



Iberdrola Finanzas, S.A.U.

Annual Accounts
31 December 2018

Directors' Report
2018

(With Independent Auditor's Report Thereon)
(Translation from the original in Spanish. In the
event of discrepancy, the Spanish-language version
prevails.)



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

Independent Auditor's Report on the Annual Accounts

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

To the Shareholders of Iberdrola Finanzas, S.A.U.

REPORT ON THE ANNUAL ACCOUNTS

Opinion

We have audited the annual accounts of Iberdrola Finanzas, S.A.U. (the "Company"), which comprise the balance sheet at 31 December 2018, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes.

In our opinion, the accompanying annual accounts give a true and fair view, in all material respects, of the equity and financial position of the Company at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 2 to the accompanying annual accounts) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

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

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

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



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Key Audit Matters

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

Recoverability of current and non-current loans with Group companies and associates

See notes 6 and 16 to the annual accounts

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Non-current and current investments in Group companies and associates included in the annual accounts at 31 December 2018 amount to Euros 6,835,988 thousand and Euros 509,835 thousand, respectively, and represent 99.99% of the Company's total assets. These amounts correspond to loans and receivables carried at amortised cost.</p> <p>The Company's exposure, in terms of credit risk, to Iberdrola, S.A. (sole shareholder) and Iberdrola Financiación, S.A.U. (Group company) could have significant effects on the Company's financial statements.</p> <p>Consequently, the Company is totally reliant on the financial situation of both companies, and by extension, on the financial situation of the Iberdrola Group, as regards the payment of principal and interest.</p> <p>Due to the relevance of the balances receivable, we consider their valuation to be a key audit matter.</p>	<p>Our audit procedures included an assessment of the design and implementation of the key controls related to the process of assessing and evaluating whether evidence of impairment exists.</p> <p>We also assessed whether the information disclosed in the annual accounts meets the requirements of the financial reporting framework applicable to the Company.</p>



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Other Information: Directors' Report

Other information solely comprises the 2018 directors' report, the preparation of which is the responsibility of the Company's Directors and which does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not encompass the directors' report. Our responsibility for the directors' report, in accordance with the requirements of prevailing legislation regulating the audit of accounts, consists of assessing and reporting on the consistency of the directors' report with the annual accounts, based on knowledge of the entity obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit. It is also our responsibility to assess and report on whether the content and presentation of the directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described in the preceding paragraph, the information contained in the directors' report is consistent with that disclosed in the annual accounts for 2018 and the content and presentation of the report are in accordance with applicable legislation.

Directors' Responsibility for the Annual Accounts

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

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

Auditor's Responsibilities for the Audit of the Annual Accounts

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

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



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

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

We communicate with the Directors of Iberdrola Finanzas, S.A.U. regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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



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

KPMG Auditores, S.L.
On the Spanish Official Register of Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Alberto Fernández Solar
On the Spanish Official Register of Auditors ("ROAC") with No. 22,472

10 April 2019

Iberdrola Finanzas, S.A.U.

(Sociedad Unipersonal)

Annual Accounts

31 December 2018

Directors' Report

2018

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

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IBERDROLA FINANZAS, S.A.U. (Sociedad Unipersonal)

Balance Sheet at 31 December 2018

(Expressed in thousands of Euros)

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

ASSETS	Notes	2018	2017(*)
NON-CURRENT ASSETS		6,835,998	5,954,577
Non-current investments in Group companies and associates	6, 16.1	6,835,988	5,954,565
Loans to companies		6,835,988	5,954,565
Deferred tax assets	11.4	10	12
CURRENT ASSETS		510,300	939,319
Trade and other receivables	11.1	206	488
Current tax assets		206	488
Current investments in Group companies and associates	6, 16.1	509,835	938,709
Loans to companies		491,266	923,158
Other financial assets		18,569	15,551
Prepayments for current assets		-	1
Cash and cash equivalents		259	121
Cash		259	121
TOTAL ASSETS		7,346,298	6,893,896
LIABILITIES	Notes	2018	2017 (*)
EQUITY	7	126,383	127,110
CAPITAL AND RESERVES			
Capital		100,061	100,061
Registered capital		100,061	100,061
Reserves		30,177	30,177
Legal and statutory reserves		236	236
Other reserves		29,941	29,941
Prior years' profit and loss		(3,128)	(1,956)
Prior years' losses		(3,128)	(1,956)
Loss for the year		(727)	(1,172)
NON-CURRENT LIABILITIES		6,735,131	5,850,072
Non-current payables	8	6,735,131	5,850,072
Bonds and other marketable securities		6,735,131	5,850,072
CURRENT LIABILITIES		484,784	916,714
Current payables		484,100	916,124
Bonds and other marketable securities	8	484,100	916,123
Other financial liabilities		-	1
Group companies and associates, current	16.1	684	518
Trade and other payables		-	72
Other payables		-	70
Public entities, other	11.1	-	2
TOTAL EQUITY AND LIABILITIES		7,346,298	6,893,896

(*) The balance sheet at 31 December 2017 is presented for comparative purposes only.

