

**CONDENSED INDIVIDUAL INTERIM FINANANCIAL STATEMENTS AND INTERIM DIRECTORS'  
REPORT FOR THE SIX-MONTH PERIOD  
ENDED 30 JUNE 2018**

# Iberdrola, S.A.

Condensed Individual Interim Financial Statements  
30 June 2018

Individual Interim Directors' Report  
30 June 2018

(Together with the limited review report thereon)

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



KPMG Auditores, S.L.  
Torre Iberdrola  
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## **Limited Review Report on the Condensed Individual Interim Financial Statements**

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

To the shareholders of

Iberdrola, S.A. at the request of the Company's Management

### **REPORT ON THE CONDENSED INDIVIDUAL INTERIM FINANCIAL STATEMENTS**

#### **Introduction**

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We have carried out a limited review of the accompanying condensed individual interim financial statements (the interim financial statements) of Iberdrola, S.A. (the "Company"), which comprise the balance sheet at 30 June 2018, the income statement, the statement of changes in equity, the statement of cash flows and the notes to the condensed individual interim financial statements for the six-month period then ended. The Directors of the Company are responsible for the preparation of the interim financial statements in accordance with the accounting principles and minimum content set out in articles 12 and 13 of Royal Decree 1362/2007 of 19 October 2007, implementing Securities Market Law 24/1988 of 28 July 1998, in relation to the transparency requirements relating to information on issuers whose securities are admitted for trading on official secondary markets or on other regulated markets of the European Union (Royal Decree 1362/2007), and Circular 3/2018 of the Spanish National Securities Market Commission (CNMV) on periodic information of issuers with securities admitted for trading on official markets in relation to half-yearly financial reports, interim management reports and, where appropriate, quarterly financial reports (Circular 3/2018). Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

#### **Scope of Review**

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



## **Conclusion**

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Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2018 have not been prepared, in all material respects, in accordance with the accounting principles and minimum content set out in articles 12 and 13 of Royal Decree 1362/2007 and with Circular 3/2018.

## **Emphasis of Matter. Basis of Accounting and Use**

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We draw your attention to note 2.1 to the accompanying interim financial statements, which describes the basis of the accounting principles and criteria used. It also states that the interim financial statements have been prepared solely in relation to the publication of the half-yearly financial report required by article 119 of the Revised Securities Market Law implemented by Royal Decree 1362/2007 of 19 October 2007, and that they do not contain all the information required for complete interim financial statements prepared in accordance with the applicable financial reporting framework. Accordingly, the accompanying interim financial statements should be read in this context together with the annual accounts of the Company for the year ended 31 December 2017 and the condensed consolidated interim financial statements for the six-month period ended 30 June 2018. This matter does not modify our conclusion.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

The accompanying interim directors' report for the six-month period ended 30 June 2018 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2018. Our work is limited to the verification of the interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Iberdrola, S.A.

KPMG Auditores, S.L.

*(Signed on original in Spanish)*

Enrique Asla García

27 July 2018

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Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 13). In the event of a discrepancy, the Spanish-language version prevails.

**IBERDROLA, S.A.**  
**Balance sheet at 30 June 2018**  
(Thousands of Euros)

<b>ASSETS</b>	<b>30.06.18 (Unaudited)</b>	<b>31.12.17(*) (Audited)</b>
<b>NON-CURRENT ASSETS</b>	<b>45,505,556</b>	<b>44,744,617</b>
<b>Intangible assets</b>	<b>110,171</b>	<b>95,514</b>
Computer software	96,226	86,715
Other intangible assets	13,945	8,799
<b>Property, plant and equipment</b>	<b>226,621</b>	<b>221,686</b>
Land and buildings	167,138	167,249
Technical installations and other items	39,646	43,515
Under construction and advances	19,837	10,922
<b>Non-current investments in Group companies and associates</b>	<b>43,959,876</b>	<b>43,895,720</b>
Equity instruments	43,880,100	43,795,580
Loans to companies	66,596	84,902
Derivatives	12,759	14,817
Other financial assets	421	421
<b>Non-current investments</b>	<b>154,575</b>	<b>133,135</b>
Equity instruments	412	412
Loans to third parties	5,751	8,583
Derivatives	135,538	111,829
Other financial assets	12,874	12,311
<b>Deferred tax assets</b>	<b>388,116</b>	<b>389,799</b>
<b>Trade and other receivables, non-current</b>	<b>666,197</b>	<b>8,763</b>
<b>CURRENT ASSETS</b>	<b>1,259,129</b>	<b>1,690,006</b>
<b>Trade and other receivables, current</b>	<b>289,828</b>	<b>605,877</b>
Trade receivables and services rendered	19,588	35,972
Trade receivables, Group companies and associates	142,527	62,170
Other receivables	6,305	67,321
Personnel	114	159
Current tax assets	108,745	440,238
Public entities	12,549	17
<b>Current investments in Group companies and associates</b>	<b>819,168</b>	<b>856,814</b>
Loans to companies	32,962	26,880
Derivatives	2,667	2,074
Other financial assets	783,539	827,860
<b>Current investments</b>	<b>145,779</b>	<b>226,124</b>
Equity instruments	-	1,744
Loans to companies	5,779	5,794
Derivatives	108,509	181,951
Other financial assets	31,491	36,635
<b>Prepayments for current assets</b>	<b>4,354</b>	<b>1,191</b>
<b>TOTAL ASSETS</b>	<b>46,764,685</b>	<b>46,434,623</b>

(\*) The balance sheet at 31 December 2017 is presented for comparison purposes only.  
The attached notes are an integral part of the Condensed individual interim financial statements.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 13). In the event of a discrepancy, the Spanish-language version prevails.

