

# Results / 2016



# Legal notice

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# Core Business Figures

Operating Data		12M 2016	12M 2015	%
<b>Net Production</b>	<b>GWh</b>	<b>137,350</b>	<b>134,374</b>	<b>2.2</b>
Hydro	GWh	20,545	14,102	45.7
Nuclear	GWh	24,381	23,142	5.4
Coal	GWh	3,803	11,520	-67.0
Gas Combined Cycle	GWh	48,447	46,240	4.8
Cogeneration	GWh	6,675	6,662	0.2
Renewables	GWh	33,498	32,707	2.4
<b>Installed capacity</b>	<b>MW</b>	<b>45,246</b>	<b>46,361</b>	<b>-2.4</b>
Hydro	MW	11,161	11,076	0.8
Nuclear*	MW	3,410	3,410	-
Coal**	MW	874	3,178	-72.5
Gas Combined Cycle	MW	13,279	12,671	4.8
Cogeneration	MW	1,267	1,239	-
Renewables	MW	15,256	14,787	3.2
<b>Distributed Electricity</b>	<b>GWh</b>	<b>229,816</b>	<b>224,749</b>	<b>2.3</b>
<b>Electricity users (managed supply points)</b>	<b>N° (mil)</b>	<b>30.4</b>	<b>30.0</b>	<b>1.2</b>
<b>Electricity customers</b>	<b>N° (mil)</b>	<b>13.4</b>	<b>13.6</b>	<b>-1.2</b>
Gas users (managed supply points)	N° (mil)	4.1	3.7	11.4
<b>Gas supplies</b>	<b>GWh</b>	<b>110,095</b>	<b>87,525</b>	<b>25.8</b>
<b>Gas storage</b>	<b>bcm</b>	<b>2.5</b>	<b>2.5</b>	<b>-</b>
<b>Employees</b>	<b>N°</b>	<b>28,355</b>	<b>28,836</b>	<b>-1.7</b>

(\*) Includes Garoña plant.

(\*\*) Longannet closure at the end of March 2016

Operating Data		12M 2016	12M 2015	%
<b>Spain</b>				
<b>Net Production</b>	<b>GWh</b>	<b>62,784</b>	<b>55,512</b>	<b>13.1</b>
Hydro	GWh	18,325	12,366	48.2
Nuclear	GWh	24,381	23,142	5.4
Coal	GWh	2,084	3,642	-42.8
Gas combined cycle	GWh	3,709	2,288	62.1
Cogeneration	GWh	2,290	2,179	5.1
Renewables	GWh	11,994	11,896	0.8
<b>Installed capacity</b>	<b>MW</b>	<b>26,162</b>	<b>26,187</b>	<b>-0.1</b>
Hydro	MW	9,715	9,712	-
Nuclear	MW	3,410	3,410	-
Coal	MW	874	874	-
Gas combined cycle	MW	5,695	5,695	-
Cogeneration	MW	364	390	-6.6
Renewables	MW	6,104	6,106	-
<b>Distributed Electricity</b>	<b>GWh</b>	<b>92,308</b>	<b>92,685</b>	<b>-0.4</b>
<b>Gas Supplies</b>	<b>GWh</b>	<b>17,891</b>	<b>14,369</b>	<b>24.5</b>
Consumers	GWh	8,753	8,364	4.7
Gas combined cycle	GWh	9,138	6,005	52.2
Electricity Users (managed supply points)	No (mill.)	10.95	10.89	0.5
Electricity Customers	No (mill.)	10.23	10.29	-0.60
Gas users (managed supply points)	No (mill.)	0.94	0.89	5.4
<b>United Kingdom</b>				
<b>Production</b>	<b>GWh</b>	<b>13,748</b>	<b>18,635</b>	<b>-26.2</b>
Hydro	GWh	590	708	-16.7
Coal	GWh	1,719	7,879	-78.2
Gas combined cycle	GWh	8,341	6,333	31.7
Cogeneration	GWh	-	4	-
Renewables	GWh	3,098	3,710	-16.5
<b>Installed Capacity</b>	<b>MW</b>	<b>4,537</b>	<b>6,465</b>	<b>-29.8</b>
Hydro	MW	563	563	-
Coal*	MW	-	2,304	-100.0
Gas combined cycle	MW	1,967	1,967	-
Cogeneration	MW	1	1	-
Renewables	MW	2,006	1,630	23.1
<b>Distributed Electricity</b>	<b>GWh</b>	<b>35,704</b>	<b>36,253</b>	<b>-1.5</b>
<b>Gas Storage</b>	<b>bcm</b>	<b>0.10</b>	<b>0.10</b>	<b>-</b>
<b>Gas Supplies</b>	<b>GWh</b>	<b>50,245</b>	<b>46,025</b>	<b>9.17</b>
Consumers	GWh	31,974	32,055	-0.25
Gas Combined Cycle	GWh	18,271	13,970	30.79
Electricity users (managed supply points)	No (mill.)	3.52	3.51	0.22
Electricity users customers	No (mill.)	3.19	3.29	-0.50
Gas users (customers)	No (mill.)	2.13	2.19	0.60

## Core Business Figures

Operating Data		12M 2016	12M 2015	%
<b>USA</b>				
<b>Production</b>	<b>GWh</b>	<b>17,912</b>	<b>17,407</b>	<b>2.9</b>
Hydro	GWh	327	366	-10.7
Gas combined cycle	GWh	26.2	0.4	N/A
Cogeneration	GWh	2,557	2,780	-8.0
Renewables	GWh	15,002	14,261	5.2
<b>Installed capacity</b>	<b>MW</b>	<b>6,875</b>	<b>6,458</b>	<b>6.5</b>
Hydro	MW	118	118	-
Gas combined cycle	MW	209	9	N/A
Cogeneration	MW	636	636	-
Renewables	MW	5,912	5,695	3.8
<b>Distributed Electricity</b>	<b>GWh</b>	<b>39,079</b>	<b>33,690</b>	<b>16.0</b>
<b>Gas supplies</b>	<b>GWh</b>	<b>41,959</b>	<b>27,132</b>	<b>54.6</b>
<b>Gas Storage</b>		<b>2.44</b>	<b>2.44</b>	<b>-</b>
<b>Electricity users (managed supply points)</b>	<b>No (mill.)</b>	<b>2.49</b>	<b>2.45</b>	<b>1.4</b>
<b>Gas users (managed supply points)</b>	<b>No (mill.)</b>	<b>1.0</b>	<b>0.6</b>	<b>72.7</b>
<b>Brazil</b>				
<b>Production</b>	<b>GWh</b>	<b>3,901</b>	<b>2,619</b>	<b>49.0</b>
Hydro	GWh	1,303	663	96.7
Gas combined cycle	GWh	1,575	1,239	27.2
Cogeneration	GWh	174	176	-1.3
Renewables	GWh	848	541	56.8
<b>Installed capacity</b>	<b>MW</b>	<b>1,247</b>	<b>1,165</b>	<b>7.1</b>
Hydro	MW	764	682	12.1
Gas combined cycle	MW	208	208	-
Cogeneration	MW	29	29	-
Renewables	MW	246	246	-
<b>Distributed Electricity (under management)**</b>	<b>GWh</b>	<b>62,726</b>	<b>62,121</b>	<b>1.0</b>
<b>Customers (managed supply points)**</b>	<b>No (mill.)</b>	<b>13.41</b>	<b>13.14</b>	<b>2.1</b>
<b>Mexico</b>				
<b>Production</b>	<b>GWh</b>	<b>37,569</b>	<b>38,641</b>	<b>-2.8</b>
Gas combined cycle	GWh	34,795	36,380	-4.4
Cogeneration	GWh	1,654	1,523	8.6
Renewables	MW	1,119	738	51.6
<b>Installed capacity</b>	<b>MW</b>	<b>5,804</b>	<b>5,343</b>	<b>8.6</b>
Gas combined cycle	MW	5,200	4,793	8.5
Cogeneration	MW	236	183	29.1
Renewables	MW	367	367	-
<b>Rest of the World</b>				
<b>Production</b>	<b>GWh</b>	<b>1,437</b>	<b>1,561</b>	<b>-7.9</b>
Renewables	MW	1,437	1,561	-7.9
<b>Installed capacity</b>	<b>MW</b>	<b>621</b>	<b>744</b>	<b>-16.4</b>
Renewables	MW	621	744	-16.4

Note: In terms of operational data, IRFS11 do not apply (see details under Operational Performance for the period).

(\*) Longanet closure at the end of March 2016

(\*\*) Includes 100% of Neoenergía.

Stock Market Data		12M 2016	12M 2015
Market capitalisation	EUR (MM)	39,661.2	40,810.8
Earnings per share (6,336,870,000 shares at 12/31/15 and 6,362,079,000 shares, at 12/31/16)	€	0.43	0.41
Net operating cash flow per share	€	0.99	1.00
P.E.R.	Times	14.66	17.14
Price/Book value (capitalisation to NBV at the end of the period)	Times	0.97	1.17

## Economic/Financial Data\*

Income Statement		12M 2016	12M 2015
Revenues	EUR (MM)	29,215.4	31,418.7
Gross Margin	EUR (MM)	12,916.2	12,842.7
EBITDA	EUR (MM)	7,807.7	7,397.4
EBIT	EUR (MM)	4,554.0	3,829.3
Net Profit	EUR (MM)	2,705.0	2,421.6
Net Operating Expenses/Gross Margin	%	-27.65	-29.11

Balance Sheet		Dec. 2016	Dec. 2015
Total Assets	EUR (MM)	106,706	104,664
Shareholders' Equity	EUR (MM)	40,687	40,956
Net Financial Debt	EUR (MM)	29,414	28,067
ROE	%	6.6	6.3
Financial Leverage <sup>(1)</sup>	%	42.0	40.7
Net Financial Debt/Equity	%	72.3	68.5

(1) Net Financial Debt/(Net Financial Debt + Shareholder's Equity).

\* Financial terms are defined in the "Glossary"

## Credit Rating of IBERDROLA Senior Debt

Agency	Rating	Outlook	Date
Moody's	Baa1	Positive	26 April 2016
Fitch IBCA	BBB+	Stable	8 July 2016
Standard & Poor's	BBB+	Stable	22 April 2016



# Operating Highlights for the period

Iberdrola's results for the period must be framed within the implementation of the corporate strategy announced on Investor Day 2016, defined by the growing weight of regulated activities (transmission and distribution of electricity and gas) and the renewables business, both in terms of utilising investment opportunities and contributing to the Group's profit, with a growing weight of the United States and Mexico businesses on said contribution.

The results of financial year 2016 are affected by the performance of Iberdrola's reference currencies compared to 2015. The depreciation of the Pound Sterling and the Brazilian Real has not been offset by the US Dollar, which hardly varied compared to 2015.

## In the general scope of the system, it is worth noting the following:

- In Spain, the period is characterised by high renewable production (40.8% of the total) due to the strong increase in hydroelectric production (+25.3%) especially during the first half of the year. Demand has risen slightly compared to 2015 (+0.7%), with no variation in terms, adjusted to number of working days and temperature. The evolution of electricity consumption of the group companies and industries shows that over the last 12 months, consumption has remained at levels similar to 2015.
- In the United Kingdom, electricity demand dropped by 1.3% compared to 2015. However, customers' gas demand (not including generation consumption) increased by 2.6%.
- Avangrid's area of influence on the East Coast of the United States saw a 0.8% drop in electricity demand and a 2.3% drop in gas demand, as a result of warmer weather compared to 2015.
- Demand in Iberdrola's area of influence in Brazil increased by 1.0% compared to last year, mainly in the markets in the Northwest of the country covered by Neoenergia, given that Elektro's

demand decreased by 1.4%, affected by less industrial activity in this area.

During 2016, **international commodities markets** performed as follows:

- The average price of Brent oil was steady at USD 43.7 per barrel compared to USD 52.5 per barrel last year (-17%).
- The average price of gas (TTF) over the period dropped to EUR 14.0/MWh, compared to EUR 19.8/MWh in 2015 (-29%).
- The average price of API2 coal was USD 59.8/MT, compared to USD 56.8/MT (5%) last year.
- The average cost of CO2 rights dropped from EUR 7.7/MT in 2015 to EUR 5.3/MT in 2016 (-31%).

The average performance of Iberdrola's main reference currencies against the Euro in 2016 compared to last year was as follows:

- The Pound Sterling depreciated by 12.7%
- The Brazilian Real depreciated by 4.6%
- The USD remained at levels similar to the previous FY (+0.3%).

The following highlights should be noted regarding the period analysed, in comparison to the previous financial year:

- First full year of consolidation of UIL in the United States, an effect registered in the Networks Business of said country.
- Consolidated EBITDA increased by 5.5% compared to 2015, reaching EUR 7,807.7 million and consolidating the improvement of the account in operating terms during the year (January-March: -6.0%; April-June: +1.4%; July-September: +4.2%).
- The Net Financial Result improved by 11.7%, as a result of the financial cost drop and the exchange rate hedges carried out at the start of the year, mainly on the Pound Sterling, despite an increase in average debt.
- Recurring Net Profit was up by 12.0%, as a result of the positive operating trend reflected in the EBITDA, as well as of the improved Financial Result

mentioned above. Reported Net Profit increased by 11.7%, to EUR 2,705.0 million.

**The main items of the Profit and Loss Account have evolved as follows:**

EUR million	12M 2016	vs. 12M 2015
GROSS MARGIN	12,916.2	0.6
EBITDA	7,807.7	5.5
EBIT	4,554.0	18.9
RECURRING NET PROFIT	2,531.7	12.0
NET PROFIT	2,705.0	11.7

The optimisation of financial soundness and liquidity as strategic priorities are summarised as follows:

- Net Financial Debt is at EUR 29,414 million, having increased by EUR 1,347 million since December 2015 as a result of the advance investment in renewable energy, especially offshore, and several extraordinary items (taxes in Spain, Safe Harbor in the US, etc.). For this reason, financial leverage grew to 42%, compared to 40.7% recorded as at 31 December 2015.
- Funds Generated from Operations at the end of 2016 had increased by 6.8% and reached EUR 6,310.8 million.
- Solvency ratios had slightly improved as at December 2016.

# Operational performance for the period

## 1. Networks Business

### 1.1. Spain

At close of December 2016, Iberdrola Distribución Eléctrica had 10.95 million supply points, and its energy distribution for the year amounted to 92,308 GWh, a 0.4% drop compared to the previous year.

At the end of 2016, the CAIDI indicator of supply quality was at 54.1 minutes, a 12% improvement with regard to the same period of 2015.

The table below shows the CAIDI (interruption time) and SAIFI (number of interruptions) values compared with previous years:

Year	CAIDI accumulated	SAIFI accumulated
2015	61.8	1.20
2016	54.1	1.04

During this financial year, the investment made by the business in Spain has made it possible to commission the facilities included in the following table:

Physical Units commissioned (June 2016)	Total	Voltage				
		Very high	High	Medium	Low	
Lines	Overhead (km) <sup>(1)</sup>	185	15	-105	29	246
	Underground (km)	573	2	26	259	286
Substations	Transformers (units)	4	4			
	Capacity increase (MVA)	568	533	15	20	
	Substations (units) <sup>(1)</sup>	4				
Secondary sub-stations	Secondary sub-stations (units)	411				
	Capacity increase (MVA)	130				

(1) Decrease in Km. of HV lines due to replacement by MHV lines (some owned by REE) and, also, MHV/HV transformation is being replaced by MHV/MV, causing the elimination of some HV circuits.

(2) New substations commissioned during the third quarter: Los Ateros 132 kV (Murcia), Baños y Mendigo 132 kV (Murcia) and Parque Central 220 kV (Valencia).

In 2016, 554,454 meters with a remote management system were installed as part of the STAR smart network project, reaching 73.5% of regulatory requirements for installed meters and 78.2% of regulatory requirements for meters effectively integrated in the network. It should be noted that the regulatory requirement to replace 70% of all meters by 31 December 2016 was complied with more than three months in advance.

### 1.2. United Kingdom

As at 31 December 2016, Scottish Power Energy Networks (SPEN) had more than 3.5 million electricity distribution supply points. The volume of distributed electricity throughout 2016 was 35,704 GWh, representing a 1.5% drop compared to the previous year.

Customer Minutes Lost, CML was as follows:

CML (minutes)	Jan-Dec 2016	Jan-Dec 2015
Scottish Power Distribution (SPD)	30.7	34.9
Scottish Power Manweb (SPM)	37.2	35.5

The number of consumers affected by interruptions per every 100 customers (Customer Interruptions, CI) was as follows:

CI (Nº of interruptions)	Jan-Sept 2016	Jan-Sept 2015
Scottish Power Distribution (SPD)	45.3	46.6
Scottish Power Manweb (SPM)	38.9	31.5

Despite the fact that quality indicators of Scottish Power Energy Networks (SPEN) have worsened due to four incidents that together affected close to 100,000 consumers, indicators of both companies comply with the regulatory limits.

### 1.3. United States - AVANGRID

#### 1.3.1. Electricity Distribution

At the close of December 2016, Avangrid Networks had 2.2 million electricity supply points. The volume of distributed electricity for 2016 was 39,079 GWh, a 16% increase compared to the previous year, due to the integration of UIL.

**The System Average Interruption Frequency Index (SAIFI) was as follows:**

SAIFI	Jan-Dec 2016	Jan-Dec 2015
Central Maine Power (CMP)	1.89	1.57
NY State Electric & Gas (NYSEG)	1.19	1.15
Rochester Gas & Electric (RGE)	0.58	0.75
United Illuminating Company (UIL)	0.53	0.42

**The Customer Average Interruption Duration Index (CAIDI) was as follows:**

CAIDI (h)	Jan-Dec 2016	Jan-Dec 2015
Central Maine Power (CMP)	1.89	1.82
NY State Electric & Gas (NYSEG)	2.02	1.97
Rochester Gas & Electric (RGE)	1.79	1.82

**The System Average Interruption Duration Index (SAIDI) for UIL was as follows:**

SAIDI (min.)	Jan-Dec 2016	Jan-Dec 2015
United Illuminating Company (UI)	47.0	37.0

It should be pointed out that all of Avangrid's quality indicators have complied with all established regulatory limits.

#### 1.3.2. Gas

The number of gas users in the United States at the end of 2016 exceeded one million supply points, which were supplied with 59,544 GWh, a 64% increase compared to last year, due to the integration of UIL's gas distributors. Without taking into account this effect, distributed gas dropped by 2.3% compared to the previous year, due to the mild temperatures recorded in the winter months of 2016.

#### 1.4. Brazil

At close of December 2016, Neoenergia had 10.8 million supply points in Brazil, while Elektro had 2.6 million. The total distributed electricity volume for 2016 was 62,726 GWh; 45,301 GWh by Neoenergia (+2.0%) and 17,425 GWh by Elektro, a decrease of 4.4% yoy.

**The average customer interruption time (*duração equivalente de interrupção por unidade consumidora, DEC*) was as follows:**

DEC (hrs)	Jan-Dec 2016	Jan-Dec 2015
Elektro	8.24	8.51
Coelba	22.92	24.77
Cosern	13.56	14.73
Celpe	15.76	19.34

The average number of customer interruptions (*frequência equivalente de interrupção por unidade consumidora, FEC*) was as follows:

FEC	Jan-Dec 2016	Jan-Dec 2015
Elektro	4.61	4.70
Coelba	8.79	8.82
Cosern	7.07	7.50
Celpe	7.11	8.13

Elektro continues to be one of Brazil's leading distributors in terms of supply quality. Coelba and Celpe strengthened their positions in the quality ranking for Brazil, thanks to the efficiency improvement plan.

## 2. Generation and Supply Business

### 2.1 Spain and Portugal

At the close of 2016, Iberdrola's installed capacity in Spain totalled 20,058 MW, broken down as follows:

SPAIN	Consolidated installed MW	MW Investees	TOTAL
Hydroelectric	9,715		9,715
Nuclear*	3,166	244	3,410
Coal	874		874
Gas combined cycle	5,695		5,695
Cogeneration	298	66	364
<b>Total</b>	<b>19,748</b>	<b>310</b>	<b>20,058</b>

\*Includes Garoña

Furthermore, **Spanish Mainland Energy Production in 2016** was characterised by a high renewable production (40.8% of the total), due to the increase in hydroelectric production (+25.3%), as a result of the first half of the year having been particularly rainy. As a result, coal production dropped compared to 2015 (-30.9%) although gas combined production increased slightly (+2.3%). Demand has been slightly higher than that of 2015 (+0.7%) mainly due to the effect of the number of working days, as it was a leap year. In terms adjusted to number of working days and temperature, the trend was 0.0%.

**With regard to Iberdrola**, during 2016, production increased by 16.4% to 50,790 GWh, due to the increase in hydroelectric and nuclear production. The trend broken down by types of technology is as follows:

- Hydroelectric production totalled 18,325 GWh, representing an increase of 48.2% compared to the previous year. As at 31 December 2016,

hydroelectric reserve levels were at 42% (equivalent to 4,774 GWh).

- Nuclear production reached 24,381 GWh, representing an increase of 5.4%.
- Coal-fired thermal power plants reached a total of 2,084 GWh, compared to 3,642 GWh during the previous year, a drop of 42.8%.
- Meanwhile, combined-cycle production rose by 62.1% to 3,709 GWh.
- Cogeneration plants registered a 5.1% increase in production, which reached 2,290 GWh.

Of the 50,790 GWh produced, Iberdrola consolidated 50,318 GWh at EBITDA level, with 472 GWh being consolidated by the equity method in accordance with the IFRS 11. The breakdown is as follows:

The breakdown is as follows:

	GWh Consolidated at EBITDA level	GWh Investee companies (equity method)	TOTAL
Hydroelectric	18,325		18,325
Nuclear	24,301	80	24,381
Coal	2,084		2,084
Gas combined cycle	3,709		3,709
Cogeneration	1,898	392	2,290
<b>Total</b>	<b>50,318</b>	<b>472</b>	<b>50,790</b>

Comparatively speaking, Iberdrola's Energy Production figures can be broken down as follows:

	2016	2015
Hydroelectric	36.1%	28.4%
Nuclear	48.0%	53.1%
Coal	4.1%	8.3%
Gas combined cycle	7.3%	5.2%
Cogeneration	4.5%	5.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Note: IFRS 11 does not apply

As to retail business, as at 31 December 2016, the portfolio managed by Iberdrola included 16,324,166 contracts, a total of 132,370 more contracts than in the same period in 2015 (+0.8%).

