report.

204-1 Spending on local suppliers

Iberdrola maintains a strategy of creating value in the regions in which it operates. The volume of purchases made by the company each year translates into indirect employment in auxiliary industries and at service providers.

The following table shows the percentage volume of procurement from local suppliers:

Acquisition or contracting of materials, equipment, works and services from local suppliers ²⁵ (%)	2017	2016
Spain	88	93
United Kingdom	85	69
United States	98	98
Brazil	100	100
Mexico	60	66
Other countries	76	N/A
Total	88	84

But aside from purely economic value, Iberdrola drives the market on sustainability and responsibility, encouraging suppliers to improve their environmental, ethical and social record through actions that foster excellence in their management, beyond mere technical quality, thereby helping suppliers become more competitive:

Amount awarded to suppliers with management systems (%) ²⁶	2017	2016
Amount awarded to qualified suppliers	87.2	89.0
Certified quality management system	85.0	86.6

²⁵ Based on the Tax ID or CIF assigned to the supplier, those registered in the main countries in which Iberdrola does business are considered to be local.

²⁶ Scope: Suppliers of materials, equipment, works and services with orders for amounts equal to or greater than €400,000 during the year, which represents more than 92% of the total amount contracted (information from November 2017). Does not include Neoenergia.

(ISO 9001 or equivalent)		
Certified environmental management system (ISO 14001 or equivalent)	79.5	82.3
Certified risk prevention management system (OHSAS 18001 or equivalent)	71.4	79.4

GRI 205 Anti-corruption

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

The group's firm commitment to fight corruption and to establish mechanisms to ensure the existence of a culture for preventing irregularities is reflected in such documents as the group's [Code of Ethics](#), the [Crime Prevention Policy](#) and the [Anti-Corruption and Anti-Fraud Policy](#), all of which have been approved by the Board of Directors.

As an example of this commitment, at the beginning of 2017 Aenor granted Iberdrola, S.A. ISO 37001 certification, by which it is verified that the company has an effective Anti-Bribery Management System, resulting in Iberdrola being the first Spanish company and one of the first in the world to obtain this recognition. This is the international standard that sets the requirements and provides a guide to establish, implement, maintain, review and improve mechanisms to combat bribery practices at companies.

Within the framework of the Compliance System, various activities are carried out to encourage the organisation to act in accordance with the most stringent ethical standards and in accordance with applicable laws and regulations. In order to develop the *Crime Prevention Policy*, the company, through the Compliance Unit and other appropriate bodies, has implemented a specific and effective programme (the *Crime Prevention Programme*) as a set of measures focused on the prevention and detection of and reaction to possible crimes, which also extends to the prevention and control of other frauds, administrative infractions and serious irregularities, all within the framework of the process of review and adjustment to the most recent changes to the Spanish Criminal Code following the introduction of criminal liability for legal

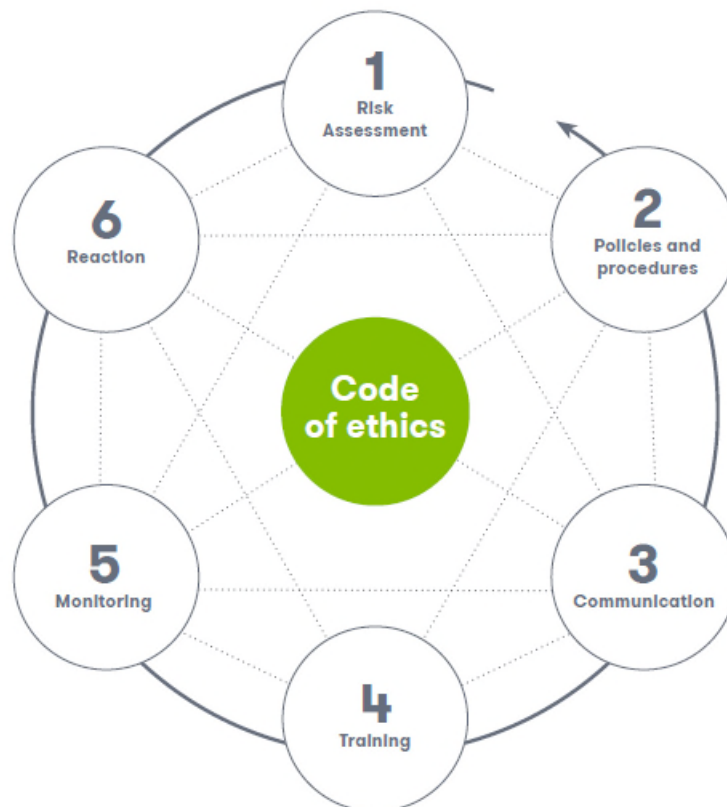
entities, without prejudice to the legal provisions applicable in any other jurisdiction in which the company does business.

Within this context, this year Aenor granted Iberdrola, S.A. UNE 19601 certification, by which it is verified that the company has an effective criminal compliance management system, resulting in Iberdrola being one of the first IBEX 35 companies to obtain it. This norm is the national standard for best practices for preventing crime, reducing risk and encouraging an ethical business culture and a culture of compliance with the law.

In 2017 the Compliance Unit also approved the *Protocol for Conduct in Professional Relations with Governments, Political Parties, Authorities and Public Officials* in order to strengthen the specific mechanisms already existing at the companies of the group to prevent any acts that might be considered corrupt or bribery in relations with said third parties.

In addition, as part of the Compliance System, the Compliance Unit promotes the development and maintenance of other initiatives for compliance with the *Code of Ethics* and legal provisions on fraud and corruption, the main goal of which is to foster a culture of corporate ethics and transparency, disseminating the principle of “zero tolerance” with respect to fraud and promoting mechanisms and actions to prevent corruption and fraud.

The *Code of Ethics* is the “cornerstone” on which the Compliance System is based and permanently functions as an element “inspiring” the other elements thereof, which are shown in the following chart:



These elements include: i) the regular assessment of risks, ii) the development and maintenance of policies, procedures and protocols on conduct of the professionals of the group describing the expected, appropriate and proper behaviour thereof, iii) the preparation of communication plans, iv) training for

employees and third parties with which we have relationships, v) permanent monitoring and review of the Compliance System through internal and external audits and control and detection methods like management of the ethics mailboxes, and vi) the establishment of response and reaction plans in case of conduct or situations that are improper or contrary to applicable legal provisions.

All activities performed by the group within this Compliance System are monitored quarterly by the Unit through the *Global Compliance Scorecard*, in which the Compliance Divisions of each country subholding and/or head of business company report quarterly, within the framework of the *General Coordination, Collaboration and Information Protocol*, the changes in a number of monitoring indicators regarding the principal elements making up the compliance programs of the respective companies.

Finally, it should be noted that in 2015 Iberdrola joined the Partnering Against Corruption Initiative (PACI), a platform through which leaders belonging to the World Economic Forum undertake to promote business conduct and practices designed to fight corruption within their organisations and to make such commitments binding on the third parties with whom they engage. Iberdrola is currently the only Spanish company to be a member of this platform.

205-1 Business units assessed for risks related to corruption.

One of the principal elements of the Compliance System of the Iberdrola group is the performance of a periodic and on-going evaluation to identify situations, factors or actions that could be exposed to improper acts or to situations of corruption or fraud.

The Compliance Unit develops a dynamic review and updating process for the risks mentioned in the preceding paragraph and establishes review mechanisms and tools to determine the perception of fraud risks by officers and professionals with key responsibilities within the group, while monitoring the potential factors of exposure to the risk of corruption on an ongoing basis.

Both the corporate divisions of the company as well as all of the businesses and countries in which the group does business participate in this process and are analysed in collaboration with the Compliance Divisions of the country subholding companies and head of business companies. All of this is done following guidelines established by the Unit, which each Compliance Division adjusts and develops at their respective companies in accordance with the specific object and activities thereof.

An evaluation process was performed in 2017 based on surveys involving professionals in charge of areas and relevant processes at each of the country subholding and/or head of business companies of the group. Specifically, the scope of the analysis was the following:

- 100% of the country subholding companies making up the group: Avangrid INC, Iberdrola España, S.A.U., Iberdrola México, S.A. de C.V., Iberdrola Participaciones, S.A.U., Neoenergía, S.A.²⁷ and Scottish Power LTD as well as the principal business thereof: i) Networks Business, ii) Wholesale and Retail Business, and iii) Renewables Business.
- Furthermore, as regards the corporate divisions of the group, those areas or divisions considered to be of higher potential risk in this area have been analysed. Specifically, the following have participated: Procurement, Human Resources and General Services, Financing and Treasury, Corporate Development, Administration and Control, Investor Relations and Communication, Innovation, Sustainability and Quality, Internal Audit and International Relations.

²⁷ As a result of the integration of Neoenergía in the middle of the year, the risk analysis at this organisation was performed using its own methodology.

To perform this evaluation, guidelines and a methodology are provided that allow the compliance directors as well as the heads of the businesses and corporate functions to identify and evaluate the risks of fraud and corruption within the group, with the latter in charge of managing such risks. Based on an analysis of the information received, each Compliance Division prepares its own risk map, identifying the main controls at the group to mitigate them, and proposes improvement actions to strengthen the effectiveness of such controls, if appropriate.

This analysis is used as a starting point to determine the most effective prevention and control measures and thus allow for the appropriate allocation of resources and efforts to those areas or factors in which a potential for improvement has been identified. Accordingly, the assessment constitutes a tool upon which various actions are based and which are included within the other elements of the Compliance System.

The group has also continued to develop and strengthen its Compliance System, particularly in the anti-corruption area, focusing on the analysis and evaluation of third parties with which Iberdrola is connected. In this context, the group has multiple internal controls that try to mitigate exposure to these types of third-party risks, including:

- a) Suppliers. The group's procurement process includes *Guidelines for analysis of the risk of corruption at suppliers*, the purpose of which is to provide guidelines for the analysis of the risk of corruption associated with suppliers of equipment, materials, works and services. The documentation attached to the supplier contracting terms also includes the *Suppliers' Code of Ethics*.
- b) Public administrations and officials. In 2017, the Compliance Unit approved a new *Protocol for Conduct in Professional Relations with Governments, Political Parties, Authorities and Public Officials*, applicable throughout the group, governing employee relationships with these Stakeholders. Apart from establishing certain principles of conduct to be observed by all of the professionals, this protocol establishes certain requirements to report to the Compliance Area prior to the formalisation of any contract, agreement or pact with officials or public administrations.
- c) Corporate transactions. The Unit also approved the *Corporate Transactions Protocol* in order to establish the steps to take regarding risks associated with compliance in the case of mergers and acquisitions and other kinds of corporate transactions contemplated in the area of application thereof. This protocol contemplates the performance of due diligence prior to any transaction to be carried out within the group.
- d) Sales agents. As to these third parties, the group has specific protocols at companies that hire sales agents. This protocol also contemplates the performance of due diligence prior to any hiring of these types of third parties.
- e) Donations, sponsorships and social welfare activities. In 2016 the Unit approved the *Protocol for Transactions with Social-Welfare Content, Donations and Sponsorships*, the object of which is to evaluate the legitimacy of the beneficiary of the contribution or sponsorship and regulate the information to be collected by the proposing unit, without prejudice to the additional specific work of research and analysis that each specific contribution may require.

Review of the provision of general supplies in countries presenting a risk of corruption

To analyse supplies in countries with a risk of corruption, the company uses the *Transparency International Corruption Perceptions Index 2016 (TI CPI 2016)* as a source to classify countries by their risk level.

Procurement volumes classified by corruption risk levels are set out in the following table:

Corruption risk ²⁸	% of 2017 general supply purchases in countries on the CPI Index 2016
Low	58
Medium	17
High	25

According to the TI CPI 2016, countries with a high risk of corruption in which purchases were made from suppliers registered are mainly Brazil and Mexico. This volume of procurement is directly related to Iberdrola's investment effort in these countries, where 25% of the group's total investments were made in 2017.

Iberdrola has not made any significant purchase of general supplies from suppliers located in tax havens.

In supplier management and during the procurement process, the measures adopted by the company to protect against this risk are based either on the *Procurement Policy* or the *Suppliers' Code of Ethics* or on the specific clauses included in the contract terms attached to the orders made.

Review of fuel supplies in countries presenting a risk of corruption

An analysis of the purchases of fuel shows the following ratios in 2017:

Corruption risk ³²	% of 2017 fuel purchases in countries on the CPI Index 2016
Low	48
Medium	0
High	52

According to the TI CPI 2016, the countries with a high risk of corruption in which purchases were made from suppliers registered there are mainly Mexico and Brazil. However, the company believes that the calculation should exclude purchase of fuel in these two countries because they are made in strongly regulated environments that require contracting with state-owned companies. Excluding both countries from the calculation, the high risk percentage would decrease to 14%.

205-2 Training and communication on anti-corruption policies and procedures

The development of effective communication and training plans is one of the key elements relied upon by Iberdrola's Compliance System to achieve its main goal of promoting a culture of corporate ethics and transparency and to prevent improper or fraudulent conduct.

Along these lines, the principal powers of the Compliance Unit include those of instituting the preparation and implementation of suitable training programmes, both in-person and online or by any other appropriate method, for the professionals of the group to receive training regarding the duties imposed, mainly by the *Code of Ethics*, the *Anti-Corruption and Anti-Fraud Policy* and the *Crime Prevention Policy*.

The initiatives included in these plans include the following activities during the course of the year:

²⁸ Low risk: country index ≥ 60 / Medium 59-50 / High risk: < 50 on a scale of 0 (perception of high corruption levels) to 100 (perception of low corruption levels).

Training for governance bodies

- As part of the training programme for the directors of Iberdrola, S.A., there was a training initiative in 2017 for all members of this body regarding the Iberdrola group's Compliance System.

The Compliance Unit also regularly reports to the Corporate Social Responsibility Committee on the most significant compliance issues for the period, having appeared before this body a total of four times in 2017. The issues reported on include the following: *Code of Ethics*, report on annual reports, incidents relating to the *Internal Regulations for Conduct in the Securities Markets*, *Crime Prevention Programme*, update of internal rules and regulations, scorecard, results of external evaluations and significant integration processes within the group, etc.

Training for employees of the group

- Training and awareness-raising regarding the *Code of Ethics* and the prevention of violations thereof. In coordination with the various country subholding companies and/or head of business companies, the Unit develops and regularly updates training programmes on the *Code of Ethics* and the other rules and regulations in this area applicable to all group professionals. Such programmes foster knowledge of the action standards required at the group and promote ethical values and the principle of "zero tolerance" towards the commission of unlawful acts and situations of corruption and fraud. Various initiatives have been developed, including:
 - o Online *Code of Ethics* course. This course was launched globally throughout the group²⁹, with a frequency of at least every two years, and a new refresher course was launched in 2017 which has been taken by a total of 21,899 employees, which is 80% of the objective.

<i>Code of Ethics</i> training	No. of employees trained	% of employees trained
Spain	8,276	80%
United Kingdom	2,954	50%
United States	6,620	99%
Brazil ³³	3,431	91%
Mexico	618	96%
Report boundary	21,899	80%

During the year, Neoenergia has had an online course regarding its *Code of Ethics* and anti-corruption issues available to all of its employees, which has been completed by 90% of its professionals, or 6,063 employees.

- o On-site training and awareness-raising sessions on the *Code of Ethics* and anti-corruption provisions given by the compliance directors of each company. During 2017 more than 2,000 employees of the Spanish companies of the group have received on-site training within this programme.
- Training on *Crime Prevention Programmes* applicable to companies domiciled in Spain. In 2016 the Compliance Unit made available to the professionals of the Spanish companies of the group an online training initiative on this topic. This online course has been available to new hires during 2017 and was taken by 269 new professionals of the Spanish companies of the group.
- Specific anti-corruption training in accordance with the legal provisions in effect in the countries in which the group operates:

²⁹ As a result of the integration of Neoenergia in the middle of the year, this company was not included in the scope of this initiative, although the company has its own specific training in this area.

- There has been a training session in Spain with the help of the law firm CMS Albiñana & Suárez de Lezo in the area of anti-corruption regulation, and more specifically regarding the *UK Bribery Act* for those employees forming part of the gas supply transactions team of Iberdrola Generación. A total of 17 employees attended this on-site training.
- In the United Kingdom, the company provides periodic online training on the UK Bribery Act and obligations under the Anti-bribery and Corruption Policy (ABC Policy) as well as on related legal provisions. The training this year has been included as an additional module in the online *Code of Ethics* course, in which more than 3,600 employees have participated. The Compliance Division of this company has also provided on-site *Code of Ethics* and anti-corruption training to intermediate management, with the participation of more than 250 professionals.
- The *Code of Ethics* training in the United States includes a short training session on anti-corruption, in which more than 6,600 employees participated. On-site training courses have also been provided to the respective Boards of Directors; specifically, a total of 14 directors of Avangrid, Inc. and 8 directors of Avangrid Networks, Inc. have received training on the U.S. Foreign Corrupt Practices Act.
- In Mexico, apart from online training on the *Code of Ethics*, which includes aspects promoting the fight against corruption, throughout 2017 the Compliance Division of this company developed on-site training meetings on key aspects of ethics and compliance. 389 professionals have participated in this training.
- Likewise in Brazil, in addition to online *Code of Ethics* training, the scope of which covered all employees of Elektro, in 2017 the Compliance Division of the company participated in a leadership event on the company's strategy to underscore the role of the executive officers in the Compliance System. A total of 200 professionals attended this event.

205-3 Incidents of corruption

The company has not been informed, either through the ethics mailboxes or through the corresponding legal channels via its Legal Services, of any court decisions relating to cases of corruption during the reporting period. There were also no incidents reported through the channels established for such purpose resulting in the cancellation of orders or of contracts with group suppliers.

During 2017, the European Investment Bank (the "EIB"), Iberdrola Ingeniería y Construcción, S.A.U. and Iberdrola S.A. (in its capacity as owner of all of the share capital of Iberdrola Ingeniería y Construcción, S.A.U. through the country subholding company Iberdrola Participaciones, S.A.U.) have signed a settlement agreement (the "Agreement") within the framework of the EIB's investigation relating to the Riga TEC-2 project to rebuild a thermal plant in Riga (Latvia), which was awarded to Iberdrola Ingeniería y Construcción, S.A.U. on 8 December 2005 and financed by this institution.

The Agreement contemplates that Iberdrola Ingeniería y Construcción, S.A.U. will not participate in projects financed by the EIB for a period of one year (which may be extended for six additional months if the company does not comply with certain conditions), and assumes the commitment to develop, finance and implement a specific sponsorship programme, consisting of an array of activities and measures in favour of the fight against corruption and fraud that will be performed for a period of four years from the signing of the Agreement.

Along these same lines, the Agreement includes an obligation to cooperate with the EIB and to extensively assist it in the investigation of conduct prohibited in the projects financed by the institution, and to exchange with the EIB its best practices in the area of compliance.

GRI 206 Anti-competitive behaviour

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



Management approach

Pursuant to the *Code of Ethics*, the group undertakes to compete fairly in the market and not to engage in advertising that is misleading or denigrates its competitors or third parties. Furthermore the group undertakes to obtain information lawfully, to promote free competition for the benefit of consumers and users, and to promote transparency and free market rules, as provided in the group's [General Corporate Social Responsibility Policy](#).

In relation to the foregoing, and specifically pursuant to the provisions of the *Anti-Corruption and Anti-Fraud Policy*, the companies of the group promote a transparent environment, maintaining appropriate internal channels to favour the communication of possible irregularities, including the use of the channel of communication with the Audit and Risk Supervision Committee to report financial or accounting irregularities, and the Ethics Mailboxes, which allow professionals of the group, suppliers and shareholders of the company to communicate conduct that may entail a breach of the company's Corporate Governance System or the commission by a professional of the group of an act contrary to the law or to the rules of the *Code of Ethics*.

At the country level, each of the country subholding companies endeavours to ensure strict compliance with legal provisions on separation of activities. In many countries like Spain, where a *code for the separation of activities of the companies of the Iberdrola group in Spain* applies, applicable internal rules go beyond what is required by law, significantly strengthening the measures to prevent any anti-competitive practices deriving from a lack of separation between the liberalised and regulated businesses.

The liberalised head of business companies also have specific controls to avoid any type of anti-competitive practices, particularly in areas like advertising campaigns directed towards individuals and price manipulation.

In Spain, the generation head of business company has access to Autocontrol, a private entity that works for truthful, legal, honest and trustworthy advertising, which among other activities provides a consulting service to advise on the ethical and legal adequacy of campaigns before they are launched. It has also implemented internal processes to ensure compliance with *Regulation (EU) 1227/2011 of the European Parliament and of the Council of 25 October 2011 on wholesale energy market integrity and transparency* and the legal provisions in further development thereof, which establish rules prohibiting abusive practices that affect the wholesale energy markets. In other jurisdictions, the liberalised head of business companies have equivalent internal policies and rules.

In the practical application of applicable law, the complexity thereof might give rise to interpretations that are not shared by other market players or by the regulatory authority itself, giving rise to situations such as those described in section 206-1 requiring the intervention of the competent courts.

206-1 Legal actions for anti-competitive behaviour, anti-trust and monopoly practices.

Cases related to monopoly practices or anti-competitive behaviour that have been recorded at the Iberdrola group are described below.

In Spain, in 2010 Céntrica Energía, S.L. ("Céntrica") filed a claim with Commercial Court No 1, in Bilbao, claiming 11,900,000 euros in purported damages on the basis of the penalty imposed by the CNC for alleged abuse of dominant position for having failed to allow widespread access to the points-of-supply database. Iberdrola Distribución Eléctrica, S.A.U. filed a defence opposing this claim on the grounds that the case was time-barred and, in any event, because it had strictly complied with applicable laws and regulations governing the industry and with the standards established by the National Energy Commission (*Comisión Nacional de Energía*) (CNE) on this matter since 2002. Judgement was rendered for Iberdrola Distribución Eléctrica, S.A.U. in July 2010, holding that the action was time-barred. This judgement was appealed by the opposing party to the Provincial Court of Biscay (*Audiencia Provincial de Vizcaya*), and a new judgement confirming the previous judgement was handed down in July 2011. However, Céntrica Energía filed a constitutional petition for relief with the Civil Chamber of the Supreme Court, which issued a judgement in September 2013 upholding such petition, rejecting the finding that the action was time-barred, and providing for a return of the proceedings to the Provincial Court of Biscay for a resolution on the merits. As a result of the foregoing, the Provincial Criminal and Administrative Court rendered judgement in March 2014 dismissing the complaint filed by Céntrica Energía, S.L. in its entirety and deciding on the merits of the case, holding, among other things, that the causal link between the conduct followed by the distribution company and the damages claimed has not been established. In May 2014 Céntrica filed a constitutional petition for relief (*recurso de casación*) against the aforementioned judgement with the Third Division of the Supreme Court. On 6 July 2017 the Supreme Court rendered a Decision rejecting the cassation appeal, with the imposition of costs on the appealing party. The matter is thus definitively closed.

The proceeding provided for in article 88 (2) of the *EC Treaty* by the European Commission against Spain (State Aid C3/2007) continues in connection with the possibility of the regulated electricity tariff system being considered as state aid, which is forbidden under the Treaty, the beneficiaries of which would be end consumer companies, on the one hand, and electricity distribution companies, on the other. In these proceedings, which were commenced following a complaint filed by Céntrica, P.L.C. and Céntrica Energía, S.L., written comments of both Unesa and Iberdrola Distribución Eléctrica, S.A.U. were filed, with the defence focusing on the absolutely regulated nature of electricity distribution in Spain and the absence of any advantage for distributors compared with liberalised retail electricity supply companies, and considering, in short, that there was no forbidden state aid in favour of the former. In this case, which is limited to financial year 2005, a favourable final outcome is expected with a declaration that there is no unlawful assistance as regards electricity distribution companies.

In addition to the complaints filed with the EC, Céntrica has also filed various appeals applying for the annulment of national tariff provisions recognising deficits in regulated activities, to the extent that no similar deficits are recognised for retail supply activities. Both the Supreme Court and the National High Court have resolved to postpone the dates for voting and rendering a decision on such appeals until the issuance of a European Commission resolution putting an end to the proceedings concerning State Aid C 3/2007, commenced as a result of Céntrica's complaint.

Furthermore, in 2012 notice was given of the disciplinary resolution under case file S/0213/10 of the National Competition Commission, which imposes on Iberdrola, S.A., Iberdrola Generación, S.A.U. and Iberdrola Comercialización de Último Recurso, S.A.U., jointly and severally, a penalty of 10,685,000 euros for the serious infringement of distortion of competition through anti-competitive acts consisting of the transfer of contracts from the last-resort retail supplier to the liberalised retail supplier, without securing the

express consent of the consumer required under industry regulations. In 2013 notice was provided of the decision dismissing the contentious-administrative complaint filed by the three companies against the penalty. In 2013 an appeal for relief was filed against the dismissal and on 3 February 2017 a judgement on the appeal was rendered pursuant to which the Supreme Court annulled the sanction decision and reduced the amount of the sanction to 5,342,500 euros due to violation of the principle of proportionality, without imposing costs for the first instance proceeding before the National High Court or the petition for relief before the Supreme Court.

In the United States, a class action suit has been filed in relation to the LDC Gas Transport Service in the Algonquin Gas Transmission (AGT). On 16 November 2017, a Class Action Complaint (Breiding et al. v. Eversource y Avangrid) was filed with the District Court of Massachusetts on behalf of New England customers against the company and Eversource, alleging that certain of their subsidiaries, which used the gas transmission service provided by Algonquin Gas Transmission (AGT), which for Avangrid would be SCG and CNG, participate in natural gas pipeline capacity scheduling practices that resulted in an artificial increase in electricity prices in New England. The plaintiffs claimed redress under the federal and state antitrust, unfair competition and consumer protection laws, and under the common law of unjust enrichment. They seek to recover damages, restitution, disgorgement, costs of suit and attorneys' fees. The company is reviewing the Complaint and will vigorously defend against such claims.

As announced by the company in the Due Diligence call and in its third quarter Form 10-Q, the Connecticut regulators commenced a proceeding to review the gas supply portfolio, asset strategies and practices of the three local distribution companies. In addition, FERC and the Massachusetts State Commission are reviewing the matter. SCG and CNG are required to provide a safe and reliable natural gas service to their customers. SCG and CNG reserve and nominate / schedule the gas pipeline schedule to protect their customers against interruptions, even during extreme and unpredictable weather conditions. These companies operate in Connecticut, where they are required to serve as the "last-resort supplier" for retail, commercial and industrial natural gas customers interconnected to the gas distribution companies. In providing service to the customers, Avangrid seeks to comply with all regulatory requirements, both state and federal.

No cases related to monopoly practices or anti-competitive behaviour have been recorded at the other companies of the Iberdrola group.

B. Electric Utilities Sector Specific Aspects

Availability and reliability System efficiency

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



Management approach

Spain

The planning of generation in Spain is a government function and is indicative in nature, as participants make investment decisions within a free-market environment.

Analysing the reliability of the short-term electricity supply is a task assumed by the System Operator, which regularly studies different operation scenarios to verify the robustness of the system. Iberdrola significantly contributes to increasing reliability in the operation of the system by providing great flexibility through hydroelectric generating capacity as well as with a pioneering renewable energy control centre.

The Networks Business also contributes to guaranteeing reliability, performing studies to identify the short- and long-term investments needed to meet the increase in demand and to renew older facilities by adopting more modern technologies, with a view to guaranteeing a more operational and reliable network. Of note is the major deployment of smart meters in the electric grid, with more than 10 million already installed, a modernisation of 97% of the company's meters in Spain. The investments in smart distribution grids helps to improve reliability and availability of the networks.

United Kingdom

A large part of the United Kingdom's generating facilities is reaching the end of its use life, and the government is determining an energy policy and regulations to enable renewal without endangering the safety of supply. There are auctions of capacity in which the government calculates the amount of capacity required, depending upon its system reliability target, and industry players offer their facilities until such need is met. February 2018 saw the fourth long-term T-4 auction, in which both existing plants and new projects took part. Iberdrola is developing new projects in the technologies promoted by government policy over the next decade: offshore wind and combined cycle.

Electricity transmission network activities are governed by the RIIO-T1 plan over the 2013-2021 period. Significant investments are being considered during this period, with a dual purpose: first, to increase the transmission capacity of interconnections between Scotland and England, and second, to enable the

evacuation of energy from all renewable facilities expected in the short to medium term. Both objectives will make it possible to guarantee reliable, high-quality service in the coming years.

The reliability of electricity distribution networks is ensured through studies that make it possible to identify the short- and long-term investments needed to meet new demand and to renew older facilities, all of which is managed in accordance with the RIIO-ED1 framework for the 2015-2023 period. The investments in smart distribution grids helps to improve reliability and availability of the networks.

United States

Iberdrola is among the leading producers of wind energy in this country. The construction of a new electricity transmission corridor from Canada to the United States through the State of Maine is an element that allows for the integration of growing wind production, improving grid stability and the reliability of both systems.

The group's North American companies act in accordance with the laws and regulations of the states in which they operate. In the state of New York, the companies participate in planning activities through official bodies, ensuring that they can meet short- and long-term demand under proper conditions of reliability and safety.

The System Operator (ISO) operates within the reliability margins set by the North American Electric Reliability Council, the Northeast Power Coordinating Council and the New York State Reliability Council (NYSRC). NYSRC sets the installed capacity reserve margin, as well as the required level generating capacity, such that the loss of load in the New York control region is no more than one day per ten years. In New England, ISO-NE sets installed capacity requirements (ICR) using similar criteria.

In the State of Maine, transmission and distribution companies have no authority over energy planning, and cooperate with official bodies on operational matters that may be required by such bodies. In any case, electricity distribution companies guarantee reliability, carrying out studies that make it possible to identify the short- and long-term investments needed to meet the increase in demand and to renew older facilities by adopting more modern technologies, with a view to ensuring a more operational and reliable network.

Brazil and Mexico

The group's companies in Brazil manage major electric distribution areas and electricity production plants. It works in close cooperation with the public administrations, developing systems to help them attain energy planning goals, achieving the desired balance between available resources and the quality and reliability of the electricity supply.

Iberdrola's Networks Business contributes to ensuring the reliability of electricity supply, making investments to meet the rapid increase in demand and electricity consumption in the areas in which it distributes, ensuring a more functional and reliable network. It also invests in electricity transmission projects that will encourage robustness by improving the backbone of the system.

The group's companies in these countries also participate in developing generating facilities (thermal and wind, hydroelectric, wind and photovoltaic power).

Fuel

A key element in managing the availability of electricity service is the procurement of the necessary fuel. Iberdrola ensures it has a global portfolio of gas and coal contracts that is flexible and geographically diverse. This is in addition to a stable, long-term and low-risk supply of nuclear fuel.

The risk of fuel cost is managed using financial contracts that fix the price of the fuel at a particular time, allowing for reduction of risks and ensuring a margin on forward sales. These financial contracts are primarily used to fix the costs of coal and gas under long-term contracts. Derivatives are also be used to cover fuel costs in euros, as purchases are usually made in U.S. dollars.

EU10 Planned capacity to address projected electricity demand over the long term

The companies of the Iberdrola group have no direct responsibility for long-term planning processes for the corresponding electricity systems in the countries in which they operate.

Public authorities conduct the studies needed to anticipate the long-term needs of the respective electricity system, and Iberdrola's companies act as market agents, making investment decisions that are consistent with their business plans.

EU11 Average generation efficiency of thermal plants

The efficiency of Iberdrola's thermal generating facilities is shown in the following table:

Average thermal efficiency ³⁰ at generating facilities (%)	2017	2016
Combined cycle	53.57	51.82
Conventional thermal	34.38	33.00
Cogeneration	53.81	56.14
Report boundary	52.76	51.08

Combined cycles represent 62% of the group's thermal production³¹, as derived from the information reported in disclosure EU2 of this report.

Information on thermal efficiency in the various countries is described Annex 3 Supplementary Information.

EU12 Transmission and distribution losses

Transmission and distribution network losses (%)	2017	2016
Transmission		
United Kingdom	2.12	1.13
United States	2.67	2.66
Distribution		
Spain	6.70	6.89
United Kingdom	6.32	6.22
United States	3.59	4.79
Brazil ³²	12.24	12.46

³⁰ Average of efficiencies weighted by the annual production of each thermal power plant.

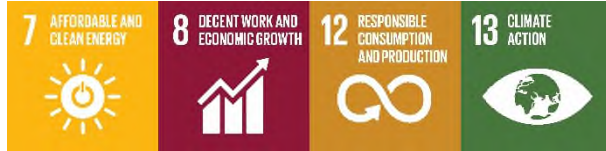
³¹ Includes nuclear generation.

³² All Iberdrola group networks in Brazil are classified as distribution.

Loss reduction programmes are implemented each year in all regions to improve the reliability and availability of the supply network, which has made it possible to reduce, or at least maintain in most cases, the level of losses. The measures taken are identified in disclosure 302-4 Reduction of energy consumption.

Demand-side management

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



Management approach

As part of its demand-side management programmes, Iberdrola's main objective is to improve energy efficiency and the smart use of active electrical grids to thus contribute to the more efficient use of energy by consumers, and thereby reduce CO₂ emissions and contribute to the fight against climate change. The types of actions taken include those relating to information, training and the supply of solutions and technologies that help them improve energy efficiency and reduce the environmental impact of their energy habits and consumption. Iberdrola engages in demand-side management in all of its geographic areas and for its various types of customers.

The most significant specific features of this type of programme in each market are as follows:

Spain and Portugal

Iberdrola sells a wide range of products and services that promote efficiency, energy saving and environmental protection:

- Energy efficiency: efficient air conditioning and lighting, capacitor banks, home automation systems and other solutions.
- Renewable energy facilities: solar photovoltaic energy.
- Comprehensive management of energy supplies.
- Electromobility.

In 2017 more than 800,000 customers benefited from products and services that improve energy efficiency.

Noteworthy is the launch in 2017 of the *Smart Irrigation* product, which permits the programming and more efficient control of residential sprinklers. This product supplements others launched in prior years, like smart thermostats, electricity meters capable of distinguishing consumption by the main appliances, etc.

In the industrial and commercial sectors, there are initiatives to diagnose and propose measures for energy savings and efficiency, like efficient lighting, efficient air conditioning, etc.

Iberdrola has also commenced the development of 2 energy efficiency programmes that were approved in Portugal's *Plan to promote efficiency in energy consumption* (PPEC 2017-2018), which is expected to close in 2018.

Other activities to promote energy efficiency were also carried out through the website, campaigns, customer invoices, etc.

United Kingdom

In the residential customer market, ScottishPower is participating in the *Energy Company Obligation (ECO) Programme*, sponsored by the British government, the purpose of which is to reduce CO₂ emissions and heating costs. It also provides energy consultancy and support services through a range of channels.

The company's projects in the area of commercial and industrial customers are focused on energy savings, cost reductions and CO₂ emissions. These include projects for managing connectivity at buildings and audits to identify low-cost and easily-applied energy savings measures.

In addition, there has been continued development of the Demand-Side Response (DSR) products to generate business opportunities through the management of one's own energy consumption based on network requirements.

United States

In Maine, residential demand-side management programmes are developed by the *Efficiency Maine Trust*, rather than by electricity companies directly. In addition, the New York Public Service Commission defines goals for the State of New York. In both cases, both the goals and the scope for the 2016-2018 period have been defined. It should also be noted that the Massachusetts energy efficiency programmes have reached 1st place in the American Council for an Energy-Efficient Economy ranking, for the sixth consecutive year, with *Home Energy Solutions* being most noteworthy for reducing total energy consumption of the homes within the programme.

Brazil

The companies of the Neoenergia group carry out various energy efficiency programmes for residential customers. For example, there is a programme aimed at low-income customers and focused on replacing incandescent lights with led lights, old refrigerators with more efficient ones, etc. Another programme is directed towards environmental improvement, and consists of the exchange of urban solid waste for financial credits on customers' electric bill, to help raise awareness regarding recycling and caring for the environment. There is also a programme for training in the efficient and safe use of energy for educators, students and the general population.

In the institutional segment, Neoenergia has carried out a range of projects relating to the improvement of energy efficiency, the replacement of inefficient lighting and the generation of solar energy.

Research and development

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

As part of a clear strategy, which is set out in the *Innovation Plan 2015-2017* and continues in the new *Innovation Plan 2018-2020*, innovation is Iberdrola's primary tool for ensuring the company's sustainability, efficiency and competitiveness, based on:

- Disruptive technologies, which seek efficiency, sustainability and environmental friendliness, and optimise the operation of facilities and processes.
- Digitisation and automation in all businesses and processes, to create value in the management of the life cycle of assets, optimisation and aggregation of the network, and the design of integral services for a digital customer.
- Innovation with start-ups, entrepreneurs and suppliers. The company is a pioneer in encouraging innovation by start-ups, entrepreneurs and suppliers in order to develop new disruptive business models, favour the exchange of knowledge and be a driving force among its partners.
- Culture of innovation and talent. Iberdrola promotes a culture of innovation through the transfer of knowledge, attraction of talent and promotion of the entrepreneurial spirit. This includes the *Accelerator* project, which wagers on the internal talent of its employees in order to ponder the keys to making the company the "utility of the future" and launching the *Iberdrola Universities Project*, which groups together all activities in the academic world.

Thanks to human and financial efforts (246 million euros in 2017) allocated to research, development and innovation (R&D&i), Iberdrola is in the vanguard of developing new products, services and business models that are transforming the energy sector.

Some of the innovative initiatives are set out below, classified by major category:

Renewable energy

2017 saw continued work on R&D&i projects specifically designed to develop solutions to reduce costs and improve energy efficiency, to integrate renewable energy and to develop new construction designs or processes: projects like *ROMEO*, coordinated by Iberdrola, for early detection of failures using big data techniques, the *ESS2Wind* project for the analysis of windfarm storage systems, and the *Andalusia* substation at the Wikinger wind farm, with an innovative design.

Clean generation technologies

In 2017, efforts in the generation area centred on operational flexibility and efficiency, respect for the environment and improved safety at facilities:

- **Flexibility, operational efficiency and safety of facilities:** The *Prexes* project has been successfully carried out, with the development of a model for predicting expansion in concrete hydraulic structures. As for safety of the facilities, there has been continued operation of the *Vidagen* project to design and develop a tool for the lifetime management of pressurised equipment.

In the nuclear segment, the *Filtronuc* and *OPD* projects are of note. The first, completed in 2017, developed a new filtered venting system to maximise performance without diminishing the safety of the system. The *OPD* project seeks to develop an open phase detection system in feeding the start-up of nuclear plants.

- **Environment:** Iberdrola has completed the *CO₂FORMARE* project, focused on cooling systems at plants to reduce their environmental impact, by means of which it has developed and validated a solution to the problem of macrofouling in these systems.

Retail - New projects and services

Innovation is essential in retail activities, in order to be able to offer customers the products and services best suited to their needs. Iberdrola continues to work on the development of new products and services, including the *Customer app*, with improvements in performance and a redesign of the app, launched in 2017 for Android and expected to launch in 2018 for the iPhone, and *Smart Irrigation*, which allows one to more efficiently programme and control residential water sprinklers.

Smart grids

The group's R&D&i activities in electric energy distribution focus on optimising the distribution grid, with special attention on the development of smart grids, with various projects in all of the countries in which it distributes electricity.

In Europe there has been completion of the *UpGrid* project, which enhances the group's ability to integrate active demand and distributed generation under low voltage. The *ASSURED* project has also commenced to develop solutions for fast charging of heavy-duty electric vehicles. Iberdrola also participates in the *INTENSIS44EU* project, which seeks a new focus in the area of smart grids and energy storage.

In the United Kingdom there is development of the *Fusion* and *LV Engine* projects to optimise low-voltage grids, *FITNESS* to continue developing sustainable solutions for the deployment of a new smart grid, and *Assess Late* to analyse future impacts on the distributed generation network.

In Brazil, there are innovation projects to develop smart grids, like *Bid Monitor*, which seeks to develop a support system for decision-making in electricity sales, and *Smart City* for the implementation of an urban benchmark model based on smart grids.

In the United States, there are initiatives included in the *Energy Smart Community* programme to efficiently connect consumers, community and the distributed energy resources market. Also noteworthy in the State of New York are the *Energy Marketplace* projects to facilitate transactions between suppliers of distributed energy and customers, and *Flexible Interconnect Capacity Solution*, which seeks to define less costly and more rapid methods of connecting large distributed energy resources.

Iberdrola has an R&D&i smart grid technology centre in Qatar, at which it continues to develop projects in this field.

Iberdrola Ventures - Perseo

Iberdrola Ventures - Perseo is Iberdrola's corporate venture capital programme with €70 million euros to promote the development of a dynamic ecosystem of start-ups and entrepreneurs in the energy sector. Since its creation in 2008, more than €50 million have already been invested in start-up companies developing technologies and new businesses in the energy sector worldwide. The main activities in 2017 included:

- Investment in the equity of the U.S. company *Innowatts*, focused on the development of artificial intelligence solutions for the energy sector.
- Social investment includes investment in the company *Ilumexico*, dedicated to electrification in rural areas of Mexico. This is Perseo's second investment in projects with high social impact, and is also included within Iberdrola's *Electricity for all* programme.

Further information on the R&D&i projects in which Iberdrola participates can be found in the [Innovation](#) section of the corporate website.

Nuclear plant decommissioning

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

The company Empresa Nacional de Residuos Radiactivos S.A. (hereinafter, "Enresa") has been responsible for decommissioning nuclear power plants since 1984. This state-owned company is also in charge of managing radioactive waste and spent fuel.

Enresa prepares the *General Radioactive Waste Plan (Plan General de Residuos Radiactivos)* (PGRR), which is the basic document setting forth the strategies to be followed and activities to be carried out in Spain in the fields of decommissioning nuclear power plants and managing radioactive waste and spent fuel. The plan, which also includes a financial/economic study of such activities, is submitted for approval to the Ministry of Energy, Tourism and Digital Agenda (MINETAD) every 4 years or upon request therefrom.

A fund managed by Enresa has been set up to finance the activities contained in the PGRR. The fund includes provisions for the decommissioning of nuclear power plants.

As a company that owns part or all of 7 nuclear reactors, Iberdrola makes contributions to the nuclear plant decommissioning fund through a fee that is calculated by Enresa and approved by the government, in order to cover all management expenses for radioactive waste, spent fuel and the decommissioning of such plants.

In addition, Iberdrola allocates funds to cover the pre-decommissioning stage of its nuclear power plants. Pre-decommissioning means the period between the final shutdown of the plant and the moment when the ownership of the plant passes to Enresa for it to commence decommissioning. This is an estimated period of 3 years, during which all spent fuel - from both the reactor and the pool - must be removed, treated and stored in containers.

Nuclenor, S.A., a company 50%-owned by Iberdrola, created a provision for the pre-decommissioning of the Garoña nuclear plant, from which it has begun to pay expenses upon the cessation of the plant's commercial operation.

C.

Specific aspects of the Iberdrola group

Supply costs

Management approach

The cost of electricity supply and the energy transition are taking on a greater role in the political and social agenda. The principal challenge is to reconcile secure and environmentally friendly supply with the use of renewable energy at prices that are competitive and can be afforded by society as a whole.

The electricity sector, which by nature is a basic service for society, is broadly regulated in the various countries in which Iberdrola operates, with varying levels of liberalisation in each. The most significant issues being debated and regulatory developments currently occurring in these countries are described below:

European Union

- The Agency for the Cooperation of Energy Regulators and the European Commission, in studies on electricity prices published in 2016, confirmed that taxes and components associated with energy and environmental policies have grown the most, reaching half of the bill in countries like Spain. This increase in costs associated with energy and environmental policies is mainly due to the electricity sector being the only sector that financially supports the renewable energy development goal imposed by the European Union. A competitive electricity supply requires the elimination of cost components outside of the service itself, and paying for these costs through general taxes or taxes on all polluting energies.
- The strategy of the Energy Union that commenced in 2015 and that was specified in legislative proposals like the *Clean Energy for All Europeans* (2016) "package" responds to the need to comply with the 2030 environmental agenda (40% reduction in GHG emissions, 27% increase in renewables and 30% improvement in energy efficiency), monitoring the safety of supply and the competitiveness of the European industry, and allowing prices that are accessible for European citizens.

Spain

- The price of electricity supply in Spain is less than the European average. This is despite the fact that less than half the costs of supply are directly related to providing the service. The rest derive from the pursuit of energy policy goals (aid for renewable energy and cogeneration) and social goals (subsidies for electricity in non-mainland territories, recovery of tariff deficits from previous years, etc.).
- Iberdrola has established a *Vulnerable Customer Protection Procedure* in order to ensure energy supply to economically disadvantaged citizens. These are supplies under subsidised rates (*bono social*) due to being pensioners or to the unemployment of all members of a family unit. Since 2015 Iberdrola has also been encouraging the signing of agreements with various public institutions and NGOs, consistent with its goal of protecting customers who cannot pay their gas and electricity bills. 100% of the domestic customers of Iberdrola reside in a locality protected by an agreement.

United Kingdom

- The debate on prices has focused on higher standard variable tariffs (SVTs, which only apply to customers who have not made an explicit contract decision): reducing the number of people with SVTs and the disadvantages thereof. Iberdrola has the lowest proportion of SVTs amongst the large suppliers.
- Although the government continues to focus on minimising the costs that it controls, it has maintained capacity auctions, the minimum price of CO₂, and has announced the next auction of Contracts for Differences.

United States

- 2017 was marked by the approval of the Tax Reform: decrease in corporate tax, elimination of the Alternative Minimum Tax, etc. This reform does not include a chapter dedicated to energy, for which reason the tax credits for renewable energy (PTC/ITC) continue in force as established in 2015.
- The Department of Energy (DOE) proposes a revocation of the *Clean Power Plan* without defining its plans for future rules governing emissions.
- In 2017 a DOE report was published on the reliability of the system, the principal conclusion of which is that the reduction in installed coal and nuclear capacity is to a large extent the result of low natural gas prices and not competition from renewable technologies.
- Tariff revisions reflect pressure by regulators to limit returns on capital, while maintaining the investments required to improve the network infrastructure.
- The development of smart grids, the rapid replenishment of supplies in the face of extreme weather conditions, new EPA regulations, and the integration of new energy sources require major investments, which sometimes conflicts with the goal of reducing final tariffs.

