

ALTERNATIVE PERFORMANCE MEASURES

DEFINITIONS

ALTERNATIVE PERFORMANCE MEASURES (APM)

On 5th October 2015, the European Securities and Markets Authority (ESMA) published its 2015/1415 Guidelines (hereafter the Guidelines) on Alternative performance measures (APMs) which are binding on all issuers whose securities are admitted to trading on an official market and who are required to publish regulated information in accordance with the Transparency Directive 2004/109/EC, with the aim of improving the comparability, reliability and comprehensibility of these measures. These Guidelines apply to any regulated information published on or after 3rd July 2016, such as the management reports accompanying annual accounts or interim financial statements, interim management statements, presentations of results disclosed as significant events, etc.

To complement the consolidated financial statements presented in accordance with International Financial Reporting Standards (IFRS), IBERDROLA presents these APM. In addition to financial measures in accordance with IFRS, these measures are used to establish budgets and objectives and to manage businesses, to evaluate their operational and financial performance and to compare their performance with previous periods and with the performance of competitors. It is useful to present such measures because they can be used to analyse and compare profitability and solvency levels between companies and sectors, as they eliminate the impact of the financial structure and of accounting effects other than cash flows.

IBERDROLA presents non-financial measures because these and other similar measures are widely used by investors, securities analysts and other agents as complementary measures to performance and should be considered by the reader as complementary to those presented in accordance with EU-IFRS, but does not substitute them.

The following tables show the measures and ratios that IBERDROLA normally uses, including their name, purpose or purposes and, in the case of ratios, the way they are calculated.

1. Amounts presented in the Consolidated Statement of Income

Based on the requirements of IAS 1: "Initiatives on information to be disclosed", since 2016 IBERDROLA Group has included subtotals in the Consolidated Statement of Income: "Net Personnel Expenses", "Net External Services", "Net Operating Expenses", "EBITDA", "Financial result" and "Results from Non-Current Assets". These subtotals comprise items made up of amounts recognised and measured in accordance with IFRS.

Alternative performance measures	Definition	Purpose/aim
Gross margin	Revenues – Procurements	A measure used by management to evaluate the company's profitability.
Net personnel expenses	Personnel costs - Capitalised personnel costs	
Net external services	External services costs - Other operating income	
Net operating expenses	Personnel costs- Capitalised personnel costs + External services costs - Other operating income	
EBITDA	Operating profit + Depreciation, Amortisation and provisions	EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) An alternative measure of performance used as an approximation of the financial resources that could be obtained from operating assets, before taxes. Measures operating profit before deducting interest, tax,

Alternative performance measures	Definition	Purpose/aim
		<p>impairments, restructuring and depreciation. By dispensing with the financial and tax magnitudes, it is used to evaluate the company's results over time, allowing it to be compared with other companies in the sector.</p> <p>This measure is commonly used in the financial community in general and by electricity companies in particular.</p>
Adjusted EBITDA	Operating profit + Depreciation, amortisation and provisions – Personnel redundancy provisions	This indicator shows the progress in the business's own operations, excluding non- operating impacts that could alter the comparability of the periods.
Net operating expenses / Gross margin	Net operating expenses / Gross margin	Efficiency monitoring ratio indicating what percentage of gross margin is used to cover operating costs
EBIT	Operating profit	
Financial result	Financial income - Financial expense	
Results from non-current assets	Gains on disposal of non-current assets - Losses on disposal of non-current assets	
Operating net profit	Net profit adjusted for write-downs, capital gains-losses on divestments, redundancy provisions, and non-operating tax expense (resettlements, changes in rates and others). All corrections are made net of tax and at the percentage of the parent company.	This indicator aims to show the progress in the business's own operations, excluding non- operating impacts that could alter the comparability of the periods.
ROE (Return on Equity)	Net profit for the last four quarters/Average equity	Measure of the profitability obtained by the company in relation to the shareholders' investment in the company.

2. Equity structure indicators

The ratios indicated below refer to the relationship between debt, equity and funds generated by the company and are used to assess both the degree of leverage and the solvency of the Group

Alternative performance measures	Definition	Purpose/aim
Gross financial debt	Financial debt (loans and other) + Equity instruments with financial liability characteristics + Debt liability derivative instruments	Gross debt is a measure used to analyse the Group's level of indebtedness and includes financial liabilities and the net amount of the market valuation of exchange rate and interest rate derivatives.
Net Financial Debt	Gross financial debt - Derivative debt instruments - Other short-term loans - Cash and cash equivalents	Net Financial Debt is the main APM used by the Management to measure the level of indebtedness of the company. It consists of financial liabilities less financial assets, cash and cash equivalents and the effect of the net market valuation of financial derivatives.
Financial leverage	$\text{Gross financial debt} / (\text{Gross financial debt} + \text{Equity})$	Indicates how leveraged the company is through outside financing. Leverage is obtained from Gross financial debt divided by the sum of Gross financial debt and Equity at the end of the period. This ratio describes the financial structure and the level of relative indebtedness over the capital contributed by shareholders and funding entities.
Net financial leverage	$\text{Net financial debt} / (\text{Net financial debt} + \text{Equity})$	Same as above, using Net financial debt.
Net financial debt/Equity	Net financial debt/Equity	Indicates the weight of external financing in relation to financing provided by shareholders
Adjusted equity	Equity + Effect of potential cumulative derivatives on treasury stock	The valuation of the cumulative derivative financial instruments that have treasury stock as their underlying shares is recorded as