The notes to the accompanying annual accounts form an integral part of the balance sheet at 31 December 2018.

IBERDROLA FINANZAS, S.A.U. (Sociedad Unipersonal)
Income Statement for the year ended 31 December 2018

(Expressed in thousands of Euros)

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

	Notes	2018	2017(*)
CONTINUING OPERATIONS			
Revenues	12.2, 16.2	205,747	217,188
Finance income from marketable securities and other financial instruments			
Group companies and associates		205,747	217,188
Other operating expenses		(448)	(482)
External services		(333)	(332)
Taxes		(115)	(150)
RESULTS FROM OPERATING ACTIVITIES		205,299	216,706
Finance costs	12.1	(206,274)	(218,320)
Group companies and associates	16.2	(3,791)	(2,474)
Other		(202,483)	(215,846)
Exchange losses	12.3	(5)	(14)
NET FINANCE COST		(206,279)	(218,334)
LOSS BEFORE INCOME TAX		(980)	(1,628)
Income tax	11.3	253	456
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		(727)	(1,172)
LOSS FOR THE YEAR		(727)	(1,172)

(*) The income statement for 2017 is presented for comparative purposes only.
The notes to the accompanying annual accounts form an integral part of the income statement for the year ended 31 December 2018.

IBERDROLA FINANZAS, S.A.U. (Sociedad Unipersonal)
Statement of Changes in Equity for the year ended 31 December 2018
 (Expressed in thousands of Euros)
 (Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

A) Statement of recognised income and expense for the year ended 31 December 2018

	Notes	2018	2017(*)
LOSS FOR THE YEAR		(727)	(1,172)
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		-	-
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		-	-
TRANSFERS TO THE INCOME STATEMENT		-	-
TOTAL AMOUNTS TRANSFERRED TO THE INCOME STATEMENT		-	-
TOTAL RECOGNISED INCOME AND EXPENSE		(727)	(1,172)

(*) The statement of recognised income and expense for 2017 is presented for comparative purposes only. The notes to the accompanying annual accounts form an integral part of the statement of recognised income and expense for the year ended 31 December 2018.

IBERDROLA FINANZAS, S.A.U. (Sociedad Unipersonal)

B) Statement of Changes in Equity for the year ended 31 December 2018

(Expressed in thousands of Euros)

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

	Capital	Reserves	Prior years' profit and loss	Loss for the year	TOTAL
2017 OPENING BALANCE (*)	100,061	30,177	(976)	(980)	128,282
Total recognised income and expense	-	-	-	(1,172)	(1,172)
Transactions with shareholders or owners					
Application of loss	-	-	(980)	980	-
2017 CLOSING BALANCE (*)	100,061	30,177	(1,956)	(1,172)	127,110
2018 OPENING BALANCE	100,061	30,177	(1,956)	(1,172)	127,110
Total recognised income and expense	-	-	-	(727)	(727)
Transactions with shareholders or owners					
Application of loss	-	-	(1,172)	1,172	-
2018 CLOSING BALANCE	100,061	30,177	(3,128)	(727)	126,383

(*) The statement of changes in equity for 2017 is presented for comparative purposes only.
The notes to the accompanying annual accounts form an integral part of the statement of changes in equity for the year ended 31 December 2018.

IBERDROLA FINANZAS, S.A.U. (Sociedad Unipersonal)
Statement of Cash Flows for the year ended 31 December 2018
(Expressed in thousands of Euros)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Note s	2018	2017 (*)
Loss for the year before tax		(980)	(1,628)
Adjustments for:		532	1,146
Finance income	12.2	(205,747)	(217,188)
Finance costs	12.1	206,274	218,320
Exchange losses	12.3	5	14
Changes in operating assets and liabilities		(74)	32
Trade and other receivables		1	5
Trade and other payables		(75)	27
Other cash flows from operating activities		3,673	1,748
Interest paid		(223,520)	(205,647)
Interest received		226,844	207,028
Income tax received		535	381
Other amounts paid		(186)	(14)
CASH FLOWS FROM OPERATING ACTIVITIES		3,151	1,298
Payments for investments		(1,374,519)	(2,549,613)
Group companies and associates		(1,374,519)	(2,549,613)
Proceeds from sale of investments		898,749	453,100
Group companies and associates		898,749	453,100
CASH FLOWS USED IN INVESTING ACTIVITIES		(475,770)	(2,096,513)
Proceeds from and payments for financial liability instruments		472,757	2,095,204
Issue			
Bonds and other marketable securities		1,371,506	2,548,304
Redemption and repayment of			
Bonds and other marketable securities		(898,749)	(453,100)
CASH FLOWS FROM FINANCING ACTIVITIES		472,757	2,095,204
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		138	(11)
Cash and cash equivalents at beginning of year		121	132
Cash and cash equivalents at year end		259	121

(*) The statement of cash flows for 2017 is presented for comparative purposes only.
The notes to the accompanying annual accounts form an integral part of the statement of cash flows for the year ended 31 December 2018.