Mexico

- Energy reforms were launched in 2014, with one of the key goals being to improve competition and lower electricity prices for end users.
- With the opening of electric power generation to private investment, renewable generation objectives and other measures, such as auctions for the purchase of clean energy certificates, the reform is encouraging competition in order to diversify the energy matrix and reduce the costs of generation
- In November 2017 the CRE published a new methodology for calculating the regulated rate for basic supply, which is now additive, reflecting the costs of the system. It will be implemented progressively during the first months of 2018, except for domestic consumption, which remains with the old methodology indefinitely.

Brazil

- 2017 was marked by a position of energy overcontracting by the distributors, caused by the reduction in consumption deriving from the economic crisis, consumer migration to the free market without distributors being able to reduce the contracts, and assignment of contracts for a higher-than-necessary amount. The regulatory bodies and government have approved a set of measures resolving this distributor risk.

As an electricity operator in these countries, Iberdrola maintains a spirit of cooperation with regulators of the electricity supply systems to help to define their growth, and will operate within the established regulations, supporting frameworks that expand free-market activities and market transparency and

encourage required investments and efficient operations, through tariff schemes that send efficient signals to consumers and do not penalise them with costs unrelated to the supply of electricity.

Green financing

Management approach

Iberdrola is the first Spanish company in the world to issue *green* bonds, in order to align with its vision and values, optimise the cost of its debt and diversify its sources of financing.

The differentiating feature of such bonds is the commitment of the issuer to use the proceeds to finance or refinance socially responsible projects like renewable energy, improving efficiencies in electricity transmission grids and researching more efficient energy sources. The issuer also commits to regularly report the return on its investments in these projects in terms of sustainability.

The company issued its first *green* bond in 2014, and since then has intensified its financing in this SRI (Socially Responsible Investing) focused market, with many more issues, in various areas: both public and private, senior and subordinate (November 2017 hybrid bond), by the corporation as well as its subsidiaries (Avangrid *green* bond in November 2017).

The validation of the projects eligible for each issue can be found in the corresponding *Second Party Opinion* prepared by VigeoEiris and available on the corporate website. It is important to note that the issue of this type of financial asset requires not only compliance with the *Green Bond Principles* at the operational level, but also the existence of a strong sustainability profile of the issuing group.

The table below summarises the environmental benefits in 2017 related to investments financed with the *green* bonds issued by Iberdrola.

Bond	Area of investment	Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO ₂ avoided due to the bond (Tm)
XS1057055060	Renewables*	474	944	245,471
XS1398476793	Renewables	736	1,432	401,507
XS1490726590	Renewables	403	792	278,812
XS1527758145	Renewables	539	1,070	276,091
XS1564443759	Renewables	111	221	56,926
XS1575444622	Renewables	340	220	56,712
XS1682538183	Renewables	279	301	106,082
XS1721244371	Renewables	648	916	322,544

* Among others

For more details on these issues and their sustainability returns, see the *Report on Green Bond Returns* available in Annex 2 of this report.

Fiscal responsibility

Management approach

The fiscally responsible behaviour of all companies of the Iberdrola group forms part of the [General Corporate Responsibility Policy](#) which contemplates basic principles of conduct that must be respected. The taxes that the group pays in the countries and territories in which it operates are the main contribution of the companies of the group to sustaining public expenditures, and thus one of their contributions to society.

The values that guide the corporate policies, internal rules and other internal codes and procedures include ethical principles, good corporate governance and institutional transparency and loyalty.

In 2010 the Board of Directors approved a [Corporate Tax Policy](#), which was last updated on 21 February 2017. This Policy contains the tax strategy of Iberdrola, S.A. and its commitment to the application of good tax practices, and is applicable to all companies of the group in all of the countries in which it operates.

The *Tax Policy* defines a number of principles, including:

- *"The prevention and reduction of significant tax risks, ensuring that taxes bear an appropriate relationship to the structure and location of activities, human and material resources, and the group's business risks".*
- *"The strengthening of the relationship with tax authorities based on respect for the law, fidelity, reliability, professionalism, cooperation, reciprocity, and good faith, without prejudice to the legitimate disputes that, observing the aforementioned principles and in the defence of the corporate interest, may arise with such authorities concerning the interpretation of applicable legal provisions".*
- *"Envisaging the taxes that group companies pay in the countries and territories in which they operate as the principal contribution to sustaining public expenditures, and therefore one of their contributions to society".*

And by application of these principles, the group assumes the following good tax practices, among others:

- *"Not to use artificial structures unrelated to the Company's business for the sole purpose of reducing its tax burden nor, in particular, enter into transactions with related entities solely to erode the tax basis or to transfer profits to low-tax territories".*
- *"Avoid opaque structures for tax purposes, which are understood as structures calculated to prevent knowledge by the competent tax authorities of the party ultimately responsible for the activities or of the ultimate owner of the assets or rights involved".*
- *"Not to create or acquire companies resident in tax havens, with the sole exception of those cases in which it is forced to do so because it is an indirect acquisition in which the company that is resident in a tax haven is part of a group of companies that are being acquired".*

- *"Follow the recommendations of the good tax practices codes implemented in the countries in which the companies of the Group do business, taking into account the Group's specific needs and circumstances".*

Iberdrola, S.A. has thus adhered to the *Code of Good Tax Practices* approved on 20 July 2010 by the full Forum of Large Businesses (*Foro de Grandes Empresas*), established on 10 July 2009 at the behest of the National Tax Administration Agency (*Agencia Estatal de Administración Tributaria*). Iberdrola's commitment to compliance with, further development and implementation of the Code will extend to any other good tax practices that stem from the recommendations of the Code in effect at any time, even if not expressly set forth in the *Corporate Tax Policy*.

The Iberdrola group does not include within its controlled affiliates and assets any that are resident in tax havens, pursuant to the laws in this regard (Royal Decree 1080/1991 of 5 July and respective updates thereof). With the integration of Neoenergia into the Iberdrola group at the end of August 2017, it indirectly holds an interest in a company called *Garter* (an inactive company resident in the British Virgin Islands) that is expected to be liquidated in the near future.

Furthermore, although the State of Delaware is not considered a tax haven under the above legal provisions, due to the interests involved, it is appropriate to state that various companies within the Iberdrola group were incorporated in this state. In fact, in the United States, it is customary practice to incorporate companies in the State of Delaware, due to the development of its commercial law and strong jurisprudence. This combination provides strong legal security in the commercial arena.

However, the tax domicile of the companies (which determines the tax system applicable thereto and where they should register for such purpose and pay taxes) is determined by the place where the administration and management of the businesses of the companies is concentrated, regardless of the place of incorporation. Thus, the companies of the Iberdrola group incorporated in Delaware as well as in any other state of the United States have their tax domicile and pay taxes in the states in which the centres of activity of the consolidated tax group of which they form a part are located, which does not include Delaware. In summary, the companies of the Iberdrola group are incorporated according to objective business standards and not to tax engineering structures.

Iberdrola is fully aligned with the principles and actions proposed by the OECD's "BEPS Plan". Specifically, as regards Transfer Pricing, state that the group assesses related-party transactions at arms'-length prices in line with the OECD Guidelines in this area. Furthermore, all existing related-party transactions of the group are duly documented on the terms provided by the legal provisions of the various countries. The group is also committed to the preparation and presentation in due time and form of the Country-by-Country Report upon the terms provided by the law of its parent company, Spain. In the Country-by-Country Report 2016, submitted in 2017, information regarding the activities of the group during 2016 was reported, as was information regarding all taxes paid and collected by the companies of the group in the various tax jurisdictions in which it is present.

In 2017 Iberdrola was ranked as the leading company on the tax transparency ranking of Ibex 35 companies, prepared by Fundación Compromiso y Transparencia based on 2016 information, in recognition of its good tax practices and its transparency.

The taxes paid are presented in the following table:

Tax contribution (€ millions)	2017	2016 ³³
Iberdrola consolidated		
Company contributions	2,723	2,768
Contributions due to third-party payments	4,388	4,360
Total	7,111	7,128

99% of taxes paid (total contribution) by the group occur in the five most relevant countries. A detailed breakdown by geographic area can be found in Annex 3 Supplementary Information.

“Cybersecurity”

Management approach

In order to ensure appropriate protection of the group's physical and IT assets, in April 2015 Iberdrola's Board of Directors approved the *Cybersecurity Risk Policy*, which establishes a global framework for the control and management of the cybersecurity risks applicable to all the companies of the group. In particular, it refers to the risks arising from threats to and vulnerabilities in information, information technology and communications systems, facilities and any other asset that forms part of the group's cyber-infrastructure. It also establishes the guidelines for a cybersecurity management model common to the entire group, based on the establishment of a Cybersecurity Committee and on the development of global rules and standards to be applied within all the businesses and corporate functions.

The group's Cybersecurity Committee, on which all businesses and corporate functions are represented, promotes and supervises the deployment of this policy and the cybersecurity strategic plan throughout the organisation, based on risk analysis and management, the application of technical and organisational measures for appropriate protection and resilience of assets based on the critical nature thereof, training and awareness-raising of the entire workforce, cybersecurity in the supply chain and the management of threats and incidents, including external monitoring work to defend the brand and the company's customers against potential cybernetic risks and frauds through social engineering.

Privacy of the personal information of Stakeholders

Management approach

Iberdrola has a *Personal Data Protection Policy*, approved by the company's Board of Directors in 2015 and last amended on 20 February 2018 to conform to the new European Data Protection Regulations, to ensure the privacy of the personal information of the group's Stakeholders. Its purpose is to guarantee the right to the protection of data of all individuals dealing with companies belonging to the group, ensuring respect for the right to dignity and privacy in processing of the personal data, and particularly the establishment of the common principles and guidelines to govern the group regarding the protection of personal data, guaranteeing compliance with applicable law on this topic in all countries in which the group is present.

To further develop this policy, on 20 June 2017 the Global Cybersecurity and Data Protection Committee approved a *Global Personal Data Protection Framework* of the Iberdrola group, which establishes the general standards and the global governance model on personal data protection and defines responsibilities in this area. The Legal Affairs Division and Corporate Security Division are the bodies of the

³³ For better comparability of the 2017 and 2016 information, 100% of the taxes paid by Neoenergia in Brazil during 2016 are included.

company responsible for applying these principles, with the technological support of the System Division for the processing of personal data by the group, as well as the areas using them.

The Iberdrola group has also appointed a Global Data Protection Officer, who will rely on a network of Data Protection Officers in each of the countries in which the group operates to ensure proper supervision of compliance with applicable law at the local and transnational level.

B. ENVIRONMENTAL DIMENSION

Contents of the chapter

The aspects dealt with in this chapter are the following:

A. Topics of the GRI Standards

- GRI 301 Materials
 - o Management approach and disclosures 301-1, 301-2 and 301-3
 - o Additional information required by the GRI *Sector Supplement*
- GRI 302 Energy
 - o Management approach and disclosures 302-1, 302-2, 302-3, 302-4 and 302-5
 - o Additional information required by the GRI *Sector Supplement*
- GRI 303 Water
 - o Management approach and disclosures 303-1, 303-2 and 303-3
 - o Additional information required by the GRI *Sector Supplement*
- GRI 304 Biodiversity
 - o Management approach and disclosures 304-1, 304-2, 304-3 and 304-4
 - o Additional information required by the GRI *Sector Supplement* and indicator EU13
- GRI 305 Emissions
 - o Management approach and disclosures 305-1, 305-2, 305-3, 305-4, 305-5, 305-6 and 305-7
 - o Additional information required by the GRI *Sector Supplement*
- GRI 306 Effluents and waste
 - o Management approach and disclosures 306-1, 306-2, 306-3, 306-4 and 306-5
 - o Additional information required by the GRI *Sector Supplement*
- GRI 307 Environmental compliance
 - o Management approach and disclosures 307-1
- GRI 308 Supplier environmental assessment
 - o Management approach and disclosures 308-1 and 308-2

Scope of information

The information reported in this chapter corresponds to the “report boundary”, as defined in section 102-45 of this report.

A.

Topics of the GRI Standards

Specific management approach to the environmental dimension

Protection of the environment is one of the concepts that defines Iberdrola as a company, with leadership in the development of clean energy and respect for the environment being significant aspects of its business model, a competitive element that distinguishes it in the industry as one of the leading companies worldwide.

Environmental management system

Iberdrola supports this vision in a benchmark environmental management system for all organisations of the group which is common, homogeneous and integrated. This system allows for alignment of the environmental dimension within the group's sustainability model, integrating the Sustainable Development Goals and articulating the mechanisms to measure and evaluate the group's environmental performance from the Life Cycle perspective, including in the management thereof the concept of circular economy and return on natural capital.

The system facilitates the development of an on-going, global and homogeneous diagnostic regarding the environmental behaviour of the company in each of its management levels.

The elements making up this system are:



The Environmental Management System is strengthened by a series of complementary activities, including:

- Environmental training, with more than 24,000 hours dedicated in 2017.
- Environmental tracking of suppliers.
- Communication with Stakeholders.

Organisation of environmental management duties

In order to comply with the approved policies, the company has an organisation that approaches environmental management in a decentralised manner. Thus, applying the principle of “subsidiarity”, all matters relating to the environment must be dealt with and resolved in each region by the affected business, although they must all be included in Iberdrola’s environmental management system.

The environmental function is thus distributed among all organisational and hierarchical levels of the group, from the Chairman’s Office down to each person with local power over his or her surroundings.

Based on this model, Iberdrola’s environmental organisation is structured in the following manner:

- **The Board of Directors and senior management of Iberdrola:** sets and defines the policies, strategy, environmental organisation and global objectives of the company, and provides the resources necessary to perform the environmental functions of the company.
- **The Innovation, Sustainability and Quality Division:** has the following duties relating to the environment:
 - o Define, implement and verify the Environmental Management System.
 - o Propose and ensure compliance with the environmental policies.
 - o Set the environmental guidelines.
 - o Coordinate and align all environmental activity of the company.
- **Environment in the businesses or areas:** those responsible for the environmental management of the business or area, whose principal duties are to:
 - o Prepare and update the documentation of the environmental management system of the business or area.
 - o Identify and verify compliance with legal requirements and other environmental requirements.
 - o Identify the environmental aspects and impacts that affect them.
 - o Determine the environmental risks of the business and actions to handle them.
- **Environment at facilities:** Made up of the persons with local environmental powers at the facilities who report to the Environmental Area of their business and mainly perform environmental duties at the facilities in accordance with the requirements of the Global Environmental Management System.

The corporate committee on the environment, made up of the environmental heads of the regions or businesses and the Innovation, Sustainability and Quality Division, is in charge of coordinating the group’s environmental management. The Committee meets on an ordinary basis at least once per year to present the environmental results from the prior year and future projects.

Corporate policies

Iberdrola has four specific [corporate policies](#) for environmental management, all approved by the Board of Directors:

- [Sustainability Policy](#)
- [Environmental Policy](#)
- [Policy against Climate Change](#)
- [Biodiversity Policy](#)

Corporate Environmental Footprint (CEF)

Iberdrola's environmental management includes the CEF methodology, which evaluates the effects of the company's activities on the environment from the life cycle viewpoint (ISO/TS 14072:2014 standard). The objectives of the CEF are:

- To quantify, homogenise and unify the group's environmental performance.
- To determine the effect of Iberdrola's activities in the different environmental impact categories.
- To help monitor the organisation's environmental performance and allow for tracking of the objectives of the businesses and of environmental improvements.
- To identify and assess the environmental aspects having the greatest significance for Iberdrola's activities.

For more information, see [Iberdrola's Environmental Footprint](#).

Certifications

The group's Environmental Management Model groups together all of the partial certifications of each of the businesses and processes, based on ISO 14001. 80% of the group's energy production took place under certified environmental management systems after passing follow-up or renewal audits in 2017, which production is distributed as shown in the following table:

Energy production of the group under certified systems (%)	2017	2016
Spain	97.4	98.8
United Kingdom	93.2	94.7
United States	13.9	15.2
Brazil	35.5	35.7
Mexico	98.2	96.7
Other countries	0.0	0.0
Total	80.0	82.4

A verification certificate has also been obtained yet another year for:

- The greenhouse gas emissions inventory for the entire Iberdrola group pursuant to the UNE ISO 14064-1:2006 standard.
- The *Corporate Environmental Footprint* of the Iberdrola group under the ISO TS 14072 standard.

More information is available in the [Certifications and Verifications](#) section.

Environmental Grievance Mechanisms

Iberdrola makes grievance mechanisms and tools and the management processes associated therewith available to its Stakeholders. This is fully described in the "Grievance mechanisms for impact on society" section of the "Specific management approach to the Social Dimension" of this report.

Iberdrola has an email mailbox medioambiente@iberdrola.es, which serves as a channel of communication with its Stakeholders, and which can be accessed in the [contact](#) section, offering the ability to ask questions, provide suggestions, place concerns or make complaints. The mailbox is included in the Environmental Management System of the company, and is certified under the ISO 14001 standard. 1,865

messages were received through this mailbox in 2017, of which only 2 were an environmental grievance, and which were managed with those responsible and closed during 2017.

In addition to the environment mailbox, and by way of supplement, Iberdrola can also receive messages relating to the environment through various channels that it maintains in [social media](#).

Expenses and investments

Iberdrola generally considers all expenses or investments regarding projects that have a clear environmental impact, whether direct or indirect, to be environmental expenses or investments, as classified below:

- Treatment of emissions, which includes expenses or investments relating to emissions treatment equipment or systems.
- Treatment of waste, which includes investments and expenses relating to the management and treatment of waste, both hazardous and non-hazardous.
- Reduction of environmental impact through the removal of pollution or pollutants from the environment, soil, groundwater, sediment or surface water.
- Environmental prevention, which considers investments in new renewable energy facilities.
- Environmental management, which encompasses investments and expenses relating to the management of the environment that are not included in the above categories.

All of this is aimed at emphasising environmental activities and initiatives, which are undertaken in order to move towards a more sustainable energy model.

The expenses and investments of an environmental nature made by Iberdrola during 2017 to preserve the environment of the area in which it operates are set forth in the following tables:

Environmental Investments and Expenses (€ millions)	2017	2016
Environmental investments	2,239,917	2,262,237
Environmental expenses	513,233	527,140

Social awareness-raising on climate change

The fight against climate change, and all that it entails (reduction of greenhouse gas emissions, transition to decarbonised energy model, efficient use of energy, change in consumption habits, etc.) is the work of all of us. Achieving it will require greater awareness and an increased disposition towards action by all of society's players. As part of this commitment, in 2016 Iberdrola included a *Plan to Raise Social Awareness on Climate Change* as an additional linchpin of its action for the climate, which it has since been carrying out with various activities directed towards different public audiences.

This plan consists of four main focus points for action to be implemented globally:

- 1) internal action directed towards employees,
- 2) external communication through the development of specific products, climate awareness-raising events and dissemination activities,
- 3) actions directed towards youth due to their particular importance as present and future consumers, and

- 4) establishment of alliances with the public and private sector as an accelerator and enhancer of action.

The most notable activities performed during 2017 include:

- The launch of a global online course on climate change, its causes and solutions, which in 2017 was completed by more than 8,837 employees and which will continue in 2018.
- The *Moving for Climate NOW* awareness-raising initiative, consisting of a cycling route co-organised with the Red Española del Pacto Mundial (Spanish Global Compact Network). This groups private companies, governments, multilateral institutions, universities and NGOs under a single initiative to bring to the Climate Conferences a call to urgency and climate action.
- On-site school workshops on climate change by Iberdrola volunteers, more than 300 of which were presented during the 16-17 school year, reaching approximately 9,000 students in Spain. A second edition was launched for the 17-18 school year, expanding the scope to Mexico and Brazil.
- Sponsorship of the tour of a children's theatre play on climate change in 6 Spanish cities which was seen by more than 20,000 students between 2016 and 2017.
- Technical advice in the documentary "Vigilantes del Planeta" (Guardians of the Planet) broadcast on various Spanish television channels.

GRI 301 Materials

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

Electricity generation is one of the main activities carried out within the group. Iberdrola has continued to wager for years on the most efficient technologies per unit of production, with the lowest environmental impact (eco-efficiency), via:

- Proposed closure of all coal units, pursuing a business strategy of replacing conventional technologies with others offering production with lower emissions.
- Selection of products having a reduced environmental impact.
- Sustainable management and use of chemical products, oils, lubricants and coolants, always respecting the natural environmental and taking the necessary measures to reduce the risks of affecting it.

There is a residual presence of polychlorinated biphenyls (PCBs³⁴) at Iberdrola, which continues with its policy of eliminating equipment containing PCBs from its facilities.

301-1 Materials used by weight or volume

Use of materials

³⁴ PCBs: Dielectric used in transformers and capacitor banks prior to 1999.

The consumption of fuel from non-renewable sources over the last two years and the distribution thereof by country is shown below:

Use of raw materials	2017	2016
Coal (t)	1,205,609	1,746,457
Fuel (t)	48,376	45,117
Natural gas (Nm ³)	12,293,620,800	11,832,458,331
Gas-oil (m ³)	15,272	29,520
Uranium (kg) ³⁵	65,407	56,915
Waste derived fuel (WDF) (t)	2,666	1,800

The following table shows the distribution of fuel consumption (%) for 2017:

Distribution of fuel consumption (%)	Coal	Fuel-oil	Natural Gas	Gas-oil	Uranium	WDF
Spain	100.0	100.0	11.9	31.3	100.0	100.0
United Kingdom	0.0	0.0	11.7	0.0	0.0	0.0
United States	0.0	0.0	4.0	0.0	0.0	0.0
Brazil	0.0	0.0	6.0	0.0	0.0	0.0
Mexico	0.0	0.0	66.4	68.7	0.0	0.0
Other countries	0.0	0.0	0.0	0.0	0.0	0.0

The following table shows the net generation (renewable and non-renewable) for 2017 by country and by technology, with 38.9% of generation from renewable sources.

Net generation by technology and country (GWh)	Spain	United Kingdom	United States	Brazil	Mexico	Other countries
Renewables	19,587	4,880	15,738	8,195	963	1,382
Nuclear	23,249	0	0	0	0	0
Combined cycle	3,812	7,260	12	3,957	39,103	0
Cogeneration	2,607	0	2,354	91	1,800	0
Coal	2,642	0	0	0	0	0

In 2017, 94% of production was achieved using local sources of energy³⁶, as shown in the following table:

Production with local sources of energy	(%)
Spain	83%
United Kingdom	100%
United States	100%
Brazil	100%
Mexico	100%
Other countries	100%

³⁵ The reporting unit is changed compared to the 2016 report, from equivalent tonnes of petroleum to kg of uranium.

³⁶ All renewable and non-renewable sources available in the country are deemed local sources of energy. Nuclear fuel acquired from the Spanish company Enusa is considered local.

Chemical products are also consumed (to a much lesser extent) for water purification, filtering of gases, etc.; oil for lubrication, maintenance of equipment, and office paper. As to this last consumable, it should be noted that implementation of electronic billing continued during 2017, reaching 2,360,886 users, a savings of 482 t of paper compared to the prior year.

Elimination of polychlorinated biphenyls (PCBs)

There are residual PCBs at the group's facilities in Spain, the United States and Brazil. However, no pyralene transformers with more than 500 ppm of PCBs remain.

Iberdrola maintains a service for the analysis, removal and elimination of equipment containing PCBs, including the performance of a free initial diagnosis with no commitment for third parties.

174 t of oil with pyralene in Spain, 6 t in the United States and 134 t in Brazil were managed during 2017. 359 t of this substance are pending elimination in Brazil in the coming years.

301-2 Percentage of materials used that are recycled input materials

There is no substitute in the market for the principal materials used by Iberdrola, for which reason management focuses on the efficient use of energy, water and chemical products, through the best available technologies, optimising the current systems and replacing fossil fuel combustion technologies with other renewable ones.

Waste derived fuel (WDF) is included as recovered material, and 0.01% of the fuel consumed during the year is of this type.

301-3 Percentage of products sold and their packaging materials that are reclaimed by category.

This indicator is not applicable to the Iberdrola group, because electricity does not directly generate any waste upon being used.

GRI 302 Energy

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

The Iberdrola group ensures optimisation in the use of energy throughout its entire energy chain (production, transmission, distribution, supply and end use), contemplating energy efficiency from a three-fold perspective:

- As an electricity generator and distributor, it seeks to improve efficiency by introducing the most advanced technologies and equipment in the generation, transportation and distribution of energy.
- As an energy consumer, Iberdrola promotes the on-going improvement of energy efficiency across all its activities (offices and building, vehicles, water, mobility, employee awareness, etc.).

- As an electricity supplier, it wishes to contribute to a more efficient use of energy by consumers, through information, promotion and supply of solutions and technologies that help them improve their energy efficiency and reduce the environmental impact of their energy habits and consumption.

302-1 Energy consumption within the organisation

Internal energy consumption includes the consumption of energy at all of the Iberdrola group's facilities, buildings and offices.

The fuel consumption figure in terms of energy (GJ) is obtained from direct measurement of the fuel used at each facility based on its calorific value³⁷ (NCV):

$$Consumption(GJ) = Fuel\ consumption\ (kg) \times PCI \left(\frac{MJ}{kg} \right) / 1000$$

The value of the energy purchased or sold is obtained by direct measurement at the facilities, buildings and offices.

$$Consumption(GJ) = \sum building/facility\ consumption\ (MWh) \times 3.6\ GJ/MWh$$

The following table shows the evolution of Iberdrola's internal energy consumption in recent years:

Energy consumption within the organisation (GJ) ³⁸	2017	2016
Fuel consumption	760,201,810	764,386,296
Natural Gas	462,114,731	442,096,346
Uranium	262,902,924	274,800,068
Coal	33,020,919	45,338,800
Fuel-oil	1,899,317	1,919,103
Gas-oil	175,699	173,154
WDF	88,220	58,826
Energy purchased	11,664,660	13,951,277
Standby and pumping	10,886,544	13,096,768
Buildings	778,116	736,428
Energy sold (non-renewable)	312,791,322	309,683,361
Steam sold³⁹	18,527,684	26,484,009
Total	440,547,464	442,170,204

The following table shows the evolution of Iberdrola's internal energy consumption in recent years by region:

Energy consumption within the organisation (GJ)	2017	2016
Spain	228,355,590	241,428,586
United Kingdom	30,155,278	47,145,185
United States	10,547,765	11,251,751

³⁷ Net calorific value (NCV) is calculated at each centre based on the fuel used.

³⁸ Energy consumption within the organisation (GJ) = Fuel consumption + Energy purchased - Energy sold (non-renewable) - Steam sold.

³⁹ The reduction in the value of steam sold during 2017 is due to the sale of the cogeneration plants in Brazil.

Brazil	11,861,813	6,788,139
Mexico	159,609,431	135,538,671
Other countries	17,587	17,873
Total	440,547,464	442,170,204

The bulk of Iberdrola's energy consumption is the consumption of fuel for the generation of electricity, and the trend in recent years is shown in the following table:

Fuel consumption (GJ)	2017	2016
Generating plants ⁴⁰	691,154,673	693,437,227
Cogeneration	68,440,622	69,893,794
Non-generating plants ⁴¹	606,515	1,055,275
Total	760,201,810	764,386,296

302-2 Energy consumption outside of the organisation

The most significant consumption of energy outside of the organisation is consumption associated with the transport of fuel by motorway, with trips to/from work by group employees, and with business travel (planes and motorways). All of this information forms part of scope 3 of the calculation of greenhouse gas emissions. Energy consumption outside of the organisation is estimated based on the distances travelled by each means of transport and is transformed by means of conversion factors from official sources⁴². The energy consumption for these items is around 880,909 GJ.

302-3 Energy intensity

Fossil fuel consumption (tep/GWh)

The following table shows fuel consumption at the thermal generation plants over the net production of such plants.

Fossil fuel consumption (tep/GWh) ⁴³	2017	2016
Total	186	189

Internal energy consumption (GJ/MWh)

The following table shows total internal energy consumption (indicated in section 302-1) within the total net production of the group.

Intensity of internal energy consumption (GJ/MWh)	2017	2016
Total	3.20	3.10

302-4 Reduction of energy consumption

⁴⁰ Combined cycle, conventional thermal and nuclear plants.

⁴¹ "Non-generating" facilities are Daldowie (thermal drying) and Hatfield (gas storage) in the United Kingdom.

⁴² Defra: Department for Environment, Food and Rural Affairs (United Kingdom).

⁴³ Conversion factor used: 1GJ= 0.023888889 Tep.

The consumption of fossil fuels for the generation of energy was reduced by 205,934,963 GJ/year in 2017 through the generation of renewable energy and the supply of steam to industrial customers.

The reduction in energy consumption is equal to the savings of primary (non-renewable) energy generated by the production of renewable energy and cogeneration. This value of the energy saved is obtained by direct measurement at the output terminals of the facilities.

$$Consumption(GJ) = \sum generation (MWh) \times 3.6 GJ/MWh$$

Two fundamental blocks for reducing energy consumption are considered; on the one hand the energy savings from renewable energy and steam generation, and on the other those associated with efficiency, as shown in the following tables:

Areas	Energy type	Energy saved (GJ)	
		2017 ⁴⁴	2016
Renewables	Primary energy savings through the production of renewable energy	183,309,359	205,089,621
Cogeneration	Savings through the supply of heat energy (steam) within the group	15,776,528	26,484,009
Total		199,085,887	231,573,630

Areas	Item	Energy saved (GJ)	
		2017	2016
Network efficiency	Savings from network efficiency in Spain, the United Kingdom and Brazil	4,273,557	2,337,062
Efficiency in generation	Savings efficiency improvements at plants in Spain, the United Kingdom and Brazil	44,744 ⁴⁵	936
Total		4,318,301	2,337,998

Efficiency in thermal generation

As in prior years the company continues to take action to improve the efficiency of the plants, avoiding leaks, decreasing emissions, reducing internal consumption, optimising start-up time and procedure and installing recirculation systems, among other things. The savings from efficiency in generation is obtained by measuring the reduction in consumption due to the improvements made.

Efficiency of the electric grid

Energy savings from network efficiency derives from actions the company takes to control or reduce losses, including:

- Updates and modifications to reduce the length of lines through construction of new substations and increases in the power of existing substations, increases in voltage and improvement of power factor, implementation of remote management, and maintenance work.
- Improvements in contract management and supply point inspections: replacement of electromechanical meters with electronic meters, inspection of facilities and regulation of customers and clandestine connections.
- Increase in top-level reviews and strengthening of field activities with supply point inspections to

⁴⁴ The reduction is due decreased renewable generation and the sale of the cogeneration plants in Brazil.

⁴⁵ The increase in savings over 2016 is due to the placement into service of more efficient equipment at the generating plants in 2017.

reduce administrative and non-technical losses.

Efficiency at buildings

Iberdrola continues to implement energy efficiency measures at the buildings and offices of the company all over the world. Energy audits of the buildings allow it to determine the actions to take at the buildings: optimising acclimatisation (heating and air conditioning) performance, improving thermal insulation, efficiency in the lighting of buildings, and automation of the facilities associated therewith.

The savings by application of these measures compared to the prior year was 76,000 GJ.

302-5 Reductions in energy requirements of products and services

Iberdrola fosters efficiency, gradually reducing the environmental impact of activities, facilities, products and services. It also offers advice to its customers, encouraging and researching eco-efficient solutions.

In addition to electricity and gas, Iberdrola sells new products and services to encourage energy and financial savings by its customers, efficiency, and care for the environment.

Energy savings of green products and services (GJ)	2017	2016
Photovoltaic solar energy	1,899	605
Energy audits and plans	100,375	199,980
Gas maintenance service	790,441	809,507
Other savings and efficiency activities	948,554	87,459
Green energy supplied In Spain, the United States and Brazil	49,874,302	51,764,036
Total	51,715,571	52,861,587

The green products and services highlighted in this table are described below:

- Photovoltaic solar energy: *Iberdrola Smart Solar* product focused on improving management of energy consumption through the use of solar technology. The figure is obtained by multiplying the installed capacity during the year (kWp) by 1250 kWh/kWp (factor applied by the Spanish Institute for the Diversification and Saving of Energy, IDAE).
- Audits and energy plans: The potential energy saving from audits is due to Iberdrola Retail. In Spain, there have been sales campaigns promoting energy efficiency and collaboration agreements with consumer and business associations as well as with government administrations to promote energy efficiency. In Brazil, the use of solar thermal equipment is encouraged in energy efficiency projects for low-income customers.
- Gas maintenance service: The contract for this service offered by Iberdrola in Spain allows customers to cut energy consumption by annual cleaning and adjustment of gas boilers. The figure is obtained from the average savings according to a study of efficiency by the independent entity multiplied by the average consumption of gas according to the CNMC⁴⁶ and the average portfolio of customers of Iberdrola España's Gas Maintenance Service in 2017.
- Other savings, energy efficiency and environmental protection actions in the retail area are:

⁴⁶ CNMC: Comisión Nacional de los Mercados y la Competencia de España (National Markets and Competition Commission of Spain).

- Sale of products and services that promote energy saving and efficiency, as well as comprehensive energy management at buildings and facilities and other energy saving solutions.
- Electromobility: Iberdrola Customers in Spain facilitates the development of electromobility, offering recharging products and services (*Green Charge*), participating in R&D&i projects (*REMOURBAN* and *AZKARGA*) and the *CIRVE* project that permits Electromobility, and permits the Spain connection with France and Portugal.
- Value of green energy supplied In Spain, the United States and Brazil: This figure comes from the sum of the GE (green energy) and/or GO (guarantee of origin) invoices.

More information about these and other initiatives is available at the websites of [Spain](#), [Brazil](#), [United Kingdom](#), United States (through [NYSEG](#), [RG&E](#) and [CMP](#)) and [Portugal](#).

GRI 303 Water

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



Management approach

Water is a basic and irreplaceable natural resource in many of Iberdrola's activities. The company's awareness of this dependency and of the risks arising from water shortages has led it to set itself the objective of ensuring an increasingly rational and sustainable use of this resource.

The main actions taken by the group for a more sustainable use of water are:

- Limiting the volume of withdrawal and consumption of inland water in all technologies.
- Establishing and controlling limits on ecological flows at the hydroelectric generation reservoirs.
- Continually improving processes at facilities to reduce consumption and impact.
- Avoiding withdrawal of water in water-stressed areas.
- Reusing and recycling water at facilities.
- Conducting awareness-raising campaigns to achieve a more efficient and responsible use of sanitary water by employees at offices.

A return of 78% of the water extracted from the receptor environment was achieved in 2017.

303-1 Total water withdrawal by source

The following table breaks down the group's total water withdrawal by source:

Source of gross water withdrawal (hm ³)	2017	2016
Surface water (sea, rivers, lakes, reservoirs, wetlands)	1,962	1,839
Groundwater	2	1

Rainwater directly withdrawn and stored	0	0
Purified wastewater	15	13
Municipal water supply or supply from other water companies	5	6
Total	1,984	1,859

Total water withdrawal is the sum of the various sources, and is obtained by direct measurement (flowmeters) or by estimating the performance of the pumps.

Of the total volume of water withdrawn, 1,984 hm³ corresponds to use at generation facilities, while 0.38 hm³ corresponds to use at offices.

The group's use of water is summarised in the following table:

Water use ⁴⁷	2017	2016
Total water use (hm ³)	80	82
Water use/overall production (m ³ /GWh)	597	573
Water use/overall sales (m ³ /\$k)	2.15	2.35
Water use/overall sales (m ³ /€k)	2.56	2.79

The following shows the total intake and discharge of water at the thermal generation facilities (coal, combined cycle, nuclear and cogeneration) in 2017.

Water use (hm ³)	Total thermal generation ⁴⁸ 2017
Withdrawal	
Withdrawal for standby process and services	14
Withdrawal for cooling	1,970
Discharge	
Evaporation of water used for cooling	74
Discharge into receptor environment	1,902

The following table shows the different sources of withdrawal for cooling:

Source of withdrawal of cooling water	Gross water withdrawal (hm ³) ⁴⁹ 2017
Sea and salt water	1,298
Rivers and groundwater	265
Lakes and reservoirs	397
Purification of wastewater	10
Total	1,970

Water cycle in hydroelectric generation⁵⁰

⁴⁷ Use of water is defined as water withdrawn minus water discharged into the natural environment. The complete table is updated including the use of water in thermal generation in the United Kingdom in 2016.

⁴⁸ The total discharge figure includes the return from cooling, the return of water used in processes, and rainwater collected at some thermal facilities without an independent storm sewer system.

⁴⁹ Gross water withdrawal: total volume of gross water withdrawal for cooling.

Water used for hydroelectric generation is not considered withdrawn and thus it is analysed separately. The table below shows net water used in hydroelectric generation in Spain, the United Kingdom and Brazil, defined as turbined water less pumped water.

Water use in hydroelectric generation (hm ³)	2017	2016
Net water use	49,824 ⁵¹	101,368
Volume of pumped water	2,807	3,623
Annual increase of reservoir water	-1,179	-1,941

Additional information, such as withdrawal locations and discharges from the thermal facilities, can be found at [Water usage](#).

303-2 Water sources significantly affected by withdrawal of water

All water withdrawal is strictly regulated by government authorities, which assign permits and determine the maximum permissible volumes of withdrawal to ensure that there are no significant impacts.

No withdrawals are made that significantly affect water resources or habitats relating to the water withdrawal points. The Iberdrola group does not have any plants located in areas considered to have water stress. As can be seen in disclosure 303-1, 66% of the water withdrawn is salt-water or brackish water.

These areas can be seen in [FAO](#).

303-3 Water recycled and reused

At the thermal plants with closed or semi-open cooling systems, water withdrawn is reused in the cooling towers an average of approximately three to five cycles per m³ before being purged. The total volume of this reuse was approximately 2,014.31 hm³ in 2017.

The La Laguna and Monterrey plants in Mexico and the Klamath cogeneration plant in the United States use wastewater in their cooling systems, which in Mexico was 4% (10,855 hm³) and in the United States was 78% (3,242 hm³) of the total water withdrawn for each country.

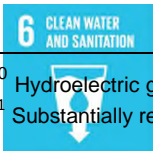

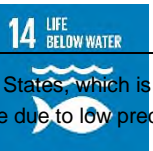
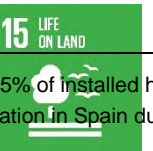
After use in cooling and other auxiliary processes, 78% of the water withdrawn at thermal generation and cogeneration facilities returns to the receptor environment in a physico-chemical condition allowing it to be utilised by other users without affecting the natural environment. The other 22% has been consumed and/or retained in the various processes, or returned to the environment in the form of steam generated in the cooling systems of the thermal power plants.

In addition, at some of ScottishPower's wind farms the control buildings have rooftop rainwater collectors and storage tanks to use the water.

GRI 304 Biodiversity

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)

			
<p>⁵⁰ Hydroelectric generation in the United States, which is 1.15% of installed hydro capacity, is not included (information not available).</p> <p>⁵¹ Substantially reduces net water volume due to low precipitation in Spain during 2017.</p>			

Management approach

Natural capital, understood as natural resources affected in the performance of the company's activities, is one of the fundamental assets in the Iberdrola group's creation of value and a fundamental asset for all of its Stakeholders.

During their respective life cycles, generation, transmission, distribution and sales activities cause interactions with various ecosystems, landscapes and species. Therefore, these ecosystems occupy a leading role in the business strategy through four priority lines of action:

- Mediation for the protection, preservation and sustainable use of natural capital.
- Information through impact assessment and the development and application of guidelines on biodiversity for new projects.
- Relations with Stakeholders, which seeks to consider the legitimate aspirations of the Stakeholders and develop action plans in accordance therewith.
- Commitment to internal and external training, awareness-raising and communication.

Various instruments are used to carry out these lines of action, including:

- [Biodiversity Policy](#): applicable in all of the geographic areas in which the Iberdrola group does business, the basic principles of which are reflected in the lines of action.
- [Stakeholder Relations Policy](#).
- Biodiversity plans based on avoiding and/or mitigating impact, restoring natural capital, assessing impact, Stakeholder relations and awareness-raising.
- Environmental management systems certified in accordance with ISO 14001 or EMAS standards, in order to prevent and control environmental risks.
- [Corporate Environmental Footprint](#), enabling limitation of the group's impact on biodiversity.

For more information, see [Iberdrola and biodiversity](#), which sets out the management approach, strategies and progress in the activities conducted by the various businesses and regions in which Iberdrola has a presence.

304-1 Operational sites owned, leased, managed in or adjacent to, protected areas and areas of high biodiversity value outside protected areas.

The location of the group's infrastructure in protected areas or areas of great value for biodiversity, in strategic regions, is shown in the following table:

Facility	Location with respect to protected area	Affected surface area/length	Type of protection ⁵²
Spain			
Reservoirs	Inside	18,972 ha	Biosphere reserves, Ramsar wetlands, Nature 2000 Network, national parks and nature parks.
Power lines	Inside	19,314 km	Nature 2000 Network, Ramsar wetlands, National Parks, Natural Parks and Biosphere Reserves.
Substations	Inside	144 units	Nature 2000 Network, Ramsar wetlands, National Parks, Natural Parks and Biosphere Reserves.
Transformer centres	Inside	8,793 units	Nature 2000 Network, Ramsar wetlands, National Parks, Natural Parks and Biosphere Reserves.
Wind farms	Inside	139 ha	Nature 2000 Network
United Kingdom			
Thermal and hydroelectric generating facilities	Inside or nearby	3,264 ha (12 production centres)	Ramsar Wetlands, SPA, SAC and SSSI.
Power lines	Inside	3,677 km	NSA, SPA, SAC, Ramsar, NNR, SSSI.
Substations	Inside	367 units	NSA, SPA, SAC, Ramsar, NNR, SSSI.
Transformer centres	Inside	8,608 units	NSA, SPA, SAC, Ramsar, NNR, SSSI.
Wind farms	Adjacent	3 ha	Nature 2000 Network and SAC, SSSI.
Wind farms	Partially inside	9,321 ha	Nature 2000 Network and SAC, SSSI.
United States			
Wind farms	Inside or nearby	0	Protected areas designated by each state, which may be Biosphere Reserves, forests, national parks or national wildlife refuges, and those with high ecological value even though they may not have the same level of protection.
Power lines	Partially inside	392 km	
Brazil			
Power lines	Inside	1,881 km	Environmental protection areas.
Substations	Inside	19 units	Environmental protection areas.
Transformer centres	Inside	4,388 units	Environmental protection areas.
Hydroelectric plants	Inside or nearby	293 ha	Areas protected by Brazilian law.

⁵² Names of principal protected areas:

SPA: Special Protection Area for birds, pursuant to the *EC Birds Directive*.

SCI: Site of Community Importance, pursuant to the *EC Habitats Directive*.

SAC: Special Area of Conservation, pursuant to the *EC Habitats Directive*.

Ramsar: Wetlands of international importance, pursuant to the treaty signed in Ramsar.

SSSI: Site of Special Scientific Interest (United Kingdom).

NSA: National Scenic Areas (United Kingdom).

NNR: National Nature Reserve (United Kingdom).

Mexico			
Generating plant	Adjacent	1 production centre	Environmental protection areas.
Wind farms	Adjacent	1 wind farm	Environmental protection areas.
Greece			
Wind farms	Partially inside	1 wind farm	Nature 2000 Network.
Hungary			
Wind farms	Inside or nearby	2 wind farms	Near Nature 2000 Network areas, one inside a national park.
Portugal			
Wind farms	Inside or nearby	1 wind farm	Near Nature 2000 Network areas, one inside a national park.
Romania			
Wind farms	Near	1 wind farm	Near Nature 2000 Network areas, one inside a national park.

304-2 Significant impacts of activities, products and services on biodiversity.

100% of the projects that so require it are assessed for environmental impact and are submitted to public consultations; the company works with Stakeholders to ensure that the environmental impact is as low as possible. The following links show some examples in [Spain](#), [SP Networks](#), [SP Renewables](#) and [Avangrid](#).

The most significant general impacts on biodiversity are identified in order to avoid, minimise and properly correct possible impacts that might be caused by the group's activities. These impacts are identified during the various phases of the facilities' life-cycles, as shown in the following table:

Impacts in each phase of a facility's life-cycle	
Construction Phase	Entry of vehicles and machinery.
	Opening of pathways and changes in vegetation.
	Prolonged human presence (which temporarily affects the behaviour of species of fauna, and is generally reversible).
	Changes in landscape.
Operation Phase	Emissions.
	Changes in the natural system of rivers and barrier effect of hydroelectric developments (affecting the ecosystems and habitat of certain species).
	Animal mortality due to collisions and electrocution.
	Changes in vegetation to maintain power line corridors, etc.
	Discharges and spills.
Decommissioning Phase	Use of machinery and vehicles to remove and demolish existing facilities.
	Prolonged human presence (which temporarily affects the behaviour of species of fauna, and is generally reversible).

With a view to these impacts, we can single out a number of significant potential effects on biodiversity, arising from the activities, products and services of the group:

Potential impacts	
General impact	Loss of habitat.

	Greenhouse gas emissions.
	Pollution of environment.
Impact on avifauna	Electrocutions.
	Collisions.
Impact on terrestrial fauna	Electrocution, trapping, etc.
Impact on ichthyofauna	Changes in water quality.
	Discharges/spills into hydrological environment.
Impact on flora	Production and spreading of fires.
	Deterioration in the edaphic environment.

Biodiversity Plans have been drawn up to avoid or mitigate these impacts:

Biodiversity plans		
Cross-sectional plan	Sub-Plan for understanding the environment.	
	Sub-Plan for communication.	
Principal plans	Reduction of direct impacts on biodiversity	Plan for direct protection of fauna.
		Plan for direct protection of flora.
		Plan for improvement of habitats.
	Reduction of indirect impacts on biodiversity	Plan for edaphic environment management.
		Plan for hydrological environment management.