Alternative performance measures	Definition	Purpose/aim
Gross adjusted financial debt	Gross financial debt- Effect of potential cumulative derivatives on treasury stock	treasury stock on the asset side and as debt on the liability side. They include the potentially cumulative treasury stock in the valuation. Leverage parameters are presented adjusted for this effect as they were not performed at the date of reporting.
Net adjusted financial debt	Net financial debt - Effect of potential cumulative derivatives on treasury stock	
Adjusted financial leverage	Adjusted gross financial debt/(Adjusted gross financial debt + Equity)	
Adjusted net financial leverage	Adjusted net financial debt / (Adjusted net financial debt + Equity)	
Debt coverage ratio	Net financial debt /EBITDA for the last four quarters	Debt coverage is net debt divided by EBITDA. It can be used to evaluate the company's capacity to repay debt in number of years (x times), as well as to compare it with peer companies.
Adjusted debt coverage ratio	Adjusted net financial debt /EBITDA for the last four quarters	Same as above, using adjusted net financial debt and adjusted EBITDA.
Funds from operations (FFO)	FFO = Net Profit + Minority interests + Depreciation, amortisation and provisions – Profit of companies consolidating by the equity method – Net non-recurring profit - Capitalisation Fin. Prov. + Dividends of companies consolidated by the equity method + Allocation to income of capital subsidies– Adjustment of tax deductibility and other effects.	Funds from operations (FFO) indicator, generally accepted in the market for the company's cash generation. Measures both the cash flow generation of the business and the cash flow generation for the group from dividends from investees, after discounting the tax liability payments and the interest related to the group's financial debt corrected for accounting movements that do not involve cash flow.
Funds from operations (FFO) / Net financial debt or Adjusted net financial debt	FFO for the last four quarters / Net financial debt or Adjusted net financial debt	Can be used to assess the company's capacity to repay external financing by showing the percentage of the debt that is covered by the generation of funds for a given financial year.

Alternative performance measures	Definition	Purpose/aim
FFO per share	FFO for the period / number of shares at the end of the period	Indicates the proportion of each share in the operating cash flow.
Retained Cash Flow (RCF)	RCF = Funds from operations – Own and minority dividend payments + net cash flows from perpetual debentures (hybrids)	Describes the amount of funds retained after deduction of payments to holders of equity instruments, shares and perpetual debentures
Retained Cash Flow (RCF) / Net financial debt or Adjusted net financial debt		Can be used to assess the company's capacity to repay external financing by showing the percentage of the debt that is covered by the retained cash flow in a given financial year.
Liquidity	The Group measures Liquidity as the sum of "Cash and cash equivalents", cash deposits of immediate availability contracted with financial institutions, and committed short and long-term credit facilities not drawn down at the end of the period corresponding to loans granted by financial institutions that may be disbursed by the company within the terms, amount and other conditions agreed in the contract.	Measures the company's ability to meet its short-term payment commitments

3. Stock market indicators

Alternative performance measures	Definition	Purpose/aim
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Alternative performance measures	Definition	Purpose/aim
Market capitalization	Number of shares at the end of the period x share price at the end of the period	Value of the company on the stock exchange
Earnings per share	Net profit for the period / number of shares at the end of the period	Earnings per share is intended to provide a measure of the proportion of each ordinary share in the performance that the company has had in the reporting period. It can be used to compare the performance between different entities in the same period, as well as between different periods for the same entity.
PER (Price-to-earnings ratio)	Share price at the end of the period / Earnings per share for the last four quarters	Its value indicates the number of times that the annual net profit is included in the price of a share. A higher PER means that investors are paying more for each unit of profit.
Price / book value	Market capitalisation / Equity of the parent company	Establishes the relationship between the book value and the share price.
Dividend yield (%)	(Dividends paid in last 12 months + attendance premium) / share price at the end of the period.	This indicator shows the ratio between the dividends per share distributed by the company in the last year and the price of that share. When an investor buys a share, the yield comes from both the possible revaluation of the stock price and also from the dividends obtained.

4. Other

Alternative performance measures	Definition	Purpose/aim
Net investments	Total investments for the period net of capitalisation of in-house staff costs, finance costs and capital grants	

Reconciliation of APM with financial statements:

For reconciliation purposes, detailed information is provided in the annexes to the present document.