**IBERDROLA, S.A.**  
**Balance sheet at 30 June 2018**  
(Thousands of Euros)

<b>LIABILITIES</b>	<b>Note</b>	<b>30.06.18 (Unaudited)</b>	<b>31.12.17(*) (Audited)</b>
<b>EQUITY</b>		<b>32,335,519</b>	<b>33,216,241</b>
<b>CAPITAL AND RESERVES</b>		<b>32,396,322</b>	<b>33,287,122</b>
<b>Capital</b>		<b>4,680,000</b>	<b>4,738,136</b>
Registered capital	6	4,680,000	4,738,136
<b>Share premium</b>		<b>14,667,679</b>	<b>14,667,679</b>
<b>Reserves</b>		<b>4,946,196</b>	<b>6,234,009</b>
Legal and statutory reserves		968,999	968,999
Other reserves		3,977,197	5,265,010
<b>Treasury shares and equity investments</b>		<b>(110,925)</b>	<b>(589,380)</b>
<b>Retained earnings</b>		<b>8,204,700</b>	<b>6,614,050</b>
Retained earnings		8,204,700	6,614,050
<b>Profit for the period</b>		<b>(10,596)</b>	<b>1,598,871</b>
<b>Other equity instruments</b>		<b>19,268</b>	<b>23,757</b>
<b>VALUATION ADJUSTMENTS</b>		<b>(60,803)</b>	<b>(70,881)</b>
Hedging instruments		(60,803)	(70,881)
<b>NON-CURRENT LIABILITIES</b>		<b>5,555,638</b>	<b>5,819,415</b>
<b>Non-current provisions</b>		<b>486,562</b>	<b>499,438</b>
Non-current provisions for employee benefits		256,015	268,490
Other provisions		230,547	230,948
<b>Non-current liabilities</b>		<b>1,171,742</b>	<b>1,211,477</b>
Loans and borrowings		956,078	993,399
Finance lease payables		59,420	60,386
Derivatives		149,588	152,075
Other liabilities		6,656	5,617
<b>Group companies and associates, non-current</b>		<b>3,169,026</b>	<b>3,381,868</b>
<b>Deferred tax liabilities</b>		<b>728,308</b>	<b>726,632</b>
<b>CURRENT LIABILITIES</b>		<b>8,873,528</b>	<b>7,398,967</b>
<b>Current payables</b>		<b>407,603</b>	<b>515,796</b>
Loans and borrowings		328,623	375,317
Financial lease payables		2,073	2,010
Derivatives		38,836	109,385
Other financial liabilities		38,071	29,084
<b>Group companies and associates, current</b>		<b>8,328,846</b>	<b>6,730,990</b>
<b>Trade and other payables</b>		<b>137,047</b>	<b>152,149</b>
Suppliers		20,536	15,513
Suppliers, Group companies and associates		8,465	710
Other payables		41,517	46,119
Personnel (salaries payable)		9,137	20,822
Public entities, other		57,392	68,985
<b>Current accruals</b>		<b>32</b>	<b>32</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>46,764,685</b>	<b>46,434,623</b>

(\*) The balance sheet at 31 December 2017 is presented for comparison purposes only.  
The attached notes are an integral part of the Condensed individual interim financial statements.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 13). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A.

### Income statement for the six-month period ended 30 June 2018

(Thousands of Euros)

	Note	30.06.18 (Unaudited)	30.06.17 (*) (Unaudited)
<b>CONTINUING OPERATIONS</b>			
<b>Revenues</b>	<b>9</b>	<b>530,846</b>	<b>770,039</b>
Sales		220,824	184,748
Services rendered		-	332
Finance revenue from equity investments in Group companies and associates		177,392	455,313
Finance revenue from debt securities and other financial instruments of Group companies and associates		9,882	10,045
Income from services rendered to Group companies		122,748	119,601
<b>Self-constructed assets</b>		<b>1,532</b>	<b>1,359</b>
<b>Provisions</b>		<b>(218,405)</b>	<b>(182,246)</b>
Merchandise used		(218,405)	(182,668)
Subcontracted work		-	422
<b>Other operating income</b>		<b>82</b>	<b>115</b>
Non-trading income and other operating income		52	62
Operating grants taken to income		30	53
<b>Personnel expenses</b>		<b>(67,363)</b>	<b>(76,345)</b>
Salaries and wages		(45,365)	(49,531)
Employee benefits		(21,998)	(26,814)
<b>Other operating expenses</b>		<b>(101,455)</b>	<b>(103,761)</b>
External services		(98,334)	(96,790)
Taxes		(2,359)	(5,295)
Losses, impairment and changes in trade provisions		(20)	53
Other operating expenses		(742)	(1,729)
<b>Depreciation and amortisation</b>		<b>(30,085)</b>	<b>(28,632)</b>
<b>Impairment and gains/(losses) on disposal of fixed assets</b>		<b>(650)</b>	<b>(272)</b>
Gains / (losses) on disposals and other		(650)	(272)
<b>Impairment and gains/(losses) on disposal of financial instruments of Group companies and associates</b>		<b>(12,432)</b>	<b>12,119</b>
Impairment and losses		(12,432)	11,287
Gains / (losses) on disposals and other		-	832
<b>RESULTS FROM OPERATING ACTIVITIES</b>		<b>102,070</b>	<b>392,376</b>
<b>Finance income</b>		<b>222</b>	<b>7,192</b>
From debt securities and other financial instruments			
In third parties		222	7,192
<b>Finance costs</b>		<b>(132,539)</b>	<b>(145,520)</b>
Group companies and associates		(139,192)	(156,015)
Third parties		14,148	17,467
Provision adjustments		(7,495)	(6,972)
<b>Change in fair value of financial instruments</b>		<b>(1,608)</b>	<b>67,708</b>
Trading portfolio and other		(1,608)	67,708
<b>Exchange gains/(losses)</b>		<b>(7,178)</b>	<b>5,133</b>
<b>NET FINANCE COST</b>		<b>(141,103)</b>	<b>(65,487)</b>
<b>PROFIT/(LOSS) BEFORE INCOME TAX</b>		<b>(39,033)</b>	<b>326,889</b>
<b>Income tax</b>		<b>28,437</b>	<b>8,230</b>
<b>PROFIT/(LOSS) FOR THE PERIOD FROM CONTINUING OPERATIONS</b>		<b>(10,596)</b>	<b>335,119</b>
<b>PROFIT/(LOSS) FOR THE PERIOD</b>		<b>(10,596)</b>	<b>335,119</b>