304-3 Habitats protected or restored

Based on the needs of each facility and during the life cycle thereof, Iberdrola carries out the following work on the affected areas:

- Flora and fauna monitoring (especially of protected or vulnerable species).
- Forest treatments.
- Forestry restoration with indigenous plants.
- Landscape integration and accommodation, etc.

The various activities commenced in 2017 or prior years and that have continued during this financial year are shown below:

Spain:

Project/ Technology	Actions	Objectives
Power lines	Performance of 99 environmental actions, before and during the construction of substations and power lines (restoration and accommodation of terrain, protection of vegetation, avifauna and the landscape, control of invasive species, training on fires and spills, etc.).	Reduce impact on biodiversity and ecosystem services.
	Performance of 1,058 preventive actions to protect fauna (modification and improvement of supporting services).	Reduce impact on fauna.
	Performance of 1,610 actions to improve the network to protect vegetation.	Reduce impact on flora.
	Management of 32.96 km ² of vegetation-covered surface to reduce the risk of fire at facilities.	
Hydroelectric plants	Limnological control of the most eutrophicated reservoirs in the Duero and Tajo basins (pollutant loads caused by agents unrelated to Iberdrola that travel along these rivers before they flow into the reservoirs).	Prevent potential impacts on fauna located downriver of reservoirs.
	Ensure turbined waters contain the minimum amounts of dissolved oxygen essential for aquatic life.	Avoid levels that are harmful to ichthyofauna.
	Performance of activities to prevent pollution, improve the environment and recover/restore the natural environment around the plants, including: restoring the ecological flow; environmental adjustment of canals; and environmental recovery around the town of la Rasa (dismantling of buildings and recovery of land).	Reduce impact on biodiversity and ecosystem services.
	Improvement and construction of discharge containment systems at the Trespaderne and Contreras hydroelectric plants.	Prevent potential impacts on fauna located downriver of reservoirs.
	Improvement of wastewater purification systems at the Barázar and Ullivarri hydroelectric plants.	
Thermal plants	Collaboration of the Escombreras Combined Cycle plant with the "El Valle" Wildlife Recovery Centre in recovering birds like the bittern and kestrel for treatment and return to their natural habitat after any physical or psychic problems are treated.	Reduce impact on fauna.
	Perform an evaluation study of the ecological status of the Majaceite river in the area of the Arcos de la Frontera combined cycle plant using biological, hydro-morphological and physicochemical quality indicators.	Knowledge of the surroundings for proper action regarding the habitat.

The projects of Fundación Iberdrola España include collaboration with SEO/BirdLife on the MIGRA project, which aims to study the migratory movements of bird species in Spain, funding the start-up of this programme from the 2011 season to the present.

United Kingdom:

Project/ Technology	Actions	Objectives
Thermal generation and gas storage	Implementation of Biodiversity Action Plans (BAPs) at each facility (more information is available at ScottishPower Wholesale Energy Markets / www.iberdrola.com).	Recover and promote regeneration of natural habitats and of the flora and fauna characteristic of facilities' environments.
Wind farms	50 activities in 20 areas included in the <i>Habitat Management Plan</i> , mainly consisting of the monitoring of birds and follow-up on reforested areas, and 41 management activities like restoration, removal of invasive species, management of vegetation by grazing, etc.	Recover and improve terrain affected by construction activities. Reduce impact on fauna.

United States:

Project/ Technology	Actions	Objectives
	Water treatments in collaboration with land owners in two river basins, treating runoff from impermeable areas in the basins prior to its entry into the river.	Improve water quality and improve the aquatic habitat of the riverbank.
Power lines	Conditioning of power lines.	Minimisation of the impact on the nesting and reproductive processes of the osprey.
	Acquiring wetlands in financial collaboration with the organisation Ducks Unlimited, via financial collaboration, deriving from the <i>Auburn Transmission Project</i> .	Improve quality of the aquatic habitat and stimulate species.
Wind farms	Recover natural habitats and foster their regeneration, avoid the displacement of indigenous species, monitor species, raise awareness and train local communities.	Reduce impact on flora. Raise social awareness of the area's rich biodiversity

Brazil:

Project/ Technology	Actions	Objectives
Hydroelectric plants	Reforestation of affected areas.	Ensure the success of programmes to recover and offset impact on Permanent

Continuation of environmental biodiversity conservation programmes based on the impacts of plant operation: monitoring of fauna (ichthyofauna, herpetofauna, avifauna, mammalian fauna, entomofauna, etc.); monitoring of flora in reforested areas; water quality control; monitoring of erosive processes, etc.

Conservation Areas (APPs) and degraded areas (quarries, tips).

Mexico:

Project/ Technology	Actions	Objectives
Thermal plants	Development of the <i>Garrapatas Estuary Rescue Project</i> .	Improve the habitat, fostering indigenous species, and raise social awareness of the area's rich biodiversity.
	Development of the <i>Feline Support Project in the Altamira region</i> .	
Wind farms	Follow-up of reforestation carried out during construction of the La Ventosa wind farm.	Ensure the success of reforestation work.
	Commencement of reforestation of an area covering approximately 25 ha in the area of the La Venta III power line.	Improve the habitat.
	Commencement of reforestation of an area covering approximately 19 ha in the area of the La Venta III wind farm.	Improve the habitat.

More information is available in Iberdrola's [Biodiversity Report 2014-2017](#).

304-4 Number of species broken down, based on danger of extinction, included in IUCN Red List species and national conservation list species with habitats in areas affected by operations.

The group undertakes activities in certain areas that are or may be inhabited by endangered species included in the IUCN Red List, the UK BAP, the USFW list⁵³ and other national lists such the Sao Paulo list of endangered species, without such activities entailing a negative impact or threat.

IUCN Red List Classification	No. of species
Critically endangered (CR)	41
Endangered (EN)	82
Vulnerable (VU)	162
Near threatened (NT)	49
Least concern (LC)	490

EU13 Biodiversity of offset habitats compared to the biodiversity of the affected areas.

Before a facility is built, the potential environmental impact is analysed through a forecast and assessment, with a view to avoiding placing new infrastructure in protected areas or areas with a high biodiversity value, even if they are not officially protected. If significant impacts are identified in the initial study, the project is modified to the extent possible, and the best available techniques and any measures identified as necessary are employed to correct and minimise these impacts. Where full mitigation is not possible,

⁵³ International Union for the Conservation of Nature (IUCN) (www.iucn.es), UK BAP "UK Biodiversity Action Plan" (www.ukbap.org.uk/newprioritylist.aspx), USFW "US Fish & Wildlife Services" (www.fws.gov).

remedial measures are implemented. The following table shows the principle activities in this regard during 2017:

Country	Technology	Actions	Results
United Kingdom	Beaulieu Denny (substation)	Continuation of Beaulieu Denny recovery work, exceeding 200 ha of peat bogs, in collaboration with various local Stakeholders.	Improvement of the state of wetlands, coastal grasslands and areas with forests and shrubbery. Acquisition of a carbon sink, retention of water and improvement of habitats.
	Damhead Creek (combined cycle)	Relocation of the crested newt (<i>Triturus cristatus</i>) and the Montane water vole (<i>Arvicola amphibius</i>) from an original area of 2.4 ha to another of 2.9 ha. The grasslands and ponds of this new site are evolving favourably, and establishment of the ponds has recently been inspected.	Improvement of the state of wetlands, coastal grasslands and areas with forests and shrubbery. Creation of a suitable habitat for the water vole.
	Galloway (hydroelectric)	Continued monitoring by means of the installation of antennae at the Loch Doon Vaki fishing port.	Elimination of potential obstacles to promote, among other phenomena, the migration of Atlantic salmon and other species, working together with the Ayrshire Rivers Trust on Loch Doon and Galloway Fisheries Trust.
		Study of interference with the passage of ichthyofauna using Black Water of Dee (GIS mapping, electrofishing, monitoring habitats, etc.).	
		Management of vegetation around the substation and control and elimination of the invasive <i>Fallopia japonica</i> species.	Improvement of adjacent habitats.
	Cruachan (hydroelectric)	Continuation of study of habitat and of fauna via installation of photo-trap cameras. Special surveillance of the pine marten (<i>Martes martes</i>).	Discovery of the environment and spreading knowledge to the local population, collaboration with NGOs.
		Management of vegetation around the substation and control and elimination of the invasive azalea (<i>Rhododendron</i>) species.	Improvement of adjacent habitats.
	Wind farms	Continued implementation in areas around the Habitat Management Plans, managing more than 93 km ² to date, with the monitoring of species like the hen harrier (<i>Circus cyaneus</i>), blackcock (<i>tetrao tetrix</i>) and crested newt (<i>Triturus cristatus</i>).	Improvement of adjacent habitats.
United States	Power lines and substations	Continuation with the identification of habitats (under the lines) suitable for the New England cottontail (<i>Sylvilagus transitionalis</i>). Work carried out in collaboration with the US Fish and Wildlife Service.	Promotion of the recovery of species in decline.
		Development of a <i>Comprehensive vegetation management</i> programme; use of lighter vehicles in forest areas, etc.	Improvement of adjacent habitats and protection of associated fauna.

		Construction of platforms in the areas of Milford, Hamden, North Haven, Ansonia and Fairfield to encourage the nesting of the osprey, achieving the settlement and reproduction of the species.	Promotion of the recovery of species in decline.
		Continued monitoring and treatment to remove 14 species of invasive plants, under the <i>Maine Power Reliability Program</i> (MPRP) project.	Improvement of adjacent habitats and encouragement of the proliferation of indigenous species.
		Continued monitoring and treatment to remove species of invasive plants, under the Maguire Road Substation (Kennebunk) project.	Improvement of adjacent habitats and encouragement of the proliferation of indigenous species.
	Wind farms	Continued monitoring and maintenance of habitats (grasslands, meadows, wetlands, deserts, etc.) within and around the area thereof.	Improvement of adjacent habitats and protection of associated fauna.
	Baguari (hydroelectric)	Recovery of approximately 28 ha in the Legar del Faz reserve.	
	Corumbá (hydroelectric)	Reforestation with 426,496 plants of indigenous species.	Improvement of adjacent habitats, strengthening of soil absorption capacity and reduction of risk of losses due to erosion.
	Dardanelos (hydroelectric)	Strengthening of natural recovery in 5 ha and reforestation of the area around the plant.	
Brazil	Power lines	Reforestation of degraded areas with plants at various stages of growth.	

Iberdrola provides further information in the [Biodiversity](#) section of the website.

GRI 305 Emissions

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

The main source of direct emissions, which contribute to the company's Greenhouse Gases (GHGs), is the emission of CO₂ arising from combustion at the thermal plants. Iberdrola is publicly committed to maintaining its position as one of the leading European companies with the lowest CO₂ emissions per kWh produced. The company focuses its efforts on gradually reducing the intensity of GHG emissions, promoting the use of renewable technology and improving the energy efficiency of its activities and facilities.

Iberdrola has set itself an environmental goal to reduce the intensity of its CO₂ emissions to 50% below those of 2007 by 2030, and to be carbon-neutral by 2050.

Iberdrola has joined the COP23, where it showed its leadership in the fight against climate change, goal 13 of the Sustainable Development Goals (SDGs).

Once again, the company played a very important role with the *Moving for Climate NOW* initiative and with its participation in the main events and meetings of the organisations meeting in Bonn (UN Framework Convention for Climate Change, World Business Council for Sustainable Development, Carbon Pricing Leadership Coalition, UN Global Compact, etc.), energetically supporting the goals previously agreed to in Paris, which agreement entered into force in November 2016.

Iberdrola is registered with the Carbon Footprint, Carbon Offset and Carbon Dioxide Absorption Projects Register of the Ministry of Agriculture and Fisheries, Food and Environment of Spain (Mapama).

Other atmospheric emissions deriving from the combustion of fossil fuels are oxides of nitrogen (NOx), oxides of sulphur (SOx) and particulate matter, which are trending downward thanks to improvements in combustion processes and the company's energy mix, which includes 67% of emissions-free installed capacity. More information is available in the [climate change and emissions](#) section of the website.

Inventory of Greenhouse Gas Emissions (GHGs)

Iberdrola's inventory of emissions is calculated using the emissions set forth in disclosures 305-1, 305-2 and 305-3. In April 2017, for the seventh consecutive year, Aenor certified Iberdrola's greenhouse gas emissions inventory, covering the direct and indirect emissions from all activities, pursuant to the UNE ISO 14064-1:2006 standard, with 2016 taken as the base year⁵⁴.

Set forth below is the inventory (as of the date of publication of this report) to be submitted for verification in 2018 pursuant to the *Greenhouse Gas Protocol* of the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI).

Updated information is available in the [Greenhouse Gas \(GHG\) Protocol](#) of the corporate website.

CO ₂ equivalent emissions to be verified in 2018 (t)	Spain	United Kingdom	United States	Brazil	Mexico
Scope 1: Direct emissions	5.962,832	2.960,801	999,587	1.548,252	15,334,983
Scope 2: Indirect emissions	2,269,453	806,885	1,282,555	649,881	1,790
Scope 3: Other indirect emissions ⁵⁵	1,174,512	812,550	510,930	29,075	637,303

305-1 Direct greenhouse gas emissions. Scope 1 (per GHG Protocol)

Direct emissions are those from sources of GHGs that are owned or controlled by the company. They include:

- Emissions from electric power generation facilities (fuel consumption).
- Emissions from non-generation facilities (storage of gas and sludge drying).
- Fugitive emissions of methane (CH₄) (storage and transport of natural gas).
- Fugitive emissions of sulphur hexafluoride (SF₆) in distribution networks.

⁵⁴ Base year changed from 2012 to 2016 compared to prior reports.

⁵⁵ Below the numbers reported in disclosure 305-2, due to the fact that the verification of the carbon footprint of Iberdrola does not take into account those corresponding to "Other countries", as defined in disclosure 305-3.

- Emissions from facilities that provide services to buildings (fuel consumption).
- Emissions from mobile combustion sources, associated with road transport of employees with fleet vehicles for work purposes.

The emission factors used in calculating each of these emissions are obtained from official sources. The Scope 1 emissions for the base year are: 35,476,623 t CO_{2eq}. For more information, go to the [climate change and emissions](#) section of the corporate website.

The evolution of CO₂ emissions from production facilities is shown in the following table:

CO ₂ emissions (t)	2017	2016
Thermal generating plants ⁵⁶	23,024,356	22,812,513
Cogeneration	3,671,908	3,728,577
Total	26,696,264	26,541,089

67% of the group's installed capacity is emission-free. Direct emissions other than the above emissions from production facilities are less than 1% of the total:

Other Scope 1 emissions (t CO _{2eq}) in 2017	Source of emission factors
Non-generation emissions	41,634 Defra ⁵⁷ : United Kingdom.
Fugitive emissions (CH ₄) (Gas warehousing and transport)	8,717 IPCC ⁵⁸
Fugitive emissions (SF ₆) (Electric power distribution)	19,856 IPCC
Emissions at buildings (fuel consumption)	7,965 Mapama: Spain. Defra: United Kingdom, Mexico and Brazil. EPA ⁵⁹ : United States.
Emissions from mobile combustion (fleet vehicles)	32,019 Defra: Spain and United Kingdom. EPA: United States, Mexico and Brazil.

305-2 Indirect greenhouse gas emissions. Scope 2 (per GHG Protocol).

Indirect emissions are those emissions deriving from the company's activity but generated by other entities, including emissions from the generation of electricity acquired for the company's consumption. These emissions are:

- Emissions associated with the consumption of electric energy by standby systems during shutdowns at the thermal, renewable and nuclear plants and during pumping at the hydroelectric plants.

⁵⁶ The emissions data for the thermal generating plants includes the consumption of an auxiliary group of nuclear plants, which is not included in the breakdown of Annex 3.

⁵⁷ Department for Environment, Food and Rural Affairs (United Kingdom).

⁵⁸ IPCC: Intergovernmental Panel on Climate Change.

⁵⁹ Environmental Protection Agency (United States).

- Emissions associated with the consumption of electricity in buildings.
- Emissions associated with network losses.

The emission factor of the generation mix of the respective country is used to calculate CO₂.

- Spain: Red Eléctrica de España
- United Kingdom: DEFRA
- United States: U.S. Energy Information Administration
- Mexico: SEMARNAT⁶⁰
- Brazil: Ministry of Science, Technology and Innovation for Brazil

The Scope 2 emissions for the base year are: 4,503,670 t CO_{2eq}. The Scope 2 emissions for 2017 are indicated in the following table:

Scope 2 (t CO _{2eq}) ⁶¹	2017	2016
Emissions associated with the consumption of power at offices	51,242	39,863
Emissions from consumption at standby and pumping	833,115	749,628
Emissions associated with network losses	4,126,206	3,714,179

More information is available in the [GHG Report](#), which is audited annually under the ISO 14064 standard.

305-3 Other indirect greenhouse gas emissions. Scope 3 (per GHG Protocol).

Indirect emissions are a result of the company's activities at sources that are not owned or controlled thereby:

- Emissions associated with the transport of employees for work purposes (hire vehicles and personal vehicles, planes, trains and ferries).
- Emissions associated with the transport of employees from their home to their work place.
- Emissions associated with the transport of fuel.
- Emissions from suppliers that receive and respond to GHG questionnaires.

More information is available in the [GHG Report](#), which is audited annually under the ISO 14064 standard.

The total Scope 3 emissions for the base year are 1,022,158 t CO_{2eq}.

Emissions associated with the transport of employees for work purposes

The following table shows emissions associated with the transport of employees on business trips using various means of transportation. The Defra emission factors (2017) are used to calculate the emissions.

Emissions of CO _{2eq} associated with the transport of employees for work purposes (t)	2017	2016
Air	13,983	10,395
Car	4,472	4,620

⁶⁰ Secretaría de Medio Ambiente y Recursos Naturales (Secretary of the Environment and Natural Resources) in Mexico.

⁶¹ Emissions associated with network losses are included in scope 2 to calculate 2017 emissions.

Train

278

296

There were more than 59,151 videoconferences in 2017 that avoided employee travel, entailing a reduction of approximately 22,592 t of CO_{2eq}.

Emissions associated with the transport of employees from their home to their work place

A survey is sent each year to the employees of the Iberdrola group in order to record their emissions through an emissions calculation tool.

The information obtained in the survey for 2017 performed is extrapolated to the entire Iberdrola group. The equivalent value of total emissions for this item was 76,686 t CO_{2eq}.

Emissions associated with the transport of fuel

These are from the analysis of the fuel supply chain, based on the various means of transport employed, using the Defra emission factors and calculating the emissions resulting from this activity. Fuel transport activities in 2017 only occurred in Spain⁶².

Emissions by mode of transport are shown below:

CO _{2eq} emissions (t) associated with the transport of fuel	2017	2016
Road	14,782	12,052
Train	4,474	19,905
Ship	72,903	56,786

Emissions associated with the supply chain

Iberdrola conducted the 8th *Supplier Awareness and Greenhouse Gas Measurement Campaign* during 2017, to which end surveys were sent to the group's suppliers in Spain, the United Kingdom, the United States, Mexico and Brazil.

Based on responses to the surveys sent to the suppliers, as indicated in disclosure 308-1, emissions are calculated proportionally to the volume of billing, which information is included in the emissions report as indirect emissions.

CO _{2eq} emissions associated with the supply chain (t)	2017
Spain	1,054,507
United Kingdom	795,891
United States	490,768
Brazil	211
Mexico	635,421

305-4 Greenhouse gas emissions intensity

The intensity of CO₂ emissions is calculated based on direct emissions from the production facilities (see disclosure 305-1) divided by the group's net production, including steam. The following table shows this intensity.

Intensity of CO ₂ emissions	2017	2016
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⁶² Coal, gas-oil and uranium transport activities are considered.

Specific emissions from global mix (kg/MWh)	187	177
Specific emissions from global mix (kg/€) ⁶³	0.854	0.908

In 2017, CO₂ emissions per MWh generated remained among the lowest among domestic and international energy companies. Also noteworthy is the fact that the intensity of emissions at the group's thermal plants has dropped over the past 5 years, to 388 kg CO₂/MWh in 2017.

305-5 Reduction of GHG emissions

Initiatives to reduce emissions are undertaken through a broad range of products and services promoting energy efficiency and savings. Some examples of actions taken in 2017 are given below:

Areas	Actions and initiatives	CO ₂ avoided (t)
Renewables	Primary energy savings through the production of renewable energy.	15,129,235
Cogeneration	Savings through the supply of heat energy (steam) within the group.	1,128,403
Network efficiency	Savings from distribution network efficiency in Spain, the United Kingdom and Brazil.	117,658
Commercial	Energy savings and efficiency from green products and services.	7,062,225
Group	Use of videoconferencing.	22,592

In total, the emission of 23,460,113 t CO₂ was avoided, equal to the amount of CO₂ absorbed by 1,300 million trees over the course of a year⁶⁴.

The operating regimen of the group's production facilities led to the level of CO₂ emissions described in disclosure 305-1. Disclosures 302-4⁶⁵ and 305-2 provide additional information on this subject.

Despite its excellent position in this regard, Iberdrola has committed to reducing the intensity of its emissions to 50% below its 2007 level by 2030. The strategy to achieve this target is based on gradually reducing the intensity of GHG emissions through a commitment to close all of its coal plants and continuing to pursue electricity generation based on renewable sources and progressively introducing more efficient and less carbon-intensive technologies at existing facilities.

Iberdrola's commitment includes the development of a Sustainable Mobility Plan with the ultimate goal of contributing to a rational use of the means of transportation and which is framed within the commitment made by the company in its *Sustainability Policy*.

The inclusive nature of the programme involves employees, the business activity, customers and suppliers, covering approximately 23 specific actions in which the company seeks to strengthen its wager on sustainability.

These initiatives include Iberdrola's launch of a new edition of the *Electric Vehicle for Employees* programme in Spain and the United Kingdom and the pilot project launch in the United States, which consists of special advances and financial assistance for the purchase of electric vehicles. Thanks to this

⁶³ Direct emissions from energy generation facilities (305-1) compared to net revenue in €.

⁶⁴ The estimated amount of CO₂ absorbed by one tree in a year is 20 kg.

⁶⁵ In addition to the reductions described in 302-4, the group's nuclear production prevented emissions of 8,644,375 t CO₂, taking into account the emission mix. Source: RRE.

initiative, the local emission of 244 t CO_{2e} in employee travel to the work place in Spain and the United Kingdom was avoided in 2017.

Iberdrola's commitment to [sustainable mobility](#) was recognised in 2017 with the award received at the V Best Mobility Practices Award delivered by Renault.

305-6 Emissions of ozone-depleting substances

Ozone-depleting substances have a very limited presence within the Iberdrola group, and are located primarily in fire-extinguishing equipment (Halon) and some cooling systems (chlorofluorocarbons, CFCs). These systems and equipment are maintained in accordance with the provisions of applicable laws and regulations.

The only atmospheric emissions originating from these products would be those arising from potential losses, which are identified by the volumes used to recharge the equipment. Although Iberdrola's goal is to eliminate the presence thereof in its facilities, these substances continue to be used where their use is authorised and a better market substitute has not been found. Thus, 44 kg of CFC-11 equivalent was replaced in 2017, consisting of: 38 kg of CFC-11 equivalent in Spain and 6 kg in Mexico.

305-7 NO_x, SO_x and other significant air emissions

Emissions⁶⁶ of sulphur dioxide (SO₂), nitrogen oxides (NO_x) and particulate matter are also created by the burning of fossil fuels. These emissions are being reduced due to the company's energy generation mix, discussed in the emissions section, with the incorporation of renewable energy and the support of modern technologies for monitoring combined cycles. This management focus is supplemented with a plan to invest in improvements in the combustion process and in the dismantling of less environmentally-efficient units.

To comply with *Directive 2001/80/CE*, which limits the atmospheric emissions of SO₂, NO_x and particulates from large combustion facilities, investments have been made in combustion control systems at the thermal plants, both in Spain and the United Kingdom.

Emissions of oxides of nitrogen (NO_x)

NO _x emissions (t)	2017	2016
Generating plants	7,613	12,934
Cogeneration	8,539	8,037
Total	16,152	20,971

Intensity of NO _x emissions (kg/MWh)	2017	2016
Specific emissions from global mix	0.113	0.140

Emissions of sulphur dioxide (SO₂)

Sulphur dioxide (SO ₂) emissions (t)	2017	2016
Generating plants	4,143	6,510
Cogeneration	1,249	578

⁶⁶ These emissions are obtained either by direct measurement or through conversions of fuel consumption using emission factors from official sources.

Total	5,392	7,088
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Intensity of SO ₂ emissions (kg/MWh)	2017	2016
Specific emissions from global mix	0.038	0.047

Emissions of particulates

Particulate emissions (t)	2017	2016
Generating plants	1,114	1,067
Cogeneration	158	141
Total	1,272	1,208

Intensity of particulate emissions (kg/MWh)	2017	2016
Specific emissions from global mix	0.009	0.008

Emissions of mercury (Hg) and other compounds

The emission of mercury (Hg) during 2017 was 33.23 kg.

Furthermore, 434.57 t of volatile organic compounds (VOCs) were emitted in Spain, the United Kingdom, Mexico and the United States; and 18.60 kg of hazardous air pollutants (HAPs) were emitted in the United States.

GRI 306 Effluents and waste

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



Management approach

Effluents

Withdrawal, use and return to the environment is the water cycle needed for the generation of power at the thermal generation plants. The quality of this returned effluent is strictly controlled and is kept below the maximum acceptable values established by the government based on the characteristics of the withdrawal and discharge point (sea, reservoir or river).

Ensuring compliance with law and seeking methods to minimise the risk of spills is applicable to all of Iberdrola's facilities, including generating plants, renewable facilities and distribution substations.

Iberdrola has treatment plants and water quality measurement systems at its facilities that allow it to ensure a return to the environment (sea, reservoir or river) in the desired condition, reducing the risk of polluting discharges through the use of preventive control tools:

- Consolidated systems for reporting anomalies and incidents in order to establish plans to minimise spillage risks, by implementing predictive, preventive and corrective actions that ensure the proper condition of the water.
- Certificates in ISO 14001 and EMAS, as tools for continuous improvement.

The company also has emergency plans and protocols to ensure proper and rapid response in the event of discharges or spills with negative effects on the surrounding environment:

Waste

Iberdrola's goal is to reduce the generation of waste for any process or activity (construction, operation, maintenance of facilities and work centres), and to prioritise recycling and the reuse thereof. Iberdrola commits to the concept of "circular economy" for all players within its activities, having joined the Circular Economy Pact of the Ministry of Agriculture and Fishing, Food and Environment (MAPAMA) in Spain.

The management of waste conforms to the following principles:

- Minimise the generation of waste at source.
- Maximise the reuse, recycling and recovery of waste.
- Promotion of awareness-raising campaigns regarding the minimisation of waste.
- Specific treatment and management of hazardous waste.

Further to its commitment to transparency of information for Stakeholders, Iberdrola provides additional information on its nuclear plants (*General Radioactive Waste Plan*, Enresa⁶⁷). The processes of reduction, reuse, segregation, recycling and recovery is applied to radioactive waste in the safe management thereof.

Iberdrola's nuclear power plants are included within the *Environmental Radiological Monitoring Programme* of the Nuclear Safety Council of Spain, the purpose of which is to monitor the dispersion in the environment of controlled discharges from facilities and to determine and monitor radiological quality throughout the country.⁶⁸

306-1 Total water discharge by quality and destination

The thermal power-generation plants treat residual water before discharging it into the natural receptor environment.

- Water from the process undergoes physicochemical treatment, which includes the separation of hydrocarbons and temperature monitoring.
- Wastewater is treated in compact treatment systems with biological aerobic processes.
- Coal plants have a treatment system for slag from the plant, and a decantation/coagulation process that prevents the entry of particulate coal or coal in suspension into the receptor water.

⁶⁷ Enresa: Empresa nacional de residuos radioactivos, S.A.

⁶⁸ For more information, see the technical report issued by the Nuclear Safety Council "Environmental radiological monitoring programmes. 2014 Results" ("Programas de vigilancia radiológica ambiental. Resultados 2014"), available at www.csn.es.

After being treated, the process water and the sanitation wastewater are diluted with the water returned from the cooling system and are discharged into the receptor environment, with continuous monitoring of various parameters (temperature, turbidity, conductivity, etc.). An accredited organisation analyses these discharges and regularly reports to the government.

The data relating to the discharge of water into the environment are:

Total water discharged (hm ³)	2017	2016
Ocean	1,289	1,171
Rivers	249	274
Lakes and reservoirs	360	326
Municipal water	6	5
Total	1,904	1,776

In Mexico, the combined cycles have separate and independent networks for industrial and sanitary water. The latter receive final treatment in biodigestors whereas industrial water is discharged into the natural environment or sent to municipal treatment plants or to the customer for treatment. The La Laguna power plant captures sanitation wastewater for all processes, for which reason the water discharged by this facility is of better quality in some parameters than the water that is collected. For more information, see the [Water Usage](#) section of the corporate website.

306-2 Total weight of waste by type and disposal method

Two types of waste are differentiated within the Iberdrola group's activities:

- Waste arising during the energy production process.
- Waste generated at facilities and offices.

The various areas and businesses of the company perform activities to minimise waste and improve waste management, within the framework of the certified environmental management systems.

Waste from the production process

1. Fly ash and slag

In the generation process at coal plants, fly ash and slag are the most typical types of waste. The following table shows the production and reuse thereof:

Production and reuse of ash at Iberdrola's thermal power plants	2017	2016
Ash produced (t)	174,523	256,399
Ash reused (t)	76,034	87,260
Percentage of product reused (%)	44	34

Reused ash was used for the production of cement as filling in infrastructure work and to produce compost.

2. Nuclear waste

Low-low level and low-medium level radioactive waste generated during 2017 is shown in the following table:

Hazardous waste generated at nuclear facilities	Net output (MWh)	Low-low level waste		Low-medium level waste	
		Produced (m ³)	Produced (m ³ / MWh)	Produced (m ³)	Produced (m ³ / MWh)
Cofrentes nuclear plant	7,064	14.4	0.002	104	0.015
Partially-owned nuclear plants	16,185	32.47	0.016	162.01	0.078

As to high level waste, 303 spent fuel assemblies were generated during 2017.

Other waste

1. Hazardous waste

Hazardous waste that is generated is regularly delivered to authorised handlers for proper processing. Not all of the waste generated is deposited or recycled immediately, as there are temporary warehouses for hazardous waste at the facilities.

Hazardous waste generation (t)	2017	2016
Produced	9,193	10,579
Deposited and/or incinerated	3,023	2,148
Recovered, recycled, reused	7,288	7,353

2. Non-hazardous waste

Non-hazardous waste generation (t)	2017	2016
Produced ⁶⁹	1,053,671	978,845
Deposited and/or incinerated	543,254	443,752
Recovered, recycled, reused	449,920	470,832

Non-hazardous waste produced includes electronic equipment, wood, metals, plastics, paper, etc. The company has minimisation, reutilisation and recycling plans as well as awareness-raising campaigns to promote good environmental practices by its employees.

To promote the reuse of waste, Iberdrola has been working for several years on the optimisation of the management and revaluation thereof, selling it to companies that put it back on the market after transforming it. During 2017, this exercise produced income of €2,449,758 from the sale of non-hazardous waste.

306-3 Significant spills

Iberdrola has an Environmental Management System, and prevention is one of its key objectives. To this end, multiple preventive measures have been implemented in all of the group's businesses. These measures are set out in organisational and technical manuals. Plans to minimise risk have been established in the group's various businesses (emergency guides and procedures, regular drills, etc.), as have reporting and environmental incident management systems; these are used to prevent and to control accidental spills and to inform the relevant authorities whenever necessary.

⁶⁹ Total value of waste produced, also includes the total value of waste managed.

One example of safety and containment measures taken to mitigate damage are those implemented in Spain, where 505 preventive actions were performed in 2017 to prevent and mitigate the impact of potential spills. These included the construction of 34 oil collection reservoirs in case of a major discharge at the substations or transformer stations, as well as waterproofing of containers.

Of all the leaks and spills recorded within the Iberdrola group in 2017, 23 incidents were significant⁷⁰, with a total spill volume of 10 m³ of dielectric liquid. All cases were resolved in a satisfactory manner thanks to the emergency response team; the contaminated area was cleaned with appropriate management of any waste. In the case of minor accidents or incidents that did not have permanent environmental impacts on the surroundings, it was not necessary to adopt corrective or compensatory measures.

306-4 Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of waste shipped internationally.

Iberdrola does not directly transport, import or export hazardous waste covered by the Basel Convention in any of the countries in which it engages in its activities.

306-5 Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff.

Water collection and discharges by the facilities during 2017 were within the limits indicated by the relevant comprehensive environmental permit for each facility, and no anomalies were detected that could materially affect water resources or related habitats.

The company's activities can even be beneficial for the ecosystem, as seen in the following examples:

- In Spain, above and beyond the Integrated Environmental Authorisation requirements, at times additional quality control analyses are conducted on water upstream from hydroelectric generation facilities, with a view to improving, where necessary, the quality of this water once it has passed through the plant and is returned to the environment (see disclosure 304-3).
- The discharge from the Altamira III and IV plant in Mexico has been re-directed over the Garrapatas estuary, which is allowing it to recover its salinity and thus the specific characteristics of this habitat and the species of fauna and flora adapted thereto. This estuary was losing its brackish nature due to salt-water entry being blocked after the construction of a pipeline, with the resulting desalination of the ecosystem.

GRI 307 Environmental compliance

Contribution to SDGs of the performance described by the indicators of this section



(according to SDG Compass www.sdgcompass.org)

⁷⁰ The term "significant spill" means a spill that causes damage to the external surroundings of the facility or a significant risk thereof and that must be reported to the governmental authorities. Small spills may occur within the facilities during the operation and maintenance thereof, which are properly handled and reported as required.

Management approach

Iberdrola has a Global Environmental Management System that encompasses all of the partial certifications of each of the businesses that make up the group, reaching 80% of the group's production. Certified environmental management systems identify the legal requirements applicable to the activities carried out by the group and establish an assessment of compliance therewith for purposes of assurance. Below in disclosure 307-1 of this report, supplemental information is provided regarding ongoing environmental legal proceedings directed at companies managed directly by Iberdrola.

307-1 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

Incidents relating to the environment during 2017 involved the following fines and monetary sanctions:

Fines imposed relating to the environment (€)	2017	2016
Total amount of fines imposed	3,881,246	2,375,559

Of the total amount of fines imposed during the financial year, 2,197,588 euros were in Spain, 1,582,142 euros in Brazil and 50,508 euros in the United States. In Spain, there were significant fines corresponding to sanction proceedings for the electrocution, injury and death of birds; and in Brazil they were due to non-compliance with environmental conditions, impacts on ichthyofauna and improper pruning.

Non-monetary sanctions, sanction proceedings and arbitrations (no.)	2017	2016
Non-monetary sanctions	14	2
Sanction proceedings	57	86
Cases being resolved through arbitration or similar mechanisms	0	9

GRI 308 Supplier environmental assessment

Management approach

308-1 Percentage of new suppliers that were screened using environmental criteria

308-2 Significant (actual and potential) negative environmental impacts in the supply chain and actions taken

The management approach regarding the Iberdrola group's supply practices is described in disclosure 102-9 "Description of supply chain" of this report and the environmental risks of this chain are managed through quality processes and periodic audits.

In the management of suppliers and during the procurement process, the measures adopted to promote proper environmental behaviour by suppliers are based on the *Procurement Policy*, the *Suppliers' Code of Ethics* and the specific environmental clauses in the procurement terms of the group. Subsequently, during the supply stage, the business units monitor the environmental performance of the supplier during the term of the contract.

Alignment in Procurement and Supplier Management with respect to the environment and sustainability

Internal Procurement Mechanisms		External Supplier Mechanisms	
Procurement Policy	Sets out principles on the environment that suppliers must follow and sustainable and responsible management in the Iberdrola group's supply chain	Suppliers' Code of Ethics	Includes environmental principles. Must be accepted by the Group's suppliers and is attached to orders and contracts
Supplier Registration and Classification	Having environmental certification will be weighed in the overall assessment of the supplier. Suppliers must accept Iberdrola's Environmental Policy	Specific T&Cs	Environmental clauses that suppliers must comply with during the term of the contract
Bid Process	The environmental assessment of the supplier is included during the ITEO (offer evaluation) phase and in the PA (proposed award) for purposes of the contract.	Stimulus Campaigns	As a business driver, we proactively promote the environmental certification of the suppliers, supporting them in the search for excellence and generating a multiplier effect
Annual Improvement Goals	Innovative process: annual improvement goals directly relating to the environmental improvement of suppliers established for the Procurement team and linked to variable remuneration	Carbon Footprint Measurement	Annual greenhouse gas measurement campaign for suppliers: in 2017 more than 1,000 suppliers of the group in Spain, the United Kingdom, Brazil, Mexico and the United States
Global Environmental System	The Procurement Division is part of Iberdrola's Global Environmental System Committee: monitoring of environmental guidelines, established goals and related indicators, Audits.	CSR Scoring	Includes environmental aspects. CSR evaluation of suppliers, quantifying their relative position based on their management of this area
Reporting	Contribution to Sustainability infographic and Annual Procurement and Supplier Management Report published on the corporate website	Supplier of the Year Award	Environmental category: this promotes the environmental responsibility of suppliers and publicly recognises those who stand out in this area

The procurement terms of the group establish certain environmental requirements to meet this commitment, and the company also performs various tracking and reporting activities on an on-going basis. At the end of 2017, procurement from suppliers with a certified environmental management system represented 79.5% of all procurement from suppliers of general supplies.

Fuel procurement is subject to the general principles of Iberdrola's social responsibility policies, which require the encouragement of suppliers to engage in activities that are socially responsible, respectful of the environment and prevent occupational risks. With respect to fuel suppliers, those with an environmental management system represented 92% of the suppliers evaluated.

100% of suppliers (both new and existing) of general supplies and significant suppliers of fuel are evaluated according to environmental and sustainability criteria.

The principal environmental risks are considered to be managed through the current management systems and the periodic audits that are performed.

No supplier with a significant negative environmental impact has been detected. Furthermore, Iberdrola does not have major suppliers located in areas with water stress.

C. SOCIAL DIMENSION

Contents of the chapter

The topics analysed and reported on in this chapter are the following:

- **Management approach to the *Social Dimension***
- **Topics of the GRI Standards**
 - GRI 401 Employment
 - o Management approach and disclosures 401-1, 401-2 and 401-3
 - o Additional information required by the GRI *Sector Supplement*:
 - Programmes and processes to ensure the availability of a skilled workforce
 - Policies and requirements regarding health and safety
 - Indicators EU15, EU17 and EU18
 - GRI 402 Labour/management relations
 - o Management approach and disclosures 402-1
 - GRI 403 Occupational health and safety
 - o Management approach and disclosures 403-1, 403-2, 403-3 and 403-4
 - o Additional information required by the GRI *Sector Supplement*
 - GRI 404 Training and education
 - o Management approach and disclosures 404-1, 404-2 and 404-3
 - GRI 405 Diversity and equal opportunity
 - o Management approach and disclosures 405-1 and 405-2
 - GRI 406 Non-discrimination
 - o Management approach and disclosures 406-1
 - GRI 407 Freedom of association and collective bargaining
 - o Management approach and disclosures 407-1
 - o Additional information required by the GRI *Sector Supplement*
 - GRI 408 Child labor
 - o Management approach and disclosures 408-1
 - GRI 409 Forced or compulsory labor
 - o Management approach and disclosures 409-1
 - GRI 410 Procurement practices
 - o Management approach and disclosures 410-1
 - GRI 411 Rights of indigenous peoples
 - o Management approach and disclosures 411-1
 - GRI 412 Assessment of impact on human rights
 - o Management approach and disclosures 412-1, 412-2 and 412-3

- GRI 413 Local communities
 - o Management approach and disclosures 413-1 and 413-2
 - o Additional information required by the GRI *Sector Supplement*:
 - Stakeholder participation in the decision-making process
 - Management of population displacements, including disclosure EU22
- GRI 414 Supplier social assessment
 - o Management approach and disclosures 414-1 and 414-2
- GRI 415 Public policy
 - o Management approach and disclosures 415-1
- GRI 416 Customer health and safety
 - o Management approach and disclosures 416-1 and 416-2
 - o Additional information required by the GRI *Sector Supplement*:
 - Electric and magnetic fields
 - Disclosure EU25
- GRI 417 Marketing and labelling
 - o Management approach and disclosures 417-1, 417-2 and 417-3
- GRI 418 Customer privacy
 - o Management approach and disclosures 418-1
- GRI 419 Socioeconomic compliance
 - o Management approach and disclosures 419-1
- **Specific topics of the electric utilities sector supplement**
 - Disaster/emergency planning and response
 - o Management approach (no related disclosures)
 - Access to electricity
 - o Management approach and disclosures EU26, EU27, EU28, EU29 and EU30
 - Access to adequate information
 - o Management approach (no related disclosures)
- **Specific topics of the Iberdrola group**
 - Iberdrola and the Global Compact
 - o Management approach
 - Iberdrola's contribution to the community
 - o Management approach
 - Iberdrola, promoting women's sport
 - o Management approach

Scope of information

The information boundary used in this chapter is defined in disclosure 102-45 of this report.

Specific management approach to the *Social Dimension*

This management approach covers all “Topics” of the GRI Standards and the Electric Utility Sector Supplement referred to in the above contents of this chapter in the area of labour relations, the protection of human rights, the supply chain, and relations with customers and with society in general. In managing these issues, Iberdrola acts in accordance with the principles described in this section and in the “General Management Approach” section of this report.

Iberdrola establishes firm and permanent bonds with its Stakeholders, taking into consideration the needs and expectations of its workforce, shareholders and the financial community, regulatory bodies, customers, suppliers, the media, society in general and the environment. The development of plans for the company’s relationships and the maintenance of fluid channels of communication with Stakeholders are significant goals, to which Iberdrola dedicates numerous resources, as described in more detail in chapter 5 “Stakeholder Engagement” of this report.

Within the company’s explicit commitment to the creation of sustainable value and the maximisation of the social dividend, and always looking to the long-term future, Iberdrola has an impact on local development, generating employment and wealth in all of the communities in which it is present through the design and preparation of specific programmes focused on promoting education, art and culture, research, protection of the environment, protection of vulnerable groups, etc.

The policies defined for the management of human resources contain guidelines governing labour relations among the various companies of the group and serve as a reference to define the company’s employment-related goals: maintaining employment guarantees and a stable relationship with workers; strengthening of occupational health and safety and training aspects; protection of diversity and equal opportunity in access to employment; promotion of professional development; and promotion of behaviour and attitudes among its entire workforce in line with the principles described in the “Ethics and integrity” section of this report.

In relation to Iberdrola’s commitment to defend human rights, the main goal is to incorporate the management thereof into the group’s operations, thus forming an integral part of operating procedures. This focus is included in the [Policy on Respect for Human Rights](#) approved by the Board of Directors in February 2015 and revised in February 2017. To this end, the company has a set of tools that promote the protection of and respect for human rights, mitigating the risk of violation thereof. The company’s practices are in line with the *Guiding Principles on Business and Human Rights: Implementing the United Nations ‘Protect, Respect and Remedy’ Framework*, the principles of the *United Nations Global Compact*, the *OECD Guidelines for Multinational Enterprises*, the International Labour Organization’s *Social Policy* and the *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy*.

It should be noted that Iberdrola has designed a *Human Rights Management Model* in order to promote a culture of respect for human rights and to raise awareness in this area for all professionals, especially those who perform their activities in countries with a potentially higher risk of violation of these rights due to lax laws. The model includes the planning of activities and measurable goals to be met by the entire organisation, and this has been approved by both the Operating Committee and the Reputation and Social Responsibility Committee.

The company also has other tools approved by the Board, such as the [Code of Ethics](#), which governs the behaviour of all professionals, establishing control measures as well as disciplinary measures in the event of noncompliance, and the *Suppliers’ Code of Ethics*, which fosters compliance with applicable legal

provisions in connection with ethical, labour, environmental and health and safety matters, which must be expressly adhered to by all suppliers and is included as an annex to the respective contracts.

As regards its customers, Iberdrola operates with an organisational structure in which the Networks Business manages the activities of regulated transmission, distribution and sale of energy and any other regulated activity that the group carries out in Spain, the United Kingdom, the United States and Brazil, and the Wholesale and Retail Business manages non-regulated activities in Spain, Portugal, the United Kingdom, Mexico and continental Europe. For its part, the Renewables Business manages long-term power purchase agreements (PPAs) with large companies in the United States and Mexico.

In the retail markets, Iberdrola mainly provides its customers with two products: electricity and natural gas, trying to ensure competitive supply, operational and service excellence, continuous improvement of efficiency in operations, together with safety and respect for the environment. Although the Iberdrola group engages in other activities, due to the nature and scope thereof, these activities are insignificant in connection with customers for purposes of the information presented in this report.

As a whole, the distribution companies of the group handle a total of 34.37 million energy supply points, of which 30.33 million correspond to electric power and 4.04 million to gas supply. This information is described by type of user in indicator EU3 of this report.

Grievance mechanisms for impacts on society

As provided by Iberdrola's By-Laws, the corporate website (www.iberdrola.com) is a permanent channel of communication to serve the *Stakeholder Relations Policy*. For this reason, the website contains the main channels for responding to potential claims, as set out below:

- From the home page, one can directly access pages dedicated to customers and to the distribution networks of the countries in which Iberdrola does business, as well as those of the foundations and of the main companies of the group. There is also a prominent link on the home page to the "[Contact](#)" section, in which the following appear in an organised and accessible form:
 - o The addresses of the Iberdrola group's offices in the various countries.
 - o The specific contact channels (Corporate Communication, Investor Relations Office, Office of the Shareholder, Environment, Supplier Service Centre, Employment Channel, Corporate Social Responsibility, etc.).
 - o Customer service centres in the various countries.
 - o Subject-specific query mailboxes.
- The [Corporate Governance](#) section of website contains the group's corporate structure, with the corresponding links to all the companies.