IBERDROLA FINANZAS, S.A.U. (Sociedad Unipersonal)
Notes to the annual accounts for the year ended 31 December 2018

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

1. COMPANY ACTIVITY

Iberdrola Finanzas, S.A.U. (Sociedad Unipersonal) (hereinafter the Company) was incorporated on 16 February 2005, with unlimited duration, in accordance with the Spanish Companies Act.

The statutory activity of the Company is the issue of preferential shares and other marketable debt instruments in Spanish and foreign secondary markets.

Its registered address is in Bilbao, Plaza Euskadi 5.

The Company provided the entire financing obtained on the debt markets to its sole shareholder, Iberdrola S.A. (hereinafter, the "sole shareholder" or IBERDROLA) until 7 December 2016, except in the period 23 March 2010 (inclusive) to 7 April 2011 (including this date), during which it provided the financing obtained on the debt markets to Iberdrola Financiación, S.A.U. (hereinafter, "Iberdrola Financiación"). As of 7 December 2016 it has provided the entire financing obtained on the markets to Iberdrola Financiación and Iberdrola Distribución Eléctrica, S.A.U. (hereinafter "Iberdrola Distribución"), companies which are wholly owned by the sole shareholder. It also extended a loan to Iberdrola Renovables Offshore Deutschland, GmbH (hereinafter "Iberdrola Renovables Offshore Deutschland") with the funds obtained through a capital increase in 2013.

In addition, the Company provides financing to certain IBERDROLA Group companies (note 16).

2. BASIS OF PRESENTATION OF THE ANNUAL ACCOUNTS

The annual accounts were prepared in accordance with the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 of 16 November 2007, which was amended in 2016 by Royal Decree 602/2016 of 2 December 2010, and other prevailing legislation.

These annual accounts have been authorised for issue by the directors and are expected to be approved by the sole shareholder with no changes.

The figures disclosed in the annual accounts are expressed in thousands of Euros, the Company's functional currency, unless otherwise stated

2.1 True and fair view

The annual accounts have been prepared on the basis of the auxiliary accounting records of the Company, and prevailing accounting legislation, to give a true and fair view of the equity, financial position and results of operations of the Company.

The statement of cash flows has been prepared to give a true and fair view of the source and application of monetary assets representing the Company's cash and cash equivalents.

2.2 Comparative information

In accordance with prevailing Spanish legislation, these annual accounts for 2018 also include, for each individual caption in the balance sheet, the income statement, the statement of changes in equity, the statement of cash flows for the year then ended, comparative figures for the previous year. The notes to the annual accounts also include quantitative information on the prior year, except where an accounting standard specifically states that this is not necessary.

3. APPLICATION OF LOSSES

The proposal for application of losses for 2018, authorised by the directors and expected to be approved by the sole shareholder, is to carry forward losses as accumulated losses.

4. ACCOUNTING PRINCIPLES

4.1 Financial instruments

4.1.1. Classification and measurement of financial assets and financial liabilities

The Company's financial assets and financial liabilities are classified in the following categories:

a) Loans and receivables

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

The financial assets included in this category are initially recognised at fair value. After initial recognition, loans and receivables are measured at amortised cost. Interest incurred on these assets is recognised in the income statement using the effective interest rate method.

Nevertheless, loans and receivables maturing in less than one year which do not have a contractual interest rate are initially and subsequently measured at nominal amount when the effect of not discounting the cash flows is immaterial.

b) Debts and payables

These are financial liabilities arising from the purchase of goods or services in the ordinary course of the Company's operations, as well as other payables that are not derivative instruments and are not trade-related.

They are initially recognised at fair value which, in the absence of evidence to the contrary, is the transaction price and equates to the fair value of the consideration received. Transaction costs that are directly attributable form part of the initial measurement. After initial recognition at fair value, financial liabilities included in this category are measured at amortised cost. Interest accrued on these liabilities is recognised in the income statement using the effective interest rate method.

Nonetheless, trade payables falling due within one year for which there is no contractual interest rate, and called-up equity holdings expected to be settled in the short term are measured both initially and subsequently at their nominal amount, provided that the effect of not discounting the cash flows is immaterial.

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4.1.2. *Interest received from financial assets*

Interest generated by financial assets after their acquisition is taken to income. Interest is recognised using the effective interest method.

Upon initial measurement of financial assets, accrued explicit interest receivable at the measurement date is recognised separately, based on maturity. For this purpose, explicit interest is the interest obtained by applying the contractual interest rate of the financial instrument.

4.1.3. *Impairment of financial assets*

The Company regularly assesses whether a financial asset or group of financial assets is impaired.

a) *Loans and receivables*

The carrying amount of a financial asset or group of financial assets carried at amortised cost is impaired when there is objective evidence that an impairment loss has been incurred due to one or more events occurring since initial recognition that lead to a reduction or delay in estimated future cash flows.

The amount of the impairment loss on these financial assets is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate used on the date of initial recognition. For variable income financial assets, the effective interest rate corresponding to the reporting date of the annual accounts under the contractual conditions is used. Impairment losses on a group of financial assets are calculated using models based on statistical formulas or methods.