The breakdown is as follows:

	Spain	Portugal	Spain & Portugal
Electricity contracts	10,232,979	107,683	10,340,662
Gas contracts	938,607	-	938,607
Other product and service contracts	4,972,569	72,328	5,044,897
<b>Total</b>	<b>16,144,155</b>	<b>180,011</b>	<b>16,324,166</b>

**By market type they can be broken down as follows:**

	Spain	Portugal	%
Liberalised market	12,377,163	180,011	77%
Last resort tariff	3,766,992	-	23%
<b>Total</b>	<b>16,144,155</b>	<b>180,011</b>	<b>100%</b>

Iberdrola's electricity sales in 2016 came to 84.9 TWh measured at power substation busbars, of which 55.9 TWh were sold on the deregulated market, 9.7 TWh correspond to energy at the voluntary price for small consumers (PVPC) and 19.4 TWh to other markets.

With regard to gas, in 2016 Iberdrola managed a total gas production of 4.78 bcm, of which 2.71 bcm were sold in wholesale transactions, 0.79 bcm were sold to end customers and 1.28 bcm went towards electricity production.

**2.2. United Kingdom**

At the end of 2016, installed capacity in the United Kingdom was 2,531 MW, due to the closure of the Longannet coal-fired power station (2,304 MW) at the end of March.

**The breakdown of the installed capacity at close of the last quarter was:**

United Kingdom (SPW)	MW
Hydroelectric	563
Gas combined cycle	1,967
Cogeneration	1
<b>Total</b>	<b>2,531</b>

Production from Iberdrola's traditional electricity generation in the United Kingdom fell by 29% in 2016, to 10,650 GWh, compared to 14,925 GWh in the previous year due to the mentioned impact of the closure of the Longannet coal-fired power station. The market share of the UK generation business in 2016 was 4.2%, compared to 6% in the previous year. The highlights are as follows, broken down by production technology:

- Combined cycle gas production rose by 32% to 8,341 GWh compared to 6,333 GWh in 2015.
- Hydroelectric production dropped by 17% to 590 GWh, compared to 708 GWh in 2015.

With regard to retail business, in 2016 customers were sold 22,628 GWh of electricity and 31,974 GWh of gas, compared to the figures for 2015: 22,141 GWh of electricity and 32,055 GWh of gas.

At the end of 2016, Scottish Power had 3.2 million electricity customers and 2.1 million gas customers, continuing at similar levels than those of last year.

### 2.3. Mexico

The thermal operating capacity in the fourth quarter of 2016 was 5,437 MW of thermal capacity, broken down as follows:

Capacity (MW)	MW
Monterrey	1,301
Altamira II and IV	1,093
Enertek	144
La Laguna	538
El Golfo	1,121
Tamazunchale	1,187
ICR	53
<b>Total</b>	<b>5,437</b>

Five new plants are currently being built, and a significant milestone was reached during the last quarter, with the 300 MW Dulces Nombres 2 plant in Monterrey starting commercial operation. This year the 53.3 MW cogeneration plant in Ramos was put into operation, as was the 57 MW extension to Altamira III and IV.

With this Baja California plant, the capacity contracted with the CFE (Iberdrola's largest client worldwide under 25-year contracts with regulated generation) reaches a total of 6,277 MW, already in operation in early 2017.

With these latest additions, in 2018 and 2019, in Mexico Iberdrola will reach 7,600 MW in fully consolidated projects and thermal capacity, including long-term contracts in place with top level private clients, in addition to the above-mentioned capacity under long-term contracts with the CFE.

The electrical energy sold in Mexico in the fourth quarter of 2016 by the combined-cycle and

cogeneration plants totalled 9,512 GWh, which, added to the previous quarters, consolidate a total of 36,597 GWh throughout 2016.

Availability for the current year is 95.8% and reliability was 99.04%.



### 3. Renewables

At the end of 2016, the Renewables business had an installed capacity of 15,256 MW.

During the last 12 months, Iberdrola has increased its total installed power by 581.81 MW; 584.04 MW in UK and US were installed, while 2.23 MW were dismantled (0.85 MW wind power and 1.38 MW Mini-hydroelectric in Spain). Of the 15,247 MW, Iberdrola consolidated 14,777 MW and managed a further 479 MW through investee companies.

	Installed MW Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Wind Energy Spain	5,508	244	5,752
Wind Energy USA	5,692	161	5,853
Wind Energy U.K.	1,991	15	2,006
Onshore	1,796	15	1,812
Offshore	194	0	194
Wind Energy Brazil	187	59	246
Wind Energy Mexico	367	0	367
Wind Energy RoW	615	0	615
<b>Total Wind Energy</b>	<b>14,360</b>	<b>479</b>	<b>14,839</b>
<b>Total Onshore Wind</b>	<b>14,166</b>	<b>479</b>	<b>14,645</b>
<b>Total Offshore Wind</b>	<b>194</b>	<b>0</b>	<b>194</b>
Other Renewables	417	0	408
<b>Total Inst. capacity</b>	<b>14,777</b>	<b>479</b>	<b>15,256</b>

(\*) IFRS11, figures rounded to the nearest unit.

(\*\*) Includes Neoenergia.

Production in the period associated to the installed and managed capacity was as follows:

	GWh Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Wind Energy Spain	10,797	440	11,237
Wind Energy USA	14,420	383	14,803
Wind Energy UK	3,086	12	3,098
Onshore	2,358	12	2,370
Offshore	728	0	728
Wind Energy Brazil	639	210	848
Wind Energy Mexico	1,119	0	1,119
Wind Energy RoW	1,358	71	1,429
<b>Total Wind Energy</b>	<b>31,419</b>	<b>1,115</b>	<b>32,534</b>
<b>Total Onshore Wind</b>	<b>30,691</b>	<b>1,115</b>	<b>31,806</b>
<b>Total Offshore Wind</b>	<b>728</b>	<b>0</b>	<b>728</b>
Other Renewables	964	0	964
<b>Total Renew. Prod.</b>	<b>32,383</b>	<b>1,115</b>	<b>33,498</b>

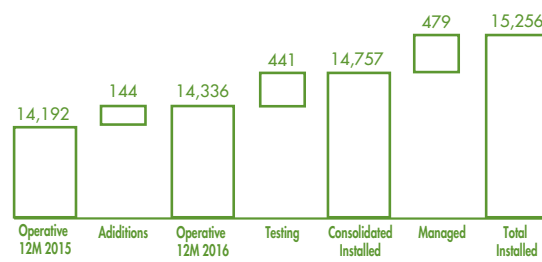
(\*) IFRS11, figures rounded to the nearest unit.

(\*\*) Includes Neoenergia

Operating consolidated capacity reached 14,336 MW after adding 144 MW in operation in the last 12 months.

#### Operative and Installed Capacity

MW

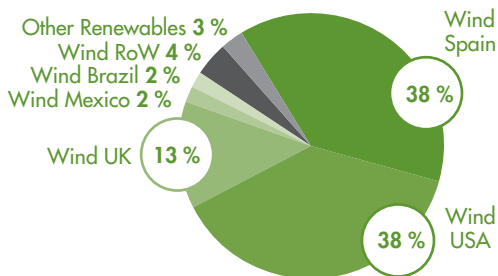


Note: Figures rounded to the nearest unit

**At close of 2016, the geographical breakdown of the installed capacity of 15,256 MW is as follows:**

#### Installed Capacity breakdown

MW



#### Onshore wind energy

Iberdrola reached an installed onshore wind power of 14,645 MW (of which 14,166 MW are fully consolidated) after having added 584.04 MW of onshore wind power over the last twelve months.

#### Spain

Installed capacity at close of 2016 was 5,752 MW. Of this capacity, Iberdrola has consolidated 5,508 MW and manages the remaining 244 MW through investee companies.

The construction of two wind farms with a combined capacity of 32.2 MW on the island of Tenerife has been approved: Chimiche II (18.4 MW) and Las Aulagas (13.8 MW).

#### United States-AVANGRID

The Company is present in 19 states, with a total of 5,853 MW installed wind capacity, of which 161 MW are managed through investee companies.

Works are ongoing on the Desert Wind farm (208 MW) with a PPA signed with Amazon in North Carolina (all of the wind turbines have been installed; the only remaining action pending before starting commercial operations is to commission the last 8 MW), El Cabo (298.2 MW) in New Mexico, Deerfield (30 MW) in Vermont and Tule (131.1 MW) in California. The Twin Buttes II (75 MW) project in Colorado is in the phase prior to the start of works.

#### United Kingdom

Installed onshore wind capacity reached 1,812 MW in the United Kingdom. Of this capacity, 1,796 MW are consolidated and 15 are managed through investee companies.

During the financial year, the company has worked on building 473.78 MW subject to the ROCs system. Of this portfolio of projects, works have been completed for a total of 146.23 MW: 13.8 MW in Ewe Hill Phase 1, 45.06 MW in Black Law Ext. Phase 1, 69 MW in Dersalloch and 18.37 MW in Black Law Ext. Phase 2. Works are ongoing on 327.55 MW, including the wind farms of Killgallioch (239 MW, of which 167.5 MW have been installed), Hare Hill extension (29.75 MW, of which 23.35 MW have been installed), Ewe Hill Phase 2 (36.8 MW, of which 25.3 MW have been installed) and Glen App (22 MW, of which 14 MW have been installed).

#### Brazil

In Brazil, Iberdrola has 246 MW installed wind capacity, of which 187 MW are consolidated and 59 MW are managed through Neoenergia.

Furthermore, six projects for a total of 178.5 MW of wind power won bids in the "Leilões" (tenders) that took place in 2014. Installation works have been completed for the wind farms of Calango 6 (30 MW), Santana I (30 MW) and Santana II (24 MW),

although they will not be consolidated until the first quarter of 2017.

### Mexico

In Mexico, installed capacity totals 367 MW, following the completion of the Pier II wind farm (66 MW) in the state of Puebla, and the consolidation of capacity at Dos Arbolitos (70 MW).

The construction of a further 325.5 MW has been approved: Santiago Eólico (105 MW) in Guanajuato, and Pier (220.5 MW) in Puebla.

### Rest of the World

Installed capacity at the end of 2016 amounted to 615 MW, 100% consolidated capacity, broken down as follows:

	MW
Italy	10
Portugal	92
Greece	255
Cyprus	20
Hungary	158
Romania	80
<b>Total</b>	<b>615</b>

### Offshore wind energy

The renewables business is currently developing offshore wind projects, mainly in the United Kingdom, Germany and France.

In 2014, the company started the West of Duddon Sands project in the United Kingdom, located on the Irish Sea. Attributable installed capacity is 194 MW.

Iberdrola continues its growth in the offshore market, with the construction of the **Wiking** wind

farm. The campaigns to install piles and jackets have been completed.

The cable-laying works in the farm are also close to finishing, and progress is being made with the completion and test works. The OSS (offshore substation) is already installed and is now at the end of its commissioning and completion phase. At the same time, work has started on the offshore operations to install wind turbines with a view to their commissioning over the course of 2017.

Iberdrola is also developing the **'East Anglia' group of projects** in the United Kingdom, on the North Sea. The **East Anglia 1** project, which in February 2015 secured a contract in the first CfDs (Contracts for Difference) auction process to output 714MW of capacity, and for which an investment of GBP 2,600 million was approved by the company in February 2016, has closed 2016 with most of the supply contacts for the main packages having been signed already. Thus, it is worth highlighting the contract with Siemens for the supply of 102 wind turbines with a capacity of 7MW, the corresponding contracts with Navantia for the supply of the offshore substation and 42 jackets on which the wind turbines will be placed; the contract with Lamprell for the supply of the remaining 60 jackets, and the contract with Nexans for the supply of the output cable between the farm's substation and the onshore substation.

Furthermore, in the first quarter of 2016, Iberdrola and Vattenfall (a partner in the initial development process) completed negotiations with The Crown Estate for **the distribution of the remaining projects in the East Anglia area**, as a result of which Iberdrola has become the owner of 100% of the rights over a further three projects in different phases of development, with an accumulated capacity of 2800 MW.

In April 2012, the consortium formed by Iberdrola and the French company EOLE-RES was awarded

by the French Government the exclusive rights for the exploitation of the offshore wind farm of **Saint-Brieuc**, with a capacity of 500 MW. The project was technically redefined in 2013 with the aim of using a more modern machine, with a unit capacity of 8MW. In October 2015, the project submitted a request for a construction permit. In 2016, the company worked on answering the requests from the French administration within the process for the approval of said permit, as well as on the consolidation of the main supply agreements for the future farm. The building permit is expected to be granted in the first half of 2017.

### Other renewable technologies

The Renewables business has other renewable technology facilities in several countries, amounting to a total of 417 MW, broken down as shown in the following table:

Technology	MW	Country
Mini Hydro	302	Spain
Photovoltaic	56	USA (50 MW), Greece (6 MW) and Spain (0.09 MW)
Hybrid Gas-solar	50	Spain
Fuel cells	9	USA
<b>Total MW</b>	<b>417</b>	

### **United States-Avangrid**

Construction of an additional 66 MWn with photovoltaic technology has been approved: Gala (56 MWn) and Wy'East (10 MWn), both in the state of Oregon.

### Mexico

Construction of an additional 270 MWn with photovoltaic technology has been approved: Santiago photovoltaic (170 MWn) in San Luis de Potosí and Hermosillo (100 MWn) in Sonora.

# Other aspects

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## 1. Shareholder remuneration

### Iberdrola Scrip Dividend

In December 2016, a new edition was launched of the 'Iberdrola Scrip Dividend' on occasion of the payment of the dividend on account corresponding to financial year 2016.

On 19 January 2017, the negotiation period for the free-of-charge allocation corresponding to the capital increase came to an end. On this occasion, 69.3% of the social capital of Iberdrola has opted to receive new company shares. In order to cope with the result of this new edition, Iberdrola issued 97,911,000 new shares, which means extending the capital of the Company by 1.539%.

Furthermore, the owners of 1,956,083,947 free-of-charge allocation rights have chosen to benefit from the purchase commitment assumed by Iberdrola, set at **EUR 0.135 gross** per share. This means an **8% dividend increase** compared to the minimum amount committed in January 2016, which was EUR 0.125 gross per share. As a result, the company has acquired the mentioned rights for a total gross amount of EUR 264,071 million.

This edition of the Iberdrola Scrip Dividend will be completed with complementary remuneration charged to 2016, which should be approved by the next General Shareholders' Meeting ON THE MOTION OF the Board of Directors, to make it effective as from July.

# Analysis of the consolidated profit and loss account

## 1. Relevant Information

**Reclassification of capital subsidies income.** Since May 2016, capital subsidies are classified under Operating Income, not reducing the amortisations as was done previously. The comparative information of 2015 has been corrected to this effect. The increase in income for financial years 2016 and 2015 amounted to EUR 82.5 million and EUR 91.5 million, respectively. The effect on the Group's Net Profit is nil, given that it is corrected with greater amortisations for the same amount.

## 2. Analysis of the Consolidated Profit and Loss Account

The most notable figures for 2016 are as follows:

Eur Millions	Jan-Dec 2016	Jan-Dec 2015	%
Revenue	29,215.4	31,418.7	-7.0
Gross margin	12,916.2	12,842.7	0.6
Ebitda	7,807.7	7,397.4	5.5
Ebit	4,554.0	3,829.3	18.9
Recurring net profit	2,531.7	2,261.4	12.0
Net Profit	2,705.0	2,421.6	11.7
Operating cash flow	6,310.8	5,906.7	6.84

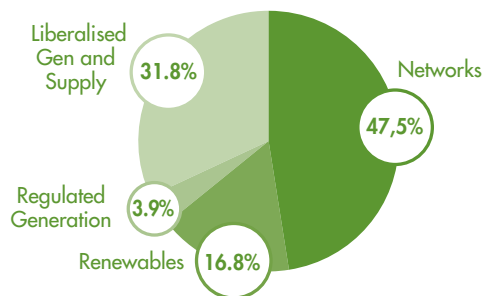
### 2.1 Gross Margin

Gross Margin was at EUR 12,916.2 million, with a 0.6% increase compared to that obtained in financial year 2015, supported by the contribution of UIL (EUR +770 million), which more than compensates for the performance of the average reference currencies (EUR -339.2 million).

This performance is mainly the result of the following:

- **The Networks business** increased by 11.8% with regard to 2015, to EUR 6,160.5 million.
  - In Spain, it reached EUR 2,028.2 million (+3.9%). It is worth noting the definitive approval of the regulatory framework of Distribution.
  - In the United Kingdom, it came to EUR 1,266.9 million (-13.9%), mainly due to the depreciation of the pound and the revenue profile defined in the new regulatory framework for Distribution (RIIO ED1) which came into force in April 2015, and to lower investments than those expected.
  - The contribution of the United States for the period totalled EUR 2,537.1 million (+49.4%) due to the consolidation of UIL (EUR 770 million) and better margins in NY and Maine (EUR 64 million).
  - Gross Margin for Brazil (Elektro) was at EUR 328.4 million (-15.8%) affected by the depreciation of the Real, a decrease in circulated energy and the different composition of the demand with regard to last year.
- **Generation and Supply Business** dropped by 4.3% to EUR 4,634.0 million.
  - In Spain, it reached EUR 3,071.5 million (+3.4%) thanks to the different production mix compared to 2015 and to the greater volume of sales to customers.
  - Gross Margin for the United Kingdom was EUR 999.5 million (-23.5%), negatively affected by the depreciation of the pound, the increase of regulatory costs both in Generation and in Retail and the lower sales as a result of warmer weather.
  - Mexico contributed EUR 509.0 million to the Gross Margin (-12.8%), due to the lower margins in contracts with CFE as they are linked to certain macroeconomic variables (this impact is compensated at EBITDA level as Net Operated Expenses is also linked to those variables) and also with private customers and to the delay in the commissioning of Monterrey (300 MW) and Baja California (300 MW) plants that are already in operation.

## Gross Margin by business



- **The Renewables Business** had a Gross Margin of EUR 2,179.5 million (-7.7%).
  - In Spain, it increased to EUR 763.7 million (+1.7%) due to greater production (+0.8%) influenced by the accounting of a regulatory asset (EUR 45 million).
  - A contribution from the US of EUR 802.3 million (-2.5%) as a result of the non-renewable gas business that had a positive result in 2015 due to the derivatives in electricity and gas (EUR 31.1 million) that has not been repeated this year, without this effect Gross Margin would increase by 1.5%. The greater production (+5.2%) offsets the drop in the average price.
  - In the United Kingdom, it dropped by 32.7% to EUR 385.1 million, due to the effect of the depreciation of the pound, the lower production (-16.8%) resulting from the lower wind power of the period, and lower market prices and the LECs elimination in the third quarter of 2015.
  - Latin America increased to EUR 105.4 million (+13.3%) with Mexico improving by 21.7% thanks to the new capacity in operation, and Brazil was practically flat (+0.4%), affected by the depreciation of the Real.
- The contribution of **Other Businesses** totalled EUR 106.3 million (-54.8%).

## 2.2 Gross Operating Result - EBITDA

Consolidated EBITDA increased by 5.5% compared the close of 2015, totalling EUR 7,807.7 million and reflecting the improvement of the account in operating terms from the first quarter of the year (first quarter: -6.0%; first half: +1.4%, nine-month period: (+4.2%). Contribution of non-recurring elements at EBITDA level was EUR 54 million, given that the positive impact of the Social Bonus ruling (EUR +142 million) was partially offset by another set of effects in the opposite direction (EUR -88 million in total), which include favourable rulings in Spain with atypical costs, efficiency measures, extraordinary IFRS losses in the Networks US business and the compensation to customers imposed by Ofgem.

In addition to the above-mentioned trend of the Gross Margin, Net Operating Expenses dropped by 4.5% to EUR 3,571.7 million, impacted by the control of costs, the closure of the Longannet coal-fired plant in the United Kingdom, and the positive effect of the exchange rates (EUR +114 million). The incorporation from 1 January of US company UIL implies greater operating expenses of EUR -200 million.

The Taxes item dropped by 9.9% to EUR 1,536.7 million, with the impact of the incorporation of UIL (EUR -138 million) offset by the positive net impact of EUR 217 million related to social bonus recognised in the last quarter of the year, the FX effect in UK and the end of the efficiency program ECO.

## 2.3 Net Operating Result - EBIT

EBIT was EUR 4,554.0 million, an 18.9% increase compared to 2015.

Amortisations and Provisions dropped by -8.8%, totalling EUR 3,253.7 million:

- The Amortisations item remained stable (+0.1%), totalling EUR 3,076.0 million, a reflection, on the one hand, of the lower amortisation following the write-off in 2015 of the Longannet Plant (EUR +132 million), and on the other, of the extension to 40

years of useful life of the towers and the civil works of the onshore wind farms in accordance with industry standards (EUR +147 million), which offset the incorporation of UIL (EUR -188 million) and the increase due to new investments.

- The Provisions item totalled EUR 177.7 million, with a lower expense of EUR 316 million (-64.0%) due to the write-off of Longannet registered in the fourth quarter of 2015 for EUR 288 million and new impairments (promotions costs of wind farms in US).

## 2.4. Financial Result

The net financial result was EUR -903.4 million, improving by 11.7% (EUR +119.6 million) compared to that registered last year.

- The reduction in the average cost to 3.49% (56 b.p. lower than last year) has contributed with a EUR 64.8 million improvement of the result associated to debt, despite the fact that average net debt increased by EUR 2,365 million.
- The Exchange Differences and Derivatives result improved by EUR 115.6 million, greatly due to the hedges made to protect the Net Profit, which generate a positive assessment derived from the performance of the Pound Sterling following Brexit.
- Several non-recurring contingencies recorded in 2016 (mainly interests accrued in legal decisions in 2015 and sale of the stake in Euskaltel) resulted in a lower financial revenue of EUR 61.0 million.