The company's Stakeholders have the channels described above, which are handled in the various countries, businesses and corporate areas, to make their complaints and suggestions regarding business activities with a specific impact on the environment, labour relations, human rights, local communities, competition or market power, and such complaints will be attended to following established internal procedures.

There are various specific mechanisms for dealing with unethical behaviour or behaviour that might lead to situations of fraud or corruption in any form: the ethics mailbox, the shareholders' ethics mailbox, the suppliers' ethics mailbox and the communication channel with the Audit and Risk Supervision Committee,

through which employees, shareholders and suppliers can report grievances, questions or complaints with the assurances of resolution and confidentiality that such channels require to be effective.

The court claims of which Iberdrola is aware are set forth in disclosures 307-1 and 419-1 of this report.

Disclosure 406-1 sets forth incidents relating to discrimination in the labour area in 2017.

Finally, Iberdrola has not received any complaint during the year regarding other aspects relating to human rights through the channels established for this purpose.

In the United States, there were two complaints to the Maine Human Rights Commission (MHRC) in 2016 alleging discrimination for the imposition of a rate for voluntary exclusion from the use of the new smart meters, where the rejection was due to health reasons. Both complaints were resolved in favour of the company in 2017.

The company has no evidence of any court claims brought in addition to the ones mentioned above that might have a specific social impact.

GRI 401 Employment GRI 402 Labor/management relations

Contribution to SDGs of the performance described by the indicators of this section



(according to SDG Compass www.sdgcompass.org)

Management approach

Policies and commitments

To supplement the general approaches described above, Iberdrola has a [Human Resources Framework Policy](#) to define, design and disseminate a group human resources management model, which is set forth in the following specific policies:

- [Recruitment and Selection Policy](#)
- [Knowledge Management Policy](#)
- [Equal Opportunity and Reconciliation Policy](#)
- [Occupational Safety and Health Policy](#)

supplemented by a [Senior Officer Remuneration Policy](#) and a [Code of Ethics](#) that together establish the principles for managing these areas.

Collective bargaining agreements

To properly frame labour relations, the companies of the Iberdrola group have collective bargaining agreements or specific equivalent agreements to govern aspects relating to the management of people.

Generally speaking, the collective bargaining agreements of the Iberdrola group apply to all employees working under an employment relationship and for the account of the companies of the group, regardless of the type of contract entered into, the professional group to which they are assigned, their occupation or the job performed.

However, issues relating to the corporate organisation, the law of each country or even usage and custom in each country lead to certain groups being expressly excluded from the scope of collective bargaining agreements (for example, executives in Spain are not covered by the agreement). This is why there is not 100% coverage, as indicated in the table below:

Employees covered by a collective bargaining agreement	2017	2016
Number of employees	26,643	27,010
Percentage of employees	77.78	79.25

In the companies of the group there are two collective bargaining agreements in Spain, four in the United Kingdom, eleven in the United States, eleven in Brazil and three in Mexico. A breakdown by geographic area is available in Annex 3 Supplementary Information.

These agreements have specific monitoring mechanisms, such as the committees and sub-committees of the Collective Bargaining Agreement in Spain, the *ScottishPower Company Consultative and Negotiating Machinery Constitution* in the United Kingdom, *The Open Items Forum*, Update Meetings, Business Committees, Strategic Safety Panels and the *Joint Union Management Partnership Committee* in the United States, and the Safety Committee in Brazil, which serve to regulate labour, safety and health, and pension issues and consult with employees and with representatives on social matters within the company, as well as to ensure compliance with commitments made.

Objectives

Iberdrola has identified especially significant issues with respect to its employees, including:

- Define terms and conditions of employment.
- Regulate work rules, shift categories, working hours, etc.
- Define salary structure, supplementary pay, other expenses and form of payment.
- Specify benefits offered and conditions for obtaining them.
- Establish general principles in connection with the Equality Plan.
- Recognise the right to reconciliation of personal, family and working life.

Specific actions during the financial year

The Iberdrola group's global mobility programmes form part of the set of human resources tools that contribute to the development of talent, transmitting and strengthening the culture of the group and offering opportunities for professional growth in an international environment that attracts, motivates and retains the professionals who will ensure the sustainability of the business. This includes the launch of the *Job Swap Opportunity Program* initiative in 2017, which is intended to facilitate development opportunities for the group's professionals, allowing them to face new professional challenges and responsibilities, thus increasing their global view and knowledge of the business, as well as generating more versatile profiles and strengthening mobility and networking. Through this programme, two employees have the opportunity to temporarily swap their positions for a period of 9-12 months, whether within the same organisation, within the same business, between business and corporate area or between different countries. 15 employees participated in this initiative at the global level during 2017.

During the year, 330 employees participated in the group's international mobility programmes in their various forms.

In addition, with a view to favouring opportunities for internal promotion and international mobility, the group has commenced operating a single employment channel, where more than 27,000 workers can access and apply for internal job vacancies that match their profile.

Under the new homogeneity objectives in the Human Resources model, the management team of Iberdrola and its subsidiaries totals 840 people at year-end 2017, with a voluntary turnover rate of 2.02%.

Labour practices grievance mechanisms

Using the standard that class actions on the same matter are deemed to be a single grievance, the companies of the group received 253 grievances about labour practices in 2017⁷¹; of these, 13 were resolved in that same year. In addition, 247 other grievances pending from previous years have been resolved.

Programmes and processes to ensure the availability of a skilled workforce

Iberdrola needs to have a qualified workforce in keeping with the specific needs of the electric industry, the industry in which it focuses its operations, with the technical competencies necessary to carry out the specialised work required by these types of activities in terms of both technical aspects and safety. Disclosures 404-2 and 404-3 of this chapter provide information in connection with the skills and training management programmes that foster the employability of workers at the company, as well as its performance evaluation processes.

401-1 New employee hires and employee turnover

At Iberdrola, talent management is a key factor to ensure the success of the organisation. It is for this reason that Iberdrola works in various critical phases to attract and hire professionals with the skills, knowledge and abilities aligned with the current and future needs of the company: attraction of talent, recruitment and selection, as well as the welcoming and integration of new professionals.

As a global company, it has specific policies approved by the Board of Directors that regulate the selection activity (like the *Recruitment and Selection Policy* and the *Equal Opportunity and Reconciliation Policy*), as well as a master recruitment and selection process that applies at the global level. It also relies on local practices with activities particular to each specific geography and legal system in order to ensure that the best talent is attracted and selected.

Iberdrola's activities to ensure that it has the best and most diverse pool of talent in its various geographical areas include the following:

- Activities to promote training in the STEM (Science, Technology, Engineering and Mathematics) areas among young people and adolescents, as well as among women to equalise the presence of both genders in the sector (for example, visiting high schools and institutes and holding events to explain the industry and the activities of the company).
- Agreements with prestigious universities at the global and local level like:

⁷¹ The grievances received correspond to Spain, the United Kingdom, the United States, Brazil and Mexico. No grievances of this nature have been received in the other countries in which the group operates. In Spain, the United Kingdom, Brazil and Mexico, this includes the grievances that reach the courts, while in the United States grievances include those filed with the various state and/or federal commissions on human rights and equality.

- Universidad Pontificia de Comillas
 - Universidad de Salamanca
 - Massachusetts Institute of Technology
 - University of Strathclyde
 - Tecnológico de Monterrey
- Visiting employment forums and holding meetings with students to bring them closer to our company and to support their innovative ability. A total of 107 activities were attended at various prestigious universities in all of the countries where Iberdrola has a presence.
- Training programmes at the company directed towards vocational students, as well as university students, in order to complete their education within the professional environment. In total, 526 vocational students and 955 university students throughout the world have had the opportunity to engage in training at Iberdrola Spain, ScottishPower, Avangrid, Neoenergia and Iberdrola Mexico.
- International scholarship programmes for master's studies, with which students obtain financial support to complete their studies. In 2017, Iberdrola's Foundations granted 91 scholarships for Master's studies, investing €3,747,000, with students from Brazil, Spain, Mexico, the United Kingdom and the United States having had the opportunity to study in Spain, the United Kingdom and the United States.
- Mentoring programmes for university students, with which they can not only develop skills and abilities relevant to the professional area but also work towards their career goals. Specifically, a total of 18 people have been awarded scholarships by the foundation in Spain and have gone through a mentoring programme. All are engaged in training at various offices of Iberdrola Spain.
- Mainstreaming programmes for junior professionals. A project was launched at the global level in 2017 which incorporated 45 recent graduates into various areas of the company in Mexico, Spain, the United Kingdom and the United States, with a specific development programme for each of them.
- Definition of the global reception and integration programme, which allows for the sharing of local practices while at the same time defining common lines of activity within different geographical areas, in order to provide common knowledge about the company and facilitate integration into companies and jobs.

New hires	2017		2016	
	Men	Women	Men	Women
By age, in numbers				
Up to 30 years old			962	281
Between 31 and 50	1,012	295	771	290
years old	1,353	318		
Over 50 years old	189	43	108	22
By age,⁷² in %				
Up to 30 years old			24.90	25.66
Between 31 and 50	26.39	27.09	5.68	5.83
years old	9.65	6.50	1.27	1.06
Over 50 years old	2.26	2.10		

⁷² Of the headcount of this group at year end.

Total number	2,554	656	1,841	593
Total⁷⁶ %	9.74	8.17	7.10	7.27

Personnel leaving the company	2017		2016	
	Men	Women	Men	Women
By age, in numbers				
Up to 30 years old				
Between 31 and 50 years old	242	113	254	106
Over 50 years old	638	288	614	242
	1,072	336	1,063	216
By age⁷⁶, in %				
Up to 30 years old				
Between 31 and 50 years old	6.31	10.38	6.58	9.68
Over 50 years old	4.55	5.88	4.53	4.86
	12.80	16.45	12.50	10.36
By seniority, in numbers				
Up to 10 years				
Between 11 and 20 years	810	308	766	293
Over 20 years	222	167	245	98
	920	262	920	173
By seniority⁷⁶, in %				
Up to 10 years				
Between 11 and 20 years	6.18	7.18	6.12	7.37
Over 20 years	3.93	4.16	3.92	4.11
	12.32	10.90	11.20	9.64
Total number	1,952	737	1,931	564
Total⁷⁶ %	7.44	9.18	7.45	6.91

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation.

For employees of companies party to the *7th Collective Bargaining Agreement* in Spain, ScottishPower, Avangrid, Neoenergia and Iberdrola Mexico, which represent 99% of the workforce, there are no significant differences between benefits provided to part-time employees and benefits provided to full-time employees.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

401-3 Return to work and retention rates after parental leave, by gender.

Leave and return to work due to paternity/maternity	2017		2016	
	Men	Women	Men	Women
Number of employees entitled to parental leave	26,229	8,026	25,925	8,157
Number of employees taking parental leave	345	440	434	463
Number of employees that returned to work after parental leave ended	363	349	N/Av.	N/Av.
Number of employees that returned to work after parental leave ended that were still employed 12 months after their return to work ⁷³	328	411	N/Av.	N/Av.
Return to work rate	105.22	79.32	N/Av.	N/Av.

402-1 Minimum notice period(s) regarding operational changes, including whether these are specified in collective agreements.

The different organisational changes and significant events that occur are officially reported in compliance with the various legal provisions that apply at both the global and the local level within the labour relations of our companies. These notifications are made via the various channels and forums enabled for the purpose, such as monitoring committees formed by management and employee representatives, intranet, notices to interested parties, unions, etc.

- In Spain, organisational changes are governed by both the *Workers Statute* and by the collective bargaining agreements, and generally provide for a period of at least 15 days.
- In the United Kingdom, when a significant event occurs, interested parties are notified within a period of 4 to 12 weeks, as provided by law as well as the collective bargaining agreements.
- In the United States, notice requirements are governed both by collective bargaining agreement and labour laws. When organisational change or significant events occur that may impact union employees, union leaders are routinely provided with advance notice.
- In Brazil, organisational changes at Elektro are governed by the collective bargaining agreement, which provides guidelines on how these changes should occur, always with prior notice to the union institutions.
- In Mexico, significant operations are reflected in the collective bargaining agreements and notice is provided an average of two to three months in advance.

EU15 Employees eligible to retire in the next 5 and 10 years.

Employees eligible to retire	In the next 5 years (%)		In the next 10 years (%)	
	2017	2016	2017	2016

⁷³ Avangrid information not included.

Report boundary	16.21	12.04	27.60	25.30
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A breakdown by professional category and region can be found in Annex 3 Supplementary Information.

EU17 Days worked by contractor and subcontractor employees involved in construction, operation and maintenance activities.

To perform those activities that the company deems necessary to carry out at its facilities using subcontracted personnel, Iberdrola follows a procedure of executing services agreements defining the type of activities to be performed, and contractors are responsible for allocating and managing the resources required for the proper performance thereof.

To ensure that the subcontracted activities are performed in alignment with the values of the group, the subcontracted companies:

- Must be approved in accordance with the process described in disclosure 102-9 "Description of Supply Chain" of this report, which takes into account both their technical performance and their labour, environmental and social practices.
- Must meet the requirements set forth in the [contracting terms of the group](#), which take into account financial and quality aspects as well as environmental, labour, health and safety, and social responsibility performance.

Under these terms and conditions, subcontractors, with a total of 12,533,391.7 days worked, manage their technical and human resources and Iberdrola supervises the subcontracted activities performed, and does not deem it necessary to keep statistics regarding subcontracted personnel, except as regards health and safety given the importance of these issues in the social area and because they are considered material topics. Accordingly, this document does not include all the information on subcontracted personnel required by the GRI Standards in disclosures 102-8 and 102-41.

EU18 Contractor and subcontractor employees that have undergone relevant health and safety training.

Subcontractors of the group must meet all requirements established in the Iberdrola group's contracting terms, which can be found in the [contracting terms of the group](#). For that reason, the company believes that 100% of the employees of such companies, regardless of their category, have received appropriate safety and health training.

GRI 403 Occupational health and safety

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

Policies and commitments

The [Occupational Safety and Health Policy](#) approved by the Board of Directors describes the principles that should guide the behaviour of the group's companies in this area.

With a view to achieving zero accidents and the best workplace safety conditions, apart from this policy, Iberdrola also has a Global Occupational Safety and Health System, which is aligned with corporate policy and the strictest of international standards and incorporates the group's best practices from all of the countries where it has a presence.

This Global Occupational Safety and Health System is the group's tool for continual improvement, whereby the lessons learned from all events that occur are used to create a global knowledge base to prevent them from being repeated in any part of the Iberdrola group. Furthermore, the System is based on the principle that the group's contractors are its collaborators, and Iberdrola involves them in its occupational safety culture.

In alignment with such Global System, group companies are equipped with specific procedures making up the respective local safety and health systems, which are implemented within each company and externally audited. These systems develop the principles that the company has adopted to ensure compliance with legal requirements and to comply with expectations for the ongoing improvement of activities in this area.

Certifications

In the area of occupational risk prevention, the group has the following evaluation and monitoring mechanisms, which go beyond the legal requirements in each of the countries in which the group has a presence.

- The occupational health and safety management systems of the group's companies in Spain, the United Kingdom, Brazil⁷⁴, Mexico, Portugal, Greece, Hungary and Romania have OHSAS 18001 certification.
- In the United States, the networks businesses in the states of Maine and New York have achieved OHSAS 18001 certification; operations in the states of Connecticut and Massachusetts are expected to be included in the certification in 2018. The Renewables Business successfully completed phase 1 of OHSAS 18001 certification in 2017 and is expected to complete the certification in 2018. Also, within the Renewables Business, the Klamath thermal plant has achieved the highest certification available in that country, the OSHA VPP Star by the OSHA of the State of Oregon.

Objectives

For financial year 2017, safety and health goals have been established at the group level based on the improvement of accident rates, for both its own and contracted personnel, a continuation of annual planning, and the evaluation and implementation of improvements in management systems.

Particular goals have also been established for the businesses, such as obtaining or maintaining OHSAS 18001 certification, the creation of safe behaviour improvement plans, as well as the quantification of risk detection and of monitoring measures implemented.

Responsibilities

⁷⁴ Neoenergia has a Safety and Health Management System that defines work procedures and instructions, which is available on its intranet. The Brazilian subsidiary Elektro obtained OHSAS 18001 certification for more than 50% of its employees. The certification for Termopernambuco and the Teles Pires hydroelectric plant is expected at the beginning of 2018. There is a plan for certification of the companies not yet certified for 2019.

The main responsibility for taking preventive action lies with the company, and therefore, with its organisational hierarchy, which is required to introduce prevention standards, guidelines and policies into all of its activities and decisions, and across all levels of the organisation with executive or decision-making abilities.

In order to assist the company in achieving this end, there is a health and safety organisational structure made up of an Iberdrola Prevention Area within the Human Resources Division in most countries.

In accordance with the principle of integration of occupational risk prevention, the hierarchical/functional organisation of each company is entrusted with giving effect thereto and is responsible for complying with and enforcing health and safety rules within its area of activity.

The companies of the group have occupational safety and health committees, under different names, to establish channels for consultation and participation with the employee representatives in this area, to monitor indicators, and to plan and take measures to correct deficiencies and to improve the Safety and Health System.

Policies and Requirements regarding Health and Safety of Employees and Employees of Contractors and Subcontractors

The health and safety requirements established for the workforce are set forth in the collective bargaining agreement of each company (when applicable), in the procedures making up the Occupational Risk Prevention Management System, and in the internal regulations of each of the group's companies.

As regards contractors and subcontractors, the group's contracting terms, which can be found in the [contracting terms of the group](#) section of the website, specify the requirements to be met by firms wishing to participate in an award process. In addition, the particular conditions regarding occupational risk prevention are set forth in documents of specific requirements in each country, which are also contractual documents.

By way of example, the following are some of the safety and health requirements specified in the contracting terms:

- Subcontracted employees who have specific duties to monitor and control occupational risk prevention must provide evidence of having received the training established for such purpose under the law applicable thereto.
- Subcontracted employees shall have the necessary training to deal with the risks of the facilities and of the work to be performed.
- In submitting an offer, contractors must provide a report on their accident rate for the last three years, specifying the accident rate of the contractor's group or section engaged in the work bid for or in similar work.
- During the performance of the work or service, the contractor must adopt such measures as are necessary to comply with its obligations and those of the companies to which the contractor has subcontracted such work or services.
- The contractor shall be responsible for safety conditions during the period of execution of the works or performance of the service, as well as for any supplementary measures that are required for the proper performance of the subject matter of the contract.

403-1 Employees represented on formal health and safety committees (management/employees).

Spain

In Spain, the companies that are signatories of the *7th Collective Bargaining Agreement* have a central committee that coordinates the activities of the thirty-seven local safety and health committees to which all work centres and administrative units are assigned. These committees regularly consult with the workers' representatives on all safety and health issues that affect them.

United Kingdom

At ScottishPower, a Health and Safety Governance Committee is responsible for the overall strategy and guidelines and governance in this area. It is made up of members of the management team and by the safety and health director. It is supported by the Safety and Health Boards, which meet every six months, and which are made up of representatives of the workers elected from all of the businesses, unions and directors of occupational safety and health.

United States

At Avangrid, in the Networks Business, the Executive Safety Committee and the Strategic Safety Board, along with expert panels and employee safety teams, review work that involves risk-related activities and safety activities that have been undertaken. Unions and executives are also involved through their participation in the committees and regular safety meetings. In the Renewables Business, there are regular meetings of the local executive health and safety committees and of the Central Committee to review health status and the achievement of safety objectives in all regions.

Brazil

At Neoenergia, there is a Safety Committee for each distribution company within the Networks Business. There are also safety and health committees at the Generation and Renewables Businesses of the group, made up of members of the management team and by the businesses' occupational safety and health directors and specialists. These committees report to a Central Committee made up of the group's management team to accompany strategic safety and health actions.

Mexico

Iberdrola Mexico has a mixed safety and health committee at each facility, governed by the Mexican NOM-029-STPS standard and by the collective bargaining agreement. There is also a Safety Committee (COSE) made up of the heads of safety and environment at each facility and coordinated by the Generation Division.

In-house staff represented on health and safety committees (%)	2017	2016
Report boundary	97.14	93.61

46% of the staff of contractors are represented on safety and health committees in Spain and the United States. This analysis will be expanded to the United Kingdom, Brazil, Mexico and Other Countries in the coming years.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

403-2 Type of injury and rates of injury, occupational diseases, lost days, absenteeism and total number of work-related fatalities, by region and by gender.

Injury rate among group personnel ⁷⁵	2017	2016
Number of accidents	455	472
Men	376	407
Women	79	65
With fatality	0	0
Men	0	0
Women	0	0
With leave	104	108
Men	101	96
Women	3	12
Without leave	341	364
Men	265	311
Women	76	53
Number of fatalities	0	0
Men	0	0
Women	0	0
Number of lost days	4,374	2,877
Men	4,318	2,534
Women	56	343
Injury with leave rate (IR)	0.36	0.36
Men	0.45	0.42
Women	0.05	0.17
Occupational disease rate (ODR)	0.02	0.01
Men	0.03	0.00
Women	0.00	0.03
Lost day rate (LDR)	14.96	9.66
Men	19.01	12.70
Women	0.86	40.33

⁷⁵ Methodology for calculating the indicators (per GRI standard):

- Injury rate (IR) = (number of injuries with missed (absentee) days*200,000)/hours worked
- Occupational disease rate (ODR) = (number of occupational disease cases/hours worked)*200,000
- Lost day rate (LDR) = (calendar days lost per accident, as from first day of leave/hours worked)*200,000
- Absenteeism rate (AR) = (missed (absentee) working days, as from first day of leave/days worked)*200,000

Absenteeism among group personnel ⁷⁹	2017	2016
Number of missed days per year	11,447	15,734
Men	7,420	10,217
Women	4,027	5,517
Number of lost days	189,025	199,665
Men	125,955	130,461
Women	63,070	69,204
Number of person equivalents	517.88	547.03
Men	345.09	357.43
Women	172.79	189.60
Absenteeism rate (AR)	5,171.71	5,508.74

In addition to the indicators mentioned above, the following indicators are considered to be relevant in Spain: frequency rate, severity rate and incidence rate. Information is provided by geographic area and the information from these indexes in Spain is provided in Annex 3 Supplementary Information.

The table below shows the accident and absenteeism rates of subcontracted employees:

Injuries and absenteeism among subcontracted personnel	2017	2016
Number of accidents	631	438
Men	614	N/Av.
Women	17	N/Av.
With fatality	13	4
Men	13	N/Av.
Women	0	N/Av.
With leave	309	268
Men	307	N/Av.
Women	2	N/Av.
Without leave	309	166⁷⁶
Men	294	N/Av.
Women	15	N/Av.
Number of fatalities	13	4
Men	13	N/Av.
Women	0	N/Av.
Number of lost days	11,927	10,194
Injury with leave rate (IR)	0.643	0.543

Despite the gradual reduction in the number of injuries among contracted personnel achieved through 2016, there was an unusual increase in fatal injuries with contracted personnel in 2017 (mainly in Brazil, where there were 10 deaths among contracted personnel of Neoenegia, a company recently integrated into the group). The company has established an action plan to reduce them with actions in the short, medium

⁷⁶ Does not contain information from Neoenegia.

and long term. These measures include improvements in the classification and monitoring of contractor performance, training, operating processes, and in some cases, contracting of internal staff in order to improve control over the performance of key tasks. This plan is already rendering its first results in the form of a reduced injury rate.

Management of health and safety is organised in accordance with the guidelines set out in the OHSAS 18001 standard, as described in the management approach for this section, ensuring that the group has monitoring and evaluation mechanisms in all operations that go beyond legal requirements.

403-3 Workers with high incidence or high risk of diseases related to their occupation

The Iberdrola group's companies monitor the health of their employees for prevention purposes, using in-house or outsourced medical services that are responsible for monitoring the health of employees through regular medical check-ups.

In general terms, the group considers that employees are not exposed to specific occupational or work-related diseases in the course of their work that may be considered to have a high level of incidence or to carry a high risk.

403-4 Health and safety topics covered in formal agreements with trade unions

All work centres and administrative units of the companies that are signatories of the *7th Collective Bargaining Agreement* in Spain are assigned to local safety and health committees. Overall, there are thirty-seven committees, which coordinate their activities through a Central Committee. All were created in accordance with the Occupational Risk Prevention Act and are formed with equal representation between the company and the workers. In 2017, the committees met on a quarterly basis and were the most important consultation, participation and control bodies of the Occupational Risk Prevention Management System, as well as the forum where formal agreements on the matter were reached with the trade unions. The bodies responsible for coordinating and monitoring the implementation of preventive standards and procedures are the Prevention Coordinating Committees, working closely with the Joint Prevention Service.

At ScottishPower, an *Occupational Health and Safety Policy* sets forth the company's principles to ensure compliance with statutory requirements and to comply with the expected on-going improvement in this matter. At these ScottishPower companies, where unions are formally recognised, the health and safety issues or agreements are specified through the general constitution of the company's Consultative and Negotiating Council. This document is agreed between the company and the union representatives. This document has a specific section dedicated to forming the terms of reference for the Health & Safety Council, which meets every six months.

At Avangrid, the Networks Business and trade unions have signed various collective bargaining agreements that cover personal protective equipment, and worker participation in inspections, audits, incident investigations, training and grievance mechanisms. Within the Renewables Business, the process to develop both occupational safety and health regulations and training is carried out by a committee made up of executive officers, health and safety personnel and field personnel.

Neoenergia has a Safety and Health Management System that defines work procedures and instructions, which is available on its intranet. The companies within Iberdrola's domain that have not implemented such a system have developed a certification plan for 2019. The company also has a Safety Committee that ensures the effectiveness of activities and communication on risk prevention actions as a value that informs all of its activities and is part of the company's culture. The company also has 62 internal accident

prevention committees. The committees are made up 50% of company representatives and 50% of worker representatives.

At Iberdrola Mexico, organised workers have a collective bargaining agreement that deals with safety issues like EPIs, safety organisation, worker representation, handling of accidents and professional diseases, application of health and safety law, etc.

In other countries the Renewables Business has safety management systems duly certified under OHSAS 18.001:2007, there are committees with the participation of the company and employees that deal with occurrences in the area of health and safety at the end of each month and reporting on noteworthy activities and plans for future actions.

GRI 404 Training and education

Contribution to SDGs of the performance described by the indicators of this section



(according to SDG Compass www.sdgcompass.org)

Management approach

Policies and commitments

Iberdrola recognises the importance of intellectual capital to the company in its [Knowledge Management Policy](#). In implementing this policy, which is intended to disseminate and share the knowledge existing within the company by fostering ongoing learning and cultural exchange, Iberdrola reaffirms that the company's intellectual capital depends on its people, its operational and organisational structures, and its internal and external relationships with all Stakeholder groups. At Iberdrola, learning is thus permanent, ongoing and aligned with the strategy of the group.

At Iberdrola, training and development are considered to be a key factor to the success of the organisation. This understanding is embodied in the design of specific programmes to equip Iberdrola's professionals with the qualifications needed to perform their roles, and to foster a culture of development, value creation and ongoing improvement that allows them to assume new responsibilities in the future. These plans are validated by the heads of the businesses and by the Human Resources Division.

The commitments assumed with the start-up of these plans and programmes are summarised below:

- Alignment with the strategic goals of the company.
- Professional improvement for job performance.
- Better professional development, fostering personal advancement and employability.
- Adjustment of human resources to technological and organisational changes.
- Adaptation of new employees to the company.
- Ease of access to an international job framework.

Specific Goals and Activities

The following significant training and development activities were carried out during 2017:

- The Iberdrola Campus has become the company's leading training centre in Spain. These facilities house training and development activities across all knowledge areas and for all Iberdrola groups. In 2017, it hosted numerous courses, development programmes and corporate events, and construction has begun on the second phase of the project.
- There has been an expansion of the catalogue of development resources, available at the global level, within the framework of the Personal Development Plans (PDPs), making new online courses available to the employees in English and Spanish. A new cycle of the process of preparing PDPs in Spain, the United Kingdom, the United States, Brazil and Mexico has also begun.
- Strengthening of professional development resources aimed at persons with management potential.
- As a result of the overall work of reviewing the portfolio of training and development activities, work has continued on defining the *Development Roadmap*, with the design of a global programme for those professionals in their preliminary management stages in order to strengthen the abilities and skills needed for the management of teams. This programme will be implemented locally, adapting to the needs of each country. Spain saw the launch of a pilot edition under the name DINAMO, with a modular skills structure. The other countries (the United Kingdom, the United States, Brazil and Mexico) are working on review and design to adjust it to the global model, and will implement it during 2018.
- There is a continuation of the language programme (Pangea), which combines the various features of the three languages of the company (Spanish, English and Portuguese) based on a new website that can be accessed by all Iberdrola's employees in Spain.
- A new development programme has been launched for a group of junior professionals who recently joined the company in Spain, the United Kingdom, the United States and Mexico. This programme is intended not only to facilitate their welcome and inclusion into the company, but also to strengthen their professional development. It consists of global activities, including a Mentoring programme in which they are given the opportunity to be tutored by long-time managers of the company, as well as local activities, including training programmes made up of technical and skills-based modules, rotational programmes, visits to company facilities and headquarters, and assignment to a technical tutor.
- The evaluation of the leadership skills and identification of employee potential through a homogeneous global process has continued. After this first analysis, development meetings continue to be held with employees identified as having potential in Spain, the United States, the United Kingdom, Brazil and Mexico. This has provided significant information at the individual and global level and has served to design a Global Development Programme for professionals identified as having executive potential, which is made up of: global and local training programmes, participation in mentoring programmes as mentors or mentees, participation in coaching programmes, internal mobility programmes, participation in individual projects, and participation in events with Senior Management to increase their visibility. As a result of this programme, a large group of the identified persons have already engaged in some of these activities during 2017.
- In the area of talent management, there have been development meetings with professionals in the various countries in which Iberdrola has a presence in order to improve knowledge about their skills, interests, professional aspirations and development needs.
- There is a new edition of the mentoring programme designed for the participants in the *Early Career Global Program (ECGP)*, which is intended to help with the adjustment and integration of junior professionals from the United States, Mexico, Brazil and the United Kingdom to their new responsibilities in Spain, as well as to strengthen their professional development with the support of an internal mentor from the company.

- There is a new programme focused on increasing internal mobility through Job Swaps, as a lever for professional development, between the employees of Spain and the United Kingdom.
- The global initiatives related to virtual training include the launch of the following courses for all employees: “*Procurement Policy* awareness-raising”, “Introduction to Climate Change”, “*Code of Ethics*” and “Corporate Social Responsibility”; and the course “La energía que mueve el mundo” (The energy that moves the world) has been made available to Spanish-speaking employees. These courses fit within the line of strengthening the values of the company.

404-1 Hours of training

Employees and hours of training by professional category and gender	2017		2016	
	Men	Women	Men	Women
Hours of training	21,477	5,225	19,734	4,766
Management team				
Middle managers and skilled technicians	355,838	132,073	440,544	129,480
Skilled workers and support personnel				
	895,808	96,690	649,260	121,210
Average hours of training per employee	18.06	28.09	33.62	35.83
Management team				
Middle managers and skilled technicians	33.55	26.96	40.46	33.22
Skilled workers and support personnel				
	56.16	30.16	51.92	55.40

The differences between men and women are a result of the different specific training for the various professional categories of the workforce, and are not due to a policy of discrimination.

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

404-2 Programmes for skills management and lifelong learning

The Iberdrola group believes that professional development contributes to achievement of the company's results and improving the efficiency of the organisation, by equipping employees with the skills and competencies they need to perform their work efficiently today and preparing them to undertake greater responsibilities and challenges in the future.

In addition to the specific activities and goals described in the “Management approach”, various development and training programmes have been carried out in 2017.

Iberdrola has various programmes aimed towards those who have been identified as professionals with the potential for management development, including the two-and-a-half year *MBA in the Global Energy Industry* offered by Universidad Pontificia de Comillas in Madrid and the Strathclyde University Business School in Glasgow. This is a global programme with participating professionals from Spain, the United States, the United Kingdom, Brazil and Mexico. The second edition of this programme concluded successfully in 2017 and the third edition has commenced.

For technicians and middle managers, Iberdrola has a global skills-based development model implemented through a process that permits the formation of personal development plans for these professionals. Through various development resources such as on-site activities, workshops, online resources or jobsite actions, the programme allows employees to work in annual periods on the development of their

professional skills. In Spain, this process takes the form of the SAVIA programme, which, after a one-year extension, finalised its third cycle in 2016, and has thus commenced a new biannual cycle in 2017 (4th Edition).

In addition to the resources available in the skills-based development model, Iberdrola continued offering specific skills development programmes in 2017 to ensure that employees not only have the necessary training to perform their tasks efficiently but are prepared to assume new responsibilities in the future. These activities are provided locally and are adapted to the particular culture and characteristics of each country.

Iberdrola also continued offering its Welcome Plans (*Planes de acogida*) for new employees in 2017. These plans afford an overall vision of the company and familiarisation with its culture and values. In addition to these onsite plans, all Iberdrola employees can access the virtual global welcome module, available in English, Spanish and Portuguese.

In line with the 70/20/10 model, a model of learning and development supported by the theory that 70% of a professional's learning comes from experience and on-the-job practice (learning by doing), 20% is acquired through conversations and feedback with other people, and only 10% comes from structured courses and programmes, the company also has mentoring programmes that serve not only to develop the skills of our professionals but also as a knowledge management tool, including the one described in the Management Approach directed towards participants in the international mobility programme called *Early Career Global Program*.

2017 saw the continuation of various working sessions, mainly with ScottishPower, Avangrid, Neoenergia and Iberdrola Mexico, primarily in order to exchange knowledge, information and experience in the training and development areas. Along these lines, the Annual Development Meeting of the Executives and Talent area was held in Scotland in 2017.

Specific Training for Executives

The Executive Management and Talent Unit worked during 2017 on coordinating and supervising the global talent management process in the various countries; it also attends to all management training and development needs through the Management School, with the following noteworthy programmes conducted in 2017:

- *Energising Leadership Programme*, taught by ESADE Business School. Geared towards management trainees with high potential and/or executives who are beginning their careers.
- *Leading in a Volatile, Uncertain, Complex and Ambiguous world (VUCA world)*. This programme analyses the challenges that executives face in their daily activities as a result of this new environment.
- *Global Leadership Programme*, taught by IMD Business School. Programme directed towards executives with experience and a background within the organisation. The main goal is to help them develop their leadership abilities in a global environment, working on personal skills and provoking a process of individual transformation.
- *Driving Leadership Transformation Programme*, jointly taught by IESE and IMD Business School. This new programme is directed towards established executives who have a track record with the group and who have already taken the Global Leadership Programme. The main goal is to complete and strengthen previously-acquired knowledge.
- In Spain, the *Lead by Communicating* and the *Personal Productivity* improvement programmes (Getting Things Done methodology) are still being provided, and there has been a strengthening of

the programmes *Conversaciones poderosas* (Powerful conversations), *Cómo hacer CRECER a tu equipo* (How to make your team BELIEVE), *Taller de mindfulness ¡Transforma tus límites en posibilidades!* (Mindfulness workshop - Transform your limits into possibilities!) and *Coaching ejecutivo* (Executive coaching), as part of the training offering for the management team in Spain.

- Various executives from Neoenergia, Avangrid and ScottishPower participated in their respective local coaching programmes.
- ScottishPower continued with the *Leadership Excellence* programme based on the elements of Iberdrola's leadership model.
- Avangrid has continued to successfully offer its programme *Working Successfully Across Cultures*, focused on learning about and understanding cultural differences. Avangrid also began a process of redesigning its training and development offer for its management team in 2017.

Other activities with the management team in 2017 included the holding of conferences, workshops, meetings, etc., as well as continued access to e-Leaders, the Management School's virtual space, in both its web and mobile versions.

404-3 Employees receiving regular performance and career development reviews

At the Iberdrola group, employees are included in formal performance review processes, which vary based on the internal level of the employees and their corresponding responsibility, as well as the country in which they are located. These processes have an impact on variable remuneration and the annual salary review.

Employees can be reviewed through two types of processes, based on the level of responsibility relating to their position.

Executive officers:

- Goals review ("What"): measurable, quantifiable and specific goals to be achieved over the course of the review period, relating to the goals of the company. This process affects variable remuneration.
- Performance review ("How"): review of conduct during the achievement of the goals. This has an impact both on the employee's annual review and on their personal development plan for the future.

Other employees:

- Performance review ("How"): in this case, the performance review is used for the calculation of the annual salary increase and for the calculation of variable remuneration. Employees are reviewed on the basis of a number of personal competencies.

A tool has been developed for these processes with the support of SAP that allows management of the Human Resources processes relating to review, development and remuneration, amongst other things. In this way, all users involved in such processes (employee, evaluator and Human Resources team) can work in real time and globally. However, the main advantage of this tool is that it allows for the global handling of all participants, thereby unifying the focus and standards of application to help ensure that a single global policy applies to all employees.

As regards the multidimensional review process, a 360° review is applied at only one of the companies of the group, which includes approximately 14% of the group's employees. This type of review is performed every two years, alternating with a standard performance review.

Performance and development reviews	2017	2016
Number of employees	34,255	34,082
Men	26,229	25,925
Management team	736	693
Middle managers and skilled technicians	10,005	11,720
Skilled workers and support personnel	15,488	13,512
Women	8,026	8,157
Management team	192	161
Middle managers and skilled technicians	4,671	4,869
Skilled workers and support personnel	3,163	3,127
Employees with performance reviews (%)	84.15	85.38
Men (%)	83.58	85.13
Management team	94.57	97.11
Middle managers and skilled technicians	96.20	98.23
Skilled workers and support personnel	74.91	73.13
Women (%)	86.00	86.18
Management team	90.10	98.14
Middle managers and skilled technicians	95.23	94.31
Skilled workers and support personnel	72.15	72.95

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

GRI 405 Diversity and equal opportunity

Contribution to SDGs of the performance described by the indicators of this section
(according to SDG Compass www.sdgcompass.org)



Management approach

Policies and commitments

The development of labour relations based on equal opportunity, non-discrimination and respect for diversity are key goals in the company's *Human Resources Framework Policy*.

The policies applied by Iberdrola in the area of labour relations are identified in the introduction to this chapter, and include the [Equal Opportunity and Reconciliation Policy](#), which promotes the commitments of equal treatment between men and women and support for workers with diverse abilities, promoting their effective employment.

The group's companies, in the various countries in which they operate, promote equal opportunity and respect diversity, effective equality between men and women in access to employment, training, promotion and working conditions, and provide support to workers with diverse abilities, facilitating their integration into the workplace.

To put the principle of diversity and equal opportunities into effect, in Spain the *7th Collective Bargaining Agreement* includes an Equality Plan within the framework of labour relations (hiring, training, promotion, remuneration, etc.), which guarantees such principle. Within the Equality Plan, an Equal Opportunity Committee has been created with the main mission of engaging in an appropriate review of the measures implemented to ensure equal opportunities and non-discrimination, and to encourage the inclusion of new activities in this area. A number of appropriate measures are also established for workers with disabilities in order for them to adjust to and access the work position, based on the requirements and characteristics thereof and on the needs in each specific situation, which facilitates their integration. In turn, Iberdrola continues collaboration with the Diversity Charter, of which it has been a signatory since 2009, and has the category of patron member; as such, it respects prevailing legal provisions in terms of equal opportunity and non-discrimination, and puts diversity policies into practice.

In the United Kingdom, ScottishPower is committed to policies that promote diversity in order to create an innovative and integrative work environment, for which reason it has a Diversity and Inclusion Governance Committee. The British subsidiary guarantees equal opportunity in selection processes for persons with disabilities, and for this reason received the Disability Confident Standard award and also holds one of the highest positions in the Carers Scotland ranking.

In the United States, Avangrid has a four diversity policies: equal opportunity in access to employment, support for disabled persons or disabled veterans, promotion of a non-discriminatory work environment and combating sexual harassment in the workplace.

In Brazil, Neoenergia's most important goals include the hiring of disabled persons, and specifically, its subsidiary Elektro has designed a training course to facilitate access by these persons to work positions within the company. There has also been an analysis of the suitability of the work positions for each of the people with various disabilities in order to relocate them into more appropriate positions if required.

Two companies of Neoenergia have been recognised by the consultant Great Place to Work: Elektro as the best company to work for in Latin America, and Cosern as one of the most valued companies to work for.

Iberdrola Mexico complies with the group's policies to generate an inclusive labour environment.

Objectives

The main goals in this area during 2017 have focused on:

- The encouragement of reconciliation between employees' work and family life, which includes measures to ensure compatibility between a positive experience of parenthood and a successful professional career.
- The development of labour relations based on equal opportunity, non-discrimination and respect for diversity.

- The fostering of diversity and the social inclusion of vulnerable groups through the corporate volunteer programme, which affords our employees an opportunity to participate in various community support initiatives to raise awareness of this group and to improve the quality of their life.

Specific activities

- Iberdrola has been included in Bloomberg's 2018 GEI (Gender Equality Index) as one of the best companies recognised for its policies in favour of gender equality and its best practices in the area of work/life balance.
- In recognition of the company's work in the area of reconciliation, in 2017 Iberdrola was also awarded the Vocento Business Award for Work/Life Balance (*Premio Empresarial Vocento a la Conciliación*) for its commitment to the quality of life of its employees as well as for reconciling work with family. In Spain, Iberdrola was the first Ibex 35 company to apply the shortened uninterrupted workday (*jornada continuada*), a pioneering measure, among a set of more than 70 practices included in the company's *Reconciliation Policies Manual*.
- In Spain, there are various options for employees on non-school days, and educational courses for children. There has also been a continuation of the "Iberdrola Parents' School", which offers employees the opportunity to participate with their children in various programmes. And as is the case every year, there have been summer camps for the children of employees, especially taking into account those with different abilities.

In addition, in order to comply with the principle of non-discrimination for reasons of diverse abilities, arrangements were made to obtain disability certificates for those employees who applied for them. 80 families have also benefited from the Family Plan, which is intended to facilitate the social and workplace integration of family members with a disability who are the dependent of an employee. Finally, donations have been made to entities or foundations whose purpose is professional training, entry into the job market or the creation of employment for persons with disabilities; and contracts have been signed with special employment centres, in excess of the amount required by law for investment in alternative measures, thus promoting protected employment.

- As regards diversity, the group has held the *Hello/Hola* and *My Guest (Mi invitado)* cultural exchange programs for the children of employees in Spain, the United Kingdom and the United States.
- In the United States, Avangrid has continued its collaboration with various initiatives supporting diversity, like *Troops to Energy* jobs to foster the inclusion of veterans in the workforce; and it forms part of the consortium, along with other services companies, to discuss good practices to achieve this goal.
- In the United Kingdom, ScottishPower continued during 2017 with its commitment to well-known entities such as the Business Disability Forum, Employers Network for Equality & Inclusion, Equate, Working Families, ENABLE, POWERful Women and Stonewall, and has maintained the certification granted by Tommy's Healthy Pregnancy Charity. It is also a member of the Women's Engineering Society, the goal of which is to help women with engineering training and motivate girls to study careers in engineering as a professional option. During 2017 ScottishPower sponsored The Topgraph 50 and the Women in Engineering Campaign and supported the International Women In Engineering Day. The British subsidiary has also engaged in e-learning and training activities on diversity to increase the awareness of its workforce in this area, and was one of the main sponsors of the first national conference on diversity, which brought together employers, representatives of the education

sector and third sector (civil society) organisations in order to share information and positive experiences to promote diversity among their workforces.

405-1 Composition of governance bodies and employees

Employees in the workforce	2017		2016	
	no.	%	no.	%
By gender				
Men	26,229	77%	25,925	76%
Women	8,026	23%	8,157	24%
By age group				
Up to 30 years old	4,924	14%	4,955	14%
Between 31 and 50 years old	18,912	55%	18,541	55%
Over 50 years old	10,419	31%	10,587	31%
By professional category				
Management team	928	3%	854	2%
Middle managers and skilled technicians	14,676	43%	16,589	49%
Skilled workers and support personnel	18,651	54%	16,639	49%
Number of employees⁷⁷	34,255	100%	34,082	100%

A breakdown by geographic area can be found in Annex 3 Supplementary Information.

Board of Directors	2017		2016	
	no.	%	no.	%
By gender				
Men	9	64	9	64
Women	5	36	5	36
By age group				
Up to 30 years old	0	0	0	0
Between 31 and 50 years old	2	14	3	21
Over 50 years old	12	86	11	79
Number of members	14	100	14	100

For reasons of confidentiality, in order to comply with the requirement established by the personal data protection laws in effect in each country, the information systems of the companies making up the Iberdrola group do not record their membership by ethnic group, religious group or any other diversity indicator.

405-2 Ratio of basic salary and remuneration of women to men

In each country, the average salary received by men and the average salary received by women is compared in each of their categories. Base salary is understood as fixed salary, and does not include any fixed or variable supplement.

⁷⁷ The total number of workers and the definitions of the boundary can be found in disclosures 102-7, 102-8 and 102-45 of this report.

Ratio of base salary of men to women by professional category⁷⁸ (%)

	Spain		United Kingdom		United States		Brazil ⁷⁹		Mexico	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Management team	119.21	124.31	107.81	105.61	112.82	115.70	93.30	N/A	113.83	113.53
Middle managers and skilled technicians	108.44	108.46	108.69	109.59	122.76	123.01	123.50	N/A	130.00	130.03
Skilled workers and support personnel	102.26	103.82	110.34	109.14	128.70	128.30	99.76	N/A	87.93	85.49

It is presented at the country level given the occupational idiosyncrasies of each jurisdiction and its applicable laws.