Impairment losses, as well as reversals when the amount of the loss decreases due to a subsequent event, are recognised in profit or loss. Impairment can be reversed up to the limit of the carrying amount that would have been recognised if no impairment loss had been recognised.

The income statements for 2018 and 2017 do not include any amounts in this regard.

4.1.4. *Derecognition of financial assets*

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

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

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

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The Company does not derecognise financial assets when it retains substantially all the risks and rewards incidental to ownership of the transferred financial asset, but instead recognises a financial liability for the same amount as the consideration received.

4.1.5. Derecognition of financial liabilities

The Company derecognises a financial liability when the obligation is discharged.

If there is an exchange of debt instruments, between the Company and the counterparty, and the conditions thereof are substantially different, the original financial liability is derecognised and the new financial liability is recognised. The difference between the carrying amount of a financial liability, or part of that liability, that has been derecognised and the consideration paid, including attributable transaction costs and any asset transferred (other than cash) or liability assumed, is recognised in profit or loss for the reporting period in which it arises.

The Company considers the terms to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, differs by at least 10 per cent from the discounted present value of the remaining cash flows of the original financial liability.

If there is an exchange of debt instruments, and the conditions thereof are not substantially different, the original financial liability is not derecognised and the carrying amount is adjusted for the fees paid. The amortised cost of the financial liability is determined applying the effective interest rate, which is the rate that equates the carrying amount of the financial liability at the modification date with the cash flows to be paid as per the new conditions.

4.2 Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currency are converted at the exchange rate prevailing at the reporting date. Exchange gains and losses that arise in the conversion process, including those arising from the settlement of balance sheet items, are recognised in the income statement.

4.3 Cash and cash equivalents

This heading includes cash, bank accounts and deposits and temporary purchases of assets that comply with the following characteristics:

- They can be converted into cash.
- At the time of acquisition their maturity is less than three months.
- They have no significant risk of change in value.
- They form part of the Company's usual cash management policy.

In the statement of cash flows, occasional bank overdrafts that form a part of the Company's cash management are recognised as a decrease in cash and cash equivalents.

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

4.4 Income tax

The Company files consolidated tax returns with certain Group companies.

Income tax expense is calculated as the sum of the current tax resulting from the application of the corresponding tax rate to taxable income for the year, after all tax credits and deductions have been taken into account, plus changes in deferred tax assets and liabilities. Tax deductions and credits are recognised in the companies that generate them.

The income tax expense is recognised in the income statement except in cases where this tax relates directly to items recognised in equity, in which case the associated tax is also recognised in equity.

Current tax assets and liabilities are the estimated amounts payable to or receivable from public entities, in accordance with the tax rates in force at the reporting date, and including any other tax adjustment from prior years.

Deferred income tax is recognised using the liability method for all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the annual accounts.

The Company recognises deferred tax liabilities for all taxable temporary differences, except where they arise from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable income.

The Company recognises deferred tax assets for all deductible temporary differences, unused tax credits and unapplied tax loss carryforwards, to the extent that it is probable that the tax group will have taxable profit available against which these can be utilised, except for when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

At each reporting date, the Company assesses both recognised and any previously unrecognised deferred tax assets. On the basis of this assessment, the Company derecognises previously recognised assets if their recoverability is no longer probable or recognises any previously unrecognised deferred tax assets provided that it is probable that the tax Group will generate sufficient future tax gains to allow these assets to be utilised.

Unless there is evidence to the contrary, it is not considered probable that the tax Group will have sufficient taxable income when future recovery is expected to occur more than ten years from the reporting date. Conversely, it is considered probable that the tax Group will generate sufficient taxable profit to recover deferred tax assets when there are taxable temporary differences which are expected to reverse in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from a deductible temporary difference can be carried back or forward.

Deferred tax assets and liabilities are measured at the standard tax rates that are expected upon reversal, in accordance with approved prevailing tax laws and based on the manner in which the deferred tax asset or liability can reasonably be expected to be recovered or settled. Changes to the carrying amounts of deferred tax assets and liabilities are recognised in the income statement, except for when the related deferred tax assets and liabilities are recognised directly in equity

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

4.5 Classification of assets and liabilities as current and non-current

Assets and liabilities are classified as current and non-current in the balance sheet. Accordingly, they are classified as current when linked to the operating cycle of the Company and expected to be sold, consumed, realised or settled within a maximum period of one year.

4.6 Income and expenses

Income and expenses are allocated on an accruals basis, irrespective of collections and payments.

Revenue from the rendering of services is measured at the fair value of the consideration received or receivable, less any discounts, rebates or similar items, as well as indirect taxes levied on transactions which can be passed on to third parties.

In addition, revenue from the rendering of services is recognised when the outcome of the transaction can be reliably estimated, considering the stage of completion at the reporting date. When the outcome of a transaction involving the rendering of services cannot be reliably estimated, revenue is recognised only to the extent of the expenses recognised that are considered recoverable.