	12M 2016	12M 2015	Dif.
Debt Result	-985.7	-1,050.7	+65.1
Derivatives and exchange differences	+58.6	-56.9	+115.6
Others	+23.6	+84.6	-61.0
Financial result	-903.4	-1,023.1	+119.6

## 2.5 Results of Companies Consolidated by the Equity Method

The Results of Companies Consolidated by the Equity Method totalled EUR 48.7 million, compared to EUR 55.3 million at close of 2015 (-11.9%), as the better results of Gamesa are not enough to offset the sale of the stake in wind farms in Italy and the lower result of Neoenergia (Brazil) of EUR -14.3 million (-25%).

## 2.6 Income from Non-Current Assets

Income from Non-Current Assets amounted to EUR 48.1 million compared to EUR 125.1 million in 2015 (-61.5%). During 2016, the most significant transactions have been the sale of Iriquois (minority stake in local gas network) in the US and the sale of the stake in the real estate company Oceanic Center.

## 2.7 Net Profit

Lastly, Net Profit came to EUR 2,705.0 million, an increase of 11.7% compared to that obtained in 2015, due to the operating improvement, lower provisions due to Longannet closure and the financial result, and despite the lower result of non-current assets and greater taxes due to the accounting of non-recurring positive fiscal impacts in the first half of 2015 of EUR 295 million, against the EUR 102 million accounted in 2016.

Recurring Net Profit amounted to EUR 2,531.7 million (+12.0%). The balancing of the Recurring Net Profit and the Reported Net Profit is as follows:

	12M 2016	12M 2015	%
<b>Recurring Net Profit</b>	<b>2,531.7</b>	<b>2,261.4</b>	<b>12.0</b>
Extraordinary write-offs	30.5	-275.5	
Income from non-current assets	40.7	140.6	
Non-recurring taxes	102.1	295.1	
<b>Reported Net Profit</b>	<b>2,705.0</b>	<b>2,421.6</b>	<b>11.7</b>



## Analysis of the consolidated profit and loss account

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Funds Generated from Operations at 31 December 2016 came to EUR 6,311 million, a 6.84% increase compared to the same period of the previous year. The performance of the benchmark credit ratios was as follows:

	December 2016	December 2015
Funds from Operations (FFO)* / Net Financial Debt	21.5%	21.0%
Retained Cash Flow (RCF)** / Net Financial Debt	18.8%	18.7%
Net Financial Debt/EBITDA	3.77x	3.84x

(\*) FFO = Net Profit + Minority Results + Depreciations, and Prov. - Profit of Companies consolidated by the equity method - Net Non-recurring Results - Financial Prov. Activation + Dividends of companies consolidated by the equity method - Adjustment of tax deductible items and other effects

(\*\*) RCF = FFO - Cash paid dividends - Net interest hybrid issuance

# Results by business

## 1. Networks business

The key figures for the Networks business are as follows:

(Eur M)	12M 2016	vs 12M 2015
Revenues	8,806.7	11.4%
Gross Margin	6,160.5	11.8%
EBITDA	4,081.7	12.5%
EBIT	2,649.2	6.6%

The Networks business increased its contribution to the Gross Margin (+11.8%), thanks to the consolidation of UIL (EUR 770 million) and the application of the new regulatory framework in Spain, which increased remuneration by 2.5%, compensating for the worse performance of the United Kingdom and Brazil, as well as the effect of currency depreciation in both of these countries (EUR -134 million).

### 1.1 Spain

(Eur M)	12M 2016	vs 12M 2015
Revenues	2,049.7	4.3%
Gross Margin	2,028.2	3.9%
EBITDA	1,603.1	10.0%
EBIT	1,100.3	8.5%

#### a) Gross Margin

The Gross Margin of the Networks Business in Spain increased by 3.9% to EUR 2,028.2 million, due to the 2.5% increase in remuneration resulting from the application of the new regulatory framework in 2016. Thus, revenues from investments made in previous financial years, the application of

the new remuneration model according to Order IET/980/2016 and better incentives (EUR 31 million), as well as greater revenues from the new remote management meters, more than offset the positive re-settlements accounted for in 2015 (EUR 33 million).

#### b) Operating Profit / EBIT:

EBITDA for this business came to EUR 1,603.1 million, growing by 10.0%.

Net Operating Expenses dropped by 14.9% to EUR 338.2 million. This trend is explained by cost control and the accounting of Installations Occupied by Customers (*Instalaciones Cedidas a Abonados or ICAs*) in accordance with the average useful life derived from Order IET/980/2016 (23 years), and its matching funds in amortisations.

EBIT for the Networks Business in Spain totalled EUR 1,100.3 million (+8.5%). Amortisations and Provisions totalled EUR 502.8 million (+13.6%), as a result of the commissioning of new assets (mainly meters and measuring devices) as well as due to amortising assets according to Order IET/980/2016 over 23 years.

### 1.2 United Kingdom

(Eur M)	12M 2016	vs 12M 2015
Revenues	1,319.1	-14.0%
Gross Margin	1,266.9	-13.9%
EBITDA	976.2	-14.2%
EBIT	692.4	-16.4%

#### a) Gross Margin

The Gross Margin of the Networks Business in the United Kingdom (ScottishPower Energy Networks-SPEN) reached EUR 1,266.9 million (-13.9%),

negatively affected by the exchange rate, which deducted EUR 161 million, and also by revenue profiling in the Distribution business after the entry into force of RIIO-ED1 as from 1 April 2015, and lower investments than those expected in basically Transmission.

### **b) Operating Profit / EBIT:**

EBITDA reached EUR 976.2 million (-14.2%), with a drop in Net Operating Expenses of 15.3% to EUR 187.4 million, due to lower net external services and the depreciation of the Pound. Taxes dropped by 8.4% to EUR 103.2 million, also affected by the exchange rate.

Amortisations and Provisions totalled EUR 283.8 million (-8.3%), mainly due to the change in the exchange rate, given that in local currency, this item increased due to the new assets commissioned.

### **1.3 United States - Avangrid**

(Eur M)	12M 2016	vs 12M 2015
Revenues	3,979.4	48.8%
Gross Margin	2,537.1	49.4%
EBITDA	1,269.6	62.7%
EBIT	729.5	46.7%

### **a) Gross Margin**

At the end of December 2015, the new company Avangrid was created, as a result of the merger of Iberdrola USA and UIL. The new resulting company increased the contributions of the US to the Gross Margin by 49.4% to EUR 2,537.1 million due to the consolidation of UIL (EUR 770 million) and better margins in NY and Maine (EUR 64 million).

### **b) Operating Profit / EBIT**

EBITDA increased by 62.7% to EUR 1,269.6 million. In addition to the performance of the Gross Margin, Net Operating Expenses totalled EUR 820.9 million with a 30.3% growth, due to the already mentioned effects of the consolidation of UIL (EUR 200 million) and the appreciation of the dollar.

EBIT totalled EUR 729.5 million (+46.7%), following the deduction of Amortisations and Provisions totalling EUR 540.2 million, which increased by 90.6% due to the integration of UIL (EUR 212 million). The Taxes item increased by 55.0% to EUR 446.6 million, due to UIL and an increase in local taxes.

### **1.4 Brazil - ELEKTRO**

(Eur M)	12M 2016	vs 12M 2015
Revenues	1,458.5	-16.0%
Gross Margin	328.4	-15.8%
EBITDA	232.8	-7.9%
EBIT	127.0	-12.7%

### **a) Gross Margin**

The Gross Margin totalled EUR 328.4 million (-15.8%), affected by a 1.4% decrease in demand, due to the country's macroeconomic situation, lower tariffs (-5%) following the quadrennial tariff review in August 2015 (partially offset by the annual review of August 2016, which adjusts remuneration according to inflation rates, resulting in a 9% increase in tariffs), the transition of industrial clients to the liberalised market that has generated a different composition of the demand, and the depreciation of the Real by 4.6% (EUR -15.1 million).

## b) Operating Profit / EBIT

EBITDA for the area amounted to EUR 232.8 million, a 7.9% drop.

Net Operating Expenses totalled EUR 94.3 million and decreased by 30.3% compared to the same period of 2015, due to the mentioned depreciation of the Brazilian Real, despite the high inflation and the reversal of the provision of litigation.

Amortisations and Provisions totalled EUR 105.8 million (-1.3%), also affected by the exchange rate, given that in local currency they increased due to the higher provision for insolvencies resulting from the economic crisis.

As a consequence of this, EBIT came to EUR 127.0 million (-12.7%).

## 2. Generation and supply business

The key figures for the Generation and Supply business are as follows:

(Eur M)	12M 2016	vs 12M 2015
Revenues	18,723.4	-13.4%
Gross Margin	4,634.0	-4.3%
EBITDA	2,253.3	-3.0%
EBIT	1,313.1	36.5%

The Generation and Supply business decreased its contribution to the Gross Margin (-4.3%), given that the operational improvement experience in Spain was offset by the performance in the United Kingdom, also affected by the exchange rate, and a weaker than expected performance in Mexico.

## 2.1 Spain

(Eur M)	12M 2016	vs 12M 2015
Revenues	11,880.5	-7.0%
Gross Margin	3,071.5	3.4%
EBITDA	1,520.5	1.1%
EBIT	986.5	1.7%

### a) Gross Margin

Gross Margin for Iberdrola's Generation and Supply Business in Spain recorded an increase of 3.4% to EUR 3,071.5 million, recovering throughout the year (first quarter (-10.2%).

The following can be highlighted:

- A greater production of 16.4%, caused by the increase in hydroelectric generation (+48.2%), nuclear generation (+5.4%), gas combined cycle generation (+62.1%) and cogeneration (+5.1%). Coal-derived production dropped by 42.8%. As a result of this production mix, the cost for Procurements dropped by 16.5%.
- At 30 December 2016, hydroelectric reserves were at 4,774 GWh, which means that reservoirs were at 42.0% of their capacity.
- With regard to the application of the energy, 75% corresponded to forward sales while 25% were spot market sales.
- Greater commercial activity due to a greater sales volume in electricity as well as products and services.
- Negative impact due to lower gas business activity compared to 2015, the differential effect of which reached EUR 74 million.

## b) Operating Profit / EBIT

EBITDA increased by 1.1% to EUR 1,520.5 million, recovering from a 31.5% drop in the first quarter of this year.

Operating Expenses grew by 15.7% to EUR 794.2 million, basically due to non-recurring positive effects accounted for in 2015 which affect the comparison: the reversal of a provision linked to the CNMC ruling with a positive impact in 2015 of EUR 20.5 million, and the positive ruling of the PNA 2008-2012 also in 2015 (EUR 83 million). Not including non-recurring aspects, Net Operating Expenses increased by 2.2%.

The Taxes item dropped by 3.1% to EUR 756.8 million, with an extraordinary net positive impact of EUR 64 million relating to court rulings recorded in both periods: EUR 53 million recognised in 2015 for the Ecotax in Extremadura and the deduction of rights, compared to the positive EUR 117 million in 2016 for the Ecotax in Catalonia and the Regional Supplement.

The Amortisations and Provisions item decreased by 0.2%, totalling EUR 534.1 million.

As a result of all of the above, EBIT recorded a rise of 1.7% compared to 2015, reaching EUR 986.5 million.

## 2.2 United Kingdom

(Eur M)	12M 2016	vs 12M 2015
Revenues	5,468.3	-27.7%
Gross Margin	999.5	-23.5%
EBITDA	293.6	-30.4%
EBIT	17.2	-106.1%

## a) Gross Margin

Gross Margin for ScottishPower's Energy Wholesale and Retail business was EUR 999.5 million (-23.5%). In local currency this item decreased by 13.8%.

- Energy Wholesale business decreased its contribution to the Gross Margin due to lower production levels of the plants following the closure of the coal-fired Longannet plant in March 2016, the increase of Carbon Tax from 1 April 2015, going from GBP 9.55/MWh to GBP 18.08/MWh (+89%), and to lower margins for complementary services and management of restrictions (due to the above-mentioned Longannet plant closure).
- Retail business dropped influenced by lower gas and electricity sales due to the warmer weather, as well as greater non-energy costs: higher unit cost of the ROCs (+21%) due both to the increase of the unit price and to the greater percentage of renewable energy that must be bought (from 29.0% to 34.8%), as well as greater transmission costs (+14%).

## b) Operating Profit / EBIT

EBITDA for the Liberalised Business in the United Kingdom reached EUR 293.6 million (-30.4%), affected by the 12.7% depreciation of the Pound (EUR -37 million). In local currency this item decreased by 21.5%.

Net Operating Expenses totalled EUR 591.6 million (-17.2%), favoured by the exchange rate and lower costs resulting from the closure of Longannet. This item includes the extraordinary negative impact of the compensation to customers for the amount of EUR 23.5 million, established by Ofgem, relating to problems with the implementation of new IT systems last year. In recurring terms and in local currency, there was a 9.1% drop in Net Operating Expenses.

Taxes totalled EUR 114.3 million (-32.8%), due to lower ECO programme costs as a result of the drop in total costs of the obligation and the FX effect.

Amortisations and Provisions amounted to EUR 276.4 million and were reduced by 60.8%, given that in 2015 the Longannet write-off was registered for EUR 288 million; following which amortisations dropped due to the closure of said plant at the end of March 2016.

As a result, EBIT totalled EUR 17.2 million compared to EUR -283 million in the same period of 2015.

### 2.3 Mexico

(Eur M)	12M 2016	vs 12M 2015
Revenues	1,495.0	-4.1%
Gross Margin	509.0	-12.8%
EBITDA	436.2	-4.2%
EBIT	338.2	-7.7%

#### a) Gross Margin

In Mexico, the Gross Margin reached EUR 509.0 million (-12.8%) due to the drop in the US PPI that is linked to the contracts with the CFE (this impact is compensated at EBITDA level as Net Operated Expenses is also linked to those variables), due to lower rates in contracts with private customers and the delay in commissioning the Monterrey V (300 MW) and Baja California (300 MW) plants, both already in operation since 2017.

#### b) Operating Profit / EBIT

EBITDA reached EUR 436.2 million (-4.2%). Net Operating Expenses were reduced by 44.2% to EUR 70.7 million, due to the drop of the benchmarks linked to the contracts with CFE. The Amortisations and Provisions item increased by 9.8%, totalling EUR 98.0 million, due to greater operating assets.

Lastly, EBIT of the business totalled EUR 338.2 million, dropping by 7.7%.

### 3. Renewables

(Eur M)	12M 2016	vs 12M 2015
Revenues	2,399.6	-14.0%
Gross Margin	2,179.5	-7.7%
EBITDA	1,500.2	-8.9%
EBIT	702.8	6.6%

#### a) Gross Margin

During financial year 2016, the Gross Margin totalled EUR 2,179.5 million, an amount 7.7% lower than that for the previous year. As described below, this performance is explained mainly due to:

- A weak wind resource in the United Kingdom. The better wind resource in Spain, USA, Mexico and Brazil has largely offset the lower British production.
- A lower gross margin in the offshore business, given that the sale of the transmission line to the OFTO has implied the start of payments of transmission costs.
- And the depreciation of the Pound and the Real.

The main explanatory factors for the variation of the consolidated gross margin show the following evolution:

- The average sale price of renewable production is at EUR 66/MWh, showing an 8.7% drop resulting from – among other factors – a higher sale price for the Spanish wind production, the drop in prices in several regions and the depreciation of the Pound and the Brazilian Real.
- Average operating capacity during the period increased by +1.7%. Production grew by 2.3% to 32,305 GWh due to greater load factors.
- The consolidated load factor was 25.8%, in line with the previous year, but slightly down from current long-term benchmark values.

The wind load factor in Spain was medium, reaching 22.3%, higher by 0.1 percentage points than that of the same period of the previous year. United States had a wind load factor of 29.9%, higher (+1.2 pp) than the previous period, despite the wind resource being lower than expected for this period of the year. In the United Kingdom (onshore wind power), a load factor of 18.1% was recorded, lower than in 2015 (-5.6 pp), and much lower than historical averages. In Mexico and Brazil, both countries with strong wind resources, the load factors reached 34.7% and 38.8% respectively. The Rest of the World (RoW) recorded an average load factor of 25.1%. The company's first offshore farm, 'West of Duddon Sands' reached a load factor of close to 43%.

One must analyse the trend of the results separately for each market in which the Company operates. Thus, the results of Spain and Mexico stand out especially, having partly offset the weak wind resource of the United Kingdom. By business, the Gross Margin trend was as follows:

- **Wind Energy Spain:** Gross Margin for the period is at EUR 711.0 million, a 3% increase due to a production up by 1% and a 3% increase in price, influenced by the accounting of a regulatory asset (EUR 45 million) due to the low market prices.
- **Wind Energy USA:** Gross Margin increased by 1%, totalling EUR 728.7 million. Production increased by 5%, thus offsetting a reduction in the average price in euros of 3%, resulting from the reduction in prices in local currency.
- **Wind Energy United Kingdom - onshore:** The Gross Margin dropped by 36% to EUR 281.1 million partly derived from the 20% drop in production, due to unfavourable weather conditions. Prices in local currency dropped around 8%, partly due to the disappearance of the LECs, and the pound depreciated by approximately 12%.
- **Wind Energy United Kingdom - offshore:** The West of Duddon Sands farm has contributed EUR 104 million to the gross margin for the period, which represents a decrease of EUR 32 million with regard to the previous period. Part of this drop is explained by the drop in production (-3%) compared to the previous year, which had an extraordinarily high resource; and the remaining three quarters are explained by the assumption of the cost of transmission (OFTO), as expected following the sale of the offshore wind energy transmission line to a third party, and by the depreciation of the Pound.
- **Wind Energy Mexico:** The increase in average operating capacity (+37%) and better wind energy have led to an increase in production of 52%. The price in local currency dropped by 20% as a result of the drop in prices of commodities that form part of the benchmark index (CFE) of the sale contracts under the category of 'self-procurement'. Taking all of these effects into consideration, Gross Margin totalled EUR 68.9 million (+22%).
- **Wind Energy Brazil:** the comparison reflects a 45% increase of the average operating capacity, which together with a practically constant load factor, led to a 44.7% increase in production. The average price billed decreased by 27% in local currency, though this is distorted by re-settlements that adjust the energy really produced over the previous year compared to the standard production. In turn, the Real depreciated by an average of 4%. After these effects, the gross margin in the country has barely changed compared to the previous year, reaching EUR 36.5 million.
- **Wind Energy Rest of the World:** Production remained practically constant. Average prices grew by 1%, and thus, gross margin hardly varied, staying at EUR 120.7 million.
- **Mini-Hydro and Other Renewables:** The Gross Margin was EUR 71.4 million (-12%), affected by re-settlements of the revenues for the 2009-2011 period for the Puertollano thermal solar power plant, for the amount of approximately EUR -10 million.
- **Thermal Business in the United States:** The Gross Margin reached EUR 57.0 million, EUR 31.1

million lower than the previous financial year. This section includes the market valuation of derivatives contracts entered into for the hedging of long term wind energy production. In 2016, this 'mark to market' contributed EUR 28 million; however, in the same period of the previous year, it contributed EUR 57 million, which affects the year-on-year comparison.

#### b) Operating Profit / EBIT

- EBITDA recorded an 8.9% drop to EUR 1,500.2 million. In addition to the mentioned Gross Margin trend (-7.7%), there was a 4.1% drop in the Net Operating Expenses due to the recording of one-off income items. Excluding this effect, NOE would have decreased by 2%, despite a 1.7% increase in average capacity.
- The Amortisation and Provisions item totalled EUR 797.5 million, dropping by 19.3% with regard to the previous year. The company has re-assessed the useful life of assets in operation and, as a result, has modified the amortisations policy, going on to amortise the cost of the civil works of the farms and the value of the wind turbine towers with a term of 40 years. This measure has reduced the amortisations expenses for the period by around EUR 148 million. In addition, the increase in installed capacity increased the amount by EUR 16 million.
- Lastly, taking into account all of the above, EBIT reached the figure of EUR 702.8 million, showing a growth of +6.6%.

#### 4. Other businesses

(Eur M)	12M 2016	Vs 12M 2015
Revenues	753.6	-13.4%
Gross Margin	106.3	-54.8%
EBITDA	-111.3	N/A
EBIT	-124.9	N/A

##### a) Gross Margin

Gross Margin reached EUR 106.39 million, 54.8% lower than in 2015, as a result of the drop in Engineering revenue for losses in certain projects recognized in 2016 (EUR -20.7 million).

##### b) Operating Profit/EBIT

EBITDA totalled EUR -111.3 million. Net Operating Expenses of these businesses amounted to EUR 215.9 million (-10.7%).

Amortisations and Provisions totalled EUR 13.6 million and EBIT was EUR -124.9 million.

#### 5. Corporation

The Corporation item includes the costs of the structure of the Group and the administration services of the corporate areas that are subsequently billed to the rest of companies. The Taxes item stands out especially here, reflecting the impact of the favourable ruling on the Social Bonus in Spain (EUR 142 million).



# Balance Sheet Analysis

## January-December 2016

	Dec. 2016	vs. Dec. 2015
Total assets	106,706	104,664
Fixed assets	63,834	61,789
Intangible assets	19,934	20,760
Long-term investments	3,904	3,711
Shareholders' equity	40,687	40,956
Adjusted net debt <sup>(1)</sup>	29,414	28,067

(1) Including TEI and regulatory receivables

Iberdrola's Balance Sheet at 31 December 2016 shows Total Assets of EUR 106,706 million (2% increase yoy).