GRI 406 Non-discrimination

Contribution to SDGs of the performance described by the indicators of this section



(according to SDG Compass www.sdgcompass.org)

Management approach

Iberdrola has appropriate procedures in place to prevent any discrimination for reasons of race, colour, gender, language, religion, political opinion, national origin, social status, status as a member of an indigenous community, disability, health, marital status, pregnancy, sexual orientation or other personal condition that is unrelated to job-performance requirements.

The principles of non-discrimination and equal opportunity applied at the Iberdrola group are contained in both the *Code of Ethics* and in the global policies and procedures that have been approved and implemented (*Recruitment and Selection Policy*, *Equal Opportunity and Reconciliation Policy*, etc.) and in local collective bargaining agreements and policies such as:

- Equality and Reconciliation Plan and Anti-Harassment Action Plan for companies of the *7th Collective Bargaining Agreement* in Spain.
- Policies on equal opportunity and reconciliation, anti-age discrimination, people with disabilities, equal pay, harassment and flexible working policies, as applied in the United Kingdom.
- Equal remuneration policy at Elektro, subsidiary of Neoenergia, in Brazil.

⁷⁸ Index under 100 indicates a negative salary breach, i.e. average salary received by women above the average salary received by men for the category.

⁷⁹ Data from Brazil for prior year not provided due to change in boundary.

The application of all these instruments ensure that selection processes are based on the candidate's merits, enabling non-discriminatory participation in these processes.

Iberdrola believes that non-discrimination in the work place is a concept that is managed in a coordinated fashion with the concepts of diversity and equal opportunity. Therefore, the management of non-discrimination is described in detail in the preceding section, GRI 405 "Diversity and equal opportunity".

406-1 Incidents of discrimination

Reported incidents of discrimination (no.)	2017	2016
Report boundary	12	7

During 2017, the group received a total of 12 reports regarding aspects of labour discrimination and equal opportunity through the various channels provided to its professionals. 8 of the 12 cases recorded are still open. Of the cases that have already been closed (4), one of them was resolved with a written notice, another with a verbal notice, and the rest were closed without specifying action to be taken by the relevant company.

GRI 407 Freedom of association and collective bargaining GRI 408 Child labour GRI 409 Forced or compulsory labour

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

The group has a firm commitment to the human and labour rights recognised in domestic and international law and to the principles on which the United Nations Global Compact is based, the Guiding Principles on Business and Human Rights. Along these lines, Iberdrola adopts the measures it believes are necessary to ensure that workers can exercise their rights to freedom of association and collective bargaining in all the countries in which it operates. It also has the necessary measures in place to prevent child labour, forced or compulsory labour or the assignment of hazardous work to young people.

407-1 Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk

408-1 Operations and suppliers identified as having significant risk for incidents of child labour

409-1 Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour

Information regarding locations of operations analysed for human rights issues can be found in disclosure 412-1, and information regarding suppliers can be found in section GRI 414 "Supplier social assessment", both in this chapter.

GRI 410 Security practices

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

The Corporate [Corporate Security Policy](#) approved by Iberdrola's Board of Directors and the procedures adopted by the Corporate Security Division are compatible with international human rights provisions and with the laws of the countries in which the company is present.

With the certification granted by Aenor and IQNet since 1999 and recently renewed based on the new ISO 9001:2015 standard, the action protocols are defined and implemented in all activities and services provided.

The hiring of suppliers in the security area is carried out through the Procurement Division pursuant to contracting procedures in force at the corporate level. The Corporate Security Division is responsible for setting the requirements and standards to be met by such suppliers in order to be hired, both in terms of physical security as well as cybersecurity, and for the evaluation thereof during the performance of their contract. Evaluations of suppliers are carried out periodically and are intended to identify points for improvement, which are dealt with by the suppliers themselves.

Both employees as well as subcontracted personnel are qualified in their duties and reinforce their knowledge with a rigorous Training Plan that involves an evaluation and ongoing monitoring thereof. Internal and external audits conducted for such purpose provide information on the status of security and personnel involvement at each work centre, detecting strong points and strengthening weaker ones. In addition, in order to have an objective viewpoint, a satisfaction survey is carried out each year to help determine perception of the security status.

Security-related actions at Iberdrola relate to the provision of both preventive and reactive services, which seek to ensure the protection of its assets and the normal conduct of the company's activities, without interfering with the mission of government authorities. Security personnel working at Iberdrola, whether Iberdrola's own employees or subcontracted personnel, avoid the use of force, employing it only and exclusively where strictly necessary and always in proportion to the threat received, in order to protect life.

By implementing specific security procedures for each situation, Iberdrola's *Security Policy* facilitates adjustment to the realities and characteristics of the countries in which it operates, exercising direct responsibility in those cases where it is a majority equity holder, as well as in those where management has been entrusted to it.

Iberdrola's Security Management System is continuously reviewed and updated in order to comply with international human rights provisions in each new activity that it plans to undertake.

410-1 Percentage of security personnel trained in human rights policies or procedures that are relevant to operations

Persons carrying out security activities (no.)	2017	2016
Company personnel	140	130
Subcontracted personnel	1,483	1,242

At the end of financial year 2017, Iberdrola had 140 persons in its workforce to carry out security activities, of which practically 100% have received human rights training, a total of 139 people. It also draws on the services of specialised firms, which are responsible for providing the specific training required by their professionals to carry out the work entrusted to them. In financial year 2017, 1,483 subcontracted persons did this type of work, of which 1,240 (84%) have received human rights training.

This includes Iberdrola's effort to improve the training of its personnel in this area, as can be seen in the considerable increase in trained personnel over financial year 2016, with respect to both in-house staff (+15%) and subcontracted personnel (+17%).

GRI 411 Rights of indigenous peoples

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

In applying the *Code of Ethics* and its corporate policies (especially the *Policy on Respect for Human Rights*), Iberdrola and its employees undertake to respect both ethnic minorities and the internationally recognised rights of indigenous peoples, in accordance with applicable law and the obligations set out in Convention 169 of the International Labour Organization (ILO).

The company wants business activities to be carried out with respect for different cultural identities, traditions and environmental wealth, as many times these communities depend on natural resources for their subsistence. Therefore, it establishes pathways of dialogue with the participation of the State and of various organisations representing these communities, in order to report with due transparency and integrity. Ultimately, it is the promotion of ethical practices with the goal of preventing conflicts, being competitive and generating mutual benefit, which in the long term is the base social value.

411-1 Total number of incidents of violations involving rights of indigenous people

Iberdrola has a presence in 3 countries in which there are indigenous communities: Brazil, Mexico and the United States. There may be direct or indirect incidents involving these types of communities at some of the company's facilities, for which appropriate solutions are always sought. Specifically, there were 4 incidents with indigenous communities in Brazil in 2017.

In August 2017, after the integration of Elektro (100% owned by IBE) into Neoenergia (39% owned by IBE) in Brazil, Iberdrola became the majority shareholder, with 52.45% of Neoenergia, S.A., a company which in turn holds 10% of Norte Energía, S.A.

Norte Energía, S.A. is the company responsible for the construction and operation of the Belo Monte hydroelectric plant, where there have been impacts on the indigenous communities occupying the region of Medio Río Xingu, in the state of Pará. Specifically, a total of 9 ethnicities (around 3,857 indigenous persons) were affected. In order to mitigate, compensate or prevent such impacts, Norte Energía prepared an ethnological study, and based on that study prepared a Basic Environmental Plan for the Indigenous Component (*Plan Básico Ambiental para el Componente Indígena*) (PBA-CI).

This basic plan is made up of nine programmes: i) Environmental Supervision Programme; Indigenous Territory Management Programme; ii) Works and Infrastructure Programme; iii) Productive Activities Programme; iv) Integrated Indigenous Health Programme; v) Indigenous School Education Programme; vi) Institutional Strengthening Programme; vii) Tangible and Intangible Cultural Heritage Protection Programme; viii) Relocation and Resettlement Programme; and ix) Indigenous and Non-Indigenous Communication Programme. The company also prepared the Medio Xingu Territorial Protection Programme (*Programa de Protección Territorial del Medio Xingu*) (PPTMX) based on the relocation of populations called “riparians” (*riberieños*). Approximately 300 families have been relocated to date, seeking the re-establishment of the traditional life style with the preparation of sites on the edges of the dam (a total of 121), always taking into account applicable environmental law as well as environmental sustainability.

The PBA-CI will be developed during the period of the concession, i.e. 35 years. The plan is to be reviewed every 5 years in order to update it and thus ensure that indigenous rights are respected.

Neoenergia, S.A. also holds 50.1% of Companhia Hidrelétrica Teles Pires, responsible for the construction and operation of the Teles Pires hydroelectric plant, located on the border of the states of Pará and Mato Grosso, on the Teles Pires river, an affluent of the Tapajós river, next to the municipalities of Jacareacanga and Paranaíta.

In its relations with the indigenous communities, Companhia Hidrelétrica Teles Pires has established a joint dialogue with the National Indigenous Foundation (*Fundación Nacional del Indio* - FUNAI), the Federal Public Ministry and indigenous leaders of each ethnicity affected by the project in order to respond to the demands and wishes of each community. The Basic Environmental Plan for the Indigenous Component (PBA-CI) was jointly prepared and approved along with 19 socio-environmental programmes to mitigate and sustainably encourage the cultural, social and economic activities of the ethnicities of the area.

This plan is currently being implemented by Companhia Hidrelétrica Teles Pires and the works approved for the Kayabi have already been completed, the works for the Munduruku are in the final process, and the works for the Apiaká have started. The approved timetable is being met and the plan is revised based on any difficulties in implementation or delay in activities, which are timely adjusted when necessary.

Grid construction activities in the country are carried out under the principle of the *Clean Production* technique, which seeks to lower the local environmental impact of the operations, with reduced suppression of native vegetation, prioritising the plotting of lines through areas that are already transformed by human activity or on existing motorways, as well as the use of protected cables for better co-existence with existing forestation.

The indigenous and quilombola communities without access to the supply grid benefit from the installation of photovoltaic systems made up of solar panels, charge controllers, voltage inverters and batteries. In

order to implement any service in the indigenous communities, the company first contacts FUNAI, and this process was adopted for the Tapi-i and Takuary-Ty communities located in the municipality of Cananéia (Sao Paulo) and in five other indigenous villages, as well as the indigenous community of Aldea Boa Vista, in Ubatuba (Sao Paulo), which were instructed on the operation of the technology and also on the related risks. The quilombola community located in Eldorado (Sao Paulo) also participated in the social project *Meninos Ecológicos*, by means of which young people from 16 to 18 years old carry out activities such as gathering seeds and producing cuttings in tree nurseries for reforestation.

In Mexico, none of the activities have produced any type of negative impact on indigenous communities.

In the United States, in the State of California, during the construction of the Tule Wind Project, a community near Boulevard, California and the Tribes of the Kumeyaay Nation were affected by the project, as various new cultural resources were found, but no incident arose with these communities because each of the impacts was timely handled by the company, which formally consulted with tribal representatives and the Bureau of Land Management (BLM). The representatives of each group met various times during 2017 to better understand the tribal concerns, analyse alternatives and agree on mitigation measures. Some of the protection measures included halting construction until appropriate mitigation was agreed upon, moving the locations of the turbines when line of sight concerns arose due to religious beliefs and practices, and moving some project infrastructure like roads, posts for collector lines and others to avoid impacting the cultural resources. Other mitigation measures include fencing off sensitive areas and offering to install interpretative signage to describe the history of the area and the Kumeyaay Nation. From the beginning of this project it was agreed to donate almost 180,000 euros to the Imperial Valley Desert Museum to catalogue and store any cultural artefact found during the construction, and the donation was made in June 2017.

GRI 412 Human rights assessment

Management approach

In its [Policy on Respect for Human Rights](#), Iberdrola has acquired the following commitments, among others:

- Respect the human and labour rights recognised by domestic and international law, as well as adhere to international standards in those countries in which human rights law has been sufficiently developed.
- Reject child labour and forced or compulsory labour, and to respect freedom of association and collective bargaining as well as non-discrimination, the right to freedom of movement within each country, and the rights of ethnic minorities and of indigenous peoples in the places in which it carries out its activities.
- Promote a culture of respect for human rights and awareness among its professionals in this field at all of the group companies and, in particular, at those in which there may be a higher risk of violation of such rights.

To progress with the implementation of these commitments, it has designed a *Human Rights Management Model*, in which cross-cutting activities and goals have been planned for the entire organisation. In parallel, it is working to review human rights due diligence, which focuses on people, specifically on the relations of the company with affected parties, and it is therefore imperative to obtain a first-hand understanding of the needs of the Stakeholders. Iberdrola has developed a new *Stakeholder Relations Model*, which ensures the existence of appropriate channels of communication for each of them, which helps to better identify

significant issues and will allow for the prevention and mitigation of and response to the main risks and impacts with appropriate agility.

412-1 Total number and percentage of operations that have been subject to human rights reviews or impact assessments

In developing the human rights due diligence process, Iberdrola has updated its risk map by country and business in order to identify the actual and potential impacts of its activities on these rights. To do this, it has used an internal methodology which makes assessments based on the countries ratifying or joining the following international conventions and treaties:

- Forced Labour (C029, C105), Right to Organise and Collective Bargaining (C087, C098), Child Labour (C138, C182) and Non-discrimination (C100, C111).
- Convention C169 on Indigenous and Tribal Peoples.
- The 2017 report of the International Labour Organisation (ILO) entitled *Report of the Committee of Experts on the Application of Conventions and Recommendations*.
- International Covenant on Civil and Political Rights.
- International Covenant on Economic, Social and Cultural Rights.
- American Convention on Human Rights signed at the Inter-American Specialized Conference on Human Rights (Treaty B-32).
- European Social Charter (Turin, 18 October 1961).

The position of countries on the following indexes and studies has also been taken into account:

- UNDP Human Development Index (2015 data, the latest available during the study).
- Transparency International (Corruption Risk, 2016 data, the latest available during the study).
- Countries involved in armed conflict (*Report on Conflicts, Human Rights and Peace Processes. 2016 Alert*. School for a Culture of Peace).

Once the risk map was updated, the data were cross-checked against the analysis identifying the significant locations of operation, in order to know what percentage thereof might have a risk of violating these rights.

Of the 114 significant locations of operation (detailed information in disclosure GRI 102-7) covered by analysis or impact evaluations in the area of human rights (100% of the significant locations), 29 of them (25% of the group total) are in Brazil and Mexico, countries considered to be at risk for violation of these rights.

As a result of this analysis, the United States and Canada could also be considered countries at risk, as they have not yet ratified or joined several of such labour conventions. However, given the socio-political characteristics of these two countries and taking into account the internal procedures defined for the U.S. subsidiary Avangrid, Iberdrola does not believe there is a risk of violation of these rights for the group's workers.

Once possible actual or potential risks of the company's activities are detected, there is an internal review at the corporate level of the framework of policies, processes, persons responsible and current resources to detect any breach in the due diligence process. This analysis will be completed during 2018 with the help

of independent experts and will be completed at the country level during 2019, in which period a new Action Plan will be prepared to review policies, management procedures and grievance and complaint mechanisms, and actions to be implemented in the short, medium and long term will be proposed, all in order to prevent, mitigate and/or repair impacts considered to be priority after the analysis at both the corporate and country level.

412-2 Employee training on human rights

Due to the importance that the company attaches to respect for human rights, various training initiatives have been undertaken in this field over the years for the prevention of violations of both labour and social rights, thus complying with the company's commitment to continuous improvement. Various courses have been provided, such as respect for human rights, security personnel, code of ethics, anti-harassment, equality and non-discrimination, diversity and inclusion, health and safety, legal hiring and performance, climate change, keys for the protection of information, practical advice on cyber-security, etc.

The goal of these courses is to inform the entire organisation of the social and labour rights affecting the activities of the company and to train all employees on the prevention of risks in the operations of the company and on the mitigation and remediation of possible impacts that might occur in the event of any violation of human rights.

During 2017 Iberdrola drove awareness of the human rights of employees throughout the group with more than 200,000 hours of training in this area, as it believes that all employees must become involved in compliance activities and in the dissemination and reporting of any violation in connection with this aspect, and that the entire team is responsible for ensuring that respect for human rights is a reality.

Iberdrola is also aware that merely internal awareness-raising is not sufficient and has therefore set the goal of translating its business culture to the supply chain, acting as a lever to raise awareness on these issues.

412-3 Investment agreements and contracts that include human rights clauses

The policies, codes and procedures governing the operation of the company are applied in all of Iberdrola's activities, including investments. Specifically, the *Procurement Policy*, which contains the general contracting terms of the Iberdrola group, includes a specific section on respect for human rights. For that reason, Iberdrola is confident that investments are made in accordance with strict standards of respect for human rights, and has received no evidence through the channels established for such purpose of any kind of activity, whether internal or external, that is contrary to the protection of these rights.

Currently, by application of the Modern Slavery Act approved in 2015, significant human rights clauses relating to said law are included in all contracts only in the case of the United Kingdom.

There were 10 projects with significant investments in financial year 2017⁸⁰:

- Spain, 2 projects: work has continued on the Madrid Plan, for reducing the size of substations and dismantling high-voltage overhead lines, with an investment by Iberdrola of 178.3 million euros by year-end 2017; and on the STAR project for installing smart grids. This project consolidates compliance with the legal obligation to develop remote management with a significant additional investment to improve the service provided and incorporating numerous innovations into the

⁸⁰ Significant investment means one that requires more than 100 million euros or one that is considered to be significant for the company even though it requires a smaller investment due to the size or strategic importance thereof.

electric grid. Approximately 1.4 million meters were installed in 2017, with an investment of 195 million euros, meaning that there are already more than 10.2 million meters installed, most of which are transmitting data.

- United Kingdom, 2 projects: during the first quarter of the year, the East Anglia One offshore wind project (signed in 2016) was completed with 2 additional contracts: a new supply contract with the company Navantia and an installation and logistics contract with Van Oord, both with a value of 302 million euros.
- United States, 4 projects: the acquisition of turbines for the Karankawa windfarm in Texas and Montague windfarm in Oregon, the acquisition of the Gala solar project in Oregon, and an engineering, procurement and construction management project for the WyEast solar project, which contracts have exceeded 350 million euros.
- Mexico, 2 projects: El Carmen, the combined cycle plant located in the state of Nuevo León, which represents an investment of approximately 400 million euros, and Topolobampo III, a combined cycle plant located in the municipality of Ahome, in the state of Sinaloa, with an investment of approximately 350 million euros.

GRI 413 Local communities

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

Iberdrola maintains a policy of strong involvement in the communities in which it operates, making a contribution to society linked to its own business activities: the supply of an essential product like energy, significant investments in basic infrastructure, promotion of local supplier networks, creation of qualified job positions, etc., with the intention of being a long-term investor in the regions in which it has a presence, in order to generate sustainable economic and social value.

Iberdrola's commitment to the local communities of the countries in which it operates takes shape through social activities in cooperation with governments, institutions and civil society organisations, as well as through sponsorships and patronage. The programmes of activity focused on social and economic development of the surroundings are especially significant.

These programmes and activities are implemented in various complementary ways:

- Directly by Iberdrola, through the Institutional Relations Division.
- Directly by subsidiaries or affiliates (i.e. investee companies, i.e. those in which the company has an equity interest), in their respective areas of activity.
- Sponsorship and patronage activities, primarily through Fundación Iberdrola in Spain, ScottishPower Foundation in the United Kingdom, Avangrid Foundation in the United States, Instituto Neoenergia in Brazil and Fundación Iberdrola in Mexico.

- There are also two other organisations in the United Kingdom with a philanthropic purpose: The ScottishPower Energy People Trust and The ScottishPower Green Energy Trust, which carry out activities in their specific areas of competence.

413-1 Local community engagement, impact assessments and development programmes.

413-2 Significant negative impacts on local communities

In each of the countries in which the group operates, environmental impact assessment studies are performed at Iberdrola's centres of operation in accordance with applicable law prior to the construction of facilities. Activities addressing its Stakeholders are also performed, including social development programmes and participation in local communities. Almost 100% of the company's locations of operation are subject to these types of activities, focused on meeting the needs of its Stakeholders, especially in local communities, and engaging in the most appropriate activities in all those areas that most directly affect them. The principal activities are described in greater detail below:

a) Impact assessments

Iberdrola believes that the impacts of the start-up of electric power generation plants are especially significant. In the countries in which the company develops these types of facilities, applicable laws require the performance of studies assessing the impact on the environment and the community, and such studies must be approved by the competent public authorities. Iberdrola believes that these studies and assessments are appropriate to safeguard the rights of communities, as they include the most significant issues for the affected areas.

These studies include an evaluation of the environment providing a review of environmental impacts such as emissions, effluent, waste, changes in land use, changes in landscape aesthetics and quality, etc. They also include an evaluation of the socio-economic environment, which reviews demographic aspects such as changes in population in neighbouring municipalities, economic sectors that are present in the region, basic infrastructure such as railway and road networks, and historic and cultural heritage, along with the growth in job demand in certain sectors, which is seen as a positive impact.

The impacts of the various types of facilities developed by Iberdrola are similar at the various sites at which they are implemented, and none of them are noteworthy for significant negative impacts. Consultation with and participation of both the affected government administrations and interested parties are usually guaranteed during the performance of these studies, and part of the documentation of the project is subject to public review for a period of time that varies according to the law applicable in each country. The viewpoints of the Stakeholders consulted are thus taken into account in defining the future project.

These studies also contemplate the preventive and corrective measures required to mitigate the impacts identified, and if necessary, the appropriate budgetary allocations to comply with the commitments assumed are included.

To conclude the process, programmes are implemented to monitor the various aspects identified. The effectiveness of the programmes is reviewed by means of internal and external audits, as well as by the management team. For example, in the case of nuclear plants, an Environmental Radiological Monitoring Plan is prepared to control and monitor the impacts of the facility during the operation thereof.

Most facilities have an integrated quality and environmental management system, the principal goal of which is to foster continual improvement in the results of the organisation's activities with respect to the environment, in addition to compliance with environmental laws.

Iberdrola prepares information and plans for the closure and decommissioning of facilities in accordance with applicable law and informs the workers' representatives thereof.

b) Development programmes for local communities

Iberdrola takes various types of actions to minimise, mitigate and offset unfavourable socioeconomic impacts that might be caused by its facilities. Local communities benefit from these measures, which are usually established and agreed on with local authorities. They include: improvements in communication infrastructure, water supply or roadways; public lighting; creation of direct and indirect employment; professional training courses; activities to support entrepreneurs; opening of communication processes with various Stakeholders; protection of biodiversity; and the restoration of areas, among other measures.

One noteworthy example is the creation of Energy Classrooms to foster an understanding of renewable production technologies, which involve not only visits to facilities but the development of an educational programme to acquire knowledge about energy, especially about renewable energy sources, and to promote an active attitude for the efficient use of energy and thus to contribute to energy saving.

Actions to support municipalities are also planned during the construction of the group's hydroelectric plants in Brazil, such as rural relocations at Baixo Iguaçu and its hydroelectric plant, where the population has been served by various programmes and there has been socio-economic monitoring of the population with a commitment to entrepreneurship.

A more detailed description of these activities can be found in section GRI 203 "Indirect Economic Impacts" of the "Economic Dimension" chapter of this report, as well as in the last section of this "Iberdrola's Contribution to the Community" chapter.

c) Advisory committees and processes and participation of local communities

The participation of local communities during the project planning and construction phases is described below in the section "Stakeholder participation in the decision-making process" of this chapter.

During the operation phase for facilities, Iberdrola engages in different processes of participation with the various Stakeholders that it relates to and that are described in detail in section "5.-Stakeholder engagement" (disclosures 102-40 to 102-44) of this report.

Additional information required by the GRI Sector Supplement for the "Local Communities" Topic

Management approach

Stakeholder participation in the decision-making process

Within Iberdrola's field of activity, energy planning (energy sources, technology and long-term needs) is carried out by governmental authorities; this is the institutional area in which the various Stakeholders can participate in accordance with the mechanisms established in each country. Iberdrola plays an active role in these processes, expressing its points of view and making its knowledge and experience available to governments.

Once the most appropriate infrastructure is selected, the viewpoints of the affected communities are taken into account through consultation processes, which vary depending on the country and the type of facility. All these processes, which are included in the facilities' impact assessment studies, are regulated, and they are determining factors in order to secure the construction and operating permits for the power plants; in

addition, they are frequently completed with processes voluntarily performed by the company. Along these lines, it should be noted that methods have been incorporated into the Environmental Management System so that Stakeholders can send their concerns, complaints, requests for information or any other kind of request to minimise impacts in the area.

During the planning and development of assets, prior consultations are also held and an active dialogue is maintained with the affected communities and interested parties in order to identify and address any concerns or areas of interest. In every project, relations are established with local authorities, communities and any other groups that may be relevant to the project. Information concerning the planned development is presented through newsletters, exhibitions, presentations, meetings, the group's websites, etc. There are also e-mail addresses to allow local communities to communicate with the company during the process and, in some cases, public information days are held for such purpose.

Set out below are some of the activities conducted by Iberdrola in this field for projects currently under development:

- In the Wholesale and Retail Business, since the commencement of the Tâmega River hydroelectric project in Portugal, there has been an impact assessment process with the participation of Stakeholders through public consultations in the affected municipalities. In December 2017, a seventh meeting was held with the Environmental Monitoring Commission (*Comissão de Acompanhamento Ambiental*) (CAA), made up of Iberdrola and various local and national entities, the objective of which is to supervise environmental aspects and socioeconomic impact, which is completed with visits to the works. The agreements with the municipal chambers of the influence zone were also renewed in 2017. In the United Kingdom, communication strategies have been designed for the development of the new Damhead Creek gas combined cycle plant, which include various information channels like bulletins, presentations, on-site meetings and additional information at www.scottishpower.com, as well as the consulting processes applied for the modernisation of the lines in Scotland. In Mexico, there have been studies of the social impact of the projects currently under construction for the Topolobampo (in Ahome, Sinaloa) and Noreste and Escobedo II (in El Carmen, Nuevo León) combined cycle plants. And in Brazil, there has been a *Social Dialogue Programme* with the Salto de Divisa and Itapebi communities, which includes an Environmental Education Programme and social communication in four municipalities within the area of influence.
- In the Networks Business in the United Kingdom, there has been a change towards an organisational model in which the key project decisions are made by local teams of the company to ensure consideration of local community interests: there was a strengthening of the local grid between Oswestry and Wem in North Shropshire in 2017, where multiple responses have been received, taking into account the comments received in the process. There have also been a large number of queries at Dumfries and Galloway; as regards the definition of the new transmission line, and a new Community Liaison Group has been established making changes to the destination route in order to address the considerations of the Stakeholders, and it has also participated in the reinforcement of the Kendoon to Tongland line.
- In the Renewables Business, during the development of both onshore and offshore windfarms in the United Kingdom, there have been regular informational meetings and even individual visits to groups that may be particularly affected. Additionally, a project summary document has been prepared and circulated among the Stakeholders, and a procedure has been devised for receiving complaints and suggestions, with all communications registered, investigated and answered. In the United States, there are social evaluations regarding community development during the planning and construction phases. There were various consultations with communities around potential

project areas in Illinois, New York, South Dakota and Texas in 2017. In Mexico, in the construction expanding the La Ventosa plant, the affected area is being restored. Finally, in Brazil, work is taking place at the Serra de Santana windfarm complex (under construction) on a preliminary proposal for economic activation of family farming in accordance with the nature of the region, through the sustainable cycle of the manioc (cassava). Neoenergia's new facilities go through a process of analysis through *quimbolas* and indigenous groups. These Stakeholders, along with NGOs and participating entities, are invited to participate in the consulting and impact analysis processes.

Management of population displacements

As a prevention measure, during the planning phase for new projects, Iberdrola evaluates the land that will potentially be occupied, choosing that which involves lesser displacement of people who either reside in the immediate area or whose economic activities are affected. In this ultimately occurs, Iberdrola and the relevant government authorities review the economic, environmental and social consequences of such projects, and jointly adopt suitable corrective measures. The company believes that such processes ensure the protection of general interests in the countries where these impacts occur. The measures adopted in projects of this nature currently being developed by Iberdrola are described in indicator EU22 below.

EU22 People physically or economically displaced and compensation

Iberdrola is currently developing various plants in Portugal and Brazil that involve displacements of population:

- In the construction of the Tâmega hydroelectric complex, in Portugal, it is expected that there will be displacement of some families as well as the occupation of pathways and farmland, pursuant to the process of Declaration of Public Interest by the Portuguese government. In the socio-economic and cultural action plan for the project, which actions are currently being developed and coordinated with the government administration and municipal legislatures, the affected or potentially affected families and small population centres are taken into account. During 2017, after agreement with the affected families, there was a displacement of 3 homes affected by the construction.
- In Brazil, some of the new projects, both for hydroelectric development and for windfarms, may cause population displacements or interfere with their economic activities. Prior to the approval of the projects, this social and environmental impact is evaluated in environmental impact assessments, which propose compensatory measures that are then presented to the interested parties and negotiated with them.

At the Belo Monte power station, there is continued monitoring of the social impacts pursuant to the *Project for social monitoring of the surroundings of the work and host communities*. There were 6 displacements in Brazil in 2017. The processes of relocation to new neighbourhoods, with health, education, entertainment and social assistance teams, respect family and neighbourhood ties, and the option of a related move is made available. Furthermore, vulnerable families are offered social, psychological and training services to facilitate the generation of employment. As regards commercial activities, 1,000 businesses were compensated; they were monitored at the new locations and training and guidance actions were provided. In these processes, the owners received support through training and guidance activities, and their redress process was monitored quarterly for a period of one year, consistent with the redress parameters established by applicable law.

Likewise, at the Baixo Iguaçu plant, there were relocations of 123 families after agreement on compensation, self-resettlement or rural group resettlement. These families are being helped by the

Consortio Emprendedor Baixo Iguaçu (CEBI) in the different programmes, with economic monitoring of the population and the promotion of entrepreneurship.

GRI 414 Supplier social assessment

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

414-1 New suppliers that were screened using social criteria

414-2 Negative social impacts in the supply chain and actions taken

The management approach regarding the Iberdrola group's supply practices is described in disclosure 102-9 "Description of supply chain" of this report.

100% of the suppliers of general supplies (both new and existing) and major suppliers of fuel (the majority under long-term contracts that are still in effect) are evaluated following such management approach, and their significant risks for labour practices and human rights in relation to their impacts on society are managed through the quality processes that have been implemented and through regular audits.

The [contracting terms of the group](#) for procuring equipment, material, works and services, as well as the coal contracts, include specific supplier corporate social responsibility clauses based on the UN *Universal Declaration of Human Rights*, the conventions of the International Labour Organisation, the principles of the Global Compact and compliance with the *Suppliers' Code of Ethics*. In the case of other fuels, the company's goal is to include such clauses as new contracts are signed.

Suppliers thus commit to the principles of social responsibility and respect for human rights. During the term of the contract, the supplier must allow Iberdrola to review the level of compliance with the principles established in the contracts, and if noncompliance is detected and corrective plans are not adopted, the company reserves the right to cancel the contracts.

Alignment in Procurement and in Supplier Management using Human Rights standards

In supplier management and during the procurement process, the measures adopted by the company to protect against/manage these rights are based on:

Internal Mechanisms		External Supplier Mechanisms	
Procurement Policy	Promote strict compliance by suppliers with contractual terms and conditions..., with special attention on the principles established in the Policy on Respect for Human Rights	Suppliers' Code of Ethics	LABOUR PRACTICES: to ensure the protection of internationally recognised basic human and workers' rights within their sphere of influence (forced labour, child labour, etc.)
Supplier Registration and Classification	Acceptance of Suppliers' Code of Ethics Weighting of status regarding CSR, labour practices and respect for human rights	Specific T&Cs	Specific contract clauses relating to supplier social responsibility based on the UN Universal Declaration of Human Rights, the ILO Conventions and the principles of the Global Compact
Sanction List Screening	Blocking and remediation plan if a supplier has been sanctioned or there are indications of human rights violations in their activities	Stimulus Campaigns	As a business driver, suppliers are stimulated in areas of common interest as a vehicle to ensure reliable and responsible conduct throughout the supply chain
Annual Improvement Goals	Innovative aspect: annual improvement goals directly relating to supplier CSR improvement established for the Procurement team and linked to variable remuneration	Modern Slavery Act (United Kingdom)	Classification protocols and audit of suppliers in accordance with law "Ethical Procurement: a workshop for buyers" training sessions for the entire procurement team in the UK Contractual clauses in major contracts
CSR Committee and Plan	The Procurement Division is part of the group's CSR Committee: guidelines, established goals and related indicators	CSR Scoring	Leadership, Dialogue, Management, Communication 4 blocks to evaluate the supplier's CSR performance and Human Rights standards
Transparency & Reporting	Procurement indicator in at-risk countries Contribution to sustainability infographic Annual Procurement and Supplier Management Report published on the corporate website	Supplier of the Year Award	CSR, diversity and equality categories: this promotes supplier commitment and improvement in this area and publicly recognises those who stand out

Approximately 25% of general procurement has been made in countries in which there might be a risk of human rights violations, according to the sources consulted. The 8% increase over 2016 is due to the inclusion of Neoenergia in Brazil. The percentage with respect to fuel procurement has decreased from 56% in 2016 to 52% during the period covered by the report. In addition, as described in disclosure 205-1, the company believes that the calculation should exclude purchase of fuel in Mexico and Brazil because they are made in strongly regulated environments that require contracting with state-owned companies. Excluding both countries from the calculation, the percentage of fuel procurement in at-risk countries would decrease to 14%. The standards used to identify countries at risk are the same as those described in disclosure 412-1 of this report.

There was no identification in 2017 of any contracting with suppliers that has generated incidents relating to freedom of association, collective bargaining, use of child or forced or compulsory labour, nor is there evidence of receiving complaints on these grounds. Nor have suppliers been detected with a material negative social impact, or incidents reported through the channels established for such purpose, resulting in the cancellation of orders or of contracts with group suppliers due to negative social impacts.

Transparency in the general procurement process

In applying the company's policies, the Procurement Division, within its area of responsibility, encourages equality of opportunity, applying standards of objectivity and impartiality in supplier relations, promoting publicity of and participation in selection processes, within management efficiency criteria.

The procurement process is periodically audited both internally and by external entities, with no "non-conformities" having been identified during the financial year. Recommendations and opportunities for improvement that arise during these reviews are analysed and put into place in order to maintain continuous improvement in the processes.

Dialogue with suppliers

As an indication of its efforts to encourage dialogue with its Stakeholders, and to know the satisfaction and expectations of its interested parties, the Procurement Division periodically surveys the suppliers of the group in all countries in which these processes are carried out.

The results of the surveys are as follows:

Supplier satisfaction survey	5th Survey (2016)	4th Survey (2014)	3rd Survey (2012)	2nd Survey (2009)	1st Survey (2007)
Rating (out of 10)	8.06	8.00	7.74	7.57	7.56

Suppliers value very positively the professional respect of their contacts within Procurement during the bidding phase, as well as transparency and honesty.

The overall perception of the Iberdrola group rates the company's reputation highly, with a score of 8.8, as well as the brand and the confidence it inspires, with a score of 8.6.

The results of the survey also showed some aspects that could be improved, such as the financing possibilities offered.

Main initiatives with suppliers of materials, equipment, works and services during 2017

• Supplier of the Year Award: Promoting and rewarding supplier excellence

Iberdrola uses prizes and [supplier awards](#) to encourage, promote and recognise excellence, quality, internationalisation, innovation, corporate social responsibility, entrepreneurship, occupational risk prevention, the creation of employment and wealth, diversity and equality. Moreover, the award is conceived as a tool and mechanism to thank suppliers for their contribution to the achievement of the group's goals.

Iberdrola works, and wishes to continue to work, with outstanding and sustainable suppliers, and to that end it establishes clear awareness-raising and measuring mechanisms, devoting specific resources within the Procurement Division to such task and establishing personal goals for the management team linked to the ongoing improvement of suppliers' sustainability ratios.

• Iberdrola extends its commitment to reconciliation of work and personal life to its suppliers.

Iberdrola has decided to extend to its suppliers its good practices on reconciliation between the work and personal life of its employees. For this reason, the company has revised and amended the text of the *Suppliers' Code of Ethics* to include a title on reconciliation in the *Labour Practices* section.

Iberdrola states therein that the supplier should “*assess the implementation of measures that promote respect for the personal and family life of its professionals and facilitate the achievement of an optimal balance between the latter and the work responsibilities of women and men*”.

• Supplier sustainability evaluation model: CSR Scoring

Iberdrola has a *CSR Scoring* model to evaluate its suppliers with respect to social responsibility, quantifying their relative position based on the suppliers' management in terms of social responsibility, so that there is a standard to differentiate them in tenders or contracting. The evaluation provides added value to suppliers,

allowing them to know the areas for improvement in order to focus their efforts in the area of social responsibility.

The CSR scoring data regarding the volume of purchases analysed (85% of the group's total procurement) are shown below:

Supplier CSR Scoring Model	
Classification levels	% amount awarded
A+	78.2
A	20.7
B	1.1
Total	100

Establishing improvement goals throughout the Procurement Division team relating to the increase in procurement with analysed suppliers and the increase in the percentage of procurement from A+ suppliers.

For those suppliers scoring B and A, a notice is sent and specific traction applied to their situation so that they try to improve to A+.

During the financial year, there were 76 social audits of suppliers with an order during the year. Suppliers with "non-conformities" in the process have a specific period within which to rectify the deficiencies found.

• **Supplier diversity**

Avangrid has a *Supplier Diversity Program*, which establishes a commitment to include the following within the supplier network and increase procurement therefrom:

- Minority-Owned Business Enterprises (MBE)
- Women-Owned Business Enterprises (WBE)
- Lesbian, Gay, Bisexual and/or Transgender-Owned Business Enterprises (LGBTBE)
- Veteran-Owned Business Enterprises (VBE)
- Service-Disabled Veteran-Owned Business Enterprises (SDVET)
- Small Disadvantaged Businesses (SDB)
- Historically Underutilized Business Zone Enterprises (HUBZone)

There was approximately 33 million euros of contracting volume with these groups in 2017.

During 2017, the contracting volume with Special Employment Centres in Spain (in order to assist and work with persons with disabilities) totalled 3.2 million euros.

• **Transparency and reporting**

Further information on Iberdrola's relations with and management of its suppliers can be found in the [Periodic Report on Procurement and Supplier Management](#) and in the [Contribution to Sustainability](#) section of the corporate website.

GRI 415 Public policy

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

Iberdrola has two kinds of relationships with regulatory entities:

- Relationships geared towards contributing to the enactment of efficient regulatory provisions allowing for the development of a competitive market in activities that are not subject to a natural monopoly, and sufficient remuneration for regulated businesses. To that end, there is a continuous and constructive dialogue where information, knowledge and positions are exchanged. Iberdrola is thus acquainted with the concerns and proposals of regulatory entities and provides them with its own positions in the legitimate defence of its interests and those of its shareholders and customers. The company also actively participates in “public hearings” held by regulatory entities in order to ascertain the opinions of the players involved in the processes prior to the revision of regulations or the determination of domestic and European energy policies. It also participates in the official processes of enactment of the laws and regulations and the monitoring of the application thereof.

As a general rule, Iberdrola defends the principles of good regulation: proportionality, effectiveness and efficiency, responsibility and independence, consistency and credibility, and finally, transparency and clarity. As regards specific matters of energy regulation, it champions, among other things:

- o A Sustainable Energy Model, giving priority to lower-emission energy in a manner consistent with market principles.
- o Achievement of competitive supply, which requires an appropriate environmental cost allocation among all energies, following the “polluter pays” principle. Climate actions need to be financed by all polluters.
- o Decarbonisation is now the new challenge. In 2050, the system will be completely different, with significant penetration of renewables and very low use of thermal plants, a trend that is already starting to be seen. The key to this low-emission future is investment, but the design of the current market cannot provide the long-term signals for such investment to occur. Therefore, the current energy market is migrating towards two different markets: the Investment Market on the one hand, related to installed capacity and thus guaranteed supply; and the Operations Market on the other. The Investment Market consists of auctions of long-term capacity and renewables. The Operations Market consists of the delivery of energy and complementary services.
- o Smart grids offer consumers a wide array of possibilities, and must therefore be appropriately promoted and remunerated.
- o All customers, whether self-consumers or not, must receive transparent bills and contribute equitably both to network costs and to the costs of environmental policies.
- o Reasonable profits and sufficient rates for regulated activities.

- Clean electricity rates of costs not related to supply (additional non-mainland costs, annual rate shortfall payments, subsidies for domestic coal, premiums for renewable energy, etc.).
 - Full liberalisation of activities relating to generation and end supply, including the elimination of regulated end rates.
 - Introduction of measures to protect vulnerable customers and elimination of all kinds of cross subsidies among energy customers.
 - Creation of the European single market.
 - A CO₂ price that provides a signal encouraging investments in both low-emission generation and in energy efficiency measures, which will allow for progress in the decarbonisation of the European economy.
- Provision of all information required by regulatory entities, whether in connection with the normal conduct of its business or as a result of any transitory issue.

In addition to its direct relationships with regulatory entities, Iberdrola and the companies in its group participate in the regulatory process through the domestic and international trade associations of which they are members.

As regards lobbying activities, Iberdrola is registered with the Transparency Register created by European institutions to provide adequate transparency to the relations of such institutions with companies, NGOs, citizens' associations, think tanks, etc. The register was created by the European Parliament and the European Commission, and the Council of the European Union supports the initiative. [Iberdrola's record](#) in such register can be found on the EU's website. In its activities to influence public policies, Avangrid has made the financial contributions shown in the [US register](#). And finally, a project for the dissemination of regulatory positions has been developed as part of Iberdrola's transparency policy. Therefore, the company has made publicly available a compilation of [Global Regulatory Positions](#), valid for all countries and businesses. The goal is for the regulatory positions advanced by Iberdrola to be transparent and well-known.

415-1 Contributions to political parties or to related institutions

Iberdrola has a neutral position from a political standpoint. In financial year 2017, none of the group's companies, except in the United Kingdom and the United States, contributed to the financing of political parties or to organisations controlled by them.

Contributions to political parties (€)	2017	2016
United Kingdom	26,266	26,889
United States	14,997	129,543
National level	0	0
State level	14,997	129,543
Other countries	0	0
Total	41,263	156,432

In the United Kingdom, ScottishPower contributed a total of 26,266 euros, distributed among various parties across the political spectrum, to sponsor lectures and events, pursuant to the *Political Parties, Elections and Referendums Act (2000)*. These occasions are an important opportunity for the group to present its viewpoints to representatives of all political options on a non-partisan basis. The contribution does not involve supporting any particular party.

In the United States, the Networks Business of Avangrid contributed a total of 14,997 euros to candidates and political parties, and reported such contributions in accordance with applicable law. The contributions are those made by the company and do not include additional voluntary contributions made by employees.

GRI 416 Customer health and safety

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

Customer health and safety

For Iberdrola, the safety of the users of the network is of the utmost importance. For this reason, it makes information and training available to the various emergency services in order to explain possible conflicts and how to act in situations involving electricity risks.

All stages of the life cycles of electricity and gas are highly regulated because they are basic products for the development of a country's economy and entail an improvement in the quality of life of citizens.

Therefore, in the *planning* stage for the facilities, the community participates through its social and political representatives in broad discussions concerning the energy model to be adopted in the country. During the *approval* stage, citizens can participate during public information periods, taking into consideration economic, environmental and health and safety aspects, as well as the reliability of supply, generating public policies that lay the groundwork for the companies within the Iberdrola group to adopt investment strategies that are consistent therewith.

In the countries in which Iberdrola engages in electric power production activities, there are extensive environmental and labour regulations aimed at ensuring that existing risks to human health and safety remain within the limits established thereby. The companies thus provide the information required to verify that the operating conditions established in the regulations and in the technical specifications for generation plants are observed in their construction, operation and maintenance.

Likewise, the electricity and gas transmission and distribution stages are subject to extensive regulations governing the construction, operation and maintenance of these facilities, and therefore the companies provide the human, physical and financial resources needed to minimise electricity risks and those associated with the handling of natural gas.

During the *retail* stage, the company also believes that the most effective way of protecting public health and safety in the use of power and gas is the provision of training and information to customers. There are also gas maintenance operating procedures to ensure safety in Spain. In the United Kingdom, devices have been developed to improve the safety of customers, such as carbon dioxide alarms, fire alarms and devices preventing hypothermia. In the United States, the evaluation and control of electrical risks for customers is thoroughly regulated at the state level.

As a complement to the foregoing, the Iberdrola group voluntarily adopts various measures to improve aspects relating to product safety. Specific internal regulations have been developed at distribution networks in this regard and there are also training seminars for third parties so that they understand electricity-related risks (fire brigade, Guardia Civil, Civil Protection, Military Emergency Unit, students, etc.).

Finally, Iberdrola has various means to inform and train the public through actions and programs that are explained in more detail under the "Access to adequate information" section in this chapter. There are also direct channels of communication with customers, as shown in disclosure 102-43 of this report.

Electric and magnetic fields

The possible influence of electric and magnetic fields on the health of human beings has historically been a topic of certain public debate. However, the different studies performed in this regard show that there has been no identification of detrimental effects on human health with respect to the maximum emission figures established by applicable law. Iberdrola, inspired by the precautionary principle, applies the rules in this regard and is willing to work with the public authorities in adopting such preventive or mitigating measures as may be deemed appropriate to avoid risks or harm to health.

There are differences in the practices relating to this issue in the various countries in which the company does business:

In Spain, two reports are prepared regarding electric and magnetic fields at facilities, which are audited by Aenor: *Emissions of electric and magnetic fields at Distribution facilities 2017* and *Radioelectrical emissions of relay stations 2017*. Both reports show that the emissions of electric and magnetic fields meet legal requirements and that all facilities are below the levels set by law.

In the United Kingdom and the United States, the facilities comply with applicable regulations and measurements are not taken at the facilities unless requested by the customer. During 2017, the company received 45 such requests in the United Kingdom, with 29 field surveys verifying emissions and the provision of the information to the customer, and no pending action for breach of maximum levels was detected. In the United Kingdom, there is also monitoring of applicable legislation, changes therein and research through working groups within the Energy Networks Association.