(\*) The income statement for the six-month period ended 30 June 2017 is presented for comparison purposes only. The attached notes are an integral part of the Condensed individual interim financial statements.



Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 13). In the event of a discrepancy, the Spanish-language version prevails.

**IBERDROLA, S.A.**

**Statement of changes in equity for the six-month period ended 30 June 2018**

(Thousands of Euros)

**A) Statement of recognised income and expense for the six-month period ended 30 June 2018**

	30.06.2018 (Unaudited)	30.06.2017(*) (Unaudited)
<b>PROFIT FOR THE PERIOD</b>	<b>(10,596)</b>	<b>335,119</b>
<b>INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY</b>		
Cash flow hedges	2,128	7,450
Tax effect	(532)	(1,862)
<b>TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY</b>	<b>1,596</b>	<b>5,588</b>
<b>TRANSFERS TO INCOME STATEMENT</b>		
Cash flow hedges	11,309	9,823
Tax effect	(2,827)	(2,456)
<b>TOTAL TRANSFERS TO INCOME STATEMENT</b>	<b>8,482</b>	<b>7,367</b>
<b>TOTAL RECOGNISED INCOME AND EXPENSE</b>	<b>(518)</b>	<b>348,074</b>

(\*) The income statement for the six-month period ended 30 June 2017 is presented for comparison purposes only. The attached notes are an integral part of the Condensed individual interim financial statements.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 13). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A.

### B) Statement of changes in equity for the six-month period ended 30 June 2018

(Thousands of Euros)

	Capital	Share premium	Reserves	Treasury shares and own equity investments	Retained earnings	Profit for the year and the period	Other equity instruments	Unrealised assets and liabilities revaluation reserve	Total
<b>2017 OPENING BALANCE</b>	<b>4,771,559</b>	<b>14,667,679</b>	<b>8,076,130</b>	<b>(1,073,787)</b>	<b>5,400,882</b>	<b>1,410,966</b>	<b>20,971</b>	<b>(93,107)</b>	<b>33,181,293</b>
<b>Total recognised income and expense</b>	-	-	-	-	-	335,119	-	12,955	348,074
<b>Transactions with shareholders or owners</b>									
Scrip issue (Note 6)	73,433	-	(73,837)	-	-	-	-	-	(404)
Share capital decrease (Note 6)	(164,992)	-	(1,115,221)	1,280,176	-	-	-	-	(37)
Acquisition of free allocation rights (Note 6)	-	-	(264,071)	-	-	-	-	-	(264,071)
Distribution of profit	-	-	10,726	-	1,213,039	(1,410,966)	-	-	(187,201)
Transactions with treasury shares and equity instruments (net)	-	-	2,353	(715,004)	-	-	-	-	(712,651)
<b>Other changes in equity</b>	-	-	-	-	-	-	(4,119)	-	(4,119)
<b>CLOSING BALANCE FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017</b>	<b>4,680,000</b>	<b>14,667,679</b>	<b>6,636,080</b>	<b>(508,615)</b>	<b>6,613,921</b>	<b>335,119</b>	<b>16,852</b>	<b>(80,152)</b>	<b>32,360,884</b>
<b>2018 OPENING BALANCE</b>	<b>4,738,136</b>	<b>14,667,679</b>	<b>6,234,009</b>	<b>(589,380)</b>	<b>6,614,050</b>	<b>1,598,871</b>	<b>23,757</b>	<b>(70,881)</b>	<b>33,216,241</b>
<b>Total recognised income and expense</b>	-	-	-	-	-	(10,596)	-	10,078	(518)
<b>Transactions with shareholders or owners</b>									
Scrip issue (Note 6)	90,644	-	(91,061)	-	-	-	-	-	(417)
Share capital decrease (Note 6)	(148,780)	-	(1,096,647)	1,245,421	-	-	-	-	(6)
Acquisition of free allocation rights (Note 6)	-	-	(97,900)	-	-	-	-	-	(97,900)
Distribution of profit (Note 6)	-	-	-	-	1,590,650	(1,598,871)	-	-	(8,221)
Transaction with treasury shares and equity instruments (net)	-	-	(2,205)	(766,966)	-	-	-	-	(769,171)
<b>Other changes in equity</b>	-	-	-	-	-	-	(4,489)	-	(4,489)
<b>CLOSING BALANCE FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018</b>	<b>4,680,000</b>	<b>14,667,679</b>	<b>4,946,196</b>	<b>(110,925)</b>	<b>8,204,700</b>	<b>(10,596)</b>	<b>19,268</b>	<b>(60,803)</b>	<b>32,335,519</b>

(\*) The statement of changes in equity for the six-month period ended 30 June 2017 is presented for comparison purposes only. The attached notes are an integral part of the Condensed individual interim financial statements.