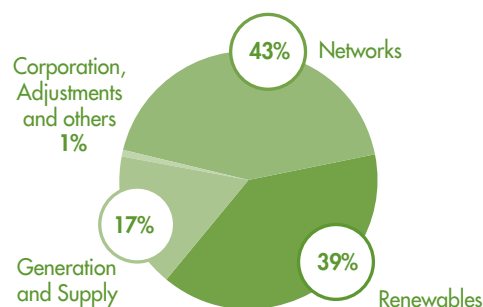
## 1. Fixed assets

Total net investment for the January to December 2016 period reached EUR 4,264.3 million. This can be broken down as follows:

(Euros M)	Jan-Dec. 2016	%
<b>Networks Business</b>	<b>1,844.6</b>	<b>43.3%</b>
Spain	389.1	
UK	628.0	
Iberdrola USA	751.8	
Brazil	75.8	
<b>Renewables Business</b>	<b>1,658.0</b>	<b>38.9%</b>
Spain	19.8	
UK	950.6	
USA	735.4	
Brazil	4.8	
Mexico	4.9	
Others	-57.5	
<b>Generation and Supply Business</b>	<b>732.1</b>	<b>17.2%</b>
Spain	240.3	
UK	133.8	
Mexico	352.9	
Brazil	0.0	
USA and Canada	5.1	
<b>Other Business</b>	<b>-95.5</b>	<b>-2.2%</b>
<b>Corporation and Adjustments</b>	<b>125.2</b>	<b>2.9%</b>
<b>Total investment</b>	<b>4,264.3</b>	<b>100.0%</b>

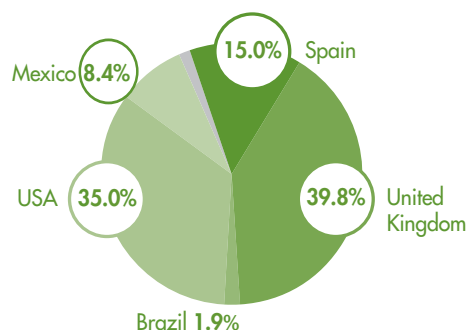
Investment for the period focused on the Networks and the Renewables Businesses, with investments made in the US and the UK standing out especially in both businesses, in compliance with the 2016-2020 Strategic Plan. Both items amount to 82% of the total investment in 2016.

### Investments by businesses (Jan-Dec. 2016)



By geographic areas, investment for the period was spread according to the following graph:

### Investments by geographical areas (Jan-Dec. 2016)



As regards Renewables activities, investment for the period reached a total of EUR 1,658 million, which is

38.9% of the total investment amount, with EUR 950.6 million from the United Kingdom being used mainly for offshore projects, and EUR 735.4 million for the US.

Under the 'Networks Business' section, the investment of EUR 751.8 million made in the United Kingdom by the US Networks Business stands out especially. Investment in Scottish Power networks reached EUR 628 million for the period.

## 2. Share Capital

After the implementation of the paid-up capital increase in July 2016, on the occasion of the Scrip Dividend, Share Capital of the company as at 31 December 2016 amounted to 6,362,079,000 bearer shares with a nominal value of EUR 0.75 each.

Furthermore, as a result of the implementation of the paid-up capital increase due to the Scrip Dividend on 25 January 2017, Share Capital of the company now amounts to 6,373,467,000 bearer shares with a nominal value of EUR 0.75 each.

In line with the commitment announced in the 2016-2020 Plan to keep the number of shares stable at 6,240 million, the redemption of 219,990,000 shares (3.4% of the share capital) will be proposed in the next General Shareholders' Meeting.

## 3. Financial Debt

Net financial debt at 31 December 2016 was increased by EUR 1,347 million to EUR 29,414 million compared to EUR 28,067 million at 31 December 2015, due to EUR 720 million of one-off tax payments in Spain as a consequence of the RDL 2/2016 "sobre medidas de reducción del déficit público" in Spain (measures to reduce public deficit: EUR 390 million) and tax audit related payments (EUR 330 millions), the anticipation of renewable investments (off-shore advanced payments and Safe Harbour: EUR 328 million), among others.

As a result, financial leverage increases to 42% compared to 40.7% in 2015.

The ratings issued by rating agencies are as follows:

**Credit Rating of IBERDROLA Senior Debt**

Agency	Rating	Outlook	Date
Moody's	Baa1	Positive	26 April 2016
Fitch IBCA	BBB+	Stable	8 July 2016
Standard & Poor's	BBB+	Stable	22 April 2016

Regarding the trend of the Company's financial cost, at 31 December 2016 it was at 3.49%, 56 bp below the 4.05% registered at 31 December 2015.

The financial debt structure can be broken down by currency\* and interest rate\*\* as follows:

	Dec 2016	Dec 2015
Euro	46.9%	48.7%
British pound	21.2%	20.1%
Dollar	30.0%	29.8%
Brazilian Real and other currencies	1.9%	1.4%
Fixed Rate	49.0%	45.6%
Variable Rate	50.9%	54.2%
Capped Rate	0.2%	0.2%

(\*) Net Financial Debt including forwards and swaps.

(\*\*) Gross Financial Debt

In accordance with the policy of minimising the financial risks of the Company, the foreign currency risk has continued to be mitigated through the financing of international businesses in local currencies (British Pound, Brazilian Real, US dollar, etc.) or in their functional currencies (US dollar, in the case of Mexico).

The debt\* structure by country is shown in the following table:

	Dec. 16	Dec. 15
Corporation	71.1%	70.0%
UK	7.9%	9.6%
USA	15.6%	15.5%
Brazil	2.9%	2.8%
Mexico	1.1%	1.5%
Others	1.5%	0.6%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(\*) Gross Financial Debt.

Debt\* can be broken down by financing source as follows:

	Dec. 16	Dec. 15
Euro Bond	38.9%	34.1%
Dollar Bond	21.3%	24.7%
British Pound Bond	10.4%	12.7%
Remaining bonds	2.6%	1.1%
Notes	4.7%	5.3%
EIB	6.0%	6.0%
Project Finance	0.6%	3.0%
Bank loans	15.2%	12.3%
TEI	0.4%	0.7%
<b>Total</b>	<b>100%</b>	<b>100%</b>

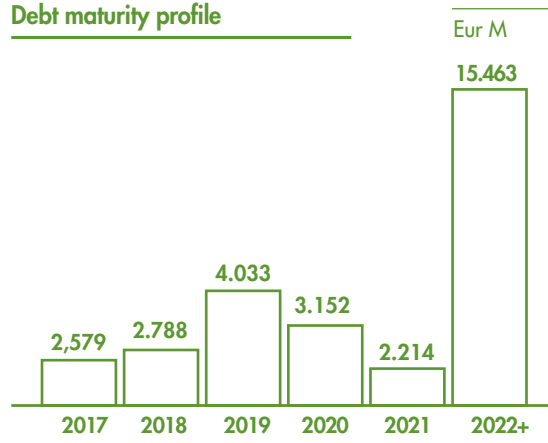
(\*) Gross Financial Debt.

Iberdrola has a strong liquidity position, with a total of EUR 8,666 million, equivalent to more than 24 months of the company's financing needs.

Credit Line Maturities	Available
<b>2017 onwards</b>	<b>6,967</b>
Total credit line	7,233
Cash and IFT	1,433
<b>Total Adjusted Liquidity</b>	<b>8,666</b>

Iberdrola has a good debt maturity profile, with approximately 6.5 years of average debt life, as a result, among other factors, of the management of liabilities carried out throughout this financial year. The following chart shows the debt maturity profile.

#### Debt maturity profile



Lastly, the change in financial leverage was as follows:

	Dec. 2016	Dec. 2015
<b>Shareholders' Equity</b>	<b>40,687</b>	<b>40,956</b>
Gross Financial Debt	32,026	30,340
Cash flow	1,493	1,165
Derivative assets	1,119	1,108
<b>Net Financial Debt</b>	<b>29,414</b>	<b>28,067</b>
Leverage	42.0%	40.7%

#### 4. Working capital

Working capital shows a drop of EUR 109 million in the last 12 months, as a result of several different effects:

- A drop in inventories and commercial debtors of EUR 164 million and EUR 154 million respectively, that decreases working capital.
- A Eur 102 million drop in provisions which increase working capital
- Other effects that are not relevant

CURRENT ASSETS	Dec 16	Dec 15	Variation
Assets held for sale	0	44	(44)
Nuclear Fuel	323	350	(27)
Inventories	1,634	1,797	(164)
Commercial debtors and Other accounts receivable	5,216	5,370	(154)
Current financial investments	781	688	93
Asset derivative financial instruments	322	339	(17)
Public Administrations	647	678	(31)
<b>TOTAL CURRENT ASSETS*:</b>	<b>8,921</b>	<b>9,265</b>	<b>(343)</b>
*Does not include cash or debt asset derivatives			
CURRENT LIABILITIES	Dec 16	Dec 15	Variation
Provisions	144	245	(102)
Liability derivative financial instruments	339	324	16
Commercial creditors and other accounts payable	7,282	7,331	(49)
Public Administrations	1,152	1,251	(99)
<b>Total current liabilities**:</b>	<b>8,917</b>	<b>9,152</b>	<b>(235)</b>
**Does not include financial debt or debt liabilities derivatives			
<b>Net working Assets</b>	<b>4</b>	<b>113</b>	<b>(109)</b>

## 5. Funds generated from operations

Funds from Operations as at 31 December 2016 have increased by 6,84% to EUR 6,311 million.

	Jan-Dec 2016	Jan-Dec 2015	Variation
Net Profit (+)	2,705.0	2,421.6	283.4
Depreciations (-)	-3,253.7	-3,568.1	314.4
P/L Equity (-)	48.7	55.3	-6.6
Extraordinary results (-)	48.1	125.1	-76.9
Non-recurring corporate taxes (-)	-11.4	-33.7	22.3
Financial provisions capitalized (-)	-111.8	-113.7	1.9
Minorities P/L (-)	-137.9	-38.0	-99.9
Adjustment tax deductible items (+) *	179.5	179.5	-
Dividends Equity consolidated subsidiaries (+)	90.9	43.8	47.2
Allocation of capital subsidies to income (-)	82.5	91.5	-9.0
<b>FFO</b>	<b>6,310.8</b>	<b>5,906.7</b>	<b>404.1</b>

Note: the signs of the figures (positive or negative) make reference to their condition of income or book expense  
 (\*) Cash flow

## 6. Financial transactions

### Main financial transactions carried out in 2016

Borrower	Transaction	Amount	Currency	Coupon	Maturity
Iberdrola International BV	EMTN	50	EUR	6M Euribor+ 0.75%	7 years
Iberdrola International BV	Green Bond	1,000	EUR	1.125%	10 years
Iberdrola Distribución *	EIB loan	325	EUR	3M Euribor + 0.42%	7 years
Iberdrola México *	Bank loan	300	USD	3M Libor + 0.75%	2 years
Iberdrola SA **	Bilateral loan	49.5	EUR	1M Euribor + 0.30%	3 years
Avangrid **	Syndicated loan	1,500	USD	1M Libor + 1.275%	5 years
Avangrid	Commercial paper loan	1,000	USD	-	-
Iberdrola International BV	EMTN	200	EUR	3M Euribor + 0.35%	2 years
Iberdrola Financiación	EIB loan	200	EUR	0.373%	6 years
Iberdrola SA **	Syndicated loan	500	EUR	3M Euribor +0.30%	5 years
Elektro *	EIB loan	50	EUR	CDI + 76.5%	8 years
Iberdrola International BV	Green Bond	700	EUR	0.375%	9 years
Pier II	Bank loan	560.5	MXN	8.50%	13 years
Pier II	Bank loan	560.5	MXN	TIE28+2.50%	13 years
NYSEG	Bond 144A	500	USD	3.25%	10 years
Iberdrola Finanzas	Green Bond	750	EUR	1.00%	8 years

\* Provision of financing signed in 2015 this does not imply a new debt

\*\* Extension option 1 + 1 years

### Main extension of existing financing operations carried out in 2016

Borrower	Transaction	Amount	Currency	Coupon	Maturity
Iberdrola SA	Syndicated loan	1,900	EUR	+1 year	5 years
Iberdrola SA	Syndicated loan	2,500	EUR	+1 year	5 years
Iberdrola Financiación	Bilateral loan	600	EUR	+1 year	4 years
Iberdrola Financiación	Leasing	91.8	EUR	+11.5 years	18,5 years
Iberdrola SA	Bilateral loans	150	EUR	+1 year	5 years

### 4th Quarter Financing

#### MONEY MARKET

On 29 November NYSEG, the distribution company belonging to the subsidiary Avangrid in the US, made a private bond issue of USD 500 million, with a coupon of 3.25%, maturing in December 2026. This transaction –the largest ever made by the Company on its return to the money market since 2012– duplicated the number of orders received from a total of 69 investors.

On 7 December, Iberdrola made its fourth green bond issue, following the issues made in Apr-14, Apr-16 and Sep-16, for the amount of EUR 750

million, with a coupon of 1.0%, maturing in March 2024. The funds obtained, of which 60% originate from socially responsible investors, will be used to refinance wind projects in Spain. With this transaction, Iberdrola consolidates itself as the world's leading company in green bond issues in 2016, showing its commitment to this market.

#### BANKING MARKET

On 20 December, Iberdrola agreed on the extension of the term of two existing bilateral loans for the amount of EUR 150 million, signed in December 2014, which ended in 2018, extending their maturity by one year until December 2019.

## 7. Credit Ratings

	Moody's			Standard and Poor's			Fitch Ibc		
	Rating	Outlook	Date	Rating	Outlook	Date	Rating	Outlook	Date
Iberdrola S.A.	Baa1	Positive	April 2016	BBB+	Stable	April 2016	BBB+	Stable	Mar. 2014
Iberdrola Finance Ireland Ltd.(*)	Baa1	Positive	April 2016	BBB+		April 2016	BBB+	Stable	Mar. 2014
Iberdrola Finanzas S.A.U.(*)	Baa1	Positive	April 2016	BBB+		April 2016	BBB+	Stable	Mar. 2014
Iberdrola Finanzas S.A.U. (Escala Nacional)(*)	Aaa(mex)	Stable	Nov. 2012	mxAAA		April 2016	AAA (mex)	Stable	Mar. 2014
Iberdrola International B.V.(*)	Baa1	Positive	April 2016	BBB+		April 2016	BBB+	Stable	Mar. 2014
Avangrid	Baa1	Stable	April 2016	BBB+	Stable	April 2016	BBB+	Stable	Sept. 2016
CMP	A2	Stable	April 2016	A-	Stable	April 2016	BBB+	Stable	Nov. 2013
NYSEG	A3	Stable	April 2016	A-	Stable	April 2016	BBB+	Stable	Nov. 2013
RG&E	Baa1	Positive	April 2016	A-	Stable	April 2016	BBB+	Stable	Sept. 2016
UI	Baa1	Stable	April 2016	A-	Stable	Sept. 2016	BBB+	Stable	Sept. 2016
CNG	A3	Stable	April 2016	A-	Stable	Sept. 2016	A-	Stable	Sept. 2016
SCG	Baa1	Positive	April 2016	A-	Stable	Sept. 2016	BBB+	Stable	Sept. 2016
BCG	Baa1	Positive	April 2016	A-	Stable	Sept. 2016	A-	Stable	Sept. 2016
Scottish Power Ltd	Baa1	Positive	April 2016	BBB+	Stable	April 2016	BBB+	Stable	Mar. 2014
Scottish Power UK Plc	Baa1	Positive	April 2016	BBB+	Stable	April 2016	BBB+	Stable	Mar. 2014
Scottish Power UK Holdings Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
Scottish Power Energy Networks Holdings Ltd				BBB+	Stable	April 2016			
ScottishPower Generation Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
SP Transmission Ltd	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
SP Manweb plc	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
SP Distribution plc	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
ScottishPower Energy Management Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
ScottishPower Energy Retail Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
Scottish Power Investment Ltd	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
Neoenergia S.A.				BB	Negative	Feb 2016			
Celpe				BB	Negative	Feb 2016			
Cosern				BB	Negative	Feb 2016			
Neoenergía (Escala nacional)				brAA-	Negative	Feb 2016			
Celpe (Escala nacional)				brAA-	Negative	Feb 2016			
Cosern (Escala nacional)				brAA-	Negative	Feb 2016			
Elektro (Escala nacional)				brAA-	Negative	Feb 2016			

(\*) Guaranteed by Iberdrola S.A.



# Balance Sheet (Unaudited)

M Eur

ASSETS	December 2016	December 2015	Variation
<b>Non-Current Assets:</b>	<b>95,980</b>	<b>93,985</b>	<b>1,995</b>
<b>Intangible assets</b>	<b>19,934</b>	<b>20,760</b>	<b>-825</b>
Goodwill	8,711	9,353	-642
Other intangible assets	11,223	11,407	-184
<b>Real Estate properties</b>	<b>462</b>	<b>481</b>	<b>-18</b>
<b>Property, plant and equipment</b>	<b>63,834</b>	<b>61,789</b>	<b>2,046</b>
Property, plant and equipment in use	57,343	56,827	516
Property, plant and equipment in the course of construction	6,491	4,961	1,530
<b>Non current financial investments</b>	<b>3,904</b>	<b>3,711</b>	<b>193</b>
Investments accounted by equity method	2,240	2,050	189
Non-current financial assets	59	92	-32
Other non-current financial assets	696	609	87
Derivative financial instruments	909	960	-51
<b>Non-current receivables</b>	<b>887</b>	<b>615</b>	<b>272</b>
<b>Deferred tax assets</b>	<b>6,958</b>	<b>6,630</b>	<b>329</b>
<b>Current Assets:</b>	<b>10,726</b>	<b>10,679</b>	<b>47</b>
Assets held for sale	0	44	-44
<b>Nuclear fuel</b>	<b>323</b>	<b>350</b>	<b>-27</b>
<b>Inventories</b>	<b>1,634</b>	<b>1,797</b>	<b>-164</b>
<b>Current trade and other receivables</b>	<b>5,862</b>	<b>6,048</b>	<b>-185</b>
Tax receivables	503	411	92
Other tax receivables	143	267	-123
Trade and other receivables	5,216	5,370	-154
<b>Current financial assets</b>	<b>1,475</b>	<b>1,288</b>	<b>187</b>
Current financial assets	5	5	0
Other current financial assets	776	683	93
Derivative financial instruments	694	600	94
<b>Cash and cash equivalents</b>	<b>1,433</b>	<b>1,153</b>	<b>279</b>
<b>Total Assets</b>	<b>106,706</b>	<b>104,664</b>	<b>2,042</b>

M Eur

<b>EQUITY AND LIABILITIES</b>	<b>December 2016</b>	<b>December 2015</b>	<b>Variation</b>
<b>Equity:</b>	<b>40,687</b>	<b>40,956</b>	<b>-269</b>
<b>Of shareholders of the parent</b>	<b>36,691</b>	<b>37,159</b>	<b>-468</b>
Share capital	4,772	4,753	19
Unrealised assets and liabilities revaluation reserve	-149	-222	73
Other reserves	31,506	31,305	202
Treasury stock	-1,083	-639	-444
Translation differences	-1,059	-459	-600
Net profit of the year	2,705	2,422	283
<b>Hybrid Capital</b>	<b>551</b>	<b>551</b>	<b>-0,5</b>
<b>Of minority interests</b>	<b>3,446</b>	<b>3,246</b>	<b>200</b>
<b>Equity instruments having the substance of a financial liability</b>	<b>44</b>	<b>117</b>	<b>-74</b>
<b>Non-current liabilities:</b>	<b>51,900</b>	<b>49,002</b>	<b>2,898</b>
<b>Deferred income</b>	<b>6,590</b>	<b>6,511</b>	<b>79</b>
<b>Provisions</b>	<b>4,905</b>	<b>5,005</b>	<b>-100</b>
Provisions for pensions and similar obligations	2,381	2,233	147
Other provisions	2,524	2,772	-247
<b>Financial Debt</b>	<b>26,927</b>	<b>24,899</b>	<b>2,028</b>
Loans and others	26,509	24,567	1,942
Derivative financial instruments	418	332	86
<b>Other non-current payables</b>	<b>737</b>	<b>690</b>	<b>48</b>
<b>Deferred tax liabilities</b>	<b>12,741</b>	<b>11,896</b>	<b>844</b>
<b>Equity instruments having the substance of a financial liability</b>	<b>93</b>	<b>99</b>	<b>-6</b>
<b>Current liabilities:</b>	<b>13,982</b>	<b>14,490</b>	<b>-508</b>
<b>Provisions</b>	<b>144</b>	<b>245</b>	<b>-102</b>
Provisions for pensions and similar obligations	10	10	-1
Other provisions	134	235	-101
<b>Financial Debt</b>	<b>5,404</b>	<b>5,662</b>	<b>-258</b>
Loans and others	4,712	4,877	-165
Derivative financial instruments	692	785	-92
<b>Trade and other payables</b>	<b>8,435</b>	<b>8,583</b>	<b>-148</b>
Trade payables	5,492	5,577	-86
Current tax liabilities and other tax payables	237	250	-13
Other tax payables	914	1,001	-86
Other current liabilities	1,792	1,754	37
<b>Total equity and liabilities</b>	<b>106,706</b>	<b>104,664</b>	<b>2,042</b>