In Brazil, there are measurements of electromagnetic fields to check compliance with the benchmark figures under current law, and no nonconformity was detected in 2017.

416-1 Products and services for which health and safety impacts are assessed

All processes required for the supply of electricity and gas at all stages, described in the above management approach, ensure that such products arrive at the consumer with an appropriate level of assurance for their health and safety. The impacts on health and safety of 100% of the categories of major products and services are evaluated in order to make improvements.

416-2 Incidents of non-compliance concerning the health and safety impacts of products and services.

The table below sets forth incidents regarding the impacts of products and services on the health and safety of customers during 2017, 6 of which resulted in a fine in the United States and 2 relating to voluntary codes in Brazil.

These incidents are mainly due to violations relating to the cutoffs of gas services. They may also be due to failures in the qualification of a contractor, where the company has participated in the Operator Qualification Programme; and to not complying with construction rules relating to the instalment of piping, with the company reviewing the locations at which the contractor has worked.

Incidents stemming from non-compliance with regulations or voluntary codes (no.)	2017	2016
Resulting in a fine	6	1
Resulting in a warning	0	0
Relating to voluntary codes	2	0
Total incidents	8	1

EU25 Injuries and fatalities to the public involving company assets.

In order to facilitate citizens' access to an essential service such as electricity, the construction, operation and maintenance of various infrastructure is required, which entails certain risks, which may at times give rise to incidents affecting people outside of the company. In most of the cases detected the incidents relate to improper construction activities and, to a lesser extent, to unauthorised entry into the company's facilities.

The following table shows the accidents of this kind that occurred during 2017. 6 of the persons who suffered accidents were in Spain, 55 in the United Kingdom, 23 in the United States and 249 in Brazil. Of the accidents that have occurred, 3 involved a fatality in Spain, 1 in the United Kingdom, 1 in the United States and 45 in Brazil.

Accidents of persons not belonging to the company (no.)	2017	2016
Accident victims	333	261
Fatalities	50	45

The claims listed in the table below have been filed against companies of the group on these and other similar grounds not resulting in injuries and are following the relevant legal procedures applicable in each jurisdiction. Legal proceedings finished and pending by year-end 2017 amounted to 110 in Spain, 70 in the United States and 228 in Brazil.

Legal proceedings (no.)	2017	2016
Settled and pending, stemming from those accidents	408	258

GRI 417 Marketing and labelling

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

Marketing communications

Iberdrola observes the laws and abides by the regulations governing its advertising and marketing communications, and adopts mechanisms and voluntary codes that cause such communications to be transparent and truthful, and the *Code of Ethics* also applies in this area for all employees regardless of their area of responsibility.

In Spain, Iberdrola is a member of the Association for Commercial Self-Regulation (*Asociación para la Autorregulación Comercial*) (Autocontrol), the Spanish Electronic Commerce and Relational Marketing Association (*Asociación Española de Comercio Electrónico y Marketing Relacional*) (AECCEM), the Spanish Advertisers' Association (*Asociación Española de Anunciantes*) (AEA) and the Marketing Association of Spain (*Asociación de Marketing de España*) (MKT), and has subscribed to their respective codes of ethical conduct, which entails the assumption of a commitment to offer responsible advertising to society that complies with the codes of conduct, and accepts the decisions of an Advertising Jury (*Jurado de la Publicidad*) regarding complaints that may be filed by consumers or competitors with such body.

ScottishPower in the United Kingdom complies with all the laws applicable to it on these terms, follows a structured internal procedure for all of its actions, and complies with conditions SLC 25 and SLC 7B of the supply licence, which require clarity, simplicity and justice for customers. It also complies with the codes of advertising practice of the Advertising Standards Authority, ensuring that each advertisement published is approved by teams that verify compliance with good practices.

Elektro, one of the subsidiaries of the Neoenergia group in Brazil, has a formal communication procedure called P-CT-001, which covers all internal and external communication activities, consistent with the ethical values and principles governing Iberdrola. The other companies of the group, in addition to having internal rules for the preparation of marketing communications and advertising activities, follow the principles of responsible advertising of the National Council on Advertising Self-Regulation (*Consejo Nacional de Autorregulación Publicitaria*) (Conar Statute).

Information on and labelling of electricity sold

As regards labelling, in Spain Iberdrola informs its customers about the source of the energy sold by the retail supplier and the associated environmental impact thereof by means of a label included in the electricity bills and in advertising to customers. This information is presented using model images and labels established by the National Markets and Competition Commission (*Comisión Nacional de los Mercados y la Competencia*) (CNMC). The CNMC has launched a System for Guarantees of Origin of

energy produced in order to create the labels and images. This information is also available in the [electricity labelling](#) section of the retail website.

In the United Kingdom, ScottishPower reports the origin of its energy each year and the environmental impact thereof. New customers receive this information as part of their Welcome Cycle communications, and existing customers receive this information in the *Important Information* section of each invoice or notice, in accordance with the guarantees of origin rules established by Ofgem. All information about the label is also available in the [Where you get your energy](#) section of the website.

There is no obligation to label electricity in the United States or Brazil. Gas is not currently labelled in the countries in which the company sells this product.

Finally, such additional information as may be of help for consumers to make a more rational, efficient and safe use of these products is set forth at the end of this chapter in the "Access to adequate information" section.

Customer satisfaction

Iberdrola has various mechanisms to measure customer satisfaction levels and to gather the opinions of its customers, as well as to verify compliance with its quality standards within the customer service and sales channels. The most significant studies by country are:

- In Spain, most of the studies use the Net Promoter Score (NPS) Index, involving telephone interviews by various research institutes, increasing from 26% in 2016 to 27% in 2017. These studies include the *Customer Voice Study (Estudio de la Voz del Cliente)* in order to know consumer ratings. This survey offers detailed information regarding attributes like agility, treatment within the service channels, clarity of the invoice, management and claims regarding complaints, and others, like quality of supply, price competitiveness and electronic billing, whether for large customers, companies, small businesses or residential customers. Overall satisfaction in 2017 exceeded 7 out of 10 for the third consecutive time. There is also a *Gas Maintenance Service Satisfaction Survey*, conducted on a yearly basis, maintaining a high level of satisfaction with respect to both the service and the professionalism of the technicians, as well as a study of satisfaction with the *Electrical Emergencies* service. There are two types of surveys at the Networks Business, showing the satisfaction of those requesting new supplies and expansions of capacity, with a grade of 3.4 out of 5 in 2017.
- In the United Kingdom, customer satisfaction is measured by a series of internal and external studies within the *Customer Insight* department, including satisfaction surveys that vary in frequency, from monthly to annually, by a customer research panel (*Your Energy People*).

There is also a series of external comparative studies measuring the satisfaction of ScottishPower's customers as compared to its competitors, such as those conducted by USwitch, Which?, Nunwood, NCSI in the United Kingdom and UK-CSI, which is published twice per year. The latest results are based on the UK-CSI study and show that ScottishPower has improved 1.6 points over the prior year, from 68.5% to 70.1% in 2017.
- In the United States, the Avangrid subsidiaries CMP, NYSEG and RGE take two kinds of measurements:
 - o customer satisfaction in recent contracts, the results of which are compared to the regulator's objectives and with the results of other companies in the industry. NYSEG and RGE reached general satisfaction results of 87% and 85%, respectively.

- consumers' perception of the performance of the companies CMP, NYSEG and RGE, which is conducted on an annual basis, through 600 telephone interviews for each company. The results show that in 2017 they are among the 5 leading companies in the Northeast in the 3 leading indexes: customer satisfaction, energy delivery and customer interaction.
- In Brazil, Abradee (*Associação Brasileira de Distribuidores de Energia Elétrica*, or Brazilian Association of Electric Power Distributors), in association with Fundación Instituto de Investigaciones Económicas (FIPE), is responsible for classifying and giving awards to companies based on an evaluation of performance in the following areas: operational excellence, economic/financial management, customer assessment, social responsibility and management quality. The ISQP (*Índice de Satisfacción de la Calidad Percibido*, or Perceived Quality Satisfaction Index) of the services is obtained through evaluations by the customer via surveys performed by Instituto Innovare, which is responsible for customer surveys. The established methodology analyses up to 46 attributes distributed among areas such as customer services, image and price, among others. In 2017 the quality perception grade of low-voltage customers for companies of the Neoenergia group obtained an average rating of 78 points, while the quality of service for high-voltage customers of Elektro was rated at 77.8%. Aneel (*Agencia Nacional de Energia Elétrica*, or National Electric Energy Agency) also performs satisfaction surveys of the customers of the distributors based on 40 attributes. The companies of the Neoenergia group obtained an average rating of 62.05 in this survey.

417-1 Product and service information and labelling required by procedures in force and by regulations.

The data on information and labelling of products and services required by this GRI disclosure is reflected in the above Management Approach to the management of marketing and labelling of this report.

417-2 Incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling.

The following table sets forth the incidents related to information and labelling that occurred during financial year 2017, which have resulted in 2 fines in Spain.

Incidents relating to information and labelling (no.)	2017	2016
Resulting in a fine	2	8
Resulting in a warning	0	0
Relating to voluntary codes	0	0
Total incidents	2	8

417-3 Incidents of non-compliance with regulations and voluntary codes concerning marketing communications.

The following table sets forth the incidents that occurred due to non-compliance regarding marketing, advertising, promotion and sponsorship during financial year 2017, when none occurred.

Incidents of non-compliance concerning marketing, advertising, promotion and sponsorship (no.)	2017	2016
Resulting in a fine	0	2
Resulting in a warning	0	0
Relating to voluntary codes	0	0
Total incidents	0	2

GRI 418 Customer privacy

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

Iberdrola ensures the privacy of the personal information of the group's customers as set out in the Management Approach "Privacy of the personal information of Stakeholders" included at the end of the "Economic Dimension" chapter of this report.

418-1 Substantiated complaints regarding breaches of customer privacy and losses of customer data.

Incidents relating to privacy (no.)	2017	2016
From regulatory entities	163	175
From other sources, substantiated ⁸¹	29	14
Total substantiated complaints	192	189

Of the incidents arising from regulatory entities, 8 occurred in Spain and 155 in the United Kingdom and of those from other sources, 28 occurred in the United Kingdom and 1 in Brazil.

During 2017 there were also 151 cases of loss of or damage to customer data, all in the United Kingdom.

GRI 419 Socioeconomic compliance

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)

⁸¹ The 2016 data has been revised because claims were being included in Brazil due to errors in the data unrelated to violations of privacy or the loss of information.



Management approach

As laid down in its By-Laws, Iberdrola aspires for its conduct and that of the persons connected therewith to conform and adhere not only to applicable law and its Corporate Governance System, but also to ethical principles and generally accepted principles of social responsibility. In this connection, the *Code of Ethics* of the Iberdrola group provides that:

- Group professionals shall comply strictly with the laws in force in the jurisdiction of their workplace, heeding both the spirit and the purpose of such legal provisions, and shall observe the provisions of the *Code of Ethics*, the rules of the Corporate Governance System, and the basic procedures governing the activities of the group and of the company in which they provide their services. They shall also fully observe all obligations and commitments assumed by the group in its contractual relations with third parties, as well as the usage and good practice of the countries in which they carry out their activities.
- The officers of the group shall have particular knowledge of the laws and regulations, including internal ones, affecting their respective areas of activity, and must ensure that the professionals reporting to them receive the required information and training to enable such professionals to understand and fulfil the legal and regulatory obligations, including internal ones, applicable to their position.
- The group shall respect and abide by all court and/or governmental decisions or resolutions that may be issued, but reserves the right to file such appeals as may be appropriate against any such decisions or resolutions when it believes that they do not conform to the law.

419-1 Non-compliance with laws and regulations in the social and economic area

The following table shows violations of laws and regulations in the social and economic area, i.e. all violations of any kind (whether labour, tax, competition, related to distribution or retail sale of energy and gas, etc.) of the Iberdrola group, other than violations of environmental regulations, which are set out in disclosure 307-1.

Significant fines and non-monetary sanctions in the social and economic area ⁸²	2017	2016
Fines imposed (€)	58,891,707	208,758,953
Non-monetary sanctions (no.)	1	3
Cases being resolved through arbitration or similar mechanisms (no.)	465	575

Of the total amount, fines in the amount of 58,005,333 euros have been imposed in Brazil, mainly corresponding to three fines on the Networks Business of the Neoenergia group: 15,011,504 euros for a violation relating to the tax on own equity interests, payment of premium and deduction of regulatory fine

⁸² Arbitration mechanisms are not included in the labour area.

and collection of contribution relating to occupational environmental risks; 14,266,488 euros for commencement of Violation Order issued by the Brazilian tax authority collecting the tax on payment of the premium in the acquisition of Elektro in 2011; and 12,330,153 euros for violation in the deduction of regulatory fines from the calculation base for income tax. Of the remainder, 14,102,922 euros correspond to other fines against the Networks Business, 2,198,913 euros to the Wholesale Business and 2,294,265 euros correspond to the Renewables Business for various penalties imposed for different reasons.

In Spain, fines totalling 609,165 euros were imposed, of which 417,606 euros were for digging trenches without a works permit and for the construction of unauthorised facilities, all of which have been appealed. The remaining 217,908 euros corresponds to penalties for violations of personal data protection and customer information regulations, as well as other penalties in the consumer and labour areas.

In the United States, fines have been imposed in the amount of 220,295 euros, of which 155,512 euros correspond to fines mainly due to failures in the inspection systems and proceedings regarding abandonment and deactivation of gas services and violations of pipe installation requirements. The remaining 64,783 euros mainly corresponds to violations of safety regulations during the "Dig Safe" excavations.

In the United Kingdom, ScottishPower has received a fine in the amount of 3,988 euros for delay in the payment of the tax relating to the management of easements in the East Anglia One project.

No fines were imposed during 2017 in the other countries in which the company operates.

Finally, in Brazil, Neoenergia received a non-monetary penalty for labour reasons.

Electric Utilities Sector Specific Aspects

Disaster/emergency planning and response

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

As in any industrial activity, situations of risk to the facilities or the public at large may occur at power generation plants and in electricity grids, either because of an accident or due to loss of electricity supply.

Where this occurs, the subsidiaries of the Iberdrola group and the companies in which the company has an interest have put plans, procedures and other mechanisms in place in order to try to minimise the consequences. Such measures include preventive measures that have been jointly established with local authorities, as well as training both for its own and subcontracted staff and ongoing education, and regular safety drills with on-site audits.

The Wholesale and Retail Business has various documented emergency management procedures in place at its facilities: for example, in Spain and Mexico there is an *Emergency Response Organisation* (*Organización de respuesta ante emergencias*) (*ORE*) procedure, which involves personnel of all levels and is put into operation in the event of emergencies that jeopardise the assets of the company or its employees. In the United Kingdom, there is a Business Continuity Management System for the management and minimisation of emergency situations, which is externally audited and ISO 22301 certified. In the United States and Canada, each facility has a Prevention, Control and Countermeasures Plan, which includes preventive and reactive actions, and also has an Emergency Response Plan. There are also emergency plans at the generation plants in Brazil.

In addition, there may be specific plans based on each technology; for example, hydroelectric generation facilities also have an internal process to monitor a Reservoir Emergency Plan implemented at all of the Cuenca Units.

Thermal generation plants have established general procedures to identify and respond to potential accidents and emergency situations, as well as to prevent and reduce environmental impacts, serious accidents and possible injuries to employees.

Nuclear power plants have specific emergency plans in order to ensure that emergency systems are operational and to guarantee the safety of employees and the public, which include both an External Emergency Plan (*Plan de emergencia exterior*) (PEN), for which the governmental authorities are responsible (called the Nuclear Emergency Plan of the Province in which each plant is located), and an Internal Emergency Plan (*Plan de emergencia interior*) (PEI), compliance with which is the responsibility of the companies that own the power plant. The PEI is known by the public authorities and municipalities of the region, which participate in its adoption and verify its effectiveness through annual emergency drills supervised by the Nuclear Safety Council (*Consejo de Seguridad Nuclear*) (CSN), as well as tests and internal exercises performed at the facility itself.

Another example of emergency management is the cooperation of the company with the authorities responsible for the operation of the national electricity grids and of connections with other countries in order to deal with the possibility of a global supply failure. System operators are responsible for guaranteeing the reliable and safe operation thereof and for restoring service following severe incidents in a controlled manner and within the shortest possible time. To that end, they draw up detailed plans and procedures that determine the responsibilities and guidelines for action by geographic areas. Concurrently therewith, Iberdrola conducts tests at its facilities to ensure that the main generation centres can resume production in the event of a power grid failure.

The Networks Business also has various management plans and procedures to deal with these situations, such as the electric emergency plans of the distribution subsidiaries of Avangrid in the United States, where CMP also has a Service Restoration Plan, and for which drills are performed every year. Also noteworthy are the operations centres of the distributors in Brazil, which standardise safety in operations and the procedures to restore supply and for the maintenance of the electricity system. ScottishPower actively communicates with vulnerable groups during power outages to ensure that they are provided the assistance that may be required. The company has its own fleet of generators, as well as a portfolio of suppliers to support consumers during long-lasting emergencies if necessary.

Access to electricity

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

Access to electricity for vulnerable customers

In February 2016 the Board of Directors approved a change to the *General Corporate Social Responsibility Policy*, which makes it a principle of conduct to pay attention to customers who are financially disadvantaged or in any other situation of vulnerability, establishing specific protection and collaboration procedures to facilitate continued access to electricity and gas supply in accordance with the policies established by the competent government administrations.

Among the programmes to facilitate access to energy by people who are at risk of exclusion or in a situation of vulnerability, the company and its subsidiaries and affiliates have procedures to protect customers in vulnerable situations to facilitate access for the most disadvantaged groups, including the following:

- In Spain, this commitment takes form through the application of a *Vulnerable Customer Protection Procedure*, which is focused on increasing collection periods, making payment terms more flexible, and providing personalised advice. Iberdrola has also prompted the signing of agreements with various public entities and other organisations, establishing mechanisms to prevent the suspension of electric and/or gas supply due to non-payment of the invoice by economically disadvantaged citizens, and to ensure the immediate restoration of service if already suspended. The company also has a free exclusive telephone service line for customers in vulnerable situations: 900 100 752.

The [agreements signed](#) by the company until the end of 2017 protect 100% of Iberdrola's residential customers in Spain that might be in situations of vulnerability.

There are also subsidised electricity rates (known as *Bono social*) which allow lower electricity prices to be applied to electricity consumers considered to be vulnerable on the basis of certain determined social, consumption and purchasing power characteristics. In 2017, the Government regulated and defined the figure of vulnerable customer, subsidised rates (*bono social*) and other measures of protection for energy consumers through Royal Decree 897/2017, and also expanded the coverage to special groups (family units with disabled members, victims of gender violence or terrorism), among other measures. At the end of 2017, Iberdrola had 855,000 customers with subsidised rates.

- In the United Kingdom, ScottishPower has signed the *Energy UK Safety Net for Vulnerable Customers* agreement, which includes a commitment to never disconnect those customers who have been declared vulnerable due to reasons of age, health, disability or other serious reasons, and to reconnect them, if applicable, on a priority basis. A *Warm Home Discount* scheme for households at risk of poverty is also still in operation.
- In the United States, agreements have been signed with the government to help customers at risk of exclusion and vulnerable customers, and there are energy assistance programmes for these groups at the federal level, such as the *Home Energy Assistance Program (HEAP)*, *CMP's Electricity Lifeline Program (ELP)* (with credits to pay bills based on income and consumption) and the *Energy Assistance Program (EAP)*, to cancel debts for delayed payment. CMP has

implemented an *Arrears Management Program (AMP)*, which offers assistance to low-income customers and also guarantees a connection for people with limited resources who depend on an oxygen tank.

- In Brazil, the group's subsidiaries have a special different rate for low-income customers (TSEE) and advantageous prices and special terms for persons in difficulty. During 2017, Aneel (*Agencia Nacional de Energía Eléctrica*, or National Electric Energy Agency) continued with an update of the registry, selecting beneficiaries therefrom who meet the low-rent criteria of the consumer units determined by the Brazilian regulator.

Access to electricity for off-grid customers

For populations in Brazil with difficulties accessing the network, such as indigenous populations or *quilombolas*, Elektro provides various assistance programmes and the installation of off-grid photovoltaic systems. Other subsidiaries of Neoenergia also have programmes to ensure universal access to the distribution network.

Iberdrola has an *Electricity for all* programme to extend universal access to modern forms of energy that are more environmentally, socially and economically sustainable, as described in the "Iberdrola's contribution to the community" section of this chapter.

EU26 Population unserved in distribution areas

For the companies of the Iberdrola group in Spain, the United Kingdom and the United States, the electrification level covers practically the entire population. In Brazil, in the Neoenergia distribution area (around 835,000 km², with a resident population of slightly more than 34.3 million people), approximately 204,779 persons do not have electricity, representing around 0.6% of the total population within the area of the Neoenergia group companies.

EU27 Residential disconnections for non-payment

A detailed description of the set of procedures implemented in various countries to minimise the effect of supply outages and to provide access to the supply of electric power and gas is contained in the management approach to this "Topic" in the section called "Access to electricity for vulnerable customers".

Information regarding disconnection for non-payment and subsequent reconnections in accordance with the *Electric Utilities Sector Supplement* of the Global Reporting Initiative (GRI) is shown in the following table:

Residential disconnections for non-payment (no.)	2017	2016
Paid up to 48 h after disconnection	1,304,986	1,182,466
Paid between 48 h and one week after disconnection	236,436	237,576
Paid between one week and one month after disconnection	226,654	214,745
Paid between one month and one year	181,141	188,504
Paid after more than one year	7	0
Outstanding and unclassified	0	48,606
Iberdrola total	1,949,224	1,871,897

Residential reconnections following payment of unpaid bills (no.)	2017	2016
Less than 24 h after payment	1,612,578	1,561,202
Between 24 h and one week after payment	184,780	191,332
More than one week after payment	116,395	102,068
Unclassified	0	14,634
Iberdrola total	1,913,753	1,869,236

Information on disconnections and reconnections in the various countries is described in Annex 3 Supplementary Information of this report.

EU28 Power outage frequency

Iberdrola supplies electricity and monitors service quality in various countries. However, the measures in each company are taken according to different rules, following the respective legal requirements or customs, for which reason the company does not currently have a homogeneous measure of service quality in the various countries in which it operates. The figures are as follows:

- Installed Capacity Equivalent Interrupt Number (Spanish acronym "NIEPI") is used in Spain.

NIEPI	2017	2016
Spain	1.14	1.04

- Customer interruptions per 100 connected customers ("CI") is used in the United Kingdom.

CI	2017	2016
United Kingdom	36.0	42.7

- System average interruptions frequency index ("SAIFI") is used in the United States.

SAIFI	2017	2016
United States	1.15	1.15

- Equivalent duration of interruption by consumer unit (Portuguese acronym "FEC") is used in Brazil.

FEC	2017	2016
Brazil	7.15	7.44

The "Research and Development" section of the "Economic Dimension" chapter of this report provides additional information regarding the development of smart grids to improve the quality of electric supply, among other things.

EU29 Average power outage duration

Similarly to the preceding section, the figures are as follows:

- Installed Capacity Equivalent Interrupt Time (Spanish acronym "TIEPI") is used in Spain.

TIEPI	2017	2016
Spain	52.7 min	54.0 min

- Customer minutes lost per connected customers ("CML") is used in the United Kingdom.

CML	2017	2016
United Kingdom	31.0 min	33.8 min

- Customer average interruption duration index ("CAIDI") is used in the United States.

CAIDI	2017	2016
United States	1.91 h	1.84 h

- Equivalent duration of interruption by consumer unit (Portuguese acronym "DEC") is used in Brazil.

DEC	2017	2016
Brazil	15.96 h	17.14 h

EU30 Average plant availability

The following table shows the average availability of the company's various production technologies during financial year 2017:

Average availability factor (%)	2017	2016
Combined cycle	90.94	89.94
Conventional thermal	93.94	85.54
Cogeneration	82.75	91.00
Nuclear	89.29	85.98
Hydroelectric	86.02	86.96
Wind	94.36	96.84
Total	90.53	91.03

Information on the availability factors in the various countries is described in Annex 3 Supplementary Information.

Access to adequate information

Contribution to SDGs of the performance described by the indicators of this section

(according to SDG Compass www.sdgcompass.org)



Management approach

Apart from commercial information, the safety of users of the electricity grid or the promotion of the efficient use of energy is an on-going concern at the companies of the group. To progress in all these areas, information and training plans, programmes and activities are developed in each geographic area.

Accessibility of information

The Iberdrola group's distribution and supply companies develop various initiatives to make communication with customers having specific difficulties, whether idiomatic or sensory, simpler and more agile. With these

services, Iberdrola puts into practice its policy to guarantee equality of opportunity, non-discrimination and universal accessibility, within the framework of its focus on social responsibility, especially with respect to disadvantaged groups. This initiative is also due to the company's commitment to offer individualised services covering the needs of all customers.

For the last 5 years, Iberdrola has been the only company in the energy industry in Spain that has offered sign language video-interpreting in its customer service area. And Iberdrola continues to offer this service to its customers thanks to the collaboration initiative with Fundación CNSE that began in 2012, and that was renewed in 2017. In this way, persons who are deaf or hard of hearing can contact the company through sign language interpreters, the application of which is available on the customer website and is also included in a tool for the exchange of written messages. Furthermore, the website and the Virtual Office of the customer are available in Spanish, Basque (Euskera) and English. Invoices are currently issued in ten languages: Spanish, English, Italian, German, French and Portuguese and the regional languages Valencian, Basque (Euskera), Gallego and Catalan.

The Accessibility Certificate issued by Ilunion Tecnología y Accessibilidad was renewed for the corporate website in 2017, proof of its commitment and of the work of auditing, consulting and certification of both the corporate and customer websites, and is available at [Accessibility Certificate](#). It thus complies with the Web Content Accessibility Guidelines 2.0 of the W3C (World Wide Web Consortium), as well as the requirements to satisfy the UNE 139803:2012 Standard governing the degree of accessibility applicable to the websites of public utilities. Audits are performed on a half-yearly basis to ensure that the website meets the relevant requirements. Ilunion has also given Iberdrola an additional award for its efforts in the area of universal accessibility and service to disabled persons ([see Accessibility diploma](#)).

Finally, Iberdrola promotes information and training campaigns regarding safety and energy saving measures amongst disabled groups and underprivileged groups or those at risk of social exclusion, in order to contribute to the equality of these persons, removing barriers to communication.

In the United Kingdom, ScottishPower provides the necessary mechanisms to communicate effectively with customers who choose Welsh as the language in which they wish to receive service. There is a translation service to facilitate communications in cases where customers find it difficult to make themselves understood in English. In addition, the *Carefree Scheme* offers a variety of additional services to customers who are visually or hearing impaired, suffer from chronic illness or are over sixty years old. This service includes the provision of bills in Braille, large print, compact disc and audio cassette format. ScottishPower offers multiple alternatives so that customers with hearing or speech difficulties can communicate without needing to call: changing account details through the website, chat function on the website itself, Facebook Messenger for private communications, e-mail, etc. With the new *Next Generation Text Services (NGTS)* initiative, the company also offers a range of tools and services that can help customers with difficulties to call using a smart phone, tablet or computer.

In the United States, the companies CMP and NYSEG have a special communication service for hearing-impaired people called *Telecommunication Device for the Deaf (TDD/TYY)*, to facilitate communication through written messages and *Telecommunication Relay Service for Hearing Impaired-711* through which users can make 711 calls from any telephone in each state of the United States, without needing to remember area codes. NYSEG also provides special printed invoices for visually-impaired customers, as well as the ability to designate a third person at NYSEG to receive important notices, called *Third Party Notification*. There is also a service to help people with special needs and advise them on choosing services that might be useful. CMP and RG&E also make interpreters available for persons who request information in a language other than English.

In Brazil, Neoenergia develops improvements in physical accessibility at customer service locations and preferential treatment for persons with different abilities. They also implement programmes to provide service, information and access to billing to persons with visual and hearing impairments, which include: accessible websites, bills in Braille, a dedicated phone line for service to those with hearing or speech problems, special documentation and signage, and the availability of employees trained in sign language.

Education in the safe use of electricity

Through the group's websites, Iberdrola makes available to consumers recommendations and information available to consumers regarding the [safe use of electricity and gas](#), as well as guidelines to follow in case of an electrical accident. They also publish informational booklets regarding the potential risks of electricity affecting the proper use thereof.

In Spain, Iberdrola promotes informational and educational campaigns on safety measures and energy saving directed towards the general public. It also offers its customers products and services that provide additional safety in the home or business. It also collaborates with consumer associations and special groups in order to contribute to communication on matters relating to safety, training and education. Iberdrola also spreads information messages regarding safety and energy savings via its customer profile on Twitter (@Tulberdrola).

Two new services were launched in Spain during 2017: *Air-Conditioning Protection* and *Home Electrical Protection Plus*. Also noteworthy is the entry into the Italian residential market, with the launch of two services for the home: *Electricity Maintenance Service* and *Gas Maintenance Service*, focused on emergency breakdown assistance within three hours and the performance of small electricity or gas jobs, respectively.

In the United Kingdom, ScottishPower has maintained its [PowerWise](#) program regarding electrical safety for parents, teachers and students, with 25,708 visits in 2017. It has also continued with extensive campaigns to promote electrical safety, with programmes such as children's visits to *DangerPoint* in Northern Wales and *The Risk Factory* in Edinburgh, with a total of 16,435 visits. Further, 9,768 children also attended the *Crucial Crew* event, 190,028 attended the *Royal Highland Show*, 80,000 attended the *Cheshire Show* and 55,000 the *Anglesey Show*, especially dedicated to farm workers and their families. ScottishPower also has the *Stayenergysafe* service in order to inform the public about energy-related crime and the risks it involves.

In the United States, information and recommendations are provided regarding how to act in an emergency, such as adverse weather conditions, poisoning or health risks, as well as [safety advice](#) in case of storms or outages causing lines or equipment to fall. In addition, CMP has launched an *Outreach Campaign* targeting at-risk groups such as school children, safety personnel, contractors and emergency personnel.

In Brazil, the companies of the Neoenergia group provide this information on the bill, in customer service areas, through conferences on the proper use of electricity and building safety, messages on the website, on social media, and while on hold with the call centre, so as to reach all consumers, in addition to awareness-raising campaigns. In 2017 the *Ecoteca* project was rolled out in inland cities, with safety-related games.

Specific topics of the Iberdrola group

Iberdrola and the Global Compact

Management approach

Iberdrola has been a member of the Global Compact since 2002, undertaking to support, promote and disseminate its ten principles regarding human rights, labour practices, the environment and the fight against corruption, both internally and within its area of influence. During these years, the company has continued to further develop the policies and practices proposed by the Compact, which it has made public through its annual *Sustainability Report* and its corporate website.

Since 2004, as a founding member, the company has belonged to the Asociación Española del Pacto Mundial (Spanish Global Compact Association) (Asepam), now re-named the Red Española del Pacto Mundial (Spanish Global Compact Network) and has prepared progress reports on compliance with the principles of the Compact, which are publicly available both on the website of the Red Española del Pacto Mundial and on the Global Compact website

During 2017, Iberdrola took in the following actions in connection with the Global Compact:

- Submission of the Progress Report 2016 on compliance with the principles of the Compact, rated at the highest level for this type of report ("GC Advanced").
- Attendance at the 2017 General Assembly of the Red Española.
- Iberdrola and the Red Española del Pacto Mundial have developed the *Moving for Climate NOW* initiative, within the framework of the COP23 Climate Summit held in Bonn in November 2017. The goal of the initiative is to transmit to society the urgency of fighting climate change, the need to join forces from all areas, and the requirement for ambitious and immediate action. The event, which was included in the official programme of the COP23 Summit, consisted of an almost 800 kilometre bicycle route between Paris and Bonn.
- Iberdrola participated with the Global Compact on numerous initiatives to promote and develop the Sustainable Development Goals, including topic support for the preparation of the book *SDGs Year 2: Analysis, trends and business leadership*.

As mentioned above, Iberdrola has linked the SDGs to its business strategy, and actively works with the Global Compact for the achievement thereof within its scope of activities.

In 2018, Iberdrola plans to actively participate in the activities of the Red Española del Pacto Mundial in a manner similar to the past year.

Iberdrola's contribution to the community

Social actions, in cooperation with governmental and civil society organisations, constitute a significant part of Iberdrola's commitment to the community. Detailed information on such actions can be obtained both from the published reports and from the corporate websites of Iberdrola's subsidiaries in Spain, the United Kingdom, the United States, Mexico and Brazil.

Rural electrification programmes in Brazil are also particularly worthy of note. The Brazilian companies of the group have continued to develop such programmes, undertaken jointly with government entities, with the goal of extending the electricity infrastructures in order to facilitate economic and social development and minimise inequalities among the various regions and between rural and urban areas. These programmes represent a fundamental component for development of the most disadvantaged sectors of Brazil's population.

1.- Dedicated resources



Iberdrola has selected the *London Benchmarking Group* (LBG) model to measure and assess business contributions to the community due to its wide international recognition. It is regarded as the most highly-valued standard for measuring the results and impacts of social programmes, both for the company and for the community.

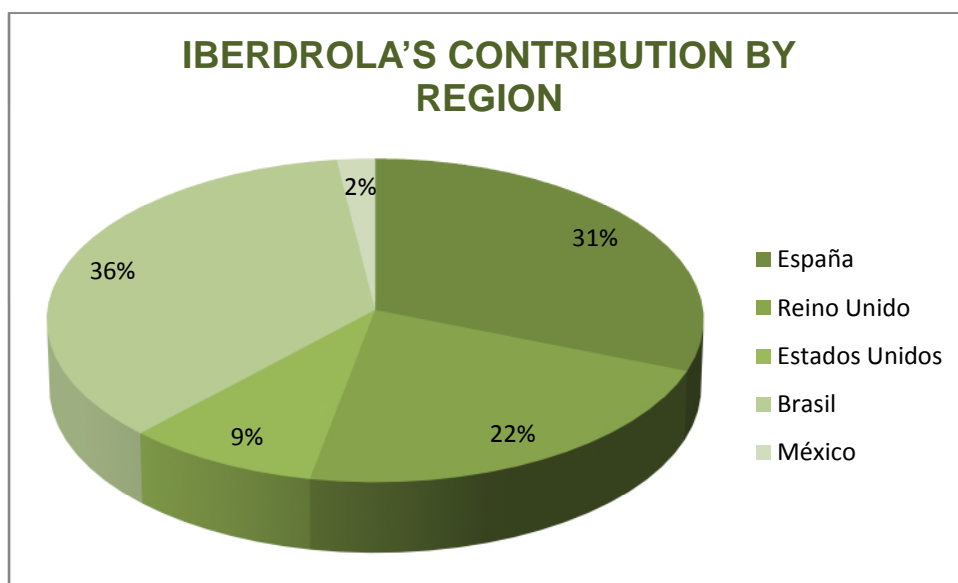
A detailed description of the LBG model can be found at the www.lbg.es.

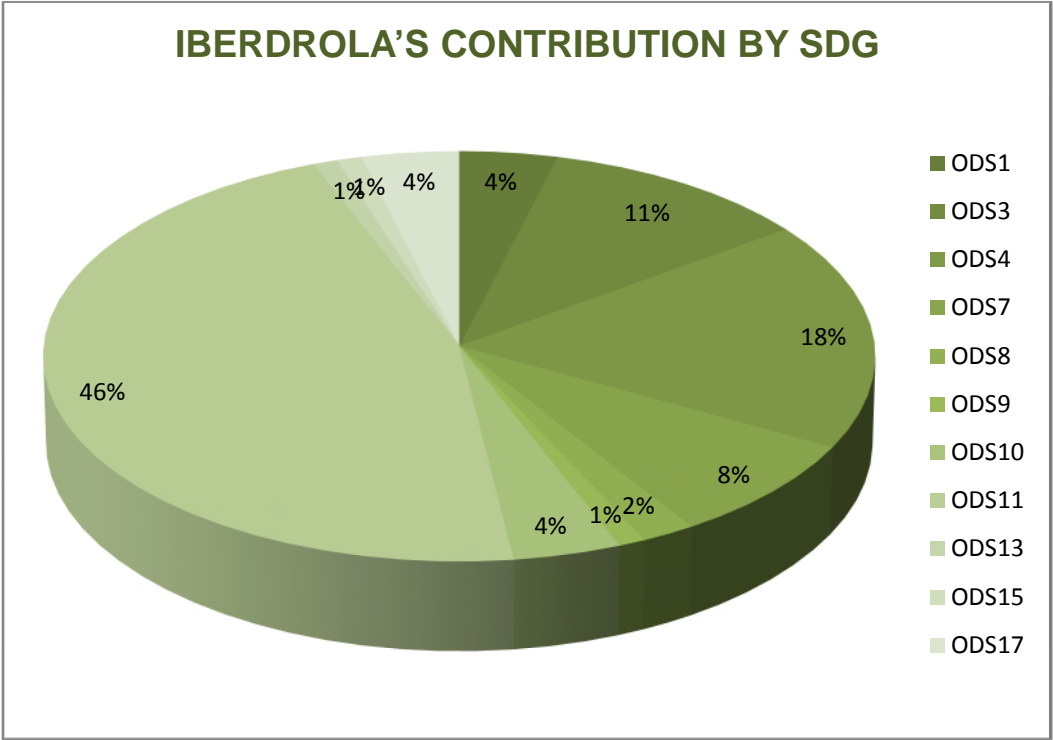
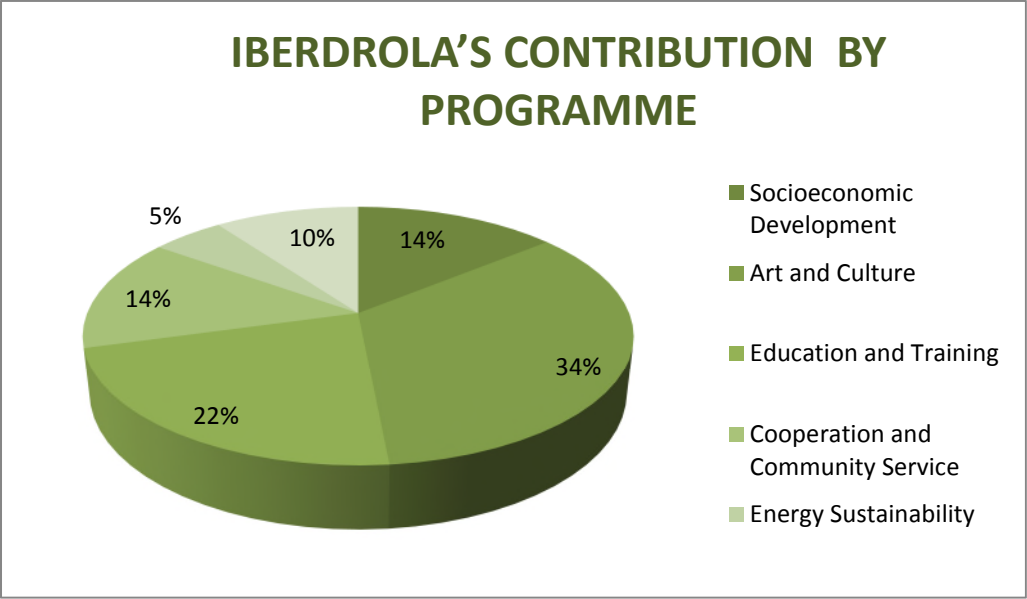
Iberdrola has used the LBG model to report its contributions to society in this *Sustainability Report* for financial year 2017.

Contribution to the community in 2017		(€ thousands)
By category		
- Specific contributions		9,346
- Community investment		43,460
➤ Socioeconomic development of the community		
➤ Energy sustainability		
➤ Art and culture		
➤ Education and training		
➤ Cooperation and community service		
- Commercial initiatives in the community		7,329
- Management costs		2,835
By type of contribution		
- Cash contributions		58,954
- Staff time		214
- In-kind contributions		967
- Management costs		2,835
By Sustainable Development Goals (SDGs)⁸³		

⁸³ The breakdown of contributions to the community by SDG covers 95% of the figure reported, as it is not in all cases possible to establish a link between the initiatives and their contribution to an SDG.

- 1. End poverty	2,323
- 2. Zero hunger	16
- 3. Good health and well-being	6,379
- 4. Quality education	10,700
- 5. Gender equality	18
- 6. Clean water and sanitation	11
- 7. Affordable and clean energy	4,795
- 8. Decent work and economic growth	1,374
- 9. Industry, innovation and infrastructure	665
- 10. Reduced inequalities	2,573
- 11. Sustainable cities and communities	27,253
- 12. Responsible consumption and production	79
- 13. Climate action	710
- 14. Life below water	84
- 15. Life on land	634
- 16. Peace, justice and strong institutions	27
- 17. Partnerships for the goals	2,228
Report boundary	62,970





In addition, the aggregate funds allocated to rural electrification programmes in Brazil represented a total of 278.2 million euros on a consolidated basis for the group.

Electrification programmes 2017	(€ thousands)
Neoenergia	278,148

2.- Outputs and impacts

Benefits for society

Iberdrola has been measuring the results achieved by its community support programmes using various parameters. Iberdrola's foundations are applying a methodology adapted from LBG to measure outputs and impacts for its most important programmes and projects.

In 2017, Iberdrola's foundations extended the application of this methodology to a total of 510 projects in Spain, the United Kingdom, the United States, Brazil and Mexico, resulting in a total investment of 13.5 million euros, with more than 220,000 direct beneficiaries as well as more than 5 million indirect beneficiaries. Other notable achievements have been funding the award of 176 scholarships and research grants.

The programmes are divided into the principal areas of activity of Iberdrola's Foundations:

- **Training and Research:** the main goals include contributing to the training of a new generation of professionals able to drive transformation toward a sustainable energy model, with more than 6.4 million euros of investment.
- **Biodiversity:** supporting conservation programmes for endangered species and the restoration of protected habitats, with more than 600,000 euros of investment.
- **Art and Culture:** promoting culture, with particular attention to the care and maintenance of diversity, uniqueness and cultural and artistic wealth, with 1.3 million euros of investment.
- **Cooperation and Community Service:** actively contributing to the improvement of the quality of life of the most vulnerable people and groups, and to social and labour inclusion, with 3.8 million euros of investment.

The charts below show the results and achievements globally and by country during 2017:

Foundations of the companies of the Iberdrola group – Results in areas of activity in 2017 (€)



The results and achievements by country is available in Annex 3 Supplementary Information.

Benefits for the company

Iberdrola believes that the main benefits that it obtains from its commitment to society are:

- Building and reinforcing relationships of trust with communities, through the support of social organisations and national, regional and local governments, which has a favourable impact on relations with all of the Stakeholders.
- Achieving higher brand recognition and improving its corporate reputation.
- Improving employee satisfaction, by their belonging to a socially valued and recognised company, which favours the attraction and retention of talent.

3.- Corporate volunteering programme

The Iberdrola group offers its workforce various volunteering opportunities within the framework of its Corporate Volunteering Programme. This Programme, which was launched in 2006, is a global and international project aligned with the values of the group and its *Sustainability Policy*, which is intended to channel the community service spirit of employees and motivate them to participate in social projects aimed at the integration of vulnerable groups, improving the environment and sustainable development.

The Programme is aligned with the Sustainable Development Goals, defined by the United Nations for the 2015-2030 horizon, and especially focused on goals 3 (good health and well-being), 4 (quality education), 7 (affordable and clean energy), 10 (reduced inequalities) and 13 (climate action). It should be noted that

Iberdrola has joined IMPACT 2030, an initiative launched by the private sector in collaboration with the United Nations, civil society, the academic world and other Stakeholders to strategically mobilise corporate volunteerism towards the SDGs.

Some of the more noteworthy [corporate volunteering](#) initiatives carried out in 2017 were the following:

- The sixth edition of the global INVOLVE (International Volunteering for Education) project, which offers training in new technologies to youths at risk of social exclusion, with a two-week stay of a team of volunteers from Spain, the United Kingdom, the United States, Brazil and Mexico. This year INVOLVE has been recognised by CEMEFI (*Centro Mexicano para la Filantropía*, or Mexican Philanthropy Centre) as one of the best Business Social Responsibility practices, being a finalist in the Corporate Volunteerism category.
- National and international volunteerism days were organised, among which particularly worth noting is the “International Volunteerism Day” held simultaneously in Spain, the United Kingdom, the United States, Mexico, Brazil and Mexico, and this year has had more than 1,300 simultaneous participants in the more than 60 simultaneous activities. “Volunteerism Days” were also held in Spain, with games and sports days to encourage the normalisation and integration of persons with functional diversity.
- Cooperation initiatives for development in African countries, within the framework of the *Electricity for All* programme, and its public-private cooperation project to improve electric power supply at several refugee camps in Ethiopia. Added to this was the *Know your Laws* programme for the integration of immigrants by means of courses offered by employees of the company who are experts in law, and “Lights... and Action!” together with Fundación Tomillo to provide energy efficiency training and develop the employability of youths from disadvantaged environments, which this year is international in nature with the inclusion of volunteers from ScottishPower.
- Launch in Spain and Mexico of the volunteer project *Fight against Climate Change*, to raise awareness regarding this problem among 9,830 children at 101 centres. This activity was supplemented with the donation of the bicycles accompanying the expeditions to the latest climate conferences held in Paris and Marrakesh, which were delivered to the Ciudad Escuela Muchachos (CEMU) and to the entity Entraide Nationale. Not to mention the continuation of environmental activities like the 10th Tree Day for the creation of the “Iberdrola Forest”, reforestation workshops in several countries and several popular races or competitions for different social and environmental purposes.
- The Iberdrola “Operation Kilo” campaign allowed for the collection of 4,700 kg of basic foodstuffs and children’s products at work centres in Spain, with the cooperation of social organisations. The activity has been supplemented with volunteer activities at charity canteens and the delivery of food to homeless persons, for the goal of Zero Hunger. At the same time, Iberdrola cooperated with several entities such as Unicef, Aldeas Infantiles and Federación Española de Bancos de Alimentos. The *Smile for Christmas* campaign was also held to deliver Epiphany presents to children in situations of vulnerability.
- Launch of the *Solidarity Recycling* project at various corporate offices combining solidarity and environmental ends, by giving new life to unused household objects.
- Volunteer support for the Spanish Cancer Association in organising its marches against cancer.
- The volunteer activity of the “Iberdrola with Refugees” programme has continued, contributing to the opening of four Integration Schools in which approximately 140 refugees have been able to benefit from digital tools workshops, as well as training in the Spanish language and adaptation to their surroundings, among other aspects.
- In the context of International Women’s Day, volunteer activities have been carried out with inmates in the women’s wing of the Alcalá-Meco prison and with women with intellectual disabilities.