Translation of Financial statements originally issued in Spanish and prepared in accordance with accounting principles generally accepted in Spain (see Note 13). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A.

### Statement of cash flows for the six-month period ended 30 June 2018

(Thousands of Euros)

	30.06.2018 (Unaudited)	30.06.2017 (*) (Unaudited)
<b>Profit for the year before tax</b>	<b>(39,033)</b>	<b>326,889</b>
<b>Adjustments to profit</b>	<b>17,569</b>	<b>(360,877)</b>
Depreciation and amortisation	30,085	28,632
Impairment	12,432	(11,287)
Gains/(losses) on disposals of fixed assets	650	272
Gains/(losses) on disposals of fixed assets	-	(832)
Finance income	(187,496)	(472,550)
Financial costs	132,539	145,520
Exchange gains/losses	7,178	(5,133)
Change in fair value of financial instruments	1,608	(67,708)
Other income and expenses	20,573	22,209
<b>Change in operating assets and liabilities</b>	<b>(33,709)</b>	<b>(64,631)</b>
Trade and other receivables	(18,607)	(848)
Trade and other payables	(15,102)	(63,783)
<b>Other cash flows from (used in) operating activities</b>	<b>326,087</b>	<b>(773)</b>
Interest paid	(149,326)	(176,191)
Dividends received	175,192	223,707
Interest received	4,069	12,397
Income tax /(payments) received (paid)	335,347	(8,768)
Other amounts (paid) /received	(39,195)	(51,918)
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	<b>270,914</b>	<b>(99,392)</b>
<b>Payments for investments</b>	<b>(1,032,756)</b>	<b>(1,167,933)</b>
Group companies and associates	(324,172)	(1,138,426)
Intangible assets	(35,293)	(20,337)
Property, plant and equipment	(15,294)	(8,640)
Other assets	(657,997)	(530)
<b>Proceeds from sale of investments</b>	<b>396,764</b>	<b>835,591</b>
Group companies and associates	388,627	827,560
Property, plant and equipment	146	75
Other financial assets	7,991	7,956
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>	<b>(635,992)</b>	<b>(332,342)</b>
<b>Proceeds and payments for equity instruments</b>	<b>(742,035)</b>	<b>(429,447)</b>
Proceeds from issues of equity instruments	(417)	(404)
Share capital decrease	(6)	(37)
Acquisition of own equity instruments	(782,508)	(468,449)
Disposal of own equity instruments	40,896	39,443
<b>Proceeds and payments on financial instruments</b>	<b>1,213,834</b>	<b>1,128,127</b>
Issuance of	2,588,170	5,501,839
Loans and borrowings	10,802	199,138
Group companies and associates	2,567,342	5,302,701
Other payables	10,026	-
Redemption and repayment of	(1,374,336)	(4,373,712)
Loans and borrowings	(39,209)	(321,107)
Payables to Group companies and associates	(1,335,127)	(4,033,799)
Other payables	-	(18,806)
<b>Dividends and interest on other equity instruments paid</b>	<b>(106,721)</b>	<b>(264,071)</b>
Dividends	(8,821)	-
Acquisition of free allocation rights	(97,900)	(264,071)
<b>CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES</b>	<b>365,078</b>	<b>434,609</b>
<b>NET INCREASE/((DECREASE) IN CASH AND ASH EQUIVALENTS</b>	<b>-</b>	<b>2,875</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of period</b>	<b>-</b>	<b>2,875</b>

(\*) The statement of cash flows for the six-month period ended 30 June 2017 is presented for comparison purposes only. The attached notes are an integral part of the Condensed individual interim financial statements.

## **IBERDROLA, S.A.**

### **Notes to the Condensed individual interim financial statements for the six-month period ended 30 June 2018**

#### **1. ACTIVITY OF THE COMPANY**

Pursuant to article 5 of its articles of association, the statutory activity of Iberdrola, S.A. (hereinafter, IBERDROLA), a company incorporated in Spain, is as follows:

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

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

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

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

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

## 2. BASIS OF PRESENTATION OF CONDENSED INDIVIDUAL INTERIM FINANCIAL STATEMENTS

### 2.1. Accounting legislation applied

These summarised Interim financial statements (hereinafter, the “Interim financial statements”) have been prepared in accordance with the accounting principles and standards set by sections 12 and 13 of Royal Decree 1362/2007, of 19 October, whereby Law 24/1988, of 28 July on Securities Markets, on transparency requirements in relation to information regarding issuers whose securities are listed in an official secondary market or in another market regulated by the European Union (Royal Decree 1362/2007) and Circular 3/2018 of the Spanish National Securities Market Commission, on periodic reporting by issuers with securities admitted to trading on regulated markets in relation to six-monthly financial reports, interim management statements and, where applicable, quarterly financial reports (hereinafter, “Circular 3/2018”).

Circular 3/2018 repeals Circular 1/2008, of 30 January, on periodic reporting by issuers of securities admitted to trading on regulated markets, regarding half-yearly financial reports, interim management statements and, where applicable, quarterly financial reports, amended by Circular 5/2015, of 28 October, of the Spanish National Securities Market Commission. However, these circumstances have had no significant impact on the comparison of financial information.

These Interim financial statements do not include all the information required for comprehensive individual financial statements prepared in accordance with the accounting principles and standards generally accepted by the Spanish Law. In particular, the Interim financial statements attached have been prepared included all the content required to comply with the rule four of Circular 3/2018 for individual financial statements. As a result, Interim financial statements must be read along with IBERDROLA’s financial statements for the year ended on 31 December 2017 and the Condensed interim consolidated financial statements for the period between 1 January 2018 and 30 June 2018 prepared in accordance with International Financial Reporting Standards.