The Company, as a financial vehicle corporation of the IBERDROLA Group, includes revenue accrued from financing extended to Group companies under Revenues in the accompanying income statement.

4.7 Related party transactions

Related party transactions are carried out at arm's length and are accounted for in accordance with the measurement criteria indicated above.

5. FINANCIAL RISK MANAGEMENT

The IBERDROLA Group is exposed to certain inherent risks due to the different countries, sectors and markets where it operates, and the activities it carries out, which can prevent the Company from achieving its objectives and executing its strategies successfully.

The IBERDROLA Group's *Financing and financial risk policies* have been approved by IBERDROLA's Board of Directors and are applied by the Company. Based on these policies, the Company has an organisation and systems allowing it to identify, measure and manage the financial risks to which it is exposed.

The activity with financial instruments exposes the Company to credit, market and liquidity risks. Since the Company is a financial vehicle corporation of the IBERDROLA Group, the Company's exposure to these risks should be evaluated in the environment of the IBERDROLA Group.

Credit risk

The Company is exposed to credit risk deriving from the possible failure of its counterparties to comply with contractual obligations, i.e., the possibility of not recovering financial assets at the amount recognised and within the established term.

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

At 31 December 2018 the entire credit risk is materialised with the sole shareholder and with some companies of the IBERDROLA Group, Iberdrola Financiación, Iberdrola Distribución and Iberdrola Renovables Offshore Deutschland. The Company does not consider the possible effect of this risk on the Company's annual accounts to be significant.

Interest rate risk

Interest rate risk arises from possible losses due to changes in the fair value or the future cash flows of a financial instrument because of variations in market interest rates.

The Directors consider the Company's exposure to this risk as insignificant, given that the Company follows the practice of lending to its sole shareholder and to the companies of the IBERDROLA Group, Iberdrola Financiación, Iberdrola Distribución and Iberdrola Renovables Offshore Deutschland in the same conditions (term, nominal amount and benchmark interest rate) as which it obtains market financing through the issue of liabilities.

Note 8 contains details of all bond issues and other Company securities together with their respective features at the 2018 and 2017 closing dates.

Currency risk

Currency risk arises from possible losses due to changes in the fair value or the future cash flows of a financial instrument because of variations in market interest rates. The Company's exposure to foreign currency risk mainly arises from loans extended and issues made in foreign currency.

As the Company maintains symmetrical operations in the same currency in both assets and liabilities of its balance sheet and with the same maturity dates, the directors consider this risk to be insignificant.

Liquidity risk

Liquidity risk is the risk that the Company might not hold, or have access to, sufficient liquid funds at a suitable cost to settle its payment obligations.

As mentioned previously, the Company matches the due dates of its assets (loans to the sole shareholder and to Group companies) and issued liabilities, so this risk would only materialise in the event that its sole shareholder is unable to fulfil its commitments with the Company, which include those commitments acquired with the Company by Iberdrola Financiación, Iberdrola Distribución and Iberdrola Renovables Offshore Deutschland. Since the Company is a financial vehicle corporation of the IBERDROLA Group, this risk should be evaluated in the environment of the IBERDROLA Group.

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

6. INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

At 31 December 2018 and 2017 all of the Company's financial assets are included under Loans and receivables.

Movement during 2018 and 2017 in current and non-current loans to companies of Group companies and associates is as follows:

(Thousands of Euros)	Balance at 01.01.18	Additions and charges	Transfers	Disposals, derecognitions or reductions	Valuation of foreign currency	Balance at 31.12.2018
Non-current						
Principal loans to Group companies (note 16.1)	5,954,565	1,371,501	(368,726)	(116,632)	(4,720)	6,835,988
Total	5,954,565	1,371,501	(368,726)	(116,632)	(4,720)	6,835,988

(Thousands of Euros)	Balance at 01.01.17	Additions and charges	Transfers	Disposals, derecognitions or reductions	Valuation of foreign currency	Balance at 31.12.2017
Current						
Principal loans to Group companies (note 16.1)	774,853	4,982	368,726	(782,117)	2,586	369,030
Accrued interest	148,305	200,775	-	(226,844)	-	122,236
Total	923,158	205,757	368,726	(1,008,961)	2,586	491,266

(Thousands of Euros)	Balance at 01.01.17	Additions and charges	Transfers	Disposals, derecognitions or reductions	Valuation of foreign currency	Balance at 31.12.2017
Non-current						
Principal loans to Group companies (note 16.1)	4,244,001	2,548,304	(773,777)	-	(63,963)	5,954,565
Total	4,244,001	2,548,304	(773,777)	-	(63,963)	5,954,565

(Thousands of Euros)	Balance at 01.01.17	Additions and charges	Transfers	Disposals, derecognitions or reductions	Valuation of foreign currency	Balance at 31.12.2017
Current						
Principal loans to Group companies (note 16.1)	449,871	4,305	773,777	(453,100)	-	774,853
Accrued interest	142,450	212,883	-	(207,028)	-	148,305
Total	592,321	217,188	773,777	(660,128)	-	923,158

The current portion of other financial assets with Group companies and associates at 31 December 2018 and 2017 reflects the balance of the reciprocal current account in Euros with IBERDROLA.