- For the first time, Iberdrola's Volunteering Programme joined the Give & Gain initiative, International Corporate Volunteering Week, with various activities to raise visibility and encourage the role of corporate volunteerism as an agent for social change. The company also participates in the main volunteerism working groups and international associations such as Even, Voluntare, IAVE, IMPACT 2030, etc.
- To provide support regarding the natural disasters that occurred during 2017, the company's has helped with financial and material resources for various social entities to alleviate the damage caused by the hurricanes Harvey, Irma and Maria, which strongly hit the states of Texas and Florida and the island of Puerto Rico, as well as the damage suffered from the September earthquakes in Mexico. Volunteers from Mexico City organised healthcare supplies to provide first aid to those affected by the earthquakes through the Mexican Red Cross, and the company's volunteers in Oaxaca participated in that region by delivering water bottles and dispensers.
- The company also sent to Puerto Rico a group of a volunteer employees from Avangrid who are grid experts in order to re-establish electricity supply, which was seriously affected by Hurricane Maria, as part of an initiative sponsored by the New York Power Authority.
- The *Volunteer Portal* continues to be the meeting point for all professionals of the group interested in social and community service actions, using a global and trilingual website. The *Volunteerism Newsletter* has provided weekly information on activities.

4.- Iberdrola Foundations

[ScottishPower Foundation](#), [Avangrid Foundation](#), [Fundación Iberdrola México](#), Instituto Neoenergia and [Fundación Iberdrola España](#) represent Iberdrola's commitment to the economic and social development of the countries in which it does business. The Foundations of Iberdrola, working with well-known social organisations and institutions, support social, cultural and environmental initiatives intended to contribute to social progress and improve the quality of life of the most vulnerable.

a) Training and research area

Fundación Iberdrola's *Scholarship and Research Aid Programme in Energy and Environmental Research* grants Master's scholarships each year in energy and environmental research in Spain, the United Kingdom, the United States, Mexico and Brazil, as well as research grants in Spain. This programme seeks to achieve excellence in applied higher training, in order to train high-level professionals capable of contributing to meeting the energy demands of the population and the protection of the environment, with a complete and global concept of sustainability. A total of 146 scholarships for master's degrees in energy and environment, preservation and restoration, research grants, and Fulbright and Fundación Carolina scholarships were awarded in 2017. In December 2017 the *Presentation of Diplomas* took place at the company's offices in Madrid, and the students and the chairman & CEO of Iberdrola, Ignacio S. Galán, were then received at the La Zarzuela Palace by H. M. the King of Spain.

Another initiative of the Foundation in Spain is the *English Language Training Programme* through immersion courses for students with limited financial resources and professors using the available facilities of the company to the extent possible during holiday periods. In 2017 there were courses in four Autonomous Communities with the participation of 140 students and 32 professors.

At the foundations in the United Kingdom and the United States, there were programmes of collaboration with local universities for the professional training of technicians and youth, as well as support for innovation projects and educational programmes of research and training centres for vulnerable groups.

Fundación Iberdrola México has a programme of collaboration with the Tecnológico de Monterrey university at its Altamira campus for the education of low-income youth in bachelor's and engineering degrees.

b) Biodiversity area

Fundación Iberdrola España collaborated on the *Bird Migration Scheme (Programa de migración de las aves)* (MIGRA), with the tagging of 83 new specimens with GPS transmitters. All information regarding 809 birds of 28 species can be found at www.migraciondeaves.org. The first case study on the migrations of the booted eagle was published in 2017; this is a scientific document prepared based on data provided by the Scheme. The Foundation in Spain also collaborates on a project for the preservation and improvement of habitats in the Tagus International Nature Reserve to encourage the conservation of steppeland birds. In the area of awareness-raising and the fight against climate change, there have been a number of conferences in collaboration with the AISEC Association entitled *What's happening with the climate?* (*¿Que sucede con el clima?*) and informational workshops of the G2020 Association.

In the United Kingdom, collaboration has continued through ScottishPower Foundation with the Young Scots Climate 2050 programme to train future environmental leaders. 129 youth have developed leadership skills in areas like climate change and sustainability.

In the United States, various collaborations have been carried out through the Avangrid Foundation with environmental institutions, scientific museums and centres, including projects dedicated to the efficient use of energy, promotion of electrical vehicles and smart communities, efficient and sustainable construction and projects to improve marine and river habitats and for the conservation of birds. These include special collaborations with the leading research institute the Peabody Museum and the Museum of Natural History at Yale.

Instituto Neoenergia of Brazil has continued to work with the Flyways projects, involving census work relating to wading birds at risk of extinction. Together with IPEMA (*Instituto de Permacultura y Ecoaldeas de la Mata Atlántica*, or Atlantic Forest Permaculture and Ecovillage Institute), there has also been work on the project *Eco Citizen: building a sustainable future*, with free courses for the training of professionals in sustainable construction through the use of new technologies. 2017 also marked the end of the *Cuida Colmena* (Beehive Care) project, dedicated to the conservation of bees and to encouraging productive projects for a hundred children at risk of social exclusion.

In Mexico, support activities have continued for the *Let's clean the world (Limpiemos el mundo)* campaign in the municipality of La Laguna, and there has been promotion of a new project called *Felino* to protect animals in danger of extinction.

c) Art and culture area

Iberdrola's commitment to the promotion of art focuses on the area of preservation and restoration of cultural heritage, including specific activities in order for these projects to drive local development and sustainable tourism.

The Iberdrola Restoration Programme in Spain supports the workshops of the Prado and Bilbao Fine Arts Museums. In the case of the Prado Museum, in 2017 there was a study and restoration of 276 works, including the painting *Philip II offering the Infante don Ferdinand to Victory* by Tiziano and the *Demetrio Poliorcetes monumental Hellenistic bronze*. The Workshop of the Bilbao Fine Arts Museum took on the restoration of a total of 13 works, with the most complex project being Chillida's *Meeting Place IV* sculpture. Restoration activities are rounded out with the preservation project of the Library of the Monastery of San

Millán de la Cogolla and the conclusion of participation in the last two Flemish tapestries from the collection of the Chapel of the College of the Patriarch (Valencia).

The *Atlantic Romanesque Plan* (www.romanicoatlantico.org) continued activities to improve Romanesque churches in the provinces of Salamanca and Zamora, as well as locations in Portugal. The most noteworthy interventions in Spain during 2017 were: Muga de Alba Church in Zamora and Church of San Martín and the Hermitage of Yecla de Yeltes, both in Salamanca. The Portuguese area has seen intervention in the Boticas and Guimaraes churches.

In 2017, within the framework of the *Exhibitions Programme*, the Foundation in Spain has worked with other museums like the Reina Sofía Museum in the exhibition of the *80th Anniversary of Picasso's Guernica* and the Sorolla Museum with *Sorolla in Paris*. Iberdrola joined in the celebration of the XX Anniversary of the Guggenheim Museum in Bilbao with the exhibition *Bill Viola: retrospective*, dedicated to the New York artist, a pioneer in the development of video art.

The goal of the Illumination Programme in Spain is to emphasise the value of historical and artistic heritage and promote local development, including new LED technology in lighting. 6 projects were completed in 2017, including: the renovation of the illumination of the Chapel of the Holy Chalice of the Cathedral of Valencia, a new exterior illumination of the Municipality of Irún, the 2nd Phase of the renovation of the rooms of the Museum of the Royal Academy of Fine Arts of San Fernando and the major "Lighting the Prado" project in the rooms of the Prado Museum. Work continues on another 5 projects that will be inaugurated in 2018.

In the United Kingdom, financed by the ScottishPower Foundation, 2017 saw a special collaboration to celebrate the 70th anniversary of the Llangollen International Musical Eisteddfod, with a project in which four choral and dance groups made up of vulnerable persons participated. The groups reflected the diversity of society in order to promote tolerance and plural coexistence through art and culture. The foundation also supports the National Museum of Scotland and the ScottishPower Pipe band.

In 2017, the ScottishPower Foundation received the Wales Arts & Business Award of the year for its continued support and promotion of art and culture.

The focus on art and culture as a driver of sustainable communities is a priority of the Avangrid Foundation in the United States, which continues to support restoration projects like the Eastman School of Music theatre in Rochester and other historic community theatres like the Augusta's Colonial Theater in Maine and the Convoy Theatre in Ohio. The goal is to help revitalise urban centres in a sustainable manner, while also contributing art and culture to communities in difficulty. Avangrid worked with multiple cultural institutions in 2017, including: Abyssinian Meeting House, Binghamton Philharmonic, Eastman Theatre, Maine Irish Heritage Center, Maine State Ballet, Memorial Art Gallery, Portland Museum of Art, Rochester International Jazz festival, Tompkins Country Library, Tri-cities Opera, etc. Other collaborative work includes support for the International Festival of Arts and Ideas and the Rochester Jazz Festival, among others.

In Brazil, the cultural activities of the foundations focused on continuing the project for the exterior illumination of the Fort of Five Points in Pernambuco, the inauguration of which is expected in 2018. Work is also proceeding on a project for the exterior illumination of the Barra Grande Fort, in Guarujá, on the Sao Paulo coast. The fort is the only Spanish building on the Brazilian coast, and hopes to be designated as a cultural heritage site by UNESCO.

Work in Mexico includes the Illumination Project of the National Art Museum (Munal) of Mexico City, which is intended to promote energy efficiency and contribute to the preservation of the works of this museum.

d) Cooperation and community service area

The Foundation in Spain has a *Social Programme* and a line of work in international cooperation. The *Social Programme* is intended to contribute to the improvement of the quality of life of the most vulnerable groups, with special attention on infants, youth and women. The programme works with non-profit entities that contribute to eradicating child poverty, promoting education as a useful tool for youth, encouraging the social inclusion of disabled persons and improving the quality of life of persons with serious illnesses and their families. 32 projects in various regions of Spain were supported in 2017, with an investment of more than one million euros, a positive impact on 45,000 beneficiaries, and the creation of one hundred direct jobs. The line of international cooperation supports projects that allow access to electricity and potable water in areas of extreme poverty or humanitarian emergency. In 2017 the Foundation joined the SHIRE Alliance, promoted by Universidad Politécnica de Madrid and made up of ACNUR and the EU, among others. This initiative is intended to provide electricity to common areas and schools in refugee camps during 2018.

The ScottishPower Foundation has promoted a dozen collaborations with social projects in the United Kingdom, prioritising programmes for persons with illnesses and their families. The music in the *Singing Together* programme was intended to reduce the isolation and loneliness experienced by hospitalised persons. Other noteworthy social projects would include the implementation of palliative care at leading hospitals, a rural transport service to help isolated communities access health services, and a mental health project for pregnant women and support for autism, among others.

The annual ScottishPower Foundation Awards were given in Glasgow on 7 November, awarding six well-known social and cultural institutions.

In the United States, the Avangrid Foundation worked with more than 60 social organisations during 2017, including: assistance funds for electricity supply and efficiency (*American Red Cross SHARE Heating Fund*, *Broome Country Habitat for Humanity*, *Working cities*, *Lifespan*, etc.), assistance in the fight against diseases such as heart cancer, heart disease, fibrosis and leukaemia, and social collaborations like *United Ways*, *Bike Coalition*, *Habitat for Humanity*, *Food processing*, *Kids First Center*, *Maine General Hospital*, etc.

In Mexico, there is an educational infrastructure project, which during 2017 engaged in social support activities at 9 school and old-age centres, improving the facilities. In addition, the company collaborated with other social entities like: Civil Protection, the Fire Brigade, the Red Cross and the Down Syndrome Foundation, among others. After the earthquake suffered in various areas of the country, the Foundation in Mexico mobilised the donation of funds for this humanitarian emergency. The funds were used to obtain medicine for the affected victims, removal of rubble, paving, reconstruction and expansion of the sewerage network, expansion and reconstruction of the potable water network, and construction of roofs for social infrastructure, etc.

During 2017, Fundación Iberdrola México and España collaborated together in the project for electrification and potable water in the rural community of Catecas Altas in the State of Oaxaca (Mexico). This initiative, included in Iberdrola's *Electricity for all* programme, was developed by Energía sin Fronteras and Save the Children. The first phase consisted of identifying needs, a feasibility study and a participative process with the affected communities. Work has since been performed on the project and the various activities thereof in the area of electrification, improvement of electrical infrastructure, and provision of water in basic community centres.

Instituto Neoenergia in Brazil supported social projects in the areas around the facilities. In addition to promoting the social development of the communities, there were also activities to protect the environment. Another significant social initiative is the collaboration on the “*Brilliant Minds*” project, which consists of supporting the most vulnerable students of the public teaching network of three cities. These students are highly qualified, and the activities are focused on guidance and counselling.

e) Institutional cooperation and new *Master Plan*

Finally, the Foundations collaborate with other cultural institutions in all countries on specific social, scientific and cooperation projects.

In December 2017 the Foundations Committee approved a new *Master Plan* for the 2018-2021 period. This is a guideline for all the foundations that commits to helping reach the specific SDGs and strengthen the transformative focus of social action by foundations, which is representative for Iberdrola’s Stakeholders and relevant for society in general.

5.- *Electricity for All* programme

The Sustainable Development Goals (SDGs) 2015-2030, to which Iberdrola has linked its business strategy, define universal access to energy as essential and frame sustainable energy as an opportunity that transforms life, the economy and the planet. To meet the challenges and opportunities currently faced by the world, energy has a central role, whether to foment employment, safety, climate change, food production or to increase income.

A lack of access to the supply of energy is an obstacle to human and economic development. The [*Electricity for All*](#) programme is Iberdrola’s response to the call of the international community to ensure universal access to energy services that are accessible, reliable and modern, focused on sustainable electrification activities, linking the purpose thereof to SDG 7.1.

The company has set itself the goal of reaching four million beneficiaries of the *Electricity for All* programme by 2020. Iberdrola announced this goal at the UN SE4ALL Forum held in New York in May 2015. There are 3.9 million beneficiaries of the *Electricity for All* 2014-2017 programme with 3 areas of activity:

- Financing of projects through capital investment, using the PERSEO investment fund. This includes the investment in September 2017 in the Mexican company Ilum México, which promotes solar projects in disadvantaged areas. Ilum México, created in 2009, carries out programmes of illumination and electrification of homes, schools and clinics, and training in rural areas of the country. To date, 9,700 solar systems have already been installed, with more than 40,000 users, avoiding the emission of 5,000 tonnes of CO₂.
- Activities with a social impact: investments promoted by businesses in the countries in which Iberdrola has a presence. This is the case with the *Light for All* Programme of the distribution companies in north-eastern Brazil.
- It develops projects with a high social component, through NGOs and corporate volunteers.

Iberdrola, promoting women's sports in Spain

During 2017 Iberdrola continued to support the [Women, health and sport](#) initiative, the principal goals of which consist of driving the success and practice of women's sport, promoting gender equality and fostering healthy habits from a young age. The company has thus become the main driver behind the "Universal Woman" programme of the Higher Council for Sport (*Consejo Superior de Deportes*) (CSD), placing it in the vanguard of backing for women's sport. Iberdrola was the first company in Spain to make a global commitment to promoting the participation of women in all areas of sport.



Within this context, Iberdrola has recently renewed its commitment to support the various national federations, including:

- By promoting and increasing female participation in all areas of sport.
- By the existence of programmes to promote sport at the grassroots level and other social projects.
- By its extraordinary level of success achieved and high participation rate.

During 2017 Iberdrola continued to support rhythmic gymnastics, triathlon, swimming, rugby, canoeing, badminton, football, handball, volleyball, athletics, boxing, ice sports, hockey, karate, table tennis and water polo. Together with each of the federations, Iberdrola also supports activities to promote women's sport like educational campaigns at high schools and national competitions.

Moreover, in 2017 there were seven more stages of the *Women, energy and sport tour* consisting of a tour around various Spanish cities, which will continue during 2018 with the aim of promoting women's sport and transmitting the concepts of effort and improvement via the practice and exhibition of various disciplines.

In short, through the *Women, health and sport* initiative, Iberdrola reinforces its commitment to the promotion of talent, effective equality and social development, which form part of the company's key pillars. Its support for values such as teamwork and overcoming challenges materialises through various projects with the aim of reinforcing the social and cultural dimension of sport and activating support for women's sport.

Annexes

Annex 1: Content Index in Relation to the Principles of the Global Compact



























Annex 2: Report on *green* financing returns

Annex 3: Information Supplementary to the Sustainability Report

Annex 1:

Content index in relation to the Principles of the Global Compact

The table below shows the GRI indicators of this report that offer more relevant information on compliance with the 10 Principles of the Global Compact, as well as the content of the management approaches to each GRI aspect. Using the table's index, each Stakeholder can assess the level of Iberdrola's advancement with respect to each of such principles:

Issue	Global Compact Principles	Most relevant GRI Standards Indicators	Related SDGs
Human Rights	Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights.	410-1 to 412-1, 412-2, 413-1, 413-2	 
			 
			 
	Principle 2. Businesses should make sure they are not complicit in human rights abuses.	412-3, 414-1, 414-2	 
			 
			 
Labour Rules	Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	102-41, 407-1, 402-1	 
	Principle 4. Businesses should uphold the elimination of all forms of forced and compulsory labour.	409-1	 
	Principle 5. Businesses should uphold the effective abolition of child labour.	408-1	 
	Principle 6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.	102-8, 202-1, 202-2, 401-1, 401-3, 404-1, 404-3, 405-2, 406-1	 
Environment	Principle 7. Businesses should support a precautionary approach to environmental challenges.	201-2, 301-1, 302-1, 303-1, 305-1 to 305-3, 305-6, 305-7	 
	Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility.	301-1 to 308-2	 
	Principle 9. Businesses should encourage the development and diffusion of environmentally friendly technologies.	302-4, 302-5, 305-5	 

Anti-corruption

Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery.

102-16, 102-17
205-1 to 205-3, 415-1



Annex 2: Report on *green* financing returns

Iberdrola has issued a total of 8 *green* bonds. The issue dates, as well as the principal characteristics thereof, are as follows:

Green bonds							
ISIN	Issue date	Issuer	Public / Private	Senior / Subordinate	Face value (€ millions)	Maturity	Coupon
XS1057055060	24-Apr-14	Iberdrola International	Public	Senior	750	Oct-22	2.50%
XS1398476793	21 Apr-16	Iberdrola International	Public	Senior	1,000	Apr-26	1.13%
XS1490726590	15-Sep-16	Iberdrola International	Public	Senior	700	Sep-25	0.38%
XS1527758145	07-Dec-16	Iberdrola Finanzas	Public	Senior	750	Mar-24	1%
XS1564443759	20-Feb-2017 (extended on 22-Jun-2017)	Iberdrola Finanzas	Private	Senior	250	Feb-24	Euribor 3 M + 0.67%
XS1575444622	07-Mar-17	Iberdrola Finanzas	Public	Senior	1,000	Mar-15	1%
XS1682538183	06-Sep-17	Iberdrola Finanzas	Public	Senior	750	Sep-27	1.25%
XS1721244371	22-Nov-17	Iberdrola International	Public	Subordinate	1,000	Perpetual	1.875%

In November 2017 Iberdrola also issued a *green bond* in the U.S. market through its subsidiary Avangrid in the amount of 600 million U.S. dollars, with a coupon of 3.15%. Information on the projects receiving the proceeds of this bond, as well as the environmental benefits achieved therefrom, are described in Avangrid's [Sustainability Report 2017](#).

The proceeds of all of these transactions have been used to fund the refinancing of investments in projects that met certain environmental and social responsibility criteria validated both by Iberdrola and subsequently by VigeoEiris (an independent entity). These projects are mainly within the area of renewable energy

Iberdrola used VigeoEiris as an independent expert in validating the “green” nature of its bonds. VigeoEiris issues its rating of the issuer not only with respect to the management of the selected projects, but also regarding its general environmental commitments and the social responsibility that it implements in the ordinary course of its business.

The methodology followed for the assignment of the various projects to different transactions is described in the document [Iberdrola Framework for green financing](#) (the “**Framework**”), which has been verified by PriceWaterhouseCoopers Auditores, who also verify this *Sustainability Report*. The principal sections contemplated in the *Framework* are described below.

1. Use of funds

The proceeds from the various *green* financing instruments are used to finance or refinance *Eligible Green Projects*.

Consistent with the *Green Bond Principles*, Iberdrola considers *Eligible Green Projects* to be those that meet the Eligibility Standards described in the Framework.

2. Evaluation and selection of the project

The Green Financing Committee selects and evaluates projects that are susceptible to (re)financing by *green* instruments. This selection and evaluation process is performed in 5 phases described in the Framework.

3. Management of funds

The proceeds from the *green* financing instruments will be managed based on the phase of development and expense incurred in the selected assets or projects. Therefore, Iberdrola distinguishes between two types: refinancing of projects in operation and (re)financing of projects under development.

4. Reporting

Iberdrola commits to report annually until the maturity date of each of the *green* bonds or *green* financing instruments.

5. External assurance

The *green* financing issued by Iberdrola is supported by three external reviews, depending on the type of instrument.

In the first bond, issued in 2014, the eligible projects were reviewed by VigeoEiris using an analysis of a sample that covered approximately 50% of the nominal value of the financing obtained. In subsequent bonds, the complete inventory of assigned assets was provided for review. On all occasions, VigeoEiris also performed an analysis classifying Iberdrola's sustainability policies and practices, finding that the required standards were met with a level of security that was more than satisfactory.

The conclusions of VigeoEiris, including the controversies identified in the issue of *green* bonds, together with the eligibility standards, are described in the *Second Party Opinion* corresponding to each *green* bond. This information is available in the [Green Bonds](#) section of the corporate website.

Report on returns

The structure of this report on returns is grouped by benefits and indicators for each issue, so that investors can know the impact of the projects financed by each of them.

➤ **April 2014 Bond (ISIN code XS1057055060)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW) ⁸⁴
Distribution	Networks	Renewable generation connection in Scotland	United Kingdom	2011-2016	N/A	N/A
Distribution	Networks	Strengthen international connection in Scotland	United Kingdom	2011-2016	N/A	N/A
Distribution	Networks	Castile-La Mancha photovoltaic connection plan	Spain	2011-2014	N/A	N/A
Distribution/Smart grids	Networks	STAR project	Spain	2011-2018	N/A	N/A
Renewables	Onshore wind	Pico Collalbas	Spain	2006	30	30
Renewables	Onshore wind	Carrascosa	Spain	2006	38	25
Renewables	Onshore wind	Sierra Menera	Spain	2006	40	40
Renewables	Onshore wind	Clares	Spain	2006	32	32
Renewables	Onshore wind	Escalón	Spain	2006	30	17
Renewables	Onshore wind	Tarayuela	Spain	2006	30	20
Renewables	Onshore wind	Morón de Almazán	Spain	2006	50	15
Renewables	Onshore wind	Los Campillos	Spain	2006	34	26
Renewables	Onshore wind	Dólar I	Spain	2006	49	22
Renewables	Onshore wind	Dólar III	Spain	2006	49	8
Renewables	Onshore wind	Doña Benita	Spain	2006	32	0
Renewables	Onshore wind	Ferreira II	Spain	2006	49	7
Renewables	Onshore wind	Hueneja	Spain	2006	49	8
Renewables	Onshore wind	Sil Expansion	Spain	2006	40	8
Renewables	Onshore wind	O Vieiro	Spain	2006	20	1
Renewables	Onshore wind	Luzón-Norte	Spain	2006	38	9
Renewables	Onshore wind	Bordcorex Norte	Spain	2006	44	7
Renewables	Onshore wind	Cerro Blanco	Spain	2006	42	6
Renewables	Onshore wind	Grijota	Spain	2006	5	5
Renewables	Onshore wind	Cabezuelo	Spain	2006	30	17
Renewables	Onshore wind	Mark Hill	United Kingdom	2011	56	14
Renewables	Onshore wind	Collados	Spain	2011	11	10
Renewables	Onshore wind	Fuentesalada	Spain	2011	46	44
Renewables	Onshore wind	Cruz de Carrutero	Spain	2011	40	32
Renewables	Onshore wind	Cabras	Spain	2012	22	22
Renewables	Onshore wind	Ventosa del Ducado	Spain	2012	44	0
Renewables	Onshore wind	Layna	Spain	2012	50	50

⁸⁴ Installed capacities attributable to each Green Bond take into account the proportion represented by the allocated amount of the total investment in each of them.

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Distribution	94
Distribution/Smart grids	80
Renewables	576
TOTAL	750

▪ **Sustainability indicators in the area of distribution**

Name of project	Increase in capacity within the horizon of the investment plan (MW)
Renewable generation connection in Scotland	2,167
Strengthen international connection in Scotland	6,640
Castile-La Mancha photovoltaic connection plan	604

▪ **Sustainability indicators in the area of smart grids**

STAR Project	Status as of 2011 ⁸⁵	Status as of 2012
Smart meters (no.)	154,428	449,441
Smart meters installed (%)	1.44	4.16
Transformer centres adapted for remote management (no.)	583	2,692
Transformer centres adapted for remote management (%)	0.88	4.01

▪ **Sustainability indicators in the area of renewable energy⁸⁶**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO ₂ avoided due to the bond (Tm) ⁸⁷
474	944	245,471

⁸⁵ Takes data from 2011 and 2012 in order to allow for identification of profits from investments made.

⁸⁶ Emissions avoided take into account the percentage of production of each facility that corresponds to the percentage of the amount invested and installed capacity allocated to each *green* bond issue.

⁸⁷ Emissions avoided, reported throughout this Annex 2: *Report on green financing returns*, have been calculated as a product of 2017 production attributable to the bond and the emission factor for the country in which the assets are geographically located. Sources: REE for Spain (January 2018, 2017 mainland data), DEFRA for United Kingdom (September 2017) and World Energy Outlook EU for Portugal (November 2017).

➤ **April 2016 Bond (ISIN code XS1398476793)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Alvao	Portugal	2009	42	42
Renewables	Onshore wind	Puerto de Malaga	Spain	2008	12	12
Renewables	Onshore wind	Cortijo Linera	Spain	2008	28	28
Renewables	Onshore wind	Cabezas	Spain	2009	17	17
Renewables	Onshore wind	Centenar	Spain	2009	40	40
Renewables	Onshore wind	Majal Alto	Spain	2009	50	50
Renewables	Onshore wind	Retuerta	Spain	2009	38	38
Renewables	Onshore wind	Saucito	Spain	2009	30	30
Renewables	Onshore wind	Tallisca	Spain	2009	40	40
Renewables	Onshore wind	Valdefuentes	Spain	2009	28	28
Renewables	Onshore wind	Torrecilla	Spain	2009	16	16
Renewables	Onshore wind	Coterejon II	Spain	2009	6	6
Renewables	Onshore wind	Altamira	Spain	2009	49	49
Renewables	Onshore wind	Lirios	Spain	2010	48	48
Renewables	Onshore wind	Nogueira	Spain	2010	3	3
Renewables	Onshore wind	Alto de la Degollada	Spain	2010	50	50
Renewables	Onshore wind	Gomera	Spain	2010	12	12
Renewables	Onshore wind	Savalla	Spain	2010	18	18
Renewables	Onshore wind	Conesa II	Spain	2011	32	32
Renewables	Onshore wind	Espartal	Spain	2012	6	6
Renewables	Onshore wind	Torrecilla II	Spain	2012	22	22
Renewables	Onshore wind	Gomera II	Spain	2012	6	6
Renewables	Onshore wind	Las Cabras	Spain	2012	22	22
Renewables	Onshore wind	Ventosa del Ducado	Spain	2012	44	0
Renewables	Onshore wind	Arecleoch	United Kingdom	2011	120	120

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	1,000

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO ₂ avoided due to the bond (Tm)
736	1,432	401,507

➤ **September 2016 Bond (ISIN code XS1490726590)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Whitelee Ext	United Kingdom	2012	217	139
Renewables	Onshore wind	Middleton	United Kingdom	2013	12	12
Renewables	Onshore wind	Lynemouth	United Kingdom	2012	26	26
Renewables	Onshore wind	Beinn An Tuirc 2	United Kingdom	2013	44	44
Renewables	Onshore wind	Carland Cross Ext	United Kingdom	2013	20	20
Renewables	Onshore wind	Coal Clough Repowering	United Kingdom	2014	16	16
Renewables	Onshore wind	Blacklaw Ext	United Kingdom	2016	38	38
Renewables	Onshore wind	Blacklaw Ext Ph2	United Kingdom	2016	25	25
Renewables	Onshore wind	Dersalloch	United Kingdom	2016	69	69
Renewables	Onshore wind	Ewe Hill	United Kingdom	2016	14	14

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	700

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO ₂ avoided due to the bond (Tm)
403	792	278,812

➤ **December 2016 Bond (ISIN code XS1527758145)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Doña Benita	Spain	2008	32	31
Renewables	Onshore wind	Sabina	Spain	2008	48	48
Renewables	Onshore wind	Vieiro	Spain	2008	20	20
Renewables	Onshore wind	Argañoso	Spain	2009	22	21
Renewables	Onshore wind	Bullana	Spain	2009	38	36
Renewables	Onshore wind	Carril	Spain	2008	28	27
Renewables	Onshore wind	Cerro Blanco	Spain	2009	42	36
Renewables	Onshore wind	Cotera	Spain	2009	18	17
Renewables	Onshore wind	Paramo Vega	Spain	2009	18	17
Renewables	Onshore wind	Radona I	Spain	2009	24	23
Renewables	Onshore wind	Radona II	Spain	2009	32	30
Renewables	Onshore wind	Sombrio	Spain	2008	28	27
Renewables	Onshore wind	Valdecarrion	Spain	2010	34	32
Renewables	Onshore wind	Valdeperondo	Spain	2010	46	44
Renewables	Onshore wind	Viñas	Spain	2010	38	36
Renewables	Onshore wind	Bolaños	Spain	2008	24	24
Renewables	Onshore wind	Dos Pueblos	Spain	2008	20	20
Renewables	Onshore wind	Nacimiento	Spain	2008	24	24
Renewables	Onshore wind	Tacica de Plata	Spain	2008	26	26

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	749

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO ₂ avoided due to the bond (Tm)
539	1,070	276,091

➤ **February 2017 Bond (ISIN code XS1564443759)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Bureba	Spain	2010	12	11
Renewables	Onshore wind	Cueza	Spain	2010	8	8
Renewables	Onshore wind	Candal	Spain	2012	38	24
Renewables	Onshore wind	Cerro Higuera	Spain	2009	44	31
Renewables	Solar	Puertollano	Spain	2009	50	36

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	249

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO ₂ avoided due to the bond (Tm)
111	221	56,926

➤ **March 2017 Bond (ISIN code XS1575444622)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Valdelanave	Spain	2012	10	6
Renewables	Onshore wind	Ventosa del Ducado	Spain	2012	44	42
Renewables	Onshore wind	Peñaflor III	Spain	2012	49	49
Renewables	Onshore wind	Peñaflor IV	Spain	2012	49	49
Renewables	Offshore wind	Wikinger	Germany	2017	350	195

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	1,000

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO ₂ avoided due to the bond (Tm)
340	220	56,712

➤ **September 2017 Bond (ISIN code XS1682538183)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Whitelee Ext	United Kingdom	2012	217	78
Renewables	Onshore wind	Clachan Flats	United Kingdom	2009	15	15
Renewables	Onshore wind	Mark Hill	United Kingdom	2011	56	44
Renewables	Onshore wind	Ewe Hill 16	United Kingdom	2017	22	8
Renewables	Onshore wind	Hare Hill Ext	United Kingdom	2017	33	30
Renewables	Offshore wind	Wikinger	Germany	2017	350	104

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	750

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO ₂ avoided due to the bond (Tm)
279	301	106,082

➤ **November 2017 Bond (ISIN code XS1721244371) (hybrid)**

▪ **Assets allocated**

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	Onshore wind	Whitelee	United Kingdom	2008	322	251
Renewables	Onshore wind	Harestanes	United Kingdom	2014	136	136
Renewables	Onshore wind	Kilgallioch	United Kingdom	2017	239	239
Renewables	Onshore wind	Glen App	United Kingdom	2017	22	22

▪ **Total amount invested by area**

Area	Investment allocated to the bond (€ millions)
Renewables	1,000

▪ **Sustainability indicators**

Installed capacity attributable to the bond (MW)	2017 output attributable to the bond (GWh)	CO ₂ avoided due to the bond (Tm)
648	916	322,544

Annex 3:

Information supplementary

to the Sustainability Report

2017

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GRI 102 GENERAL STANDARD DISCLOSURES

102-7 Scale of the organisation

Locations of operation of the Iberdrola group

The group of companies that belong to the Iberdrola group carry out various activities in a large number of countries, and more than 1,200 sites or facilities have been identified at which employees of the group carry out activities for which it is responsible.

For purposes of reporting under the *GRI Sustainability Reporting Standards*, in order to deal with such a large number of facilities, only those considered to be principal locations of operation have been identified, by business and by country, adopting as a basic standard the number of persons performing their activities at a facility, and based thereon:

- In the countries deemed to be at low risk for the violation of human rights, the most important facilities are identified as principal locations of operation, assuming that the personnel at the smaller facilities are part of a functional or hierarchical reporting structure that assures their rights through the tools and procedures established at the organisation.
- In countries with a higher risk the standard is more restrictive: if there are several facilities of different sizes dedicated to similar activities, the largest facilities are included as principal locations of operation, with the smaller ones deemed to be dependent centres with the same basic guarantees; if the number of facilities is low or it is deemed that the risk is higher, such facilities are included as principal locations of operation, regardless of the number of persons working therein.

According to these standards, the principal locations of operation identified in 2017, by business and by country, are reflected in the following tables:

Significant locations of operation 2017 by business	
Corporate	17
Wholesale and Retail Business	45
Networks Business	36
Renewables Business	16
Iberdrola total	114

Significant locations of operation 2017 by country	
Spain	33
United Kingdom	26
United States	25
Brazil	27
Mexico	2
Other countries	1
Iberdrola total	114

Based on this data, the company has performed a study to identify the significant locations of operation at which there might be some risk of violation of human rights, which is described in detail in disclosure 412-1 of this report.

102-8 Information on employees and other workers

Total workforce by employment type, employment contract, region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Total workforce	10,296	10,395	6,067	6,373	6,561	6,849	10,096	9,429
By employment type								
Full-time	10,290	10,390	5,361	5,631	6,550	6,834	9,797	9,081
Men	8,309	8,404	4,032	4,224	4,664	4,836	8,048	7,387
Women	1,981	1,986	1,329	1,407	1,886	1,998	1,749	1,694
Part-time	6	5	706	742	11	15	299	348
Men	4	4	62	56	1	2	112	143
Women	2	1	644	686	10	13	187	205
By type of contract								
Permanent	10,262	10,338	6,027	6,340	6,550	6,830	10,063	9,211
Men	8,287	8,368	4,069	4,255	4,661	4,829	8,134	7,379
Women	1,975	1,970	1,958	2,085	1,889	2,001	1,929	1,832
Temporary	34	57	40	33	11	19	33	218
Men	26	40	25	25	4	9	26	151
Women	8	17	15	8	7	10	7	67

Total workforce by employment type, employment contract, region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Total workforce	944	874	291	162	34,255	34,082
By employment type						
Full-time	943	874	291	162	33,232	32,972
Men	779	736	218	133	26,050	25,720
Women	164	138	73	29	7,182	7,252
Part-time	1	0	0	0	1,023	1,110
Men	0	0	0	0	179	205
Women	1	0	0	0	844	905
By type of contract						
Permanent	849	682	287	148	34,038	33,549
Men	708	580	214	120	26,073	25,531
Women	141	102	73	28	7,965	8,018
Temporary	95	192	4	14	217	533
Men	71	156	4	13	156	394
Women	24	36	0	1	61	139

102-41 Employees covered by collective bargaining agreements

Personnel covered by a collective bargaining agreement, by region				
	2017		2016	
	No. of Employees	%	No. of Employees	%
Spain	9,109	88.47	9,753	93.82
United Kingdom	4,219	69.54	4,510	70.77
United States	3,146	47.95	3,234	47.22
Brazil	9,805	97.12	9,190	97.47
Mexico	203	21.50	241	27.57
Other countries	161	55.53	82	50.62
Report boundary	26,643	77.78	27,010	79.25

GRI electric utilities sector supplement specific disclosures

EU1 Installed capacity

Installed capacity by region and energy source (MW)								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Renewables	15,821	15,819	2,666	2,572	6,625	6,035	2,629	2,399
Onshore wind	5,752	5,752	1,906	1,812	6,387	5,853	516	421
Offshore wind	0	0	194	194	0	0	0	0
Hydroelectric	9,715	9,715	566	566	118	118	2,113	1,978
Mini-hydro	303	302	0	0	0	0	0	0
Solar and others	50	50	0	0	119	63	0	0
Nuclear	3,177	3,410	0	0	0	0	0	0
Combined cycle	5,695	5,695	2,000	2,000	212	209	533	533
Cogeneration	368	364	1	1	636	636	0	77
Coal	874	874	0	0	0	0	0	0
Iberdrola total	25,934	26,161	4,667	4,573	7,472	6,880	3,162	3,009

Installed capacity by region and energy source (MW)						
	Mexico		Other countries		Iberdrola total	
	2017	2016	2017	2016	2017	2016
Renewables	410	367	961	621	29,112	27,813
Onshore wind	367	367	605	615	15,533	14,820
Offshore wind	0	0	350	0	544	194
Hydroelectric	0	0	0	0	12,513	12,378
Mini-hydro	0	0	0	0	303	302
Solar and others	43	0	6	6	219	120
Nuclear	0	0	0	0	3,177	3,410
Combined cycle	5,546	5,200	0	0	13,985	13,637
Cogeneration	294	237	0	0	1,299	1,315
Coal	0	0	0	0	874	874
Iberdrola total	6,250	5,804	961	621	48,447	47,049

EU2 Energy production

Net energy output, by region and source of energy (GWh)								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Renewables	19,587	30,319	4,880	3,688	15,738	15,320	8,195	4,559
Onshore wind	11,216	11,236	3,358	2,370	15,103	14,803	1,865	1,204
Offshore wind	N/A	N/A	820	728	N/A	N/A	N/A	N/A
Hydroelectric	7,903	18,325	701	590	385	327	6,330	3,355
Mini-hydro	394	686	N/A	N/A	N/A	N/A	N/A	N/A
Solar and others	74	71	N/A	N/A	250	190	N/A	N/A
Nuclear	23,249	24,381	N/A	N/A	N/A	N/A	N/A	N/A
Combined cycle	3,812	3,709	7,260	8,341	12	14	3,957	4,033
Cogeneration	2,607	2,290	0	N/A	2,354	2,557	91	446
Coal	2,642	2,084	N/A	N/A	N/A	N/A	N/A	N/A
Iberdrola total	51,897	62,783	12,139	13,748	18,104	17,891	12,243	9,038

Net energy output, by region and source of energy (GWh)						
	Mexico		Other countries		Iberdrola total	
	2017	2016	2017	2016	2017	2016
Renewables	963	1,119	1,382	1,437	50,745	56,443
Onshore wind	963	1,119	1,373	1,429	33,878	32,162
Offshore wind	N/A	N/A	0	N/A	821	728
Hydroelectric	N/A	N/A	N/A	N/A	15,320	22,597
Mini-hydro	N/A	N/A	N/A	N/A	394	686
Solar and others	0	N/A	9	9	333	270
Nuclear	N/A	N/A	N/A	N/A	23,249	24,381
Combined cycle	39,103	34,795	N/A	N/A	54,144	50,892
Cogeneration	1,800	1,654	N/A	N/A	6,853	6,947
Coal	N/A	N/A	N/A	N/A	2,642	3,803
Iberdrola total	41,866	37,569	1,382	1,437	137,632	142,466

EU3 Electricity users and producers

Electricity users (%)						
	Spain		United Kingdom		United States	
	2017	2016	2017	2016	2017	2016
Residential	92.8	92.8	93.9	93.9	88.2	87.7
Industrial	1.7	1.6	2.1	2.1	0.3	0.3
Institutional	1.1	1.1	0.1	0.1	0.0	0.0
Commercial	4.4	4.5	3.9	3.9	10.6	11.8
Other	0.0	0.0	0.0	0.0	0.9	0.2
Total users (millions)	10.3	10.3	3.1	3.2	2.2	1.6
Users that are producers of electricity (no.)	0	4,832	66,264	64,936	3,776	13,581

	Electricity users (%)					
	Brazil		Other countries		Iberdrola total	
	2017	2016	2017	2016	2017	2016
Residential	87.4	87.5	0	0	90.1	90.2
Industrial	0.3	0.3	0	0	1.0	1.0
Institutional	1.2	1.0	0	0	1.0	0.9
Commercial	6.6	6.7	0	0	5.8	5.8
Other	4.5	4.5	0	0	2.1	2.1
Total users (millions)	13.6	13.4	0	0	29.2	28.5
Users that are producers of electricity (no.)	2,033	277	0	0	72,073	83,626

EU4 Transmission and distribution lines

Power lines (Km)	Spain		United Kingdom		United States	
	2017	2016	2017	2016	2017	2016
Transmission						
Overhead	0	0	3,636	3,637	30,620	30,835
Underground	0	0	404	352	1,557	604
Total	0	0	4,040	3,989	32,177	31,439
Distribution						
Overhead	155,589	155,317	38,679	38,718	122,884	102,431
Underground	112,981	112,259	66,541	66,111	14,899	14,463
Total	268,570	267,576	105,220	104,829	137,783	116,894

Power lines (Km)	Brazil		Other countries		Iberdrola total	
	2017	2016	2017	2016	2017	2016
Transmission						
Overhead	13,832	13,560	0	0	48,088	48,032
Underground	38	31	0	0	1,999	987
Total	13,870	13,591	0	0	50,087	49,019
Distribution						
Overhead	594,322	578,674	0	0	911,474	875,140
Underground	629	452	0	0	195,050	193,285
Total	594,951	579,126	0	0	1,106,524	1,068,425

GRI 200 SERIES ECONOMIC DIMENSION

GRI 201 Economic performance

201-1 Direct economic value generated and distributed

Economic value generated, distributed and retained (€ millions)								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Revenue (sales and other income)	13,564	14,280	6,077	6,776	5,337	5,430	3,628	1,717
Operating costs	8,412	8,457	4,080	4,607	2,545	2,470	2,682	1,266
Employee remuneration (excluding company social security costs)	912	847	468	466	879	806	201	94
Payments to providers of capital	1,365	1,784	197	231	501	315	283	119
Payments to government administrations	1,496	1,581	353	380	583	596	160	51
Community investments (verified according to the LBG Model)	20	15	14	14	6	4	22	2
Economic value retained	1,359	1,596	965	1,078	823	1,239	280	185

Economic value generated, distributed and retained (€ millions)						
	Mexico		Other countries		Iberdrola consolidated total	
	2017	2016	2017	2016	2017	2016
Revenue (sales and other income)	2,770	1,769	1,338	734	32,714 ⁸⁸	30,706
Operating costs	1,999	1,119	728	669	20,446	18,588
Employee remuneration (excluding company social security costs)	39	32	18	15	2,517	2,260
Payments to providers of capital	217	189	353	54	2,916	2,692
Payments to government administrations	100	108	31	24	2,723	2,740
Community investments (verified according to the LBG Model)	1	1	0	0	63	36
Economic value retained	414	320	209	(28)	4,049	4,390

⁸⁸ Includes Turnover in the amount of €31,263 million and Other revenue €1,451 million.

201-4 Financial assistance received from governments

Financial assistance (€ millions)	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Capital subsidies	10	13	0	0	0	0	0	0
Investment tax credits	0	0	0	0	30	0	0	0
Emissions rights	0	0	0	0	0	0	0	0
Assistance for other items included in the GRI Protocol	0	0	0	0	0	0	0	0
Total	10	13	0	0	30	0	0	0

Financial assistance (€ millions)	Mexico		Other countries		Iberdrola consolidated total	
	2017	2016	2017	2016	2017	2016
Capital subsidies	0	0	0	0	10	13
Investment tax credits	0	0	0	0	30	0
Emissions rights	0	0	0	0	0	0
Assistance for other items included in the GRI Protocol	0	0	0	0	0	0
Total	0	0	0	0	40	13

Fiscal responsibility

Tax contribution (€ millions)						
	Company contributions		Contributions due to third-party payments		Iberdrola consolidated total	
	2017	2016	2017	2016	2017	2016 ⁸⁹
Spain	1,496	1,548	1,761	1,904	3,257	3,452
United Kingdom	353	380	168	156	521	535
United States	583	584	292	275	875	859
Brazil	160	126	1,997	1,855	2,157	1,981
Mexico	100	106	86	101	186	207
Other ⁹⁰	31	24	84	70	115	94
Total	2,723	2,768	4,388	4,360	7,111	7,128

⁸⁹ For better comparability of the 2017 and 2016 information, 100% of the taxes paid by Neoenergia in Brazil during 2016 are included.

⁹⁰ The figure for "Other" is mainly distributed among countries of the European Union: Portugal (€71 million), Greece (€16 million), Hungary (€11 million), Italy (€10 million), the Netherlands (€3 million) and Latvia (€1 million).