## Profit and Loss (Unaudited)

M Eur

	December 2016	December 2015*	%
<b>Revenues</b>	<b>29,215.4</b>	<b>31,418.7</b>	<b>(7.0)</b>
Procurements	(16,299.2)	(18,576.0)	(12.3)
<b>Gross Margin</b>	<b>12,916.2</b>	<b>12,842.7</b>	<b>0.6</b>
<b>Net operating expenses</b>	<b>(3,571.7)</b>	<b>(3,738.8)</b>	<b>(4.5)</b>
<b>Net Personnel Expense</b>	<b>(1,884.5)</b>	<b>(1,933.1)</b>	<b>(2.5)</b>
Personnel	(2,517.3)	(2,430.2)	3.6
Capitalized personnel costs	632.8	497.1	27.3
<b>Net External Services</b>	<b>(1,687.3)</b>	<b>(1,805.7)</b>	<b>(6.6)</b>
External Services	(2,299.6)	(2,444.3)	(5.9)
Other operating income	612.3	638.6	(4.1)
<b>Levies</b>	<b>(1,536.7)</b>	<b>(1,706.5)</b>	<b>(9.9)</b>
<b>EBITDA</b>	<b>7,807.7</b>	<b>7,397.4</b>	<b>5.5</b>
Amortisations and provisions	(3,253.7)	(3,568.1)	(8.8)
<b>EBIT</b>	<b>4,554.0</b>	<b>3,829.3</b>	<b>18.9</b>
<b>Financial Expenses</b>	<b>(1,963.6)</b>	<b>(1,608.1)</b>	<b>22.1</b>
<b>Financial Income</b>	<b>1,060.2</b>	<b>585.0</b>	<b>81.2</b>
<b>Financial Result</b>	<b>(903.4)</b>	<b>(1,023.1)</b>	<b>(11.7)</b>
Results of Companies consolidated by equity method	48.7	55.3	(11.9)
Results from non-current Assets	48.1	125.1	(61.5)
<b>PBT</b>	<b>3,747.5</b>	<b>2,986.6</b>	<b>25.5</b>
Corporate Tax	(904.6)	(527.1)	71.6
Minorities	(137.9)	(38.0)	263.3
<b>Net Profit</b>	<b>2,705.0</b>	<b>2,421.6</b>	<b>11.7</b>

(\*) Restated

## Results by Business (Unaudited)

Eur M					
December 2016	Networks	Generation and supply	Renewables	Other Businesses	Corporation and adjustments
Revenues	8,806.7	18,723.4	2,399.6	753.6	(1,468.0)
Procurements	(2,646.2)	(14,089.4)	(220.1)	(647.3)	1,303.8
<b>Gross Margin</b>	<b>6,160.5</b>	<b>4,634.0</b>	<b>2,179.5</b>	<b>106.3</b>	<b>(164.2)</b>
NET OPERATING EXPENSES	(1,440.8)	(1,504.6)	(536.9)	(215.9)	126.4
Net Personnel Expense	(866.8)	(497.4)	(174.2)	(156.8)	(189.4)
Personnel	(1,358.8)	(530.3)	(201.8)	(156.8)	(269.6)
Capitalized personnel costs	492.0	33.0	27.6	-	80.3
Net External Services	(574.1)	(1,007.2)	(362.7)	(59.1)	315.8
External Services	(947.5)	(1,146.1)	(475.3)	(64.3)	333.6
Other operating income	373.4	138.9	112.6	5.2	(17.8)
LEVIES	(638.0)	(876.1)	(142.3)	(1.8)	121.5
<b>EBITDA</b>	<b>4,081.7</b>	<b>2,253.3</b>	<b>1,500.2</b>	<b>(111.3)</b>	<b>83.8</b>
Amortisation and Provisions	(1,432.5)	(940.2)	(797.5)	(13.6)	(70.0)
<b>EBIT / Operating Profit</b>	<b>2,649.2</b>	<b>1,313.1</b>	<b>702.8</b>	<b>(124.9)</b>	<b>13.8</b>
Financial Result	(444.4)	(149.6)	(135.0)	(3.6)	(170.8)
Results of companies consolidated by equity method	55.4	(6.2)	(13.4)	58.1	(45.1)
Results of non-current assets	3.9	(7.1)	(1.3)	17.0	35.7
<b>PBT</b>	<b>2,264.1</b>	<b>1,150.2</b>	<b>553.0</b>	<b>(53.4)</b>	<b>(166.4)</b>
Corporate tax and minority shareholders	(567.0)	(278.4)	(139.8)	28.1	(85.4)
<b>Net Profit</b>	<b>1,697.1</b>	<b>871.8</b>	<b>413.2</b>	<b>(25.3)</b>	<b>(251.8)</b>

Eur M					
December 2015*	Networks	Generation and supply	Renewables	Other Businesses	Corporation and adjustments
Revenues	7,909.0	21,617.1	2,790.6	870.3	(1,768.3)
Procurements	(2,397.2)	(16,773.5)	(429.7)	(635.3)	1,659.7
<b>Gross Margin</b>	<b>5,511.8</b>	<b>4,843.6</b>	<b>2,360.8</b>	<b>235.0</b>	<b>(108.5)</b>
NET OPERATING EXPENSES	(1,384.9)	(1,565.2)	(559.9)	(241.7)	12.9
Net Personnel Expense	(757.2)	(554.4)	(191.2)	(178.3)	(252.0)
Personnel	(1,157.9)	(588.7)	(215.8)	(178.3)	(289.6)
Capitalized personnel costs	400.7	34.3	24.6	-	37.5
Net External Services	(627.7)	(1,010.7)	(368.7)	(63.5)	264.9
External Services	(932.7)	(1,254.2)	(480.6)	(66.7)	289.9
Other operating income	305.0	243.4	111.9	3.2	(25.0)
LEVIES	(498.9)	(955.3)	(153.7)	(3.8)	(94.7)
<b>EBITDA</b>	<b>3,628.0</b>	<b>2,323.1</b>	<b>1,647.2</b>	<b>(10.5)</b>	<b>(190.4)</b>
Amortisation and Provisions	(1,142.7)	(1,361.2)	(988.1)	(19.6)	(56.6)
<b>EBIT / Operating Profit</b>	<b>2,485.3</b>	<b>961.9</b>	<b>659.1</b>	<b>(30.1)</b>	<b>(247.0)</b>
Financial Result	(394.1)	(160.2)	(78.1)	9.9	(400.6)
Results of companies consolidated by equity method	56.7	(35.2)	0.1	46.6	(13.0)
Results of non-current assets	1.7	5.8	2.6	7.0	108.0
<b>PBT</b>	<b>2,149.7</b>	<b>772.3</b>	<b>583.8</b>	<b>33.4</b>	<b>(552.6)</b>
Corporate tax and minority shareholders	(261.2)	(264.7)	(70.9)	(22.6)	54.3
<b>Net Profit</b>	<b>1,888.5</b>	<b>507.6</b>	<b>512.8</b>	<b>10.8</b>	<b>(498.2)</b>

(\*) Restated

# Networks Business (Unaudited)

Eur M					
	December 2016	SPAIN	U.K.	US*	BRAZIL
Revenues		2,049.7	1,319.1	3,979.4	1,458.5
Procurements		(21.5)	(52.2)	(1,442.3)	(1,130.1)
<b>Gross Margin</b>		<b>2,028.2</b>	<b>1,266.9</b>	<b>2,537.1</b>	<b>328.4</b>
NET OPERATING EXPENSES		(338.2)	(187.4)	(820.9)	(94.3)
Net Personnel Expense		(231.2)	(90.3)	(465.0)	(80.2)
Personnel		(336.9)	(228.9)	(689.2)	(103.9)
Capitalized personnel costs		105.7	138.5	224.2	23.7
Net External Services		(107.0)	(97.1)	(355.8)	(14.1)
External Services		(285.7)	(168.5)	(456.9)	(36.8)
Other operating income		178.7	71.4	101.1	22.7
LEVIES		(86.9)	(103.2)	(446.6)	(1.4)
<b>EBITDA</b>		<b>1,603.1</b>	<b>976.2</b>	<b>1,269.6</b>	<b>232.8</b>
Amortisation and Provisions		(502.8)	(283.8)	(540.2)	(105.8)
<b>EBIT / Operating Profit</b>		<b>1,100.3</b>	<b>692.4</b>	<b>729.5</b>	<b>127.0</b>
Financial Result		(77.9)	(135.5)	(189.9)	(41.1)
Results of companies consolidated by equity method		1.8	0.1	11.7	41.8
Results of non-current assets		0.7	0.5	2.6	-
<b>PBT</b>		<b>1,024.9</b>	<b>557.6</b>	<b>553.9</b>	<b>127.6</b>
Corporate tax and minority shareholders		(266.0)	(63.5)	(217.4)	(20.1)
<b>Net Profit</b>		<b>759.0</b>	<b>494.1</b>	<b>336.5</b>	<b>107.6</b>

Eur M					
	December 2015**	SPAIN	U.K.	US***	BRAZIL
Revenues		1,965.0	1,533.6	2,675.0	1,735.4
Procurements		(13.3)	(61.7)	(976.5)	(1,345.6)
<b>Gross Margin</b>		<b>1,951.7</b>	<b>1,471.9</b>	<b>1,698.4</b>	<b>389.8</b>
NET OPERATING EXPENSES		(397.4)	(221.3)	(629.8)	(136.5)
Net Personnel Expense		(246.6)	(101.4)	(328.5)	(80.7)
Personnel		(349.2)	(254.1)	(450.3)	(104.3)
Capitalized personnel costs		102.6	152.7	121.8	23.6
Net External Services		(150.8)	(119.9)	(301.3)	(55.8)
External Services		(295.1)	(192.8)	(373.3)	(72.8)
Other operating income		144.3	73.0	72.1	17.0
LEVIES		(97.5)	(112.6)	(288.1)	(0.7)
<b>EBITDA</b>		<b>1,456.7</b>	<b>1,138.0</b>	<b>780.5</b>	<b>252.7</b>
Amortisation and Provisions		(442.6)	(309.4)	(283.5)	(107.2)
<b>EBIT / Operating Profit</b>		<b>1,014.1</b>	<b>828.6</b>	<b>497.1</b>	<b>145.5</b>
Financial Result		(84.2)	(148.9)	(115.0)	(46.0)
Results of companies consolidated by equity method		0.2	-	0.5	56.0
Results of non-current assets		0.1	0.8	0.8	-
<b>PBT</b>		<b>930.2</b>	<b>680.6</b>	<b>383.3</b>	<b>155.6</b>
Corporate tax and minority shareholders		(12.4)	(31.8)	(190.5)	(26.4)
<b>Net Profit</b>		<b>917.8</b>	<b>648.8</b>	<b>192.8</b>	<b>129.1</b>

(\*) Avangrid

(\*\*) Restated

(\*\*\*) Iberdrola US

# Generation and Supply (Unaudited)

Eur M

December 2016	SPAIN	U.K.	MEXICO	OTHERS
Revenues	11,880.5	5,468.3	1,495.0	(120.4)
Procurements	(8,809.1)	(4,468.8)	(985.9)	174.4
<b>Gross Margin</b>	<b>3,071.5</b>	<b>999.5</b>	<b>509.0</b>	<b>54.0</b>
NET OPERATING EXPENSES	(794.2)	(591.6)	(70.7)	(48.0)
Net Personnel Expense	(295.1)	(163.5)	(18.1)	(20.7)
Personnel	(315.6)	(169.9)	(23.4)	(21.4)
Capitalized personnel costs	20.5	6.4	5.3	0.7
Net External Services	(499.0)	(428.2)	(52.7)	(27.3)
External Services	(565.1)	(486.2)	(72.4)	(22.4)
Other operating income	66.1	58.0	19.7	(5.0)
LEVIES	(756.8)	(114.3)	(2.1)	(2.9)
<b>EBITDA</b>	<b>1,520.5</b>	<b>293.6</b>	<b>436.2</b>	<b>3.0</b>
Amortisation and Provisions	(534.1)	(276.4)	(98.0)	(31.7)
<b>EBIT / Operating Profit</b>	<b>986.5</b>	<b>17.2</b>	<b>338.2</b>	<b>(28.7)</b>
Financial Result	(84.5)	(2.7)	(41.7)	(20.8)
Results of companies consolidated by equity method	(25.7)	(0.1)	-	19.6
Results of non-current assets	(5.8)	1.2	(2.6)	-
<b>PBT</b>	<b>870.5</b>	<b>15.6</b>	<b>293.8</b>	<b>(29.9)</b>
Corporate tax and minority shareholders	(181.9)	3.4	(117.6)	17.7
<b>Net Profit</b>	<b>688.6</b>	<b>19.0</b>	<b>176.3</b>	<b>(12.2)</b>

Eur M

December 2015*	SPAIN	U.K.	MEXICO	OTHERS
Revenues	12,779.1	7,561.8	1,558.2	(282.0)
Procurements	(9,807.7)	(6,255.4)	(974.7)	264.3
<b>Gross Margin</b>	<b>2,971.4</b>	<b>1,306.4</b>	<b>583.5</b>	<b>(17.7)</b>
NET OPERATING EXPENSES	(686.2)	(714.4)	(126.7)	(37.9)
Net Personnel Expense	(300.7)	(213.8)	(18.8)	(21.2)
Personnel	(322.3)	(219.8)	(24.7)	(21.8)
Capitalized personnel costs	21.6	6.0	5.9	0.7
Net External Services	(385.5)	(500.6)	(107.9)	(16.7)
External Services	(548.0)	(570.4)	(114.9)	(20.9)
Other operating income	162.5	69.8	7.0	4.2
LEVIES	(780.6)	(170.2)	(1.3)	(3.1)
<b>EBITDA</b>	<b>1,504.6</b>	<b>421.7</b>	<b>455.5</b>	<b>(58.7)</b>
Amortisation and Provisions	(535.0)	(704.8)	(89.3)	(32.2)
<b>EBIT / Operating Profit</b>	<b>969.6</b>	<b>(283.0)</b>	<b>366.2</b>	<b>(90.8)</b>
Financial Result	(92.9)	(0.5)	(36.6)	(30.3)
Results of companies consolidated by equity method	(29.9)	(0.6)	-	(4.7)
Results of non-current assets	0.1	0.7	5.0	-
<b>PBT</b>	<b>846.9</b>	<b>(283.4)</b>	<b>334.6</b>	<b>(125.8)</b>
Corporate tax and minority shareholders	(242.4)	74.6	(137.7)	40.7
<b>Net Profit</b>	<b>604.5</b>	<b>(208.9)</b>	<b>197.0</b>	<b>(85.0)</b>

(\*) Restated

## Renewable Business (Unaudited)

<b>Eur M</b>	<b>December 2016</b>	<b>SPAIN</b>	<b>U.K.</b>	<b>US*</b>	<b>LATAM</b>	<b>RoW</b>
Revenues	777.2	423.6	964.0	110.9	123.9	
Procurements	(13.6)	(38.5)	(161.6)	(5.5)	(1.0)	
<b>Gross Margin</b>	<b>763.7</b>	<b>385.1</b>	<b>802.3</b>	<b>105.4</b>	<b>122.9</b>	
NET OPERATING EXPENSES	(186.7)	(100.1)	(198.6)	(27.9)	(23.7)	
Net Personnel Expense	(51.6)	(14.8)	(98.6)	(2.4)	(6.9)	
Personnel	(51.6)	(30.8)	(110.1)	(2.4)	(6.9)	
Capitalized personnel costs	-	16.1	11.5	-	-	
Net External Services	(135.1)	(85.3)	(100.0)	(25.4)	(16.8)	
External Services	(169.1)	(98.2)	(191.6)	(25.4)	(19.0)	
Other operating income	33.9	12.9	91.6	-	2.2	
LEVIES	(79.6)	(18.1)	(40.1)	(0.7)	(3.9)	
<b>EBITDA</b>	<b>497.4</b>	<b>267.0</b>	<b>563.6</b>	<b>76.9</b>	<b>95.3</b>	
Amortisation, Provisions and other	(246.8)	(140.2)	(345.4)	(36.0)	(29.1)	
<b>EBIT / Operating Profit</b>	<b>250.6</b>	<b>126.8</b>	<b>218.2</b>	<b>40.9</b>	<b>66.2</b>	
Financial Result	(72.4)	(24.6)	(24.4)	(8.8)	(4.9)	
Results of companies consolidated by equity method	0.4	1.1	(9.4)	3.4	(8.9)	
Results of non-current assets	(1.4)	-	-	-	-	
<b>PBT</b>	<b>177.2</b>	<b>103.4</b>	<b>184.5</b>	<b>35.5</b>	<b>52.5</b>	
Corporate tax and minority shareholders	(58.5)	(5.1)	(38.1)	(20.4)	(17.7)	
<b>Net Profit</b>	<b>118.7</b>	<b>98.3</b>	<b>146.3</b>	<b>15.1</b>	<b>34.8</b>	

<b>Eur M</b>	<b>December 2015*</b>	<b>SPAIN</b>	<b>U.K.</b>	<b>US**</b>	<b>LATAM</b>	<b>RoW</b>
Revenues	764.5	797.8	1,008.3	96.4	123.5	
Procurements	(13.7)	(225.9)	(185.7)	(3.4)	(0.9)	
<b>Gross Margin</b>	<b>750.8</b>	<b>571.9</b>	<b>822.6</b>	<b>93.0</b>	<b>122.6</b>	
NET OPERATING EXPENSES	(184.7)	(115.3)	(213.3)	(22.8)	(23.8)	
Net Personnel Expense	(56.8)	(16.7)	(109.1)	(2.1)	(6.5)	
Personnel	(56.9)	(34.3)	(116.0)	(2.1)	(6.5)	
Capitalized personnel costs	0.1	17.6	6.9	-	-	
Net External Services	(127.9)	(98.6)	(104.2)	(20.7)	(17.3)	
External Services	(169.2)	(103.7)	(191.5)	(21.1)	(24.0)	
Other operating income	41.3	5.1	87.3	0.4	6.7	
LEVIES	(92.9)	(18.5)	(38.3)	(0.2)	(3.8)	
<b>EBITDA</b>	<b>473.2</b>	<b>438.1</b>	<b>570.9</b>	<b>69.9</b>	<b>95.0</b>	
Amortisation, Provisions and other	(279.2)	(190.0)	(445.6)	(27.5)	(45.7)	
<b>EBIT / Operating Profit</b>	<b>194.0</b>	<b>248.1</b>	<b>125.3</b>	<b>42.4</b>	<b>49.3</b>	
Financial Result	(63.9)	(33.5)	32.0	(7.2)	(5.4)	
Results of companies consolidated by equity method	2.9	(5.2)	(2.6)	1.9	3.1	
Results of non-current assets	(4.3)	6.5	0.4	-	-	
<b>PBT</b>	<b>128.7</b>	<b>215.9</b>	<b>155.0</b>	<b>37.1</b>	<b>47.0</b>	
Corporate tax and minority shareholders	(37.1)	5.8	5.4	(16.9)	(28.1)	
<b>Net Profit</b>	<b>91.6</b>	<b>221.7</b>	<b>160.5</b>	<b>20.2</b>	<b>18.9</b>	

(\*) Avangrid

(\*\*) Restated

(\*\*\*) Iberdrola US

# Quarterly Results (Unaudited)

<u>Eur M</u>	Jan-Mar 2016	Apr-Jun 2016	July-Sept 2016	Oct-Dec 2016
Revenues	8,184.8	6,713.3	6,639.6	7,677.7
Procurements	(4,534.9)	(3,586.9)	(3,675.5)	(4,501.9)
<b>Gross Margin</b>	<b>3,649.9</b>	<b>3,126.4</b>	<b>2,964.2</b>	<b>3,175.7</b>
NET OPERATING EXPENSES	(928.6)	(932.1)	(850.8)	(860.3)
Net Personnel Expense	(511.2)	(464.6)	(456.1)	(452.5)
Personnel	(648.0)	(619.1)	(616.2)	(634.0)
Capitalized personnel costs	136.8	154.5	160.0	181.5
Net External Services	(417.4)	(467.5)	(394.7)	(407.7)
External Services	(574.4)	(594.8)	(518.5)	(611.9)
Other operating income	157.0	127.3	123.8	204.2
LEVIES	(691.5)	(332.0)	(276.0)	(237.2)
<b>EBITDA</b>	<b>2,029.9</b>	<b>1,862.3</b>	<b>1,837.4</b>	<b>2,078.2</b>
Amortisations and Provisions	(780.4)	(858.1)	(833.7)	(781.5)
<b>EBIT</b>	<b>1,249.5</b>	<b>1,004.1</b>	<b>1,003.7</b>	<b>1,296.7</b>
Financial Expenses	(470.2)	(448.4)	(570.8)	(474.2)
Financial Income	330.0	227.3	348.2	154.6
Financial Result	(140.1)	(221.1)	(222.6)	(319.7)
Results of companies consolidated by equity method	10.0	21.7	10.0	7.1
Results from non-current assets	29.1	17.8	1.7	(0.5)
<b>PBT</b>	<b>1,148.5</b>	<b>822.6</b>	<b>792.8</b>	<b>983.6</b>
Corporate Tax	(254.3)	(212.1)	(172.1)	(266.1)
Minorities	(25.5)	(22.4)	(35.8)	(54.2)
<b>Net Profit</b>	<b>868.7</b>	<b>588.02</b>	<b>584.9</b>	<b>663.3</b>

<u>Eur M</u>	Jan-Mar 2015*	Apr-Jun 2015*	July-Sept 2015 *	Oct-Dec 2015
Revenues	8,780.7	7,344.9	7,563.9	7,729.1
Procurements	(5,167.0)	(4,324.7)	(4,674.0)	(4,410.4)
<b>Gross Margin</b>	<b>3,613.7</b>	<b>3,020.3</b>	<b>2,889.9</b>	<b>3,318.7</b>
NET OPERATING EXPENSES	(832.0)	(948.2)	(873.9)	(1,084.7)
Net Personnel Expense	(446.7)	(482.5)	(465.3)	(538.7)
Personnel	(557.9)	(604.0)	(592.0)	(676.3)
Capitalized personnel costs	111.3	121.5	126.8	137.6
Net External Services	(385.4)	(465.7)	(408.6)	(546.0)
External Services	(517.1)	(602.0)	(603.9)	(721.3)
Other operating income	131.7	136.3	195.3	175.3
LEVIES	(623.7)	(390.9)	(357.3)	(334.5)
<b>EBITDA</b>	<b>2,158.0</b>	<b>1,681.2</b>	<b>1,658.7</b>	<b>1,899.5</b>
Amortisations and Provisions	(814.2)	(856.9)	(799.1)	(1,097.9)
<b>EBIT</b>	<b>1,343.8</b>	<b>824.3</b>	<b>859.6</b>	<b>801.6</b>
Financial Expenses	(1,026.3)	(136.0)	(366.5)	(79.2)
Financial Income	730.8	(86.8)	136.5	(195.5)
Financial Result	(295.5)	(222.8)	(230.0)	(274.7)
Results of companies consolidated by equity method	18.7	14.5	(23.7)	45.8
Results from non-current assets	72.1	0.7	13.2	39.1
<b>PBT</b>	<b>1,139.1</b>	<b>616.7</b>	<b>619.2</b>	<b>611.7</b>
Corporate Tax	(289.3)	57.3	(197.3)	(97.9)
Minorities	(9.0)	(8.9)	(8.1)	(11.9)
<b>Net Profit</b>	<b>840.8</b>	<b>665.08</b>	<b>413.8</b>	<b>501.9</b>