The main figures in those Condensed interim consolidated financial statements for IBERDROLA Group correspond to the six-month periods ended 30 June 2018 and 2017 (except for figures in Total assets and Equity for 2017, included in the Group’s consolidated financial statements as of 31 December 2017) are as follows:

<b>Thousands of Euros</b>		
<b>Total assets</b>	<b>112,648,694</b>	<b>110,688,559</b>
<b>Equity</b>		
IBERDROLA controlling interest	36,417,068	35,509,260
Non-controlling interests	5,661,912	5,671,380
Holders of subordinated perpetual bonds	1,706,914	1,552,546
Net revenue	17,586,623	14,965,876
<b>Profit for the year:</b>		
IBERDROLA controlling interest	1,410,486	1,518,415
Non-controlling interests	(155,628)	(55,124)

These Interim financial statements have been drafted in relation to the half-yearly financial statements required by section 119 of Revised Securities Market Law 24/1998 of 28 July 1998, enacted by Royal Decree 1362/2007 of 19 October.

## **2.2. Accounting principles and valuation standards**

The accounting principles and valuation standards used for these Interim financial statements are the same as those used for the 2017 Annual accounts of IBERDROLA.

## **2.3. Operating assets and liabilities deficit**

IBERDROLA's balance sheet at 30 June 2018 shows a deficit in working capital (current liabilities exceed current assets) of EUR 7,614,399 thousand, mainly as a result of the existence of short-term debt with Group companies and associates for an amount of EUR 8,328,846 thousand, as well as the seasonal variation (Note 3).

IBERDROLA's directors declare this will be offset by the generation of funds from the IBERDROLA Group's businesses and the dividends of its subsidiaries. Furthermore, IBERDROLA has available loans amounting to EUR 6,073,875 thousand (Note 7).

## **2.4. Comparative information**

In accordance with article 12 of Royal Decree 1362/2007 of 19 October 2007, enacted by Securities Market Law 24/1988 of 28 July 1988, the following information is presented for comparison purposes:

- The balance sheets at 30 June 2018 and 31 December 2017.
- The income statement, statement of changes in equity and statement of cash flows for the six-month periods ended 30 June 2018 and 2017.

The amounts corresponding to the services rendered by the Company to the Group companies are registered under the heading "Net revenues" as it is related to the ordinary activity developed by the Company. These amounts were registered under the heading "Other operating income" in the first six-month period of the comparative exercise.

## **3. SEASONAL VARIATION**

On a half-yearly basis, IBERDROLA's activities show no significant degree of seasonal variation, except for dividends received from subsidiaries, which normally take place in the second half of the year.

## 4. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

### 4.1 Accounting estimates

Certain assumptions and estimates were made by IBERDROLA in the preparation of these Interim financial statements. The main aspects subject to these Interim financial statements is the same as those broken down in Note 6.1 to IBERDROLA's 2017 Annual accounts.

The criteria used in the calculation of the estimates in these Interim financial statements are the same as those used in IBERDROLA's 2017 Annual accounts.

Although these estimates were made on the basis of the best information available at the date of authorisation for issue of these Interim financial statements, future events may require adjustments (upwards or downwards) in subsequent periods, which would be applied prospectively, recognising the effects of the change in estimates in the future periods.

### 4.2 Sources of uncertainty

The main uncertainties are as follows:

- Update of the status of financial goodwill (article 12.5 of the revised Spanish income tax law). In accordance with general tax law, the Spanish Government initiated a process to recover state aid, requiring Iberdrola, S.A. to pay a settlement of EUR 665 million (base payment of EUR 576 million and EUR 89 million in delay interest). Although at the end of 2017 the settlement payment had been temporarily suspended by virtue of an order issued by the President of the General Court, this suspension was lifted at the beginning of 2018. Pursuant to this, IBERDROLA paid the required amount by (i) offsetting the 2016 income tax return in an amount of EUR 363 million and (ii) paying an amount of EUR 302 million in February 2018. This settlement has been appealed before the Central Administrative Economic Court.

This matter is considered provisional, subject to the final outcome of the appeals submitted against the three European Commission decisions.

## 5. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

On 30 June 2018 and 31 December 2017 the carrying amount of each category of financial asset and liability, except for equity investments in Group companies and associates, trade and other receivables, trade and other payables, and cash, is as follows:

Non-current financial assets								
Thousands of Euros Categories	Equity instruments		Loans and receivables		Derivatives		Total	
	30/06/18	31/12/17	30/06/18	31/12/17	30/06/18	31/12/17	30/06/18	31/12/17
Assets held for trading	-	-	-	-	23,740	25,420	23,740	25,420
Loans and receivables	-	-	85,642	106,217	-	-	85,642	106,217
Available-for-sale assets valued at cost	412	412	-	-	-	-	412	412
Hedging derivatives	-	-	-	-	124,557	101,226	124,557	101,226
<b>Total</b>	<b>412</b>	<b>412</b>	<b>85,642</b>	<b>106,217</b>	<b>148,297</b>	<b>126,646</b>	<b>234,351</b>	<b>233,275</b>

Current financial assets								
Thousands of Euros Categories	Equity instruments		Loans and receivables		Derivatives		Total	
	30/06/18	31/12/17	30/06/18	31/12/17	30/06/18	31/12/17	30/06/18	31/12/17
Assets held for trading	-	1,744	-	-	3,510	3,990	3,510	5,734
Loans and receivables	-	-	858,125	898,360	-	-	858,125	898,360
Hedging derivatives	-	-	-	-	107,666	180,035	107,666	180,035
<b>Total</b>	<b>-</b>	<b>1,744</b>	<b>858,125</b>	<b>898,360</b>	<b>111,176</b>	<b>184,025</b>	<b>969,301</b>	<b>1,084,129</b>