Electric Utilities Sector Topic: System efficiency

EU11 Average generation efficiency of thermal plants

Average thermal efficiency ⁹¹ at generating facilities (%)	Spain ⁹²		United Kingdom		United States	
	2017	2016	2017	2016	2017	2016
Combined cycle	49.55	48.28	51.10	49.93	N/A	N/A
Conventional thermal	34.38	33.00	0.00	33.00	N/A	N/A
Cogeneration	63.26	62.08	56.00	48.00	48.00	47.00

Average thermal efficiency ⁹⁵ at generating facilities (%)	Brazil		Mexico		Report boundary	
	2017	2016	2017	2016	2017	2016
Combined cycle	49.40	49.00	53.85	52.99	53.57	51.82
Conventional thermal	N/A	N/A	N/A	N/A	34.38	33.00
Cogeneration	0.00	69.07	50.06	58.31	53.81	56.14

⁹¹ Average of efficiencies weighted by the annual production of each thermal power plant.

⁹² Does not include the Puertollano thermo solar plant.

GRI 300 SERIES ENVIRONMENTAL DIMENSION

GRI 302 Energy

302-1 Energy consumption within the organization

Energy consumption in buildings (GJ)	2017	2016
Spain	157,264	165,637
United Kingdom	106,882	121,327
United States	346,014	401,236
Brazil	166,256	46,099
Mexico	554	911
Other countries ⁹³	1,146	1,218
Total	778,116	736,428

GRI 303 Water

303-1 Total water withdrawal by source

Water use in thermal generation

The following shows the withdrawal of water at the thermal generation facilities (coal, combined cycle, nuclear and cogeneration) in 2017.

Water use (hm ³)	Withdrawal			Discharge	
	Total withdrawal	Withdrawal process and standby services	Withdrawal for cooling	Evaporation of water used for cooling	Discharge into receptor environment
Spain	1,500.01	4.39	1,495.75	53.56	1,451.57
United Kingdom ⁹⁴	202.81	0.39	202.42	0.01	202.20
United States	4.18	3.67	0.64	1.78	1.54
Brazil	0.22	0.22	0.00	0.00	0.09
Mexico	277.45	5.34	271.52	19.14	246.24
Total⁹⁵	1,984.67	14.01	1,970.33	74.49	1,901.74

⁹³ Other countries: Greece, Romania and Hungary.

⁹⁴ The cooling systems in the United Kingdom are open circuits or air condensers, and therefore it is estimated that the volume of evaporated water is practically zero, except for steam from cogeneration. The data include the Daldowie thermal drying facility and the Hatfield gas storage facility.

⁹⁵ The total discharge figure includes the return from cooling, the return of water used in processes, and rainwater collected at some thermal facilities without an independent storm sewer system.

Water consumption at offices and control facilities

Water consumption at offices and facilities ⁹⁶ (m ³)	2017	2016
Spain	94,239	84,693
United Kingdom	63,242	93,375
United States	183,256	139,385
Brazil	1,975	89,576
Mexico	36,604	1,124
Other countries	5,132	901
Total	384,448	409,054

GRI 305 Emissions

305-1 Direct greenhouse gas emissions. Scope 1 (per GHG Protocol)

CO ₂ emissions (t)	2017	2016
Spain	5,943,916	5,268,737
Generating plants	4,398,610	3,912,787
Cogeneration	1,545,306	1,355,950
United Kingdom	2,899,545	4,944,407
Generating plants	2,881,551	4,927,630
Cogeneration	17,994	16,777
United States	965,570	1,040,335
Generating plants	0	N/A
Cogeneration	965,570	1,040,335
Brazil	1,547,050	1,739,902
Generating plants	1,471,816	1,369,047
Cogeneration	75,234	370,855
Mexico	15,334,843	13,543,565
Generating plants	14,267,039	12,598,905
Cogeneration	1,067,804	944,660
Total	26,690,924	26,536,946
Generating plants	23,019,016	22,808,369
Cogeneration	3,671,908	3,728,577

305-2 Indirect greenhouse gas emissions. Scope 2 (per GHG Protocol)

Emissions associated with the consumption of energy at offices	CO ₂ (t)
Spain	10,269
United Kingdom	9,586
United States	27,130
Brazil	4,198
Mexico	59
Other countries ⁹⁷	N/Av.
Total	51,242

⁹⁶ Includes offices, substations and control buildings at wind farms.

⁹⁷ Not taken into account to calculate the Carbon Footprint as it entails less than 0.1% of the internal energy consumption of the group.

305-7 NO_x, SO_x and other significant air emissions

NO _x emissions (t)	2017	2016
Spain	12,490	12,172
Generating plants	4,394	5,013
Cogeneration	8,096	7,159
United Kingdom	989	5,363
Generating plants	989	5,363
Cogeneration	0	N/A
United States	18	152
Generating plants	0	N/A
Cogeneration	18	152
Brazil	233	702
Generating plants	233	233
Cogeneration	0	469
Mexico	2,422	2,583
Generating plants	1,997	2,325
Cogeneration	425	258
Total	16,152	20,971
Generating plants	7,613	12,934
Cogeneration	8,539	8,037

Sulphur dioxide (SO ₂) emissions (t)	2017	2016
Spain	4,936	3,277
Generating plants	3,723	2,744
Cogeneration	1,213	533
United Kingdom	2	3,384
Generating plants	2	3,384
Cogeneration	0	N/A
United States	5	6
Generating plants	0	N/A
Cogeneration	5	6
Brazil	0	23
Generating plants	0	12
Cogeneration	0	11
Mexico	449	398
Generating plants	418	370
Cogeneration	31	28
Total	5,392	7,088
Generating plants	4,143	6,510
Cogeneration	1,249	578

Particulate emissions (t)	2017	2016
Spain	375	305
Generating plants	298	259
Cogeneration	77	46
United Kingdom	2	88
Generating plants	1	88
Cogeneration	1	N/A
United States	19	19
Generating plants	0	N/A
Cogeneration	19	19
Brazil	0	22
Generating plants	0	0
Cogeneration	0	22
Mexico	876	774
Generating plants	815	720
Cogeneration	61	54
Total	1,272	1,208
Generating plants	1,114	1,067
Cogeneration	158	141

GRI 306 Effluents and waste

306-2 Total weight of waste by type and disposal method

Hazardous waste generation ⁹⁸ (t)	2017			2016		
	Produced (Total)	Deposited and/or incinerated	Recovered, recycled, reused	Produced (Total)	Deposited and/or incinerated	Recovered, recycled, reused
Spain	5,564	1,256	4,328	5,418	849	4,539
United Kingdom	2,214	562	1,600	3,568	482	2,161
United States	573	425	337	1,183	601	478
Brazil	614	593	981	234	76	140
Mexico	171	171	0	126	126	0
Other countries	57	16	42	50	15	35
Total	9,193	3,023	7,288	10,579	2,149	7,353

Non-hazardous waste generation ¹⁰² (t)	2017			2016		
	Produced (Total)	Deposited and/or incinerated	Recovered, recycled, reused	Produced (Total)	Deposited and/or incinerated	Recovered, recycled, reused
Spain	277,282	165,453	109,727	208,681	129,178	79,512
United Kingdom	589,409	224,699	304,434	387,925	189,640	155,103
United States	131,066	96,988	34,097	338,276	107,134	231,038
Brazil	38,330	38,536	1,614	27,513	1,346	5,179
Mexico	17,581	17,576	47	16,449	16,449	0
Other countries	3	2	1	3	3	0
Total	1,053,671	543,220.6	449,920	978,847	443,750	470,832

⁹⁸ Liquid waste has been converted into kg using a density of 1.3 kg/m³.

GRI 400 SERIES SOCIAL DIMENSION

GRI 401 Employment⁹⁹

401-1 New employee hires and employee turnover

New hires by region, gender and age group								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Total workforce	10,296	10,395	6,067	6,373	6,561	6,849	10,096	9,429
By gender								
Men	252	244	464	261	322	369	1,127	808
Women	64	93	177	81	148	126	174	262
By gender (%)								
Men	3.03	2.90	11.33	6.10	6.90	7.63	13.81	10.73
Women	3.23	4.68	8.97	3.87	7.81	6.27	8.99	13.80
By age group								
Men								
Up to 30 years old	116	121	141	112	114	141	550	515
Between 31 and 50 years old	125	116	245	109	171	181	559	289
More than 50 years old	11	7	78	40	37	47	18	4
Women								
Up to 30 years old	31	35	59	25	54	37	108	167
Between 31 and 50 years old	31	55	104	52	70	75	64	94
More than 50 years old	2	3	14	4	24	14	2	1
By age group (%)								
Men								
Up to 30 years old	35.26	30.17	23.46	18.51	23.17	27.87	24.86	23.90
Between 31 and 50 years old	2.92	2.65	11.84	5.01	8.07	8.24	11.55	6.85
More than 50 years old	0.30	0.19	5.48	2.67	1.80	2.20	1.62	0.35
Women								
Up to 30 years old	41.89	39.77	30.41	11.90	34.39	22.98	18.15	28.02
Between 31 and 50 years old	2.34	4.02	7.76	3.70	7.76	7.89	5.47	8.30
More than 50 years old	0.34	0.56	3.20	1.00	2.87	2.00	1.17	0.59

⁹⁹ As the percentage interests in certain companies may not be 100%, the sums added may not correspond to the total presented due to rounding.

New hires by region, gender and age group						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Total workforce	944	874	291	162	34,255	34,082
By gender						
Men	323	146	66	13	2,554	1,841
Women	74	31	19	0	656	593
By gender (%)						
Men	41.46	19.84	30.28	9.77	9.74	7.10
Women	44.85	22.46	26.03	0	8.17	7.27
By age group						
Men						
Up to 30 years old	73	72	18	1	1,012	962
Between 31 and 50 years	210	67	43	9	1,353	771
More than 50 years old	40	7	5	3	189	108
Women						
Up to 30 years old	37	17	6	0	295	281
Between 31 and 50 years	36	14	13	0	318	290
More than 50 years old	1	0	0	0	43	22
By age group (%)						
Men						
Up to 30 years old	42.69	39.13	60.00	11.11	26.39	24.90
Between 31 and 50 years	38.82	13.70	25.75	8.04	9.65	5.68
More than 50 years old	59.70	11.11	23.81	25.00	2.26	1.27
Women						
Up to 30 years old	61.67	44.74	66.67	0	27.09	25.66
Between 31 and 50 years	36.00	14.74	22.41	0	6.50	5.83
More than 50 years old	20.00	0	0.00	0	2.10	1.06

Persons leaving the company by region, gender and age group								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Total workforce	10,296	10,395	6,067	6,373	6,561	6,849	10,096	9,429
By gender								
Men	461	452	346	516	471	320	580	544
Women	76	66	214	119	252	172	165	184
By gender (%)								
Men	5.55	5.38	8.45	12.06	10.10	6.61	7.11	7.22
Women	3.83	3.32	10.85	5.69	13.29	8.55	8.52	9.69
By age group								
Men								
Up to 30 years old	4	6	26	33	53	69	137	116
Between 31 and 50 years old	99	74	75	173	137	89	269	219
More than 50 years old	358	372	245	310	281	162	174	209
Women								
Up to 30 years old	2	3	18	9	34	30	51	56
Between 31 and 50 years old	36	32	85	58	61	61	84	76
More than 50 years old	38	31	111	52	157	81	30	52
By age group (%)								
Men								
Up to 30 years old	1.22	1.50	4.33	5.45	10.77	13.64	6.19	5.38
Between 31 and 50 years old	2.31	1.69	3.62	7.95	6.47	4.05	5.56	5.19
More than 50 years old	9.68	10.23	17.21	20.69	13.68	7.59	15.68	18.06
Women								
Up to 30 years old	2.70	3.41	9.28	4.29	21.66	18.63	8.57	9.40
Between 31 and 50 years old	2.72	2.34	6.34	4.12	6.76	6.42	7.18	6.71
More than 50 years old	6.48	5.83	25.34	10.92	18.76	9.00	17.54	30.59

Persons leaving the company by region, gender and age group						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Total workforce	944	874	291	162	34,255	34,082
By gender						
Men	80	95	14	11	1,952	1,931
Women	23	18	7	5	737	564
By gender (%)						
Men	10.27	12.91	6.25	8.27	7.44	7.45
Women	13.94	13.04	18.92	17.24	9.18	6.91
By age group						
Men						
Up to 30 years old	20	30	2	0	242	254
Between 31 and 50 years old	47	55	11	10	638	614
More than 50 years old	13	10	1	1	1,072	1,063
Women						
Up to 30 years old	7	8	1	0	113	106
Between 31 and 50 years old	16	10	6	5	288	242
More than 50 years old	0	0	0	0	336	216
By age group (%)						
Men						
Up to 30 years old	11.70	16.30	5.88	0.00	6.31	6.58
Between 31 and 50 years old	8.69	11.25	6.56	8.93	4.55	4.53
More than 50 years old	19.40	15.87	4.76	8.33	12.80	12.50
Women						
Up to 30 years old	11.67	21.05	33.33	0.00	10.38	9.68
Between 31 and 50 years old	16.00	10.53	19.35	20.00	5.88	4.86
More than 50 years old	0.00	0.00	0.00	0.00	16.45	10.36

401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation

Benefits offered ¹⁰⁰	2017					
	Life insurance	Medical insurance	Disability insurance	Maternity/paternity leave	Pension fund	Shares
Spain	All	All	All	All	All	-
United Kingdom	All	All	-	All	All	All
United States	All	All	Full-time	All	All	-
Brazil	Full-time	Full-time	All	All	Full-time	-
Mexico	All ¹⁰¹	All	All	All	All	All ¹⁰²

¹⁰⁰ All: Includes full-time and part-time employees.

¹⁰¹ Only for managers/senior specialists/executives and interns.

¹⁰² Only for executives.

401-3 Return to work and retention rates after parental leave, by gender.

Leaves from and returns to work due to maternity/paternity, by region								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Employees entitled to parental leave								
Men	8,313	8,408	4,094	4,280	4,665	4,838	8,160	7,530
Women	1,983	1,987	1,973	2,093	1,896	2,011	1,936	1,899
Total	10,296	10,395	6,067	6,373	6,561	6,849	10,096	9,429
Employees taking parental leave								
Men	31	276	39	26	0	0	274	132
Women	145	158	130	151	48	125	105	18
Total	176	434	169	177	48	125	379	150
Employees that returned to work after parental leave ended								
Men	29	N/Av.	39	N/Av.	0	N/Av.	290	N/Av.
Women	114	N/Av.	73	N/Av.	48	N/Av.	103	N/Av.
Total	143	N/AV.	112	N/AV.	48	N/AV.	393	N/AV.
Employees that returned to work after parental leave ended that were still employed 12 months after their return to work.								
Men	28	N/Av.	28	N/Av.	41	N/Av.	226	N/Av.
Women	114	N/Av.	80	N/Av.	137	N/Av.	74	N/Av.
Total	142	N/AV.	108	N/AV.	178	N/AV.	300	N/AV.
Return to work rate								
Men	93.55	N/AV.	100.00	N/AV.	N/A	N/AV.	105.84	N/AV.
Women	78.62	N/AV.	56.15	N/AV.	100.00	N/AV.	98.10	N/AV.
Total	86.08	N/AV.	78.08	N/AV.	100.00	N/AV.	101.97	N/AV.

Leaves from and returns to work due to maternity/paternity, by region						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Employees entitled to parental leave						
Men	779	736	218	133	26,229	25,295
Women	165	138	73	29	8,026	8,157
Total	944	874	291	162	34,255	34,082
Employees taking parental leave						
Men	0	0	1	0	345	434
Women	9	10	3	1	440	463
Total	9	10	4	1	785	897
Employees that returned to work after parental leave ended						
Men	4	N/Av.	1	N/Av.	363	N/Av.
Women	10	N/Av.	1	N/Av.	349	N/Av.
Total	14	N/AV.	2	N/AV.	712	N/AV.
Employees that returned to work after parental leave ended that were still employed 12 months after their return to work.						
Men	4	N/Av.	1	N/Av.	328	N/Av.
Women	6	N/Av.	0	N/Av.	411	N/Av.
Total	10	N/AV.	1	N/AV.	739	N/AV.
Return to work rate						
Men	100.00 ¹⁰³	N/AV.	100.00	N/AV.	105.22	N/AV.
Women	111.11	N/AV.	33.33	N/AV.	79.32	N/AV.
Total	55.56	N/AV.	66.67	N/AV.	92.27	N/AV.

¹⁰³ Although there were no employees using the parental leave, the return rate is considered to 100%, with the return of 4 people from leave last year.

GRI Electric Utilities Sector Supplement Specific disclosures

EU15 Percentage of employees eligible to retire in the next 5 and 10 years broken down by job category and by region.

Employees eligible to retire in the next 5 years								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
By professional category								
Management Team	55	46	5	6	80	36	13	2
Middle managers and skilled technicians	396	303	222	300	1,109	685	379	666
Skilled workers and support personnel	850	606	286	320	1,553	726	571	383
Total	1,301	955	513	626	2,742	1,447	963	1,051
By professional category (%)								
Management team	0.53	0.44	0.08	0.09	1.22	0.53	0.13	0.02
Middle managers and skilled technicians	3.85	2.91	3.66	4.71	16.90	10.00	3.75	7.06
Skilled workers and support personnel	8.26	5.83	4.71	5.02	23.67	10.60	5.66	4.06
Total	12.64	9.19	8.45	9.82	41.79	21.13	9.54	11.15

Employees eligible to retire in the next 5 years						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
By professional category						
Management team	2	2	2	1	157	93
Middle managers and skilled technicians	25	14	2	1	2,133	1,969
Skilled workers and support personnel	4	3	0	0	3,264	2,038
Total	31	19	4	2	5,554	4,100
By professional category (%)						
Management team	0.21	0.23	0.69	0.62	0.46	0.27
Middle managers and skilled technicians	2.65	1.60	0.69	0.62	6.23	5.78
Skilled workers and support personnel	0.42	0.34	0.00	0	9.53	5.98
Total	3.28	2.17	1.38	1.24	16.22	12.04

Employees eligible to retire in the next 10 years								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
By professional category								
Management Team	149	120	28	29	94	80	24	7
Middle managers and skilled technicians	931	809	713	823	1,488	1,263	484	905
Skilled workers and support personnel	1,845	1,689	646	739	2,032	1,451	959	634
Total	2,925	2,618	1,387	1,591	3,614	2,794	1,467	1,546
By professional category (%)								
Management Team	1.45	1.15	0.46	0.46	1.43	1.17	0.24	0.07
Middle managers and skilled technicians	9.04	7.78	11.75	12.91	22.68	18.44	4.79	9.60
Skilled workers and support personnel	17.92	16.25	10.65	11.60	30.97	21.19	9.50	6.72
Total	28.41	25.18	22.86	24.96	55.08	40.79	14.53	16.40

Employees eligible to retire in the next 10 years						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
By professional category						
Management team	5	5	1	1	301	242
Middle managers and skilled technicians	32	26	4	2	3,652	3,828
Skilled workers and support personnel	20	15	0	0	5,502	4,528
Total	57	46	5	3	9,455	8,598
By professional category (%)						
Management team	0.53	0.57	0.34	0.62	0.88	0.71
Middle managers and skilled technicians	3.39	2.97	1.37	1.23	10.66	11.23
Skilled workers and support personnel	2.12	1.72	0.00	0	16.06	13.29
Total	6.04	5.26	1.71	1.85	27.60	25.23

GRI 403 Occupational health and safety

403-1 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes

Employees represented on health and safety committees, by region (%)	2017	2016
Spain	96.88	95.89
United Kingdom	100.00	94.68
United States	100.00	99.40
Brazil	100.00	90.76
Mexico	49.47	48.97
Other countries	37.46	66.05
Report boundary	97.14	93.61

403-2 Type of injury and rates of injury, occupational diseases, lost days, absenteeism and total number of work-related fatalities, by region and by gender.

Number of accidents by region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
By gender								
Men	69	83	61	74	176	154	69	89
Women	13	8	31	27	33	20	0	10
Total	82	91	92	101	209	174	69	99

Number of accidents by region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
By gender						
Men	1	6	0	1	376	407
Women	2	0	0	0	79	65
Total	3	6	0	1	455	472

Number of accidents by type, region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Fatal								
Men	0	0	0	0	0	0	0	0
Women	0	0	0	0	0	0	0	0
Total	0	0	0	0	0	0	0	0
With leave								
Men	24	25	3	7	40	38	34	23
Women	0	1	0	0	3	8	0	3
Total	24	26	3	7	43	46	34	26
Without leave								
Men	58	58	58	67	136	116	35	66
Women	0	7	31	27	30	12	0	7
Total	58	65	89	94	166	128	35	73

Number of accidents by type, region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Fatal						
Men	0	0	0	0	0	0
Women	0	0	0	0	0	0
Total	0	0	0	0	0	0
With leave						
Men	0	2	0	1	101	96
Women	0	0	0	0	3	12
Total	0	2	0	1	104	108
Without leave						
Men	1	4	0	0	265	311
Women	2	0	0	0	76	53
Total	3	4	0	0	341	364

Accident rate and absenteeism by region and gender ¹⁰⁴								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Accident rate								
Number of fatalities - company	0	0	0	0	0	0	0	0
Number of fatalities - subcontractor	1	1	1	0	1	0	10	0
Number of lost days	1,558	998	214	164	2,141	1,274	461	326
Injury with leave rate (IR)	0.32	0.32	0.06	0.13	0.65	0.70	0.40	0.30
Occupational disease rate (ODR)	0.00	0.01	0.02	0.00	0.08	0.00	0.01	0.01
Lost day rate (LDR)	20.20	12.30	4.02	3.03	32.53	19.36	5.40	3.71
Absenteeism								
Number of sick leaves per year	1,926	2,140	2,490	2,776	5,308	4,800	1,552	5,862
Men	1,381	1,486	1,443	1,632	3,587	3,147	886	3,833
Women	545	654	1,047	1,144	1,721	1,653	666	2,029
Lost days	90,991	92,139	46,477	52,916	34,021	36,274	17,354	18,113
Men	67,341	66,689	26,491	29,835	20,848	21,924	11,155	11,900
Women	23,650	25,450	19,986	23,081	13,173	14,350	6,199	6,213
Person equivalents	249.29	252.44	127.33	144.98	93.21	99.38	47.55	49.63
Men	184.50	182.71	72.58	81.74	57.12	60.07	30.56	32.60
Women	64.79	69.73	54.75	63.24	36.09	39.31	16.98	17.03
Absenteeism rate (AR)	9,437.53	10,047.58	6,989.38	7,234.95	4,135.13	4,468.46	1,626.70	1,651.9

¹⁰⁴ Methodology for calculating the indicators (per GRI standard):

- Injury rate (IR) = (number of injuries with missed (absentee) days*200,000)/hours worked
- Occupational disease rate (ODR) = (number of occupational disease cases/hours worked)*200,000
- Lost day rate (LDR) = (calendar days lost per accident, as from first day of leave/hours worked)*200,000
- Absenteeism rate (AR) = (missed (absentee) days, as from first day of leave/days worked)*200,000

Accident rate and absenteeism by region and gender ¹⁰⁵						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Accident rate						
Number of fatalities - company	0	0	0	0	0	0
Number of fatalities - subcontractor	0	0	0	0	13	1
Number of lost days	0	105	0	10	4,374	2,877
Injury with leave rate (IR)	0.00	0.27	0.00	0.64	0.35	0.36
Occupational disease rate (ODR)	0.00	0.00	0.00	0.00	0.02	0.01
Lost day rate (LDR)	0.00	14.41	0	6.44	14.96	9.66
Absenteeism						
Number of sick leaves per year	171	153	0	3	11,447	15,734
Men	123	116	0	3	7,420	10,217
Women	48	37	0	0	4,027	5,517
Lost days	182	197	0	26	189,025	199,665
Men	120	87	0	26	125,955	130,461
Women	62	110	0	0	63,070	69,204
Person equivalents	0.50	0.54	0	0.07	517.88	547.03
Men	0.33	0.24	0	0.07	345.09	357.43
Women	0.17	0.30	0	0	172.79	189.60
Absenteeism rate (AR)	160.47	361.06	0	189.54	5,171.71	5,508.74

Specific accident rate in Spain	2017	2016
Frequency ratio (Number of accidents with sick leave per million hours)	1.58	1.60
Incident ratio (Number of accidents with sick leave per one hundred employees)	0.24	0.25
Seriousness ratio (no standard) (Total number of days lost, actual per thousand hours)	0.10	0.06

¹⁰⁵ Methodology for calculating the indicators (per GRI standard):

- Injury rate (IR) = (number of injuries with missed (absentee) days*200,000)/hours worked
- Occupational disease rate (ODR) = (number of occupational disease cases/hours worked)*200,000
- Lost day rate (LDR) = (calendar days lost per accident, as from first day of leave/hours worked)*200,000
- Absenteeism rate (AR) = (missed (absentee) days, as from first day of leave/days worked)*200,000

GRI 404 Training and education

404-1 Hours of training

Total number of training hours by professional category, region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Total workforce	428,821	447,075	178,233	152,271	239,097	379,200	570,747	337,515
Men	361,284	372,244	155,610	139,262	197,590	264,353	479,619	290,445
Women	67,537	74,831	22,623	13,009	41,507	114,847	91,128	47,070
Management Team								
Men	12,752	12,910	3,061	3,510	1,036	1,576	2,354	1,186
Women	2,952	3,299	1,200	141	540	587	400	217
Total	15,704	16,209	4,261	3,651	1,576	2,163	2,754	1,403
Middle managers and skilled technicians								
Men	150,887	152,006	64,319	84,433	42,425	50,698	64,789	132,450
Women	52,992	59,571	15,282	7,589	13,524	25,100	40,535	33,231
Total	203,879	211,577	79,601	92,022	55,949	75,798	105,324	165,681
Skilled workers and support personnel								
Men	197,645	207,328	88,230	51,319	154,129	212,079	412,476	156,809
Women	11,593	11,961	6,141	5,279	27,443	89,160	50,193	13,622
Total	209,238	219,289	94,371	56,598	181,572	301,239	462,669	170,431

Total number of training hours by professional category, region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Total workforce	81,059	46,382	9,154	2,551	1,507,111	1,364,994
Men	71,278	40,992	7,742	2,242	1,273,123	1,109,538
Women	9,781	5,390	1,412	309	233,988	255,456
Management Team						
Men	1,968	544	306	8	21,477	19,734
Women	117	522	16	0	5,225	4,766
Total	2,085	1066	322	8	26,702	24,500
Middle managers and skilled technicians						
Men	28,982	19,703	4,436	1254	355,838	440,544
Women	8,542	3,709	1,198	280	132,073	129,480
Total	37,524	23,412	5,634	1,534	487,911	570,024
Skilled workers and support personnel						
Men	40,328	20,745	3,000	980	895,808	649,260
Women	1,122	1,159	198	29	96,690	121,210
Total	41,450	21,904	3,198	1,009	992,498	770,470

Average hours of training per employee trained, broken down by professional category, region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Total workforce	39.79	44.67	29.11	35.57	31.80	56.49	56.35	40.30
Men	41.00	45.77	37.61	39.50	36.52	55.28	58.75	42.69
Women	34.37	39.91	11.40	17.23	19.70	59.48	46.38	29.94
Management team								
Men	14.83	36.37	28.34	39.89	9.17	15.92	34.62	40.90
Women	36.44	45.19	41.38	14.10	10.19	15.05	25.00	27.13
Total	16.69	37.87	31.10	37.26	9.49	15.67	32.79	37.92
Middle managers and skilled technicians								
Men	42.96	47.00	25.04	39.02	20.30	27.27	36.28	40.60
Women	40.42	47.77	14.50	18.93	11.65	22.86	35.40	30.74
Total	42.27	47.22	21.97	35.88	17.21	25.63	35.93	38.15
Skilled workers and support personnel								
Men	44.52	45.64	60.39	40.28	48.05	75.10	65.37	44.64
Women	20.23	21.51	6.82	15.35	30.73	112.29	62.43	28.20
Total	41.75	43.01	39.95	34.98	44.28	83.26	65.04	42.65

Average hours of training per employee trained, broken down by professional category, region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Total workforce	90.17	87.35	15.44	8.80	41.82	45.25
Men	96.71	87.59	15.93	8.37	45.88	46.33
Women	60.38	85.56	13.20	14.05	28.23	41.08
Management team						
Men	70.29	36.27	25.50	8.00	18.06	33.74
Women	29.25	174.00	5.33	0	28.09	35.82
Total	65.16	59.20	21.47	8.00	19.42	34.11
Middle managers and skilled technicians						
Men	69.17	78.19	19.20	10.63	33.55	40.66
Women	64.71	67.45	12.61	17.50	26.96	33.23
Total	68.10	76.26	17.28	11.45	31.47	38.71
Skilled workers and support personnel						
Men	139.06	103.21	12.35	6.58	56.16	51.92
Women	43.15	231.80	22.00	4.83	30.16	55.40
Total	131.17	106.33	12.69	6.51	51.81	52.44

404-3 Employees receiving regular performance and career development reviews

Employees receiving performance reviews by region and gender								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
By professional category								
Men	8,313	8,408	4,094	4,280	4,665	4,838	8,160	7,530
Management team	408	424	111	111	112	104	73	26
Middle managers and skilled technicians	3,430	3,435	2,547	2,576	1,722	1,856	1,704	3,360
Skilled workers and support personnel	4,475	4,549	1,436	1,593	2,831	2,878	6,383	4,144
Women	1,983	1,987	1,973	2,093	1,896	2,011	1,936	1,899
Management team	87	80	28	28	51	42	19	6
Middle managers and skilled technicians	1,294	1,308	1,068	1,054	1,012	1,097	1,102	1,278
Skilled workers and support personnel	602	599	877	1,011	833	872	815	615
Total	10,296	10,395	6,067	6,373	6,561	6,849	10,096	9,429
Receiving performance reviews (%)								
Men	95.18	95.49	100	99.60	47.03	48.08	83.66	93.60
Management team	97.55	100	100	98.20	99.11	100	61.64	92.31
Middle managers and skilled technicians	94.58	95.84	100	99.42	98.90	99.57	92.78	100.00
Skilled workers and support personnel	95.42	94.64	100	100	13.42	13.00	81.48	85.64
Women	93.29	94.67	100	100	61.34	63.45	88.22	88.31
Management team	90.80	97.50	100	100	98.04	100	47.37	100.00
Middle managers and skilled technicians	93.66	93.41	100	100	98.72	99.54	90.56	86.85
Skilled workers and support personnel	92.86	92.82	100	100	13.69	16.28	86.01	91.06
Total	94.80	95.33	100	99.75	51.17	52.59	84.54	92.53

Employees receiving performance reviews by region and gender						
	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
By professional category						
Men	779	736	218	133	26,229	25,925
Management team	24	22	8	6	736	693
Middle managers and skilled technicians	454	418	148	75	10,005	11,720
Skilled workers and support personnel	301	296	62	52	15,488	13,512
Women	165	138	73	29	8,026	8,157
Management team	4	3	3	2	192	161
Middle managers and skilled technicians	132	110	63	22	4,671	4,869
Skilled workers and support personnel	29	25	7	5	3,163	3,127
Total	944	874	291	162	34,255	34,082
Receiving performance reviews (%)						
Men	100.00	45.92	51.38	48.87	83.58	85.13
Management team	100.00	4.55	75.00	66.67	94.57	97.11
Middle managers and skilled technicians	100.00	69.62	62.16	61.33	96.20	98.23
Skilled workers and support personnel	100.00	15.54	22.58	28.85	74.91	73.13
Women	100.00	65.94	60.27	37.93	86.00	86.18
Management team	100.00	33.33	100.00	100.00	90.10	98.14
Middle managers and skilled technicians	100.00	73.64	61.90	27.27	95.23	94.31
Skilled workers and support personnel	100.00	36.00	28.57	60.00	72.15	72.95
Total	100.00	49.08	53.61	46.91	84.15	85.38

GRI 405 Diversity and equal opportunity

405-1 Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership and other indicators of diversity.

Total workforce by region, gender and professional category								
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Total workforce	10,296	10,395	6,067	6,373	6,561	6,849	10,096	9,429
By gender								
Men	8,313	8,408	4,094	4,280	4,665	4,838	8,160	7,530
Women	1,983	1,987	1,973	2,093	1,896	2,011	1,936	1,899
By gender (%)								
Men	81%	81%	67%	67%	71%	71%	81%	80%
Women	19%	19%	33%	33%	29%	29%	19%	20%
By professional category								
Men								
Management team	408	424	111	111	112	104	73	26
Middle managers and skilled technicians	3,430	3,435	2,547	2,576	1,722	1,856	1,704	3,360
Skilled workers and support personnel	4,475	4,549	1,436	1,593	2,831	2,878	6,383	4,144
Women								
Management team	87	80	28	28	51	42	19	6
Middle managers and skilled technicians	1,294	1,308	1,068	1,054	1,012	1,097	1,102	1,278
Skilled workers and support personnel	602	599	877	1,011	833	872	815	615
By professional category (%)								
Men								
Management team	4%	4%	2%	2%	2%	2%	1%	0%
Middle managers and skilled technicians	33%	33%	42%	40%	26%	27%	17%	36%
Skilled workers and support personnel	43%	44%	24%	25%	43%	42%	63%	44%
Women								
Management team	1%	1%	0%	0%	1%	1%	0%	0%
Middle managers and skilled technicians	13%	12%	18%	17%	15%	16%	11%	14%
Skilled workers and support personnel	6%	6%	14%	16%	13%	12%	8%	7%
By age group								
Men								
Up to 30 years old	329	401	601	605	492	506	2,212	2,155
Between 31 and 50 years old	4,284	4,370	2,069	2,177	2,119	2,197	4,838	4,218
More than 50 years old	3,700	3,637	1,424	1,498	2,054	2,135	1,110	1,157
Women								
Up to 30 years old	74	88	194	210	157	161	595	596
Between 31 and 50 years old	1,323	1,367	1,341	1,407	902	950	1,170	1,133
More than 50 years old	586	532	438	476	837	900	171	170

By age group (%)

Men

Up to 30 years old	3%	4%	10%	9%	8%	8%	22%	23%
Between 31 and 50 years old	42%	42%	34%	34%	32%	32%	48%	45%
More than 50 years old	36%	35%	24%	24%	31%	31%	11%	12%

Women

Up to 30 years old	1%	1%	3%	3%	2%	2%	6%	6%
Between 31 and 50 years old	13%	13%	22%	22%	14%	14%	11%	12%
More than 50 years old	5%	5%	7%	8%	13%	13%	2%	2%

Total workforce by region, gender and professional category

	Mexico		Other countries		Report boundary	
	2017	2016	2017	2016	2017	2016
Total workforce	944	874	291	162	34,255	34,082

By gender

Men	779	736	218	133	26,229	25,925
Women	165	138	73	29	8,026	8,157

By gender (%)

Men	83%	84%	75%	82%	77%	76%
Women	17%	16%	25%	18%	23%	24%

By professional category

Men

Management team	24	22	8	6	736	693
Middle managers and skilled technicians	454	418	148	75	10,005	11,720
Skilled workers and support personnel	301	296	62	52	15,488	13,512

Women

Management team	4	3	3	2	192	161
Middle managers and skilled technicians	132	110	63	22	4,671	4,869
Skilled workers and support personnel	29	25	7	5	3,163	3,127

By professional category (%)

Men

Management team	3%	3%	3%	4%	2%	2%
Middle managers and skilled technicians	48%	48%	51%	46%	29%	35%
Skilled workers and support personnel	32%	34%	21%	32%	45%	40%

Women

Management team	0%	0%	1%	1%	1%	0%
Middle managers and skilled technicians	14%	12%	22%	14%	14%	14%
Skilled workers and support personnel	3%	3%	2%	3%	9%	9%

By age group

Men

Up to 30 years old	171	184	30	9	3,835	3,859
Between 31 and 50 years old	541	489	167	112	14,018	13,564
More than 50 years old	67	63	21	12	8,376	8,502

Women

Up to 30 years old	60	38	9	2	1,089	1,095
Between 31 and 50 years old	100	95	58	25	4,894	4,977
More than 50 years old	5	5	6	2	2,043	2,085

By age group (%)

Men

Up to 30 years old	18%	21%	10%	6%	11%	11%
Between 31 and 50 years old	57%	56%	58%	69%	41%	40%
More than 50 years old	7%	7%	7%	8%	25%	25%

Women

Up to 30 years old	6%	4%	3%	1%	3%	3%
Between 31 and 50 years old	11%	11%	20%	15%	14%	15%
More than 50 years old	1%	1%	2%	1%	6%	6%

Breakdown of Board of Directors by gender and age group				
Number of members of the Board	2017		2016	
	no.	%	no.	%
Men				
Up to 30 years old	0	0%	0	0%
Between 31 and 50 years old	1	7%	1	7%
More than 50 years old	8	57%	8	57%
Women				
Up to 30 years old	0	0%	0	0%
Between 31 and 50 years old	1	7%	2	14%
More than 50 years old	4	29%	3	21%

GRI 414 Supplier social assessment

Management approach

414-1 New suppliers that were screened using social criteria

414-2 Negative social impacts in the supply chain and actions taken

Volume of general procurement purchases in countries considered to be at risk (%)	2017
Brazil	17.4
Mexico	6.3
Canada	0.8
China	0.4
India	0.1

Volume of fuel purchases in countries considered to be at risk (%)	2017
Brazil	4
Mexico	34
Others (Colombia + Algeria + Nigeria + Peru + Trinidad y Tobago + Dom. Republic)	14

The standards used to identify countries at risk are the same as those described in disclosure 412-1 of the *Sustainability Report* for financial year 2017.

Electric Utilities Sector Topic: Access

EU27 Residential disconnections for non-payment

Residential disconnections for non-payment by region (no.)						
	Spain		United Kingdom		United States	
	2017	2016	2017	2016	2017	2016
Paid up to 48 h after disconnection	24,811	103,802	0	0	40,229	64,437
Paid between 48 h and one week after disconnection	1,942	11,473	0	0	7,487	9,004
Paid between one week and one month after disconnection	2,212	14,963	0	0	3,441	4,299
Paid between one month and one year	1,095	11,465	0	0	1,723	2,221
Paid after more than one year	0	0	0	0	0	0
Outstanding and unclassified	0	0	0	0	0	0
Total	30,060	141,703	0	0	52,880	79,961

Residential disconnections for non-payment by region (no.)				
	Brazil		Iberdrola total	
	2017	2016	2017	2016
Paid up to 48 h after disconnection	1,239,946	1,014,227	1,304,986	1,182,466
Paid between 48 h and one week after disconnection	227,007	217,099	236,436	237,576
Paid between one week and one month after disconnection	221,001	195,483	226,654	214,745
Paid between one month and one year	178,323	174,818	181,141	188,504
Paid after more than one year	7	0	7	0
Outstanding and unclassified	0	48,606	0	48,606
Total	1,866,284	1,650,233	1,949,224	1,871,897

Residential reconnections following payment of unpaid bills, by region (no.)						
	Spain		United Kingdom		United States	
	2017	2016	2017	2016	2017	2016
Less than 24 h after payment	28,784	139,706	0	0	42,560	43,262
Between 24 h and one week after payment	803	3,537	0	0	4,180	5,663
More than one week after payment	141	173	0	0	7,082	5,296
Unclassified	0	0	0	0	0	0
Total	29,728	143,416	0	0	53,822	54,221

Residential reconnections following payment of unpaid bills, by region (no.)				
	Brazil		Iberdrola total	
	2017	2016	2017	2016
Less than 24 h after payment	1,541,234	1,378,234	1,612,578	1,561,202
Between 24 h and one week after payment	179,797	182,132	184,780	191,332
More than one week after payment	109,172	96,599	116,395	102,068
Unclassified	0	14,634	0	14,634
Total	1,830,203	1,671,599	1,913,753	1,869,236

GRI Electric Utilities Sector Supplement Specific Disclosures

EU30 Average plant availability

The availability of a plant (during a particular period) is the percentage of time within such period that the plant is able to produce energy. It is calculated using normalising indicators, for which reason, knowing the availability of each facility and the net installed capacity thereof yields the average availability factors of the group, as presented in the following table:

	Average availability factor (%)							
	Spain		United Kingdom		United States		Brazil	
	2017	2016	2017	2016	2017	2016	2017	2016
Combined cycle	91.87	89.94	88.30	86.63	N/A	N/A	85.41	86.00
Conventional thermal	93.94	85.54	N/A	N/A	N/A	N/A	N/A	N/A
Cogeneration	92.65	88.90	1.70	82.00	82.04	90.00	N/A	96.65
Nuclear	89.29	85.98	N/A	N/A	N/A	N/A	N/A	N/A
Hydroelectric	84.45	86.00	87.23	94.00	36.78	31.21	95.66	93.00
Wind	91.87	97.80	95.21	95.91	95.58	N/A	97.34	97.50

	Average availability factor (%)					
	Mexico		Other countries		Total	
	2017	2016	2017	2016	2017	2016
Combined cycle	94.95	95.32	N/A	N/A	90.94	89.94
Conventional thermal	N/A	N/A	N/A	N/A	93.94	85.54
Cogeneration	72.18	95.17	N/A	N/A	82.75	91.00
Nuclear	N/A	N/A	N/A	N/A	89.29	85.98
Hydroelectric	N/A	N/A	N/A	N/A	86.02	86.96
Wind	96.22	97.50	97.61	97.90	94.36	96.84

Specific topics of the Iberdrola group

Iberdrola's contribution to the community

Outputs and impacts

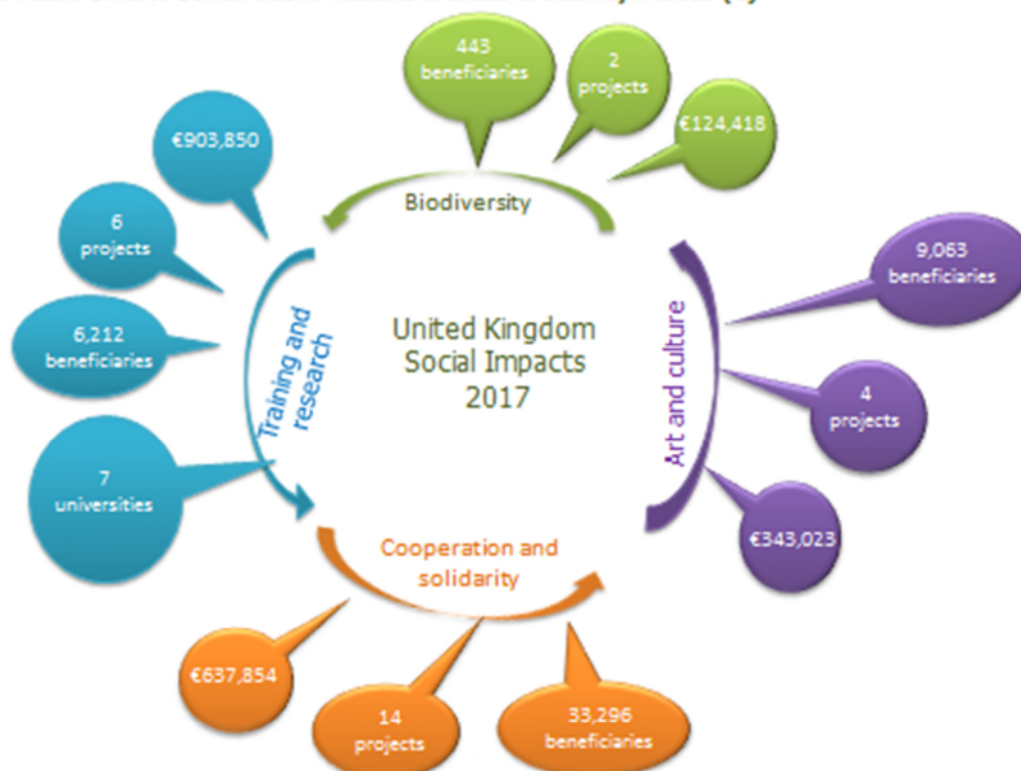
Iberdrola has been measuring the results achieved by its community support programmes using various parameters. Iberdrola's foundations are applying a methodology adapted from LBG to measure outputs and impacts for its most important programmes and projects.

The charts below show the results and achievements by country during 2017:

FUNDACION IBERDROLA ESPAÑA - Results in areas of activity in 2017(€)



SCOTISHPOWER FOUNDATION: Results in areas of activity in 2017 (€)



AVANDGRID FOUNDATION - Results in areas of activity in 2017 (€)



INSTITUTO NEOENERGIA BRASIL - Results in areas of activity in 2017 (€)



FUNDACION IBERDROLA MEXICO - Results in areas of activity in 2017 (€)



PROFIT DISTRIBUTION PROPOSAL

Profit distribution proposal

YEAR 2017

Euros		2017
Proposed distribution		
Retained earnings		6,614,049,754
Profit for 2017		1,598,870,975
		8,212,920,729
Distribution:		
To Legal reserves		–
To dividends	Amount to be determined resulting from adding: (a) the total interim dividend and (b) the result of multiplying the final dividend by the total number of shares that the holders have decided to receive as cash remuneration under the framework of the first execution of the Iberdrola scrip dividend system	
To retained earnings	Amount to be determined resulting from deducting proposed distribution from amounts to legal reserves and to dividends.	
		8,212,920,729

On the date that the Board of Directors (or the delegated body) decides to execute the increase in share capital to be submitted for approval by the General Shareholders' Meeting (and therefore initiate the first execution of the Iberdrola scrip dividend system for 2018), the minimum amount of the Cash remuneration will be made public (which will be equal to the minimum amount of the Final dividend). The final amount of the Cash remuneration will be notified as soon as the Board of Directors (or the delegated body) makes its decision as provided for by the system. This final amount will be equal to the Final dividend. Likewise, once the first execution of the Iberdrola Scrip dividend system for 2018 is completed, the Board of Directors, which has explicit authority for replacement, will proceed to specify the aforementioned distribution proposal and determine the final amount of the Dividend and the amount to be left over.