(\*) Restated



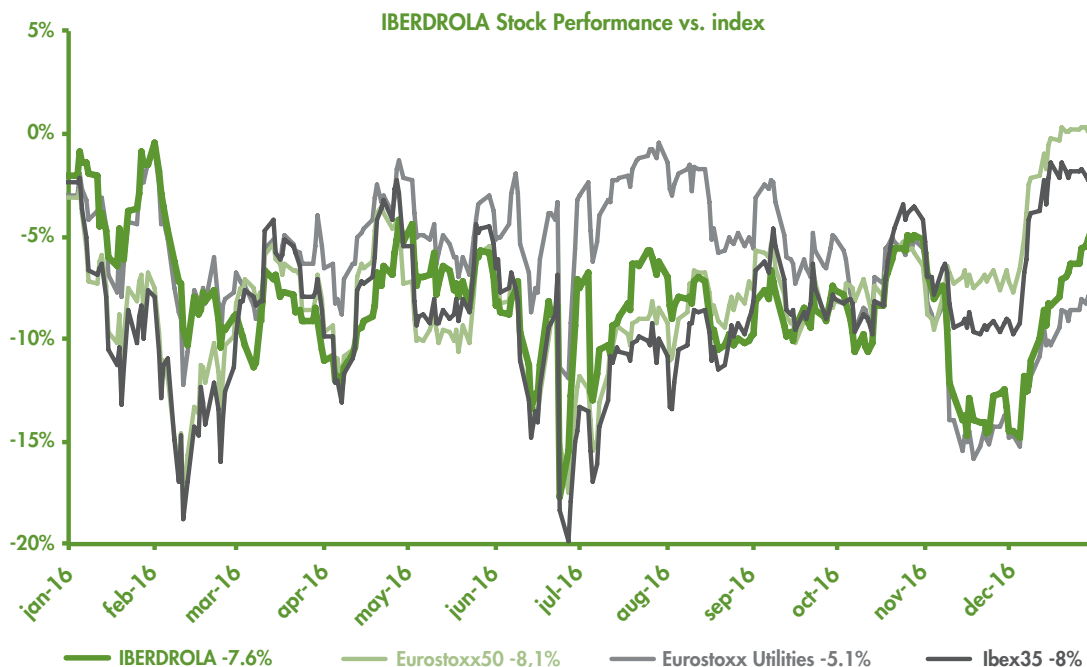
## Statement of Origin and Use of Funds (Unaudited)

	December 2016	December 2015*	Variation
EBITDA	7,807.7	7,397.4	410.3
Adjustments to results and others	(879.8)	(709.7)	(170.1)
Financial payments and cash receipts	(802.2)	(864.0)	61.7
Corporate Tax Payment	(426.8)	(580.9)	154.1
Provision payments (net of normal expenses)	(265.5)	(273.4)	8.0
<b>Operating Cash Flow</b>	<b>5,433.5</b>	<b>4,969.4</b>	<b>464.1</b>
Dividends Paid	(778.6)	(302.2)	(476.5)
<b>Retained Cash Flow</b>	<b>4,654.8</b>	<b>4,667.2</b>	<b>(12.4)</b>
Total Cash Flow allocations:	(5,571.3)	(3,825.2)	(1,746.1)
<i>Net Investments</i>	(4,264.3)	(3,223.1)	(1,041.2)
<i>Divestments</i>	112.1	75.7	36.4
<i>Treasury stock</i>	(1,388.0)	(647.0)	(741.0)
<i>Capital issue</i>	(-1.0)	(-0.7)	(-0.3)
<i>Hybrid</i>	(-30.2)	(-30.2)	-
Exchange rate differentials	140.8	(817.2)	958.0
Change in regulatory receivables	(90.4)	285.4	(375.8)
Integration of UIL Net Debt into perimeter**	(22.1)	(1,828.1)	1,806.1
Cash payment to UIL shareholders	-	(541.4)	541.4
Working capital variations and other variations	(458.7)	(389.3)	(69.4)
<b>Decrease/(Increase) in net financial debt</b>	<b>(1,346.9)</b>	<b>(2,448.6)</b>	<b>1,101.7</b>

\*Re-stated

\*\*As of 16th December 2015

# Stock Market Evolution



IBERDROLA Share	12M 2016	12M 2015
Number of outstanding shares	6,362,079,000	6,386,870,000
Price at the end of the period	6.234	6.550
Average price of the period	6.008	6.120
Average daily volume	25,843,622	31,140,116
Maximum volume (01-04-2016 / 06-26-2015)	117,034,016	90,216,773
Minimum volume (05-16-2016 / 08-10-2015)	4,444,650	4,571,334
Dividends paid (€) <sup>(1)</sup>	0.286	0.276
Gross Final dividend (01-29-2016 / 12-19-2015)	0.127	0.127
Gross Interim (08-07 and 22-07-2016 / 03-07 and 22-07-2015)	0.154	0.144
Shareholder Meeting attendance bonus	0.005	0.005
Dividend yield <sup>(2)</sup>	4.59%	4.21%

(1) Iberdrola fixed guaranteed price for the rights.

(2) Dividends paid in the last 12 months and Shareholder Meeting attendance bonus/price at the end of period.

# Regulation

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## 1 Regulation in Spain

### Spanish Electricity Sector

#### Voluntary Prices for Small Consumers – VPSC:

On 25 November, Royal Decree 469/2016 which modifies Royal Decree 216/2014, of 28 March, by which the methodology for calculating the voluntary prices for small consumers of electrical energy and the legal contractual regime applicable was published. With the publication of this new RD, the methodology is established for the determination of the retail costs to include in the calculation of the VPSC since 1 April 2014, replacing the value of EUR 4 /kW contracted, annulled by the Supreme Court.

The methodology includes the recognition of the costs necessary to carry out retail activity, based on the costs of the three most efficient retail companies and excluding the face-to-face channel, plus remuneration for undertaking the activity (1.05% over the price of energy).

Costs are divided into:

- Fixed costs, including the fixed operation costs, financial costs and costs that are fixed due to regulatory measures. These are passed on to the VPSC with a fixed term (EUR/kW).
- Variable costs, including the variable costs associated to public road charges (based on the price of energy), contribution to the National Energy Efficiency Fund (FNEE), other costs of a variable nature due to regulatory measures and remuneration for undertaking the activity (1.05% over the price of energy). These are passed on to the VPSC with a variable term (EUR/kW).

On 24 December, the Ministerial Order that establishes the specific values for both supplies that have already been carried out in the past (from 1 April 2014 to 31 December 2016) and supplies that will be carried out in 2017 and 2018. The fixed term is fixed ex ante for both years, whereas the variable term is calculated by REE (Spanish Electricity Grid) on

the day prior to the supply, once the energy prices to be included in the VPSC are known. The contribution to the National Energy Efficiency Fund will be published annually by means of a Ministerial Order. Leading retailers will correct payment for the past period by re-billing customers over the 9 months subsequent to the publishing of the Ministerial Order.

#### Electrical energy access tariffs for 2017:

Furthermore, Order ETU/1976/2016 has been published, establishing that *electrical energy access tariffs* for 2017. This order maintains:

- The tariffs in force, as well as the payments for capacity.
- The remuneration for distribution corresponding to 2016, provisionally and until a Ministerial Order is published with the values for 2017.
- The same amount of compensation for non-mainland systems and the contribution of 50% of this cost by the General State Budget.
- Remuneration for the Market Operator and the System Operator and calculation parameters to pay for this cost among market agents.

The predictions included in the economic report of the Order include balanced rates for 2016 and 2017.

**Social Bonus:** With regard to the social bonus, on 30 November, the decisions of the appeals filed by the companies Viesgo, Endesa, Iberdrola and Gas Natural against Royal Decree 968/2014, which develops the methodology for fixing the percentages of distribution of the amounts to finance relating to the social bonus, were published. In these decisions, the Supreme Court recognises the claim of the companies and annuls the social bonus financing system, deeming it to be discriminatory. The financial companies must be compensated for the amounts provided in 2015 and 2016 (affected by the annulled articles of the RD of 2014), with any applicable interest.

Additionally, on 24 December, *Royal Decree-Law 7/2016 by which the mechanism for financing the cost of the social bonus and other measures to protect vulnerable electrical energy consumers are regulated*

was published. This RD-I establishes a new mechanism for financing the Social Bonus, charged to retail activity, with immediate entry into force. For a transitional period lasting until the development of regulations, Iberdrola will finance 35.5% compared to the previous 38%.

It also creates a second group of 'severely vulnerable consumers' that cannot be subject to supply cut-offs, and require co-financing of their bills by the competent Administrations and the same financing bodies of the social bonus. Regulations must be developed for this measure within 3 months.

**Interruptibility Service:** Lastly, with regard to the interruptibility service, following the resolution published on 12 August, which approves the rules of the competitive procedure of auctions for the assignment of the management service of the demand for interruptibility and the model of adhesion to the legal framework established for participation in auctions, a resolution was published on 12 October approving the calendar and the features, for the 2017 electricity season, of the competitive procedure of auctions for the assignment of the mentioned service. Said auctions took place during the week of 14 to 18 November. The total cost amounted to EUR 524.8 million, with a total awarded capacity of 2,975 MW and an average price of EUR 176,420/MW.

## Spanish Gas Sector

**Gas Tariffs for 2017:** On 31 December, Order ETU/1977/2016, *by which the tariffs and fees associated to third party access to gas installations and the remuneration of regulated activities for 2017 are established*, was published. This order maintains the current tariffs in force, except in the case of the coefficients applicable to long-term contracts.

**Gas LRR for 2017:** Lastly, the Resolution dated 29 December of the General Directorate of Energy Policy and Mines, published the last resort rate for natural gas in force as from 1 January 2017. Prices increase an average of 3% compared to those of the previous

quarter. The increase is due to the rise in the cost of the raw material, both in its component tied to Brent and in that tied to the NBP. Even so, prices are still 8% lower than those in January 2015, when they reached record highs.

## 2 Regulation in the United Kingdom

**CMA investigation.** The Competition and Markets Authority (CMA) concluded its investigation in December 2016, completing all necessary orders for the implementation of the remedies included in its final report. At the same time, Ofgem has carried out consultations to promote its implementation and comply with its obligations according to these orders. The main points of the package of measures in the CMA report include a control of electricity and gas prices with prepayment meters, a database containing customers who have had the standard variable rate for more than three years to allow rival companies to make offers to said customers, and a proposal to allow customers who have complex meters to access flat rates. The package of measures also includes the expected proposals to improve transparency in the sales to SMEs, improve response in processes of modifying industry codes, reduce regulatory restrictions on regulated rates, improve the accuracy of solutions, strengthen the competition rights of Ofgem and introduce charges for losses during transmission.

**Capacity Market.** The T-4 Capacity Auction was held in December 2016 and closed at a price of GBP 22.50 per kW. A very limited capacity was awarded for gas generation connected to transmission. Contracts were awarded for 1.4 GW of 'unproven' demand management, 1.2 GW of units connected to distribution and 0.5 GW of batteries.

**CfD Auction.** On 9 November 2016, the BEIS announced its plans for the next CfD (Contracts for Difference) auction for Renewables, for offshore wind and some other technologies, which will start in April 2017, with a budget of GBP 290 million.

**Climate Change.** On 17 November 2016, the United Kingdom ratified the Paris Agreement on climate change and on 30 November, the European Commission announced its legislative proposals for 'Clean Energy for all Europeans' (the so-called Winter Package) for 2030.

### **3 Regulation in the United States**

**Connecticut.** In December 2016, PURA approved the distribution rates for IU for the next three years, which entered into force on 1 January 2017 and which provides USD 57 million of accumulated increases in distribution rates and an allowed ROE of 9.10%

**Clean Power Plan.** On 8 November Donald Trump won the presidential elections, and Republicans held control of the House of Representatives and the Senate. On 9 February, the Supreme Court revoked a decision of the Court of Appeals for the D.C. Circuit, granting a stay, halting implementation of the Clean Power Plan (CPP) until the court rules on the merits of the case.

**PTCs and ITCs.** In December 2015, Congress approved legislation extending and phasing out tax credits for renewable production (PTC) and tax credits for solar investment (ITC). Any developers starting building works on a wind farm before 2017 will receive the credit in full, whereas those starting construction between 2017 and 2019 will receive a reduced credit. Developers starting building works on a solar project before 2020 will access an investment tax credit (ITC) of 30%. Projects starting construction after 2019 will be entitled to a lower ITC. Treasury issued the guide with the PTC application procedure. Wind energy developers will have at least four years as from the start of the construction, or until 31 December 2018, to complete a project according to the 'safe harbor' qualification regulations.

**Transmission.** On 28 September, the FERC (Federal Energy Regulatory Commission) supported the decision of one of its judges to establish the zone of

reasonableness from 7.23% to 11.35% and lower ROE (Return on Equity) for 'Transmission Owners' in the Midwest ISO from 12.38% to 10.32%. This decision is in agreement with the recent practices of the FERC to lower transmission rates while allowing performances located in the upper half of the zone of reasonableness.

**REV.** In April 2014, the NYPSC (New York Public Service Commission) instituted its 'Reforming the Energy Vision' (REV) process, the aim of which is to improve efficiency and trust in the electricity system, promote renewable energy resources, support the distribution of generated energy and improve the choice of customers. In this procedure, the NYPSC is examining the establishment of a distributed system platform (DSP) to manage and coordinate the distributed generation and provide customers with market data and tools to manage their energy use. The NYPSC has determined that utility companies should be the suppliers of the DSP. The NYPSC is also examining how its regulatory practices should be modified to incentivise the practices of utility companies to promote the aims of the REV procedure. The REV procedure comprises a two-phase calendar with an initial order relating to the determination of policies for DSP and related matters issued in February 2015, and an initial order of regulatory design and regulatory matters issued in May 2016. All electricity companies were ordered to submit an initial Distributed System Implementation Plan on 30 June 2016. NYSEG and RGE presented its DSIP including information regarding the potential deployment of the Advanced Metering Infrastructure. NYSEG and RGE filed a separate petition for the recovery of costs associated to the full deployment of AMI in December 2016.

### **4 Regulation in Mexico**

**Tender of the first Electrical transmission line in direct current:** On 10 October, SENER published the preliminary basis for the project. It will involve approximately 610 km of line in 500 kV DC, from

Oaxaca to the Valley of Mexico, with a capacity of 3,000 MW. The works are capitalised by means of charges associated to the Transmission Rate. Currently the project is pending redefinition and setting new dates.

## 5 Regulation in Brazil

**Tariff flags:** in the last quarter, the yellow flag was activated only in November, which implied an additional cost to final consumers of 15 BRL/MWh. In the other two months, the green flag was applied (no additional cost to consumers).

**Excess contracting of distributors:** In 2016, distributors faced a situation of excess energy contracting. Under Resolution 706/2016, ANEEL considers distributors to have involuntary exposure from the allocation of electricity 'quotas' from generating plants that extended their concession pursuant to Law 12.783/2013. As a result, the purchase cost of this energy does not generate any loss for the distributors and offers the option of passing it on to customers in the tariffs.

Resolution 711/2016 of 19 April determined the rules by which the distributors and generators with signed bilateral agreements could renegotiate and reduce the price of energy. Such agreements involve a temporary total or partial reduction of contracted energy, a permanent reduction or even a cancellation of the contract.

Additionally, on 21 June, Resolution 726/2016 was published, by which distributors are allowed to reduce the signed energy contracts subsequent to this resolution and derived from special customers that migrate to the liberalised market. For contracts signed beforehand, ANEEL will individually assess for each case the recognition of involuntary excess contracting, if applicable. This point is subject to ANEEL or MME publishing the corresponding regulation, but negotiations indicate that distributors may return to the generator all the special customer contracts when they migrate to the free market.

The Chamber of Commerce for Power (CCEE) has implemented a centralised negotiation mechanism among contractors and generators affected by excess contracting who, as a result of their delays in the construction of the plants, wish to reduce the volume of energy contracted (Surplus and Deficit Compensation Mechanism, or MCSD according to its Spanish acronym). In July, this mechanism reduced by 2.3% the excess declared by the companies, and in August it did so by 11%, largely due to the reduction of Belo Monte contracts. In December ANEEL authorised a retroactive reprocessing of the New Energy MCSD for the months of July and August 2016, allowing the participation of generators that had not participated previously, thus increasing the possibility of mitigating excess contracting. The results will be published on 28 February 2017.

## 6. Regulation in European Union

**Paris Agreement:** On 19 October, the Decision of the Council of 5 October was published in the DOUE, approving the Paris Agreement in the name of the European Union. With this decision, the EU ratifies as a group the Paris Agreement on Climate Change. Said agreement establishes obligations to Member States, which means it should also be ratified individually. The Paris Agreement entered into force on 4 November 2016.

**Emissions Reduction Directive:** Lastly, on 17 December, Directive 2284/2016 was published, regarding the reduction of national emissions of specific air pollutants. This Directive updates the norm regarding National Limits of acid emissions, establishing stricter limits for each State for the 2020-2030 period for five pollutants: SO<sub>2</sub>, NO<sub>x</sub>, volatile compounds other than methane (NMVOC), NH<sub>3</sub> and microparticles (PM<sub>2.5</sub>). The Directive entered into force on 31/12/16 and should be transposed into law before 30/06/18. Each MS should develop its own National Pollution Control Programme in 2019 to adapt to the targets (this will especially affect transport, agriculture and energy sectors).

# APPENDIX.- IBERDROLA and Sustainability

Iberdrola's contribution to sustainable development is reflected in several corporate responsibility practices that meet the needs and expectations of its interest groups, with whom the Company maintains a combination of open communication channels are used for communicating goals, activities and successes achieved in the three areas of sustainable development (economic, environmental and social), as well as receiving evaluations and requests from the parties involved.

## 1. Sustainability indicators

Sustainability Indicators	12M 2016	12M 2015
Contribution to GDP (Gross Margin) (*)	0.54%	0.55%
Contribution to GDP (Net Revenues) (*)	1.23%	1.22%
Net profit (EUR million)	2,705	2,422
Dividend yield (%) (**)	4.59%	4.21%
CO2 emissions over the period (gr. CO2 /KWh): Total	176	225
CO2 emissions over the period (gr. CO2 /KWh): Spain	84	104
CO2 emissions over the period (gr. CO2 /KWh): UK	328	533
CO2 emissions over the period (gr. CO2 /KWh): USA	58	64
Emission-free production: Total (GWh)	78,425	69,968
Emission-free production: Spain (GWh)	54,701	47,403
Ratio emission-free production to total production: Total (%)	55%	52.5%
Ratio emission-free production to total production: Spain (%)	87.1%	85.4%
Emission-free installed capacity: Total (MW)	29,827	29,273
Emission-free installed capacity: Spain (MW)	19,229	19,228
Emission-free installed capacity: Total (%)	65.9%	63.0%
Emission-free installed capacity: Spain (%)	73.5%	73.4%
Ratio high-emission technologies production: Total (%)	2.8%	8.4%
Ratio low-emission technologies production: Total (%)	40.1%	39.1%

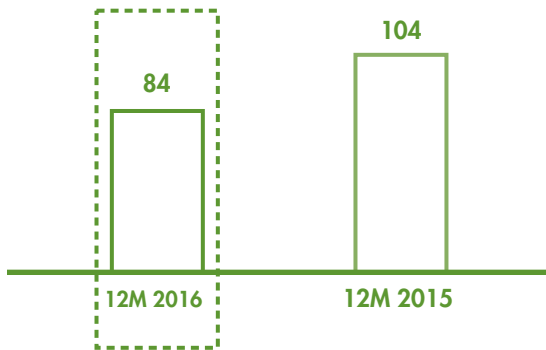
(\*) Source: Iberdrola Results and National Quarterly Accounting for Spain – INE (Last data published in Q3 2016)

(\*\*) Dividends paid in the last 12 months and Shareholder Meeting attendance bonus/price at the end of period.

Development of specific thermal mix emissions, Global: CO<sub>2</sub>, SO<sub>2</sub>, particles and NO<sub>x</sub>.