At 31 December 2018 the Company had extended loans totalling Euros 6,135,000 thousand (2017: Euros 5,595,800 thousand) in transactions denominated in Euros, and Euros 1,104,701 thousand (2017: Euros 1,163,145 thousand) in transactions denominated in other currencies (JPY, GBP, USD and NOK).

At 31 December 2018 the Company has reclassified, based on their maturity, to current the principal of loans extended to Group companies amounting to Euros 295,000 thousand (2017: Euros 715,800 thousand) in transactions denominated in Euros, and Euros 79,277 thousand (2017: Euros 63,731 thousand) in transactions denominated in Japanese yen.

The loan portfolio, excluding the loan contract signed with Iberdrola Renovables Offshore Deutschland, which accrues an interest rate of 1.26%, accrues an average nominal interest rate of 2.63% at 31 December 2018 (2017: 3.30%) Including this transaction, the average nominal interest rate of loans amounts to 2.61% (2017: 3.27%).

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

The classification by maturity of investments in Group companies and associates at 31 December 2018 and 2017 is as follows:

(Thousands of Euros)	Balance at 31.12.18	Maturity						Total non-current
		Current			Non-current			
		2019	2020	2021	2022	2023	2024 and thereafter	
Principal loans to Group companies (note 16.1)	7,205,018	369,030	1,394,943	70,044	217,143	118,952	5,034,906	6,835,988

(Thousands of Euros)	Balance at 31.12.17	Maturity						Total non-current
		Current			Non-current			
		2018	2019	2020	2021	2022	2023 and thereafter	
Principal loans to Group companies (note 16.1)	6,729,418	774,853	364,846	1,196,141	71,295	222,105	4,100,178	5,954,565

Most significant transactions in 2018

On 29 November 2017 the Company entered into a loan agreement with the Group company Iberdrola Financiación for an amount of Euros 300,000 thousand, maturing on 29 November 2029 and with an annual fixed rate of interest of 1.72%. On 5 February 2018 and 21 December 2018, this loan was increased by Euros 200,000 thousand and Euros 75,000 thousand, respectively, with maturity and fixed interest remaining the same.

On 5 February 2018 the Company entered into a loan agreement with the Group company Iberdrola Financiación for an amount of Euros 200,000 thousand, maturing on 5 February 2020 with interest pegged to 3-month Euribor plus a spread of 0.449%.

On 3 May 2018 the Company entered into a loan agreement with the Group company Iberdrola Financiación for an amount of NOK 800,000 thousand, maturing on 3 May 2028 and with an annual fixed rate of interest of 3.109%.

On 25 May 2018, the Company exercised the option that allowed the maturity of the loan with IBERDROLA for JPY 15,000,000 thousand, originally set at 25 May 2036, to be brought forward. Finance income for the interest accrued at 31 December 2018 amounts to Euros 1,462 thousand, which the Company has recognised under Revenues – Finance income from marketable securities and other financial instruments of Group companies and associates in the accompanying income statement (note 12.2), and no other amount for any other item was recognised in the accompanying income statement.

On 13 June 2018 the Company entered into a loan agreement with the Group company Iberdrola Financiación for an amount of Euros 30,000 thousand, maturing on 13 June 2025 and with an annual fixed rate of interest of 1.227%.

On 28 June 2018 the Company entered into a loan agreement with the Group company Iberdrola Financiación for an amount of Euros 750,000 thousand, maturing on 28 October 2026 and with an annual fixed rate of interest of 1.349%.

On 21 December 2018 the Company entered into a loan agreement with the Group company Iberdrola Financiación for an amount of USD 50,000 thousand, maturing on 8 December 2025 and with an annual fixed rate of interest of 3.823%.

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

Most significant transactions in 2017

On 20 February 2017 the Company signed two loan agreements with the Group company Iberdrola Financiación for amounts of Euros 100,000 thousand and Euros 50,000 thousand. These loans fall due on 20 February 2024 and 2029 and accrue interest at a variable rate pegged to 3-month Euribor plus a spread of 0.769% and a fixed rate of 1.766%, respectively. Both loans were increased on 22 June and 6 April by Euros 150,000 thousand and Euros 50,000 thousand, respectively.

On 7 March 2017 the Company entered into a loan agreement with the Group company Iberdrola Financiación for an amount of Euros 1,000,000 thousand, maturing on 7 March 2025 and with an annual fixed rate of interest of 1.099%.

On 10 May 2017 the Company entered into a loan agreement with the Group company Iberdrola Financiación for an amount of Euros 60,000 thousand, maturing on 30 October 2030 and with an annual fixed rate of interest of 1.881%.

On 18 May 2017 the Company entered into a loan agreement with the Group company Iberdrola Financiación for an amount of NOK 1,000,000 thousand, maturing on 18 May 2027 and with an annual fixed rate of interest of 2.799%.