Non-current financial liabilities								
Thousands of Euros Categories	Loans and borrowings		Derivatives <sup>(1)</sup>		Group companies and associates <sup>(2)</sup>		Total	
	30/06/18	31/12/17	30/06/18	31/12/17	30/06/18	31/12/17	30/06/18	31/12/17
Liabilities held for trading	-	-	774	385	-	-	774	385
Loans and payables	1,015,498	1,053,785	-	-	3,162,691	3,373,610	4,178,189	4,427,395
Hedging derivatives	-	-	161,805	165,565	-	-	161,805	165,565
<b>Total</b>	<b>1,015,498</b>	<b>1,053,785</b>	<b>162,579</b>	<b>165,950</b>	<b>3,162,691</b>	<b>3,373,610</b>	<b>4,340,768</b>	<b>4,593,345</b>

(1) Includes derivatives with group companies and associates.

(2) Except for derivatives with group companies and associates.



Current financial liabilities								
Thousands of Euros	Loans and borrowings		Derivatives <sup>(1)</sup>		Group companies and associates <sup>(2)</sup>		Total	
	30/06/18	31/12/17	30/06/18	31/12/17	30/06/18	31/12/17	30/06/18	31/12/17
Liabilities held for trading	-	-	1,083	1,095	-	-	1,083	1,095
Loans and payables	330,696	377,327	-	-	8,366,478	6,759,383	8,697,174	7,136,710
Hedging derivatives	-	-	38,224	109,013	-	-	38,224	109,013
<b>Total</b>	<b>330,696</b>	<b>377,327</b>	<b>39,307</b>	<b>110,108</b>	<b>8,366,478</b>	<b>6,759,383</b>	<b>8,736,481</b>	<b>7,246,818</b>

(1) Includes derivatives with group companies and associates.

(2) Except for derivatives with group companies and associates.

## 6. EQUITY

Changes in the six-month period ended 30 June 2018 in the share capital of IBERDROLA are as follows:

	Registration in the Commercial Registry	% Capital	Number of shares	Nominal	Euros
<b>Balance at 01.01.2018</b>			<b>6,317,515,000</b>	<b>0.75</b>	<b>4,738,136,250</b>
Free capital increase	31 January 2018	1.913%	120,859,000	0.75	90,644,250
Share capital decrease	28 June 2018	3.08%	(198,374,000)	0.75	(148,780,500)
<b>Balance at 30.06.2018</b>			<b>6,240,000,000</b>	<b>0.75</b>	<b>4,680,000,000</b>

On 25 January 2018 the period for negotiating free allocation rights for the second free capital increase approved at IBERDROLA's General Shareholders' Meeting on 31 March under item thirteen on the agenda concluded, through which the *Iberdrola Flexible Dividend* scheme was implemented.

In the period set for such purpose, the holders of 699,283,602 free allocation rights accepted the irrevocable rights purchase commitment assumed by IBERDROLA. Accordingly, IBERDROLA acquired such rights for a gross amount of EUR 97,900 thousand.

Additionally, the holders of 58,717,340 shares opted to receive the interim dividend payment (EUR 0.14 gross per share) amounting to a gross total of EUR 8,221 thousand in interim dividend distributed. As a result, these shareholders have expressly forgone 58,717,340 free allocation rights and, therefore, 1,276,464 new shares.

On 21 June 2018 it was resolved to carry out the share capital decrease approved at the General Shareholders' Meeting held on 13 April 2018 under item nine on the agenda by means of the redemption of equity shares.

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

## 7. LOANS AND BORROWINGS AND FINANCIAL LEASE PAYABLES

At 30 June 2018 IBERDROLA has available loans for an approximate amount of EUR 6,073,875 thousand to cover IBERDROLA's cash needs in the coming months.

The most financing operations carried out by IBERDROLA during the six-month period ended 30 June 2018 are as follows:

Operation	Millions of Euros	Currency	Extension	Maturity
<b>Main new financing operations</b>				
Sustainable syndicated loan <sup>(1)</sup>	2,979	EUR	option 1+1	Feb-2023
Sustainable syndicated loan <sup>(1)</sup>	2,321	EUR	option 1+1	Feb-2023
<b>Main transaction for extending existing financing</b>				
Syndicated loan <sup>(2)</sup>	500	EUR	+1 year	June-2023
Bilateral loan <sup>(2)</sup>	350	EUR	+1 year	July-2022

(1) Reconfiguration of EUR 4,400 million, already existing, and new EUR 900 million, giving a total amount available of EUR 5,300 million, with the option to extend for 1+1 years.

(2) Does not involve entry of funds.

## 8. TAXATION

The Company's tax expense in this interim period results from multiplying the best earnings before tax estimate by the adjusted average weighted rate expected for the year, if applicable, by the tax effect of those elements to be recognised in whole in the interim period. Subsequently, the effective tax rate used in these Interim financial statements may differ from that estimated by the directors for the tax year.

The effective tax rate for the six-month period ended 30 June 2018 is 25% (25% in the six-month period ended 30 June 2017) calculated based on earnings before taxes adjusted for permanent differences.

In general terms, the IBERDROLA companies keep 2014 and subsequent fiscal years open to fiscal inspection in relation to the principal taxes they are subject to, with the exception of income tax, which is open for 2012 and subsequent fiscal years.