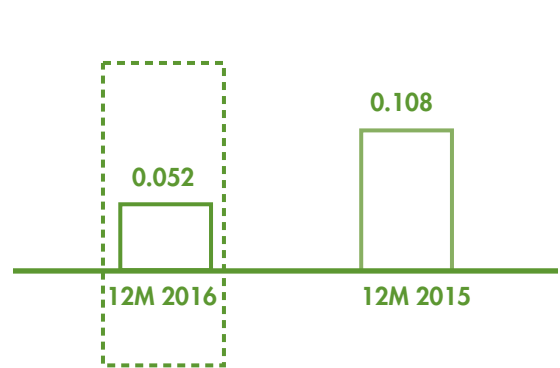
CO<sub>2</sub> specific emissions mix GLOBAL

(g/kWh)



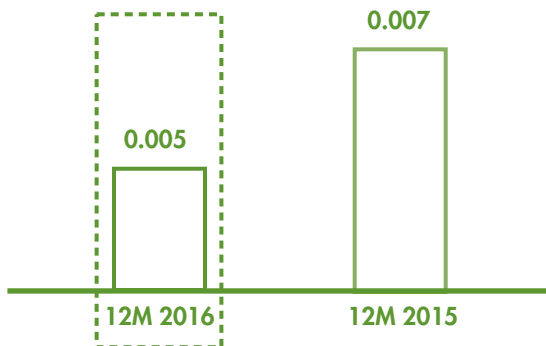
SO<sub>2</sub> specific emissions mix GLOBAL

(g/kWh)



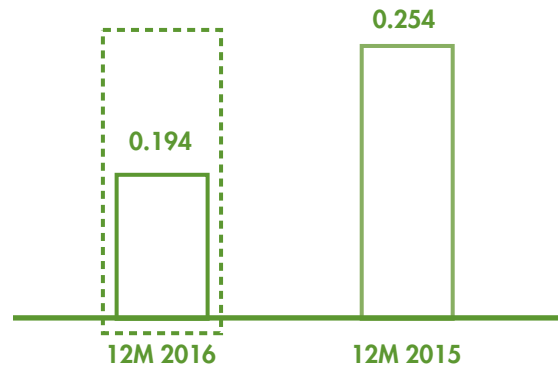
Specific particulate emissions Mix GLOBAL

(g/kWh)



NO<sub>x</sub> specific emissions Mix GLOBAL

(g/kWh)



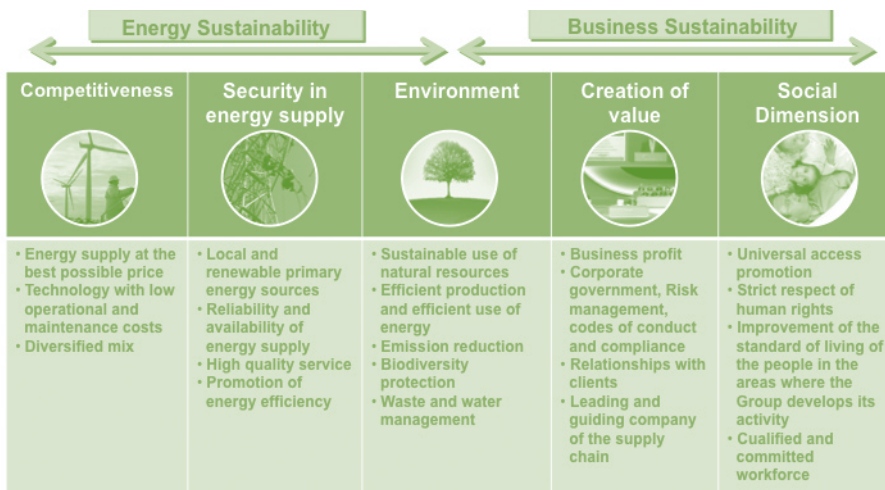


## 2. Indices, Rankings and Recognitions

### Presence of Iberdrola in Indices and Rankings of Sustainability, Reputation and Corporate Governance.

Sustainability	
Ranking	
Dow Jones Sustainability World Index 2016 Global 100	World Leader utility sector 2016. Iberdrola member in all editions Selected in 2016
FTSE4Good	First utility with nuclear assets to meet standards for FTSE 4Good. 6 years in a row selected
CDP Index 2016	A category
Global Roundtable on Climate Change	IBERDROLA one of the developers
Sustainability Yearbook Robeco Sam 2016	Classified as "Silver Class" in the electricity sector.
MERCO 2016	Leader among Spanish utilities: electricity, gas, and water industry
Euronext Vigeo index: Eurozone 120 & Europe 120	Iberdrola selected
Nesweek and Green Rankings 2015	Iberdrola first Spanish utility and fourth worldwide
MSCI Global Sustainability Index Series	Iberdrola selected AAA
2015 World's Most Ethical Company	Iberdrola selected. Only Spanish utility
Fortune Global 500	Iberdrola selected
Stoxx ESG Leaders/Eurostoxx Sustainability 40	Iberdrola selected

### Sustainability Policy



### 3. Contribution to social development

IBERDROLA's most significant actions with regard to social commitment in the Jan-Dec 2016 period have been the following:

#### 3.1 Corporate Social Responsibility (CSR) Recognition

- **IBERDROLA ranked global leader in the Dow Jones Sustainability Index (DJSI)**

Our Company has been valued as the global leader in the utilities sector by the prestigious DJSI Index. Furthermore, it is the only European electricity utility to have been included in all 17 editions of the Index. The DJSI Index is considered to be the main international benchmark for measuring companies' positioning and contribution to sustainable development.

- **IBERDROLA recognised as one of the World's Most Ethical Companies**

IBERDROLA has been included in the *2016 World's Most Ethical Company* ranking, made by the Ethisphere Institute, which recognises organisations contributing ethical leadership and conduct at corporate level. For the third consecutive year, our Company achieved this recognition, and is the only Spanish company that features among the world's most ethical companies for 2016.

- **IBERDROLA recognised for its Corporate Governance**

For the third consecutive year, in 2016 IBERDROLA has been named the European utility company with the best Corporate Governance policies, according to the prestigious publication *Ethical Boardroom*, which grants the *Corporate Governance Awards 2016*.

- **IBERDROLA leads the IBEX 35 in terms of fiscal transparency**

Our Company was the IBEX 35 leader in terms of fiscal transparency in 2015, according to the *Transparency Report on the Fiscal Responsibility of Companies*, drafted by the Fundación Compromiso y Transparencia (Commitment and Transparency Foundation).

- **IBERDROLA, leader in the response to Climate Change**

Iberdrola has been recognised as the world's leading company in the fight against climate change by the Carbon Disclosure Project. Furthermore, the company has been included again in the *Climate Performance Leadership* index, also obtaining the best score among companies analysed in the Iberia region.

- **Ignacio Galán named the best European Utility Company CEO, and IBERDROLA crowned as the best company for its investor relations**

IBERDROLA is the winner of all four categories assessed: best investor relations, and best CEO, CFO and Director of Investor Relations, according to the *2016 All-European Executive Team* ranking of the prestigious Institutional Investor Research Group.

- **Ignacio Galán, Medal of Honour from the Real Academia Nacional de Medicina (Spanish Royal Society of Medicine)**

Ignacio Galán has received the Medal of Honour from the Spanish Royal Society of Medicine from its Chairman, who praised the Company's efforts on behalf of technological development and research, as well as its contribution to promoting employment.

- **IBERDROLA's 2016 Shareholders' Meeting obtains Sustainable Event certification**

IBERDROLA has been the first Spanish company, and the first electricity utility among the world's 10 largest, to be awarded the ISO 20121 Sustainable Event certification for its 2016 Annual General Meeting, as well as the *Erronka Garbia* environmental label awarded by the Basque Regional Government.

- **IBERDROLA awarded in the Basque section of the European Business Awards for the Environment 2016**

IBERDROLA has received the award for the special 'biodiversity' category, as well as a runner-up award for the Environmental management category at the 'European Business Awards for the Environment 2016, Basque section', awarded by the Basque Regional Government.

- **ScottishPower wins innovation award**

ScottishPower received the Big Bang national award for Innovation during the Utility Week Stars Award. The company was selected as the most innovative company from more than twenty leading companies in the gas, electricity and water sectors in the United Kingdom.

- **Elektro chosen as Latin America's best company to work for**

For the second consecutive year, Elektro was recognised in 2016 as the 'Best Company to work at in Latin America', according to the study carried out by Great Place to Work, in which more than 1,500 companies took part. It also received the award for Best Company to work at in Brazil, for the fourth consecutive year.

- **IBERDROLA México recognised as a 'Socially Responsible Company'**

IBERDROLA México has been awarded the 'Socially Responsible Company' label by the Centro Mexicano de la Filantropía, for the fourth consecutive year.

### **3.2.- Relations with Stakeholders**

- **IBERDROLA supports COP22, held in Marrakech**

In partnership with the Global Compact Network Spain, the Company has organised the *Moving for Climate NOW* initiative, a cycling route covering more than 1,000 Km, aimed at raising awareness of the fight against climate change, which ended with the presentation of a manifesto in the United Nations Climate Change Conference in Marrakech (COP22), setting out the immediate steps to take in order to achieve effective mobilisation regarding climate.

- **Support to Suppliers**

Throughout this year, IBERDROLA has presented the *Awards to the Supplier of the Year* in Brazil, the United States, the United Kingdom and Spain, with a view to incentivising sustainable development, innovation and internationalisation among its suppliers.

- **Campaign for the Promotion of Youth Employment**

IBERDROLA was the first IBEX 35 company to join the campaign for the UN to declare 2016-2025 the 'Youth Employment Decade', by means of the *Pegasus Programme*, promoted from Spain. The aim of this programme is to place youth employment on the Global Human Development Agenda, by means of its declaration by the General Assembly of the United Nations.

- **Presentation of the 1st Iberdrola Solidarity Awards**

The Chairman of IBERDROLA, Ignacio Galán, presented the *1st Iberdrola Solidarity Awards*, which went to the Menudos Corazones, Plena Inclusión and Save the Children organisations. The Company recognised the values put into practice by these organisations, as well as the results they achieve.

- **IBERDROLA, leading sponsor of the 8th European Conference on Sustainable Cities**

IBERDROLA was the leading sponsor of the European Conference on Sustainable Cities, held in the Basque Country, and considered to be Europe's leading event regarding local sustainability.

- **IBERDROLA, sponsor of initiatives in the fight against cancer in the United Kingdom and Spain**

A series of initiatives have been sponsored to obtain funds through solidarity projects supporting cancer research, aimed at AECC (Spanish Cancer Association) in Spain and Cancer Research UK in the United Kingdom.

- **IBERDROLA México recognised for its work towards safety in the workplace**

IBERDROLA México has been awarded the international award for Safety in the Workplace ('Prever 2015'), awarded by the Spanish General Council of Industrial Relations and Work Science, in recognition to the 'excellent' track record in this field over the last three years, in which there have not been any accidents requiring leave from work.

- **Recognition for the cardiovascular risk prevention campaign**

The campaign for the prevention of cardiovascular risks ¡*Cuida tu corazón!* (Take care of your heart!), launched in Spain, has achieved recognition in the *III Premios Empresa Saludable* (Healthy Company Awards), receiving the award to Best Cardiovascular Programme from the *Observatorio de Recursos Humanos* (Human Resources Observatory).

- **Cultural exchange programmes**

The new editions of the cultural exchange programmes *Hello-Hola* and *Mi Invitado* have been carried out during the summer period. These programmes are offered to children of employees as a means of providing them with a chance to experience an international stay in the different 'IBERDROLA countries'.

- **Corporate Volunteer Programme**

Within IBERDROLA's Volunteer Programme, articulated through the *International Volunteer Portal*, the following actions stand out in this period:

- **IBERDROLA celebrates the 10th anniversary of its Corporate Volunteer Programme.**

This Programme was launched in 2006, with the aim of harnessing the spirit of solidarity of employees and motivating their participation in social projects aligned with the values of the Company and its Social Responsibility Policy.

- **Initiatives to help disadvantaged people.**

Different actions have been launched in countries where the Company is established, such as:

- **Volunteer Days.** Volunteer days devoted to games and sports and environmental-awareness, aimed at people with disabilities, have been held in various Spanish

Autonomous Communities. On 2 October the IBERDROLA International Volunteer Day was celebrated, with various activities being carried out in Spain, the United Kingdom, the United States, Mexico and Brazil.

- **9th IBERDROLA Tree Day.** The ninth edition of the Tree Day has been held in Muxika (Biscay), combining environmental work and activities for people with disabilities, in collaboration with Asociación Gorabide and Fundación Lurgaia.
- **'IBERDROLA Operation Kilo' initiative.** Solidarity initiative to collect food with the aim of contributing to alleviating the difficult economic situation of vulnerable families. Distribution is carried out through different aid organisations.
- **Human Warmth Week**, in which warm clothing has been collected by the employees of the companies NYSEG and RG&E of AVANGRID to care for children and families in vulnerable situations.
- Elektro promotes the initiative **Meninos ecológicos**, to offer environmental training and awareness-raising opportunities, as well as professional development, to young people in its environs (Araras, Pariqueira-Açu and Eldorado).
- **INVOLVE (International Volunteering Vacation for Education) Initiative.**  
The fifth edition of this corporate volunteering programme has been held, in which IBERDROLA employees from other regions will travel to Brazil and Mexico during their holidays to help teenagers improve their employability, by means of IT and web application training.

### 3.3 Community Action

#### a) Training and Research

##### 2016 Call for Research Scholarships and Grants

The aim of the Research Scholarship and Grants Programme of the Iberdrola Foundation is to foster a new generation of professionals to contribute to a more sustainable energy model. It provides support to students from the five countries where Iberdrola has a Foundation (Spain, United Kingdom, United States, Mexico and Brazil) for studies at leading universities in the fields of energy technology, environmental science and information technologies in Spain, the United States and the United Kingdom.

The last quarter of 2016 saw the last of the 73 student beneficiaries of the Masters programme join their study programmes, and the start of all 20 research projects.

In addition to the programme's scholarships, the Iberdrola Foundations have partnered with scholarships programmes managed by other bodies such as the Fulbright Foundation, Carolina Foundation, University of New Mexico, Instituto Tecnológico de Monterrey and the restoration workshops of the Prado Museum in Madrid and the Fine Arts Museum in Bilbao. These partnerships have benefited a further 37 students.

Throughout this last quarter, there have also been meetings and conferences with students aimed at reinforcing their bonds with the Iberdrola Group, and encouraging them to view the Company as a preferred employer after they complete their studies.

##### Language immersion programmes in Spain

This programme aims to contribute to the promotion of bilingualism (Spanish-English), both for students and by providing training for English

teachers, making the most of the availability of Iberdrola residences and facilities during the holiday season.

Thus, during 2016, all the programmed courses in Castile-Leon, Valencian Community and Extremadura have been held, reaching a total of 120 students and 12 teachers selected by the Departments of Education and Culture. This programme has achieved significant success, and there are plans to extend it to students from the Autonomous Community of Castile-La Mancha in 2017.

### **Other partnerships of the Iberdrola Foundations**

In the United Kingdom, the Scottish Power Foundation has supported professional training programmes for reintegration into the labour market, supporting 13 ex-military service people to integrate into the building sector. The company has also partnered with the Children's University to train more than one thousand young people in basic skills.

And lastly, the Avangrid Foundation has supported students from six university and professional training centres carrying out training programmes for the electricity sector, and has also provided financial support to students with limited means to help them continue their studies.

## **b) Sustainability and Biodiversity**

### **Bird migration monitoring programme (MIGRA)**

Fundación Iberdrola España collaborates with the Spanish Ornithology Society, SEO/BirdLife, in the MIGRA project, aimed at studying the movements of migratory birds in Spain. The goal is to provide a scientific basis for the movements of each species over several years, which will enable researchers to find out about their habits, migratory routes, resting areas during their journey and wintering areas.

In 2016, thanks to the collaboration of the Iberdrola Foundation, a total of 17 new birds were tagged, raising the project total to 747 tagged birds of 28 different species, constituting the largest database existing on the subject. Based on these data, several scientific papers have been published, as well as the first monograph on the Audouin's Gull. This document has extraordinary value for the scientific community.

### **Other initiatives of note**

With regard to the activities carried out by the Scottish Power Foundation, the highlights include partnering with the Royal Society for the Protection of Birds of Scotland in the project to improve access to the Loch Lomond reservoir, and supporting the training of members of the 2050 Youth Climate Group, an association of young leaders committed to tackling climate change for a sustainable future.

Avangrid Foundation has collaborated on 27 projects, supporting programmes for the efficient use of energy, care for the environment, promotion of electric vehicles, efficient building and home developments, support to science museums and research centres, and projects to improve marine and river habitats.

In Brazil, our Foundation's two active projects have continued to make progress. The first is 'Cuida Colmena', focused on breeding and farming bees in the Elektro area, which has successfully provided training and apprenticeships for 16 young people. The second is 'Flyways', which supports the conservation of endangered bird species in the Northeast of the country, with the completion of the first census of the Río Grande do Norte region.

## c) Art and Culture

### Restoration Programme

The Foundation supports unique projects for the recovery and conservation of historical-artistic heritage, in collaboration with agencies and institutions of renown, both public and private.

The **Atlantic Romanesque Programme** is Spain's most noteworthy programme. It is implemented in collaboration with the Portuguese Ministry for Culture and the Regional Government of Castile-Leon, and carries out an ambitious project to restore and provide maintenance of the Romanesque churches in both countries, located in the North of Portugal, Salamanca and Zamora.

In addition to the artistic restoration dimension, this project also incorporates two very significant elements. On the one hand there is an innovation component, with the installation of a monitoring system for environmental and structural variables; and on the other hand, the launch of an outreach programme that contributes to the area's social and economic revitalisation, taking advantage of the opportunities offered by art, history, nature and tourism.

Over this last quarter, 35 sensors have been installed for monitoring at Ciudad Rodrigo Cathedral, which has also seen the completion of the Interpretation Centre project. As regards the activities of the Cultural Revitalisation Programme, a variety of dissemination and value-enhancing actions have continued to take place. These include meetings with cultural and tourism managers, preparation of routes and documentation, developing the website, training guides, concerts and the monitoring system.

In December, the Chapel of the *Colegio del Patriarca* in Valencia hosted an exhibition of the first four Flemish tapestries that have been restored

at the Real Fábrica de Tapices in Madrid. These exceptional 17th century artworks were previously in very poor condition due to the passing of time and the environmental conditions to which they were exposed. As a complement to the restoration work, a new LED lighting system has been set up in the Chapel, which is much less aggressive for the tapestries. The opening event was attended by the President of the Valencian Community, the Director of the Real Fábrica de Tapices and the Chairman of Fundación Iberdrola España. The exhibition, which has now been open for a month, has been a success with critics and audiences alike, attracting very positive feedback on the work carried out. Throughout 2017, restoration will continue on the other two tapestries that are still pending completion.

### Prado Museum in Madrid and Bilbao Fine Arts Museum

Fundación Iberdrola España works in partnership with the Prado Museum of Madrid and with the Bilbao Fine Arts Museum, providing support to their Restoration Workshops, which is complemented by three annual grants at El Prado and one at the Bilbao Fine Arts Museum for young restorers. Under this programme, a total of 218 works were restored at the Prado Museum in 2016 and a further 18 at the Fine Arts Museum.

The collaboration with the 'Iluminando el Prado / Lighting the Prado' Project also stands out. This project was started in 2014, with the aim of providing the exhibition rooms of the Museum with a new LED technology lighting system. The reason for installing this new lighting system is to improve the energy efficiency of the lighting, as well as to reduce maintenance costs and improve the conservation of the artworks. Throughout last year, the installation of projectors in the exhibition rooms continued in a coordinated manner according to



the availability of the Museum, and progress is being made with a view to finishing the project in 2017.

### Lighting programme

During the fourth quarter, the new LED illumination system at the San Sebastian Town Hall was unveiled, within the framework of the Donostia / San Sebastian 2016 European Capital of Culture. This project includes the option of featuring colour in the LED lighting. With this, as well as improving energy efficiency and night-time aesthetics, colour is incorporated as a new element of communication between architecture and citizens. The opening ceremony was attended by the President of the Basque Country's Regional Government, the Mayor of San Sebastian and the Chairman of Iberdrola. It was warmly welcomed by the people of San Sebastian and had significant local impact.

In the last quarter of the year, the ongoing lighting projects have made progress, including the façade of the Town Hall of Irún, the interior of the church of *Monasterio del Paular* in Rascafría (Madrid), the main door to the *Monasterio de Uclés* (Cuenca), the façade of Madrid's Supreme Court, the *Panteón Real de la Colegiata de San Isidoro* in León and the *Capilla del Santo Cáliz* in Valencia Cathedral.

In Brazil, the Foundation's lighting programme is also worthy of mention. The lighting project for the *Cruz de Cabralia* has been completed, and now work is being carried out on a second lighting project for the *Forte das Cinco Pontas* in the State of Pernambuco, which is expected to finish in 2017.

### Other programmes supporting exhibitions or music

As part of the long-standing partnership between Iberdrola and the Guggenheim Museum Bilbao, the 'Francis Bacon: from Picasso to Velázquez'

exhibition, sponsored by Iberdrola, has been open during the last quarter, to great public acclaim.

During this period, the Company has also worked with the Reina Sofia and Sorolla Museums in Madrid, sponsoring two exceptional exhibitions: 'Campo cerrado', about art in the fifties in Spain and 'Sorolla in París'. Under this section, it is also worth mentioning the support provided to the Museums of Ramón Gaya and Salzillo in Murcia, the Roman Museum of Cartagena and the Ethnographic Museum of Talavera de la Reina.

Lastly, we should highlight the partnership of Iberdrola or its Foundation with musical activities, such as the support it provides to the *Asociación de la Opera y Coro de Bilbao* (ABAO), the Vitoria Jazz Festival and the festival of the Musical Schools of Valencia.

### Cultural activities of other Iberdrola Foundations

As regards the cultural partnerships of Scottish Power Foundation, we should mention the support given to the National Museum of Scotland, with a new room devoted to Energy, where an opening ceremony attended by the Chairman of Iberdrola and top Scottish Administration officials took place for the first time. The partnership with the National Library of Wales has also continued, as have other partnerships with musical and scenic arts, such as support for the Scottish Pipe Band, The Aloud Charity for youth choirs, the Llangollen International Music Eisteddfod, and Glasgow's Citizens Theatre.

The Avangrid Foundation has supported 32 associations and cultural centres or museums in activities, exhibitions, music, theatre, literature and art events in general, its contribution to the renovation of Kilbourne Hall of the Eastman School of Music of Rochester being especially worthy of mention.



## d) Cooperation and Solidarity

### Social Grants

The main aims of Fundación Iberdrola España include contributing to improving the quality of life of the most vulnerable people and groups. In its annual call for social projects, it selects projects of social agencies working in Spain. These initiatives deal with situations such as poverty and social exclusion, the quality of life of people who are seriously ill, dependent or with functional diversity.

Over the last quarter, all 32 projects selected in the 2015 call have been completed. These projects were supervised by the Foundation's assigned team to ensure the proper development of the projects and encourage a close relationship with social organisations.

As a token of this support, the UPACESUR Foundation recognised the Iberdrola Foundation for its partnership over the last years. This award now stands beside that received by Fundación Iberdrola España in September from Down Madrid.