On 13 September 2017 the Company entered into a loan agreement with the Group company Iberdrola Financiación for an amount of Euros 750,000 thousand, maturing on 13 September 2027 and with an annual fixed rate of interest of 1.349%.

On 29 November 2017 the Company entered into a loan agreement with the Group company Iberdrola Financiación for an amount of Euros 300,000 thousand, maturing on 29 November 2029 and with an annual fixed rate of interest of 1.72%.

7. EQUITY

7.1 Registered capital

At 31 December 2018 and 2017 share capital is represented by 100,061 registered shares of Euros 1,000 par value each. The Company's entire share capital is fully subscribed and paid by its sole shareholder, IBERDROLA.

7.2 Legal reserve

In accordance with the Spanish Companies Act, providing the legal reserve does not exceed 20% of share capital, it is not distributable to shareholders and may only be used to offset losses if no other reserves are available. This reserve may also be used to increase share capital provided that the balance left on the reserve is at least equal to 10% of the nominal value of the total share capital after the increase.

At the 2018 and 2017 reporting dates, the legal reserve had not been appropriated in full.

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

8. ISSUE OF BONDS AND OTHER MARKETABLE SECURITIES

At 31 December 2018 and 2017 all of the Company's financial liabilities are included under Debts and payables.

Movement in Current and non-current bonds and other marketable securities during 2018 and 2017 was as follows:

(Thousands of Euros)	Balance at 01.01.18	Additions and charges	Transfers	Disposals, derecognitions or reductions	Valuation of foreign currency	Balance at 31.12.2018
Non-current						
Bonds and other marketable securities	5,850,072	1,371,506	(365,095)	(116,632)	(4,720)	6,735,131
Total	5,850,072	1,371,506	(365,095)	(116,632)	(4,720)	6,735,131

(Thousands of Euros)						
Current						
Bonds and other marketable securities	771,218	8,615	365,095	(782,117)	2,586	365,397
Accrued interest	144,905	193,692	-	(219,894)	-	118,703
Total	916,123	202,307	365,095	(1,002,011)	2,586	484,100

(Thousands of Euros)	Balance at 01.01.17	Additions and charges	Transfers	Disposals, derecognitions or reductions	Valuation of foreign currency	Balance at 31.12.2017
Non-current						
Bonds and other marketable securities	4,135,913	2,548,304	(770,182)	-	(63,963)	5,850,072
Total	4,135,913	2,548,304	(770,182)	-	(63,963)	5,850,072

(Thousands of Euros)						
Current						
Bonds and other marketable securities	446,236	7,900	770,182	(453,100)	-	771,218
Accrued interest	140,448	207,515	-	(203,058)	-	144,905
Total	586,684	215,415	770,182	(656,158)	-	916,123

At 31 December 2018 the Company had issues totalling Euros 6,035,000 thousand (2017: Euros 5,495,800 thousand) in transactions denominated in Euros, and Euros 1,104,701 thousand (2017: Euros 1,163,145 thousand) in transactions denominated in other currencies (JPY, GBP, USD and NOK).

At 31 December 2018 the Company has reclassified, based on their maturity, to current issues amounting to Euros 295,000 thousand (2017: Euros 715,800 thousand) in transactions denominated in Euros, and Euros 79,277 thousand (2017: Euros 63,731 thousand) in transactions denominated in Japanese yen.

The issues portfolio at 31 December 2018 accrued average nominal interest of 2.55% (2017: 3.22%).

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

The classification of issues by maturity at 31 December 2018 and 2017 is as follows:

Thousands of Euros)	Balance at 31.12.18	Maturity						Total non-current
		Current		Non-current				
		2019	2020	2021	2022	2023	2024 and thereafter	
Bonds and other marketable securities	7,100,528	365,397	1,294,098	70,040	217,140	118,950	5,034,903	6,735,131

(Thousands of Euros)	Balance at 31.12.17	Maturity						Total non-current
		Current		Non-current				
		2018	2019	2020	2021	2022	2023 and thereafter	
Bonds and other marketable securities	6,621,290	771,218	361,198	1,095,313	71,293	222,104	4,100,164	5,850,072

Most significant transactions in 2018

On 29 November 2017 the Company placed a bond issue on the Euromarket for an amount of Euros 300,000 thousand, maturing on 29 November 2029 and with a fixed annual coupon of 1.621%. The issue was increased on 5 February 2018 and 21 December 2018 by Euros 200,000 thousand and Euros 75,000 thousand, respectively, while maturity and the fixed coupon remained the same.

On 5 February 2018 the Company placed a bond issue on the Euromarket for an amount of Euros 200,000 thousand, maturing on 5 February 2020 and with a variable coupon pegged to 3-month Euribor plus a spread of 0.35%.

On 3 May 2018 the Company placed a bond issue on the Euromarket for an amount of NOK 800,000 thousand, maturing on 3 May 2028 and with a fixed annual coupon of 3.01%.

On 25 May 2018, the Company exercised the option that allowed the maturity of the bond issue on the Euromarket for JPY 15,000,000 thousand, originally set at 25 May 2036, to be brought forward. Finance income for the interest accrued at 31 December 2018 amounts to Euros 1,448 thousand, which has been recognised under Finance costs - Other (note 12.1), and no other amount for any other item was recognised in the accompanying income statement.