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

The main adjustments in the settlement agreements arising from the contested tax assessments signed in the first half of 2016 are as follows:

- Measurement of the financial goodwill liable for fiscal amortisation due to the acquisition of SCOTTISH POWER.
- Elimination of the dividend exemption of SCOTTISH POWER as the inspectors understood this is incompatible with an adjustment in the value of the portfolio due to hedge of a net investment.

- Discrepancies in tax consolidation criteria.
- Possible existence of change of obligor transactions in certain bond issuances due to circumstances established in article 15.1 of Spain's General Tax Law.

With respect to contested tax assessments and settlement agreements, the IBERDROLA Group considers that its actions concerning these issues are in accordance with reasonable interpretations of the regulations applicable, and has thus submitted economic-administrative claims in due time and format to the Central Economic Administrative Court against the liquidation agreements which confirm the contested tax assessments, requesting the automatic suspension of the execution of the settlements by means of the necessary bank guarantees.

At the date these financial statements were prepared, all claims are pending a ruling by the Central Administrative Economic Court, as the Company has filed with said Court the corresponding arguments of each matter.

The IBERDROLA Group's directors and their tax advisors consider that the current inspection process will not give rise to additional liabilities of significance for the IBERDROLA Group other than those already recognised at 31 December 2017.

In addition to the above-mentioned actions, other inspections have taken place at different times, both from the same tax authorities and from other tax authorities, which have resulted in the initiation of tax assessments in several Group companies, some of which have been contested and are being appealed. The directors of the IBERDROLA Group and its tax advisors estimate that the amounts resulting from such actions or claims will not give rise to additional liabilities of consideration with respect to those already recorded.

## 9. INCOME AND EXPENSES

### 9.1 Net revenue

The net revenue of IBERDROLA's business from its ordinary activities, by category and geographical areas, is distributed as follows:

Thousands of Euros	Six-month period ended	
	30.06.2018	30.06.2017
Gas	218,860	182,230
Spain <sup>(1)</sup>	173,987	158,983
Rest of the European Union	19,761	-
OECD countries	25,112	-
Other countries	-	23,247
Other	1,964	2,850
	<b>220,824</b>	<b>185,080</b>
Finance revenue from equity investments in Group companies and associates	177,392	455,313
Finance revenue from debt securities and other financial instruments, Group companies and associates	9,882	10,045
Income from services rendered to Group companies	122,748	119,601
	<b>310,022</b>	<b>584,959</b>
<b>Total</b>	<b>530,846</b>	<b>770,039</b>

(1) Corresponding mainly to sales to Iberdrola Generación España, S.A.U.

The breakdown of dividends received by Group companies and associates is as follows:

Thousands of Euros	Six-month period ended	
	30.06.2018	30.06.2017
Avangrid, Inc.	177,392	204,584
Iberdrola Energia , S.A.U.	-	240,577
Others	-	10,152
<b>Total</b>	<b>177,392</b>	<b>455,313</b>

## 9.2 PERSONNEL

IBERDROLA's personnel is structured as follows:

	30.06.2018		30.06.2017	
	Average number	Final number	Average number	Final number
Men	390	396	362	367
Women	327	329	289	298
<b>Total</b>	<b>717</b>	<b>725</b>	<b>651</b>	<b>665</b>

## 10. REMUNERATION RECEIVED BY THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The remuneration and other benefits received by the directors in the six-month periods ended 30 June 2018 and 2017 are broken down below per remuneration item:

Thousands of Euros	30.06.2018	30.06.2017
Fixed remuneration	1,625	1,375
Variable remuneration	3,798	3,185
Attendance premium	382	370
Statutory entitlements	2,267	2,281
Other <sup>(1)</sup>	4,610	5,017
<b>Total</b>	<b>12,682</b>	<b>12,228</b>

(1) Includes shares received from the settlement of the 2014-2016 strategic bonus by the Chairman and CEO and the Member of the Board-Business CEO.

Thousands of Euros	30.06.2018	30.06.2017
Guarantees provided by the Company for members of the Board	78	116

The total remuneration received by senior management in the six-month periods ended 30 June 2018 and 2017 is broken down below per remuneration item:

Thousands of Euros	30.06.2018	30.06.2017
Total remuneration received by senior management <sup>(1)</sup>	7,254	12,669

(1) Includes shares received from the settlement of the second tranche of the 2014-2016 strategic bonus and charged taxes and payments in cash for this programme

## 11. TRANSACTIONS WITH RELATED PARTIES

The most significant related party transactions in the six-month periods ended 30 June 2018 and 2017 are as follows:

Six-month period ended 30.06.2018					
Thousands of Euros	Major shareholders <sup>(1)</sup>	Directors and executives <sup>(2)</sup>	Clients, companies and entities	Other related parties	Total
<b>Income and expenses</b>					
Merchandise used	-	-	43,275	-	43,275
External services	-	-	14,115	-	14,115
Finance costs	-	-	139,192	-	139,192
<b>Total expenses</b>	-	-	<b>196,582</b>	-	<b>196,582</b>
Sales	-	-	173,986	-	173,986
Non-trading income and other operating income	-	-	122,748	-	122,748
Dividends	-	-	177,392	-	177,392
Finance income	-	-	9,882	-	9,973
<b>Total income</b>	-	-	<b>484,008</b>	-	<b>484,099</b>
<b>Other transactions</b>					
Purchase of tangible, intangible and other assets	-	-	268	-	268
Dividends and other distributed profit <sup>(3)</sup>	2,766	275	-	-	3,041
Six-month period ended 30.06.2017					
Thousands of Euros	Major shareholders <sup>(1)</sup>	Directors and executives <sup>(2)</sup>	Clients, companies and entities	Other related parties	Total
<b>Income and expenses</b>					
Merchandise used	-	-	21,214	-	21,214
External services	-	-	12,490	-	12,490
Finance costs	-	-	156,015	-	156,015
<b>Total expenses</b>	-	-	<b>189,719</b>	-	<b>189,719</b>
Sales	-	-	180,541	-	180,541
Non-trading income and other operating income	-	-	119,601	-	119,601
Dividends	-	-	455,313	-	455,313
Finance income	-	-	10,045	-	10,045
<b>Total income</b>	-	-	<b>765,500</b>	-	<b>765,500</b>
<b>Other transactions</b>					
Purchase of tangible, intangible and other assets	-	-	318	-	318
Dividends and other distributed profit <sup>(3)</sup>	19,172	263	-	-	19,435