During this period, the Call for Social Grants 2016 has also concluded, the grants going to 30 projects that will be implemented throughout 2017. Of the 30 projects selected, 7 are new partnerships and 23 are ongoing.

In addition to this call, the company is involved in one-off partnerships with the Alcándara Foundation in Salamanca for the *Hombre* and Red Cross projects. This year an interesting partnership has been started with CERMI, putting on musical activities at the Palau de la Música in Valencia, facilitating access to musical activities in this venue to these groups.

### Social Programmes Abroad

With regard to the social activities carried out by the Iberdrola foundations abroad, it is worth mentioning the activities carried out in the United

Kingdom by Scottish Power Foundation, supporting 13 institutions in programmes in aid of people and relatives of people affected by serious pathologies and diseases such as blindness, cancer, disabilities, autism and Alzheimer's, as well as educational support activities for people with limited means or at risk of exclusion.

In the United States, our Avangrid Foundation has collaborated with 111 social initiatives such as the aid programme for the electricity supply for disadvantaged people, partnerships for the fight against illnesses such as cancer, heart diseases, fibrosis and leukaemia, and donations for the operation of social centres and facilities for people who are disadvantaged or at risk of exclusion.

In Mexico, the foundations' activities are centred on grants and social aid. In this last phase, a total of 15 initiatives have been carried out in the areas around the production stations, with a programme of actions to improve nearby schools, which should be promoted over the coming years.

### Cooperation for Development:

During the 2016 financial year a project was started to provide electricity and supply drinking water to rural communities in Oaxaca (Mexico) in partnership with Save the Children and Energy without Borders. Following the first phase of assessment and awareness-raising on the ground, work has started on a set of actions agreed with local Authorities. The project will extend at least until mid-2017.

### Institutional Collaborations

Lastly, at Fundación Iberdrola España, we continue to partner with and support leading Spanish cultural, social, scientific and cooperation institutions.

During 2016, we have supported projects of more than 45 institutions. Those that stand out

are partnerships with Instituto Elcano, Fundación Baluarte, COTEC, Real Academia Española de la Lengua, de la Historia y del Medicina, Instituto Cervantes, Princesa de Asturias Awards, Princesa de Girona, Rey Jaime I Awards, Fundación Atapuerca, Fundación de Energía de the Communities of Madrid and Asturias, Casa de América, Red Cross Foundation, Energy Without Borders, Ateneo Científico y literario, Fundación Alternativas, Víctimas del Terrorismo and Fundación General Universidad de Salamanca.

#### 4. Corporate governance

The Corporate Governance highlights during financial year 2016 were as follows:

- On 20 October 2015, the Board of Directors approved the implementation of the second increase of paid-up capital approved by the General Shareholders' Meeting held on 27 March 2015, under section B, point six of the agenda. On 8 January 2016, the Company sent the National Exchange Commission (CNMV) the supplement to the memorandum regarding the second increase of paid-up capital approved by the General Shareholders' Meeting of 27 March 2015. Lastly, on 26 January 2016, IBERDROLA reported the implementation of the second increase of paid-up capital, through which the Iberdrola Scrip Dividend system is implemented.
  - On 13 January 2016, IBERDROLA published the financial calendar for financial year 2016.
  - On 29 January, the Company submitted its energy production figures for the financial year 2015.
  - The IBERDROLA Board of Directors, in its meeting of 23 February 2016, prepared the annual accounts and individual management reports of the Company consolidated with its subsidiaries, corresponding to the financial year ending 31 December 2015, as well as the proposals to distribute a cash dividend of EUR 0.030 gross per share with rights to such payment, and to approve an increase of paid-up capital for the free-of-charge allocation of new shares to the shareholders of the Company, within the framework of the shareholder compensation system named Iberdrola Scrip Dividend.
- Likewise, the CNMV was notified of the offer to workers of the Iberdrola Group in Spain to receive shares, fully or partly, of the annual variable compensation corresponding to financial year 2015. Also on 23 February, IBERDROLA notified the CNMV of the agreement to carry out a buyback programme of the Company's own shares in accordance with the authorisation conferred by the General Shareholders' Meeting held on 28 March 2014, under point nine of the agenda. In relation with this, since that date, IBERDROLA periodically reported to the CNMV on the share buyback programme until 31 March 2016, the date when it ended. As a result, the Company acquired a total of 8,351,173 own shares, representing approximately 0.131%.
- On 24 February 2016, the Company submitted to the CNMV its presentation of results for the financial year ending on 31 December 2015.
  - On 26 February 2016, IBERDROLA sent to the CNMV the Annual Corporate Governance Report and the Annual Report on Remuneration of Directors and the statistical information corresponding to financial year 2015.
  - On 15 April 2016, the Company submitted its energy production figures for the first quarter of 2016.
  - On 26 April 2016, IBERDROLA approved the implementation of the first increase in paid-up share capital approved by the 2016 General Shareholders' Meeting. Subsequently, on 13 June, the Company notified the CNMV of the changes to the implementation

calendar for the first increase of paid-up capital, and the date of dividend payment charged to the results of the financial year ending on 31 December 2015.

On 1 July 2016, the Company published an appendix to the memorandum regarding the first increase of paid-up capital approved by the General Shareholders' Meeting of 8 April 2016. Lastly, on 22 July 2016, IBERDROLA reported the implementation of the first increase of paid-up capital, through which the Iberdrola Scrip Dividend system is implemented.

- On 26 April 2016, the reduction in share capital was notified through the redemption of treasury stock, approved by the 2016 General Shareholders' Meeting. Iberdrola's share capital was reduced by EUR 117,897,750, by means of the redemption of 157,197,000 own shares, the share capital being fixed at EUR 4,680,000,000, corresponding to 6,240,000,000 shares.
- On 27 April 2016, the Company submitted to the CNMV its presentation of results for the first quarter of 2016.
- On 14 June, the CNMV was notified of the sale, made by Iberdrola Renovables Italia S.p.A. in favour of CEF 3 Wind Energy S.p.A., of the Italian subsidiary companies SER S.p.A. ("SER") and SER 1 S.p.A. ("SER 1").
- On 17 June, it was published that IBERDROLA and Iberdrola Participaciones, S.A., as shareholders (indirect and direct, respectively) of Gamesa Corporación Tecnológica, S.A., on the one hand, and of Siemens AG, on the other hand, signed a contract regarding (i) Gamesa in the context of a merger process of the wind energy businesses of Gamesa and Siemens AG; and (ii) their relationship with future shareholders of Gamesa after the Merger.

- On 11 July, the Company submitted its energy production report corresponding to the first half of 2016.
- On 20 July 2016, the Company submitted to the CNMV its presentation of results for the first half of 2016.
- On 14 October 2016, the Company submitted its energy production figures for the nine month period of 2016.
- On 25 October 2016, IBERDROLA approved the implementation of the second increase of paid-up capital approved by the General Shareholders' Meeting of 2016, and on 3 January 2017 the Company published the appendix to the memorandum relating to the second increase of paid-up capital approved by the General Shareholders' Meeting of 8 April 2016. Lastly, on 25 January 2017, the Company reported the implementation of the second increase of paid-up capital, through which the Iberdrola Scrip Dividend system is implemented.
- On 26 October 2016, the Company submitted to the CNMV its presentation of results for the nine month period of 2016.
- On 9 January 2017, IBERDROLA published the financial calendar for financial year 2017.

## General Shareholders' Meeting

During the meeting held on 23 February 2016, the Board of Directors of IBERDROLA agreed to call a General Shareholders' Meeting for 8 April 2016. In addition, the Board approved the payment of a gross attendance bonus of EUR 0.005 per share for the shareholders present or represented at the General Shareholders' Meeting.

The announcement of the call for the General Shareholders' Meeting was published by the Company in the Official Bulletin of the Commercial Registry on 26 February 2016.

On 28 April 2016, the Company's General Shareholders' Meeting was held at first session, with a quorum of 77.91% of the share capital (8.23% present and 69.68% represented), and approved each and every agreement put to vote that had been included in the meeting agenda, as detailed below:

#### **Agreements relating to the annual financial statements, corporate management and Company Auditor**

The General Shareholders' Meeting approved the individual annual accounts of Iberdrola and the consolidated accounts with its subsidiaries, corresponding to financial year 2015, as well as the Company's individual management report and the report on the consolidated management with its subsidiaries, in addition to corporate management and performance of the Board of Directors during financial year 2015.

Furthermore, the General Shareholders' Meeting approved the re-election of Ernst & Young, S.L. as the accounts auditor of the Company and its consolidated group for financial year 2016, including the delegation in favour of the Board of Directors, with full powers of substitution, of the powers necessary to enter into the corresponding service contract with Ernst & Young, S.L.

#### **Agreements relating to shareholder compensation**

The General Shareholders' Meeting approved the appropriation of earnings proposed by the Board of Directors, which includes the payment of a dividend corresponding to financial year 2015 of EUR 0.03 gross per each IBERDROLA share.

In addition, under sections A and B of point six of the agenda, the General Shareholders' Meeting approved two increases in paid-up share capital by issuing new ordinary shares of the Company, with a maximum reference market value of EUR 855 million and EUR 985 million, respectively, for the free-of-charge allocation of the new shares to the

Company's shareholders. Said agreements include the delegation to the Board of Directors, with full powers of substitution, of the powers required to execute capital increases, including that of newly drafting the article in the *Articles of Association* that regulates the share capital.

These capital increases were agreed in order to implement the two new editions of the *Iberdrola Scrip Dividend* system and offer all of the Company's shareholders new-issue paid-up shares or, eventually, the purchase of free-of-charge allocation rights received for the shares they hold at a guaranteed fixed price.

#### **Agreement regarding the renewal of the Board of Directors**

The General Shareholders' Meeting approved the re-election as Directors, for the statutory term of four years, of Mr. Iñigo Víctor de Oriol Ibarra, as external director and of Ms. Inés Macho Stadler, Mr. Braulio Medel Cámara and Ms. Samantha Barber, all of whom were classified as independent directors.

Likewise, the General Shareholders' Meeting approved the appointment of Mr. Xabier Sagredo Ormaza as director, following the report by the Appointments Committee, for the statutory term of four years, also classified as an external director.

#### **Agreement regarding the update of the Corporate Governance system**

The General Shareholders' Meeting approved:

- a) The amendments to the *Articles of Association* to formalise the introduction to the *Mission, Vision and Values of the Iberdrola Group* and emphasise the Company's commitment to its corporate values, social return and the involvement of all stakeholders, as well as the creation of a new Preliminary Title and the restructuring of Title I. Likewise, this amendment clarifies the distribution of the competencies of the Appointments Committee and

the Remunerations Committee and introduces other technical improvements.

- b) The amendments to the *Regulations of the General Shareholders' Meeting* to formalise the commitment of the Company to the sustainable management of the General Shareholders' Meeting as an event, promote environmentally friendly communication channels, regulate the premium of the General Shareholders' Meeting and introduce technical improvements.

#### **Agreement regarding capital reduction**

The General Shareholders' Meeting approved a reduction of capital by means of the redemption of a maximum of 157,197,000 own shares, which represent 2.46% of the share capital.

#### **Agreement regarding general matters**

In point thirteen of the agenda, the General Shareholders' Meeting agreed, without prejudice of the delegations included in the previous agreements, to jointly and severally grant powers to the Board of Directors, the Executive Committee, the Chairman and CEO and the Secretary of the Board of Directors to formalise and execute all agreements adopted by the General Shareholders' Meeting for their notarisation and interpretation, supplementation, development and inscription.

#### **Agreement regarding the agreement put to advisory vote**

Lastly, the *Annual Report Regarding the Remuneration of Directors* corresponding to financial year 2015 was put to advisory vote by the General Shareholders' Meeting.

#### **Board of Directors**

On 26 April 2016, following reports of the Company's Appointments Committee, the "other

external" director, Mr. Manuel Moreu Munaiz, was appointed as a member of the Executive Committee and the "other external" director Mr. Xabier Sagredo Ormaza was appointed as a member of the Auditing and Risk Supervision Committee.

On 20 December 2016, the re-appointment of Mr. Manuel Moreu Munaiz was approved, and upon the proposal of the Appointments Committee, he was appointed as independent director.

#### **Corporate Governance System**

IBERDROLA permanently updates its Corporate Governance System, which is the set of documents comprising the *Articles of Association*, the *Mission, Vision and Values of Iberdrola Group*, the *Corporate policies*, the internal corporate governance regulations and other internal codes and procedures approved by the competent governing bodies of the Company. In their drafting, the generally recognised good governance recommendations in international markets have been taken into account.

The development, review and continuous improvement of corporate governance regulations responds to the strategy that the Company and the companies forming part of the IBERDROLA Group have now been following for years.

Since the start of financial year 2016, the following updates and reviews of the Corporate Governance System of IBERDROLA have been made:

- On 23 February 2016, the *Mission, Vision and Values of the Iberdrola Group* were approved as an autonomous regulation within the Company's Corporate Governance System, and there was an agreement to modify the introduction to the Corporate Governance System.

With a view to reflecting this new *Mission, Vision and Values of the Iberdrola Group*, as well as to developing the Company's commitment to social return, giving the corporate website a greater

- role to play, reinforcing the compliance system in terms of the criminal liability of legal persons, introducing legal developments regarding accounts auditing, adapting the role of Secretary of the Board of Directors, and carrying out the annual review of *Risk Policies*, the modification and update of the following documents that form part of the corporate governance system were approved: *General Corporate Governance Policy*, *Shareholder Engagement Policy*, *Communication and Contact Policy regarding Shareholders, Institutional Investors and Voting Advisers*, *Policy of Recruitment of Candidates to Director*, *Policy of Accounts Auditor Recruitment*, which went on to be called *Account Auditor Hiring and Relations Policy*, and *Policy for Crime and Fraud Prevention*. As regards the review of the *Risk Policies*, the *General Risk Control and Management Policy*, the *Summary of Corporate Risk Policies* and the *Summary of Specific Risk Policies of the Group Businesses*. As regards the *Social Responsibility Policies*, the *General Corporate Social Responsibility Policy*, the *Policy of Stakeholder Relations*, the *Innovation Policy*, the *Human Resources Framework Policy*, the *Recruitment and Selection Policy*, the *Equal Opportunity and Work-Life Balance Policy* and the *Sustainability Policy*. Furthermore, the consolidated texts of the following were also approved: *Regulations of the Board of Directors*, *Regulations of the Audit and Risk Supervision Committee*, *Regulations of the Appointments Committee and Regulations of the Corporate Social Responsibility Committee*. Lastly, the *Code of Ethics of Directors*, the *Code of Ethics*, the *Regulations of the Compliance Unit* and the *Action Protocol for the Management of News and Rumours*.
- On 6 April, IBERDROLA agreed to the modification of several regulations of the Corporate Governance System aimed at renewing the commitment to the fight against climate change, and to developing a sustainable energy model, to developing gender equality policies, as well as favouring a work-life balance, as well as other technical improvements. The modifications affected the *General Policy on Corporate Governance*, the *Policy of Recruitment of Candidates to Director*, the *Recruitment and Selection Policy*, the *Equal Opportunities and Work-Life Balance Policy*, the *Environmental Policy*, the *Policy Against Climate Change*, the *Biodiversity Policy*, the *Regulations of the Appointments Committee*, the *Regulations of the Remuneration Committee*, the *Code of Ethics and the Internal Rules on the Composition and Duties of the Operating Committee*.
  - As mentioned in the section on the agreements of the General Shareholders' Meeting, on 8 April 2016, the modification of the *Articles of Association and the Regulations of the General Shareholders' Meeting* was approved. On that same date, the update of the introduction of the Company's Corporate Governance System was announced.
  - On 26 April 2016, the *Company's Sustainability Policy* was amended to introduce the management of sustainable events.
  - On 21 June, IBERDROLA agreed on the review of the internal rules regarding market abuse and measures were introduced to promote equality in hiring: *General Policy on Corporate Social Responsibility*, *Human Resources Framework Policy*, *Recruitment and Selection Policy*, *Equal Opportunities and Work-Life Balance Policy*, *Regulations of the Board of Directors*, *Regulations of the Audit and Risk Supervision Committee*, *Regulations of the Corporate Social Responsibility Committee*, *Code of Ethics*, *Procedure for Conflicts of Interest and Operations related to directors, significant shareholders and top management*, *Internal Code of Conduct in Stock Markets*, *Internal Regulations for the handling of privileged*



*information, Summary of the Action Protocol for the investigation of possible illegal uses of privileged information and Action Protocol of the Management of News and Rumours.*

- On 19 July 2016, a new amendment of the Corporate Governance System was approved, in order to revise the *Mission, Vision and Values of Iberdrola Group*, to introduce improvements in effective equality between women and men and work-life balance with regard to suppliers, as well as to strengthen the regulatory compliance system and reorganise the books that make up the Corporate Governance System.
- On 20 December, a new reform of the Corporate Governance System was agreed, to regulate the corporate and governance structure of Iberdrola Group and the role of the Board of Directors in the approval of its strategic aims; to specify the regime of approval by the Board of Directors of the related party transactions in which Iberdrola, S.A. does not take part; to include the requirement that candidates for directorship must know both Spanish and English, and to update the regulations relating to directors' training; to add the option of announcing the call for the meeting via the Internet; to identify the Department of Shareholder Relations as the channel for dialogue between the Board of Directors and the shareholders; to include the commitment towards innovation and promotion of measures that contribute to a healthier, more equal and just society; to approve the new *Policy against corruption and fraud* and replace the *Policy for Crime Prevention and Fraud Prevention* with the *Policy for Crime Prevention*; and to check the *Code of Ethics* to introduce improvements proposed by the Compliance Unit.

All documents that comprise the Corporate Governance System are published (in their full or summarised version) both in Spanish and in English on the corporate website [www.iberdrola.com](http://www.iberdrola.com), which

also offers the possibility of downloading them for consultation onto e-book readers or any other mobile device.

### **Information Transparency**

One of the core principles underlying IBERDROLA's corporate governance practices is to ensure maximum transparency in financial and non-financial information provided to shareholders, investors and markets. In this respect, a high level of activity has been maintained during financial year 2016 to ensure that institutional investors and financial analysts are kept fully informed.

### **On-Line Shareholders (OLS)**

Since January 2012, the On-Line Shareholders (OLS) interactive system has been available through the corporate website, allowing shareholders to make confidential or public enquiries to the other shareholders, with the option of addressing them to any of the committees of the Board of Directors, as well as notifying the Compliance Unit of any conduct that may imply non-compliance with the Corporate Governance System, through the Shareholders' Ethics Mailbox.

## CNMV: Relevant Events from October to December 2016

Date	Event	Registration No.
13/10/2016	The Company reports the date for submitting the results corresponding to the nine month period of 2016.	243586
14/10/2016	The Company reports its energy production figures for the nine month period of 2016.	243684
25/10/2016	Implementation of the second increase in paid-in share capital approved by the General Shareholders' Meeting of 8 April 2016 and publication of the corresponding information memorandum.	243998
26/10/2016	The Company issues information regarding the results of the third quarter of 2016.	244027
26/10/2016	The Company publishes the Results corresponding to the nine month period of 2016.	244038
24/11/2016	The Company publishes the issuance of notes on the Euromarket by Iberdrola Finanzas, S.A. (Sociedad Unipersonal) with the guarantee of Iberdrola, S.A. and the partial buyback of notes in circulation.	245116
02/12/2016	Iberdrola publishes the result of the offer of partial purchase of notes in circulation.	245756
15/12/2016 16/12/2016	The company issues information regarding the placement of block trades between qualified investors of a shareholding package of Iberdrola.	246089 246100
16/12/2016 15/12/2016	The Company makes a communication regarding the allocation of block trades. Unicaja Banco reports the conclusion of the accelerated bookbuilding process of an Iberdrola shareholding package representative of approximately 0.51% of the share capital.	246100 246089
20/12/2016	The Company reports on the partial reform of the Corporate Governance System of the Company. Re-appointment of a Director as "Independent"	246262



## Glossary of Terms

Alternative Performance Measures	Definition
Market capitalisation	Number of shares at the close of the period x price at the close of the period
Earnings per share	Net profit for the quarter / number of shares at the close of the period
PER	Price at the close of the period / Earnings per share for the last four quarters
Price / Book value	Market capitalisation / Net equity
Dividend yield (%)	Dividends paid in the last 12 months and attendance bonus / price at close of the period
Gross Margin	Net Revenue - Procurements
Net Operating Expenses	Personnel expense - Capitalized personnel expense + External services - Other Operating Income
Net Operating Expenses / Gross Margin	Net Operating Expenses / Gross Margin
Net Personnel Expense	Personnel Expense - Capitalized Personnel Expense
Net External Services	External Services - Other Operating Income
Gross Operating Profit (EBITDA)	Operating Profit + Depreciations, Amortisations and Provisions
Net Operating Profit (EBIT)	Operating Profit
Financial Result	Financial Revenue - Financial Expenses
Income from Non-Current Assets	Benefits from sale of non-current assets - Losses from sale of non-current assets
ROE	Net Profit of the four last quarters / Net Equity
Financial leverage	Net Financial Debt/(Net Financial Debt + Net Equity)
Gross Financial Debt	Financial Debt (loans and other) + equity instruments with certain characteristics of financial liability + Liability derivative debt instruments
Net Financial Debt	Gross Financial Debt – Asset derivative debt instruments - Other short-term credits - Cash and other cash equivalents
Net Financial Debt / Equity	Net Financial Debt / Net Equity
Net Financial Debt / EBITDA	Net Financial Debt / EBITDA for the last four quarters
Funds from Operations (FFO)	See section 'Funds From Operations' in the report
Funds From Operations (FFO) / Net Financial Debt	FFO for the last four quarters / Net Financial Debt
Net Operating Cash Flow per Share	FFO for the quarter / Number of shares at close of the period
Retained Cash Flow (RCF) / Net Financial Debt	RCF for the last four quarters / Net Financial Debt
Retained Cash Flow (RCF)	See 'Cash Flow Statement' section

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