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

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

At the date of preparation of these financial statements only Qatar Investments Authority satisfies this condition so the amounts related to the six-month periods ended 30 June 2018 and 2017 are transactions with this shareholder.

(2) Refers to transactions other than those in Note 10.

(3) Amounts recorded as dividends and other benefits distributed in the first half of 2018 and 2017 correspond to the Flexible Dividend scheme and attendance premiums received, if applicable.

## 12. EVENTS SUBSEQUENT TO 30 JUNE 2018

After 30 June 2018 and up to the date of publication of the interim financial information, the following subsequent events have taken place:

### Iberdrola flexible remuneration

On 5 July 2018 the facts in relation to the implementation of the first free capital increase (*Iberdrola flexible remuneration*) approved at the IBERDROLA General Shareholders' Meeting on 13 April 2018, under item six of the agenda, were determined and were as follows:

- The maximum number of shares to be issued under the capital increase is 178,285,714.
- The number of free allocation rights required to receive one new share is 35.
- The maximum nominal value of the capital increase amounts to EUR 133,714,285.50
- The complementary gross dividend amount per share is EUR 0.186.

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

- During the period established for this purpose, the holders of 722,984,972 shares of the Company opted to receive complementary dividends. Thus, the gross total of distributed complementary dividend has been EUR 134,475 thousand. As a result, these shareholders have expressly forgone 722,984,972 free allotment rights and therefore 20,656,714 new shares.
- The final number of new ordinary shares with a nominal value of EUR 0.75 to be issued will be 157,629,000, giving a nominal capital increase from this implementation of EUR 118,222 thousand. This will add 2.526% to IBERDROLA's pre-issue share capital.
- As a result, the share capital of IBERDROLA following the capital increase amounts to EUR 4,798,222 thousand, represented by 6,397,629,000 ordinary shares of EUR 0.75 par value each, fully subscribed and paid.
- Subject to compliance with legal requirements (and verification of compliance by the Spanish Securities Market Commission), the new shares are expected to be admitted for trading on the continuous market of the Madrid, Barcelona, Bilbao and Valencia stock exchanges on 31 July 2018. In this regard, the ordinary trading of new shares is expected to start on 1 August 2018.

## 13. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

## DIRECTORS' REPORT

## **IBERDROLA, S.A.**

### **Directors' report for the six-month period ended 30 June 2018**

#### **1. BUSINESS PERFORMANCE**

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

#### **2. SIGNIFICANT EVENTS OF THE FIRST HALF OF 2018**

##### **2.1 Key figures of the IBERDROLA income statement**

Net revenue in the six-month period ended 30 June 2018 was EUR 531 million, of which EUR 221 million comprise sales (principally gas to its subsidiary Iberdrola Generación España S.A.U. in an amount of EUR 174 million), EUR 177 million in dividends received from AVANGRID, EUR 10 million in finance income related to the financing of subsidiaries and EUR 123 million in income for services rendered to Group companies. The reduction in net revenue of EUR 239 million is the net result of (Note 9):

- Higher gas sales of EUR 36 million.
- Lower dividends of EUR 278 million.
- Higher income from the provision of services to Group companies of EUR 3 million.

Supplies in the period amount to EUR 218 million, mainly for wholesale gas supplies subsequently provided to Generación España, S.A.U. Gas supplies have increased in line with sales, by EUR 36 million.

Net personnel expenses of EUR 66 million, operating expenses of EUR 101 million, depreciation and amortisation of EUR 30 million, and EUR 12 million in impairment brought operating profit to EUR 102 million, down from EUR 290 million in the same period in the prior year.

The net finance loss is EUR 141 million, compared to EUR 65 million in the same period in 2017. The variation of EUR 76 million is mainly a result of:

- Decrease in finance income from loans to third parties of EUR 7 million;
- Decrease in finance costs with Group companies of EUR 17 million and increase in finance costs third parties and update of provisions of EUR 4 million.
- Negative effect of the valuation of derivatives of EUR 70 million and exchange losses of EUR 12 million.

The loss before tax amounts to EUR 39 million and income tax is EUR 28 million, leaving a net loss of EUR 11 million, compared to profit of EUR 335 million in the same period in 2017.



## **2.2 Balance sheet**

IBERDROLA's balance sheet at 30 June 2018 shows current liabilities exceeding current assets by EUR 7,614 million, which is mainly a result of short-term debt with Group companies and associates of EUR 8,329 million. It will be offset through the generation of funds from business activities and dividends from subsidiaries.

## **2.3 Significant transactions**

The main transactions carried out by IBERDROLA in the six-month period ended 30 June 2018 are described in Notes 6 and 7.

## **3. MAIN RISKS AND UNCERTAINTIES**

The main sources of uncertainty are described in Note 4.

## **4. SUBSEQUENT EVENTS**

Subsequent events occurring after the period end are described in Note 12.