On 13 June 2018 the Company placed a bond issue on the Euromarket for an amount of Euros 30,000 thousand, maturing on 13 June 2025 and with a fixed annual coupon of 1.128%.

On 28 June 2018 the Company placed a green bond issue on the Euromarket for an amount of Euros 750,000 thousand, maturing on 28 October 2026 and with a fixed annual coupon of 1.25%.

On 1 August 2018 the Company updated its Euro Medium Term Notes Programme ("EMTN"), valid for a year and whereby it may issue straight bonds listed on the Luxembourg Stock Exchange.

On 21 December 2018 the Company placed a green bond issue on the Euromarket for an amount of USD 50,000 thousand, maturing on 8 December 2025, with a fixed annual coupon of 3.724% and interest settlements every six months.

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

Most significant transactions in 2017

On 20 February 2017 the Company placed two issues on the Euromarket for amounts of Euros 100,000 thousand and Euros 50,000 thousand, maturing on 20 February 2024 and 2029, with a variable coupon pegged to 3-month Euribor plus a spread of 0.67% and a fixed coupon of 1.667%, respectively. Both issues were increased on 22 June and 6 April by Euros 150,000 thousand and Euros 50,000 thousand, respectively.

On 7 March 2017 the Company placed a green bond issue on the Euromarket for an amount of Euros 1,000,000 thousand, maturing on 7 March 2025 and with a fixed annual coupon of 1%.

On 10 May 2017 the Company placed a bond issue on the Euromarket for an amount of Euros 60,000 thousand, maturing on 30 October 2030 and with a fixed annual coupon of 1.782%.

On 18 May 2017 the Company placed a bond issue on the Euromarket for an amount of NOK 1,000,000 thousand, maturing on 18 May 2027 and with a fixed annual coupon of 2.7%.

On 28 July 2017 the Company updated its Euro Medium Term Notes Programme ("EMTN"), valid for a year and whereby it was able to issue straight bonds listed on the Luxembourg Stock Exchange.

On 13 September 2017 the Company placed a bond issue on the Euromarket for an amount of Euros 750,000 thousand, maturing on 13 September 2027 and with a fixed annual coupon of 1.25%.

On 29 November 2017 the Company placed a bond issue on the Euromarket for an amount of Euros 300,000 thousand, maturing on 29 November 2029 and with a fixed annual coupon of 1.621%.

Details of issues of bonds and promissory notes comprising the balance of Bonds and other marketable securities at 31 December 2018 are as follows:

Current:

Principal (Thousands of Euros)	Disbursement date	Maturity date	Issue rate	Interest rate	Settlement of interest
120,000	11/05/2009	30/09/2019	At par	5.28%	Annual
50,000	11/05/2009	11/05/2019	At par	European CPI + 3.20%	Annual
125,000	04/06/2009	04/06/2019	99.887%	5.50%	Annual
79,277 (i)	18/11/2011	18/11/2019	At par	2.51%	Half-yearly
374,277					

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

Non-current:

Principal (Thousands of Euros)		Disbursement date	Maturity date	Issue rate	Interest rate	Settlement of interest
1,100,000		23/03/2010	23/03/2020	99.262%	4.13%	Annual
23,783	(ii)	31/03/2008	31/03/2023	At par	2.67%	Annual
75,000		15/03/2006	15/03/2021	At par	Spanish CPI + 1.50%	Annual
100,000		10/03/2008	10/03/2023	99.803%	5.81%	Annual
555,105	(iii)	29/01/2009	29/01/2024	99.064%	7.37%	Annual
222,042	(iv)	01/07/2009	01/07/2022	99.545%	6.00%	Half-yearly
750,000		07/12/2016	07/03/2024	99.177%	1.00%	Annual
250,000		20/02/2017	20/02/2024	At par	3-month Euribor + 0.67%	Quarterly
100,000		20/02/2017	20/02/2029	At par	1.67%	Annual
1,000,000		07/03/2017	07/03/2025	99.360%	1.00%	Annual
60,000		10/05/2017	30/10/2030	At par	1.78%	Annual
100,303	(v)	18/05/2017	18/05/2027	At par	2.70%	Annual
750,000		13/09/2017	13/09/2027	99.052%	1.25%	Annual
575,000		29/11/2017	29/11/2029	At par	1.62%	Annual
200,000		05/02/2018	05/02/2020	At par	3-month Euribor + 0.35%	Quarterly
30,000		13/06/2018	13/06/2025	99.866%	1.13%	Annual
750,000		28/06/2018	28/10/2026	99.055%	1.25%	Annual
80,243	(vi)	03/05/2018	03/05/2028	At par	3.01%	Annual
43,948	(vii)	21/12/2018	08/12/2025	At par	3.72%	Half-yearly
6,765,424						

- (i) Amount in Euros at 31 December 2018 corresponding to an issue for an initial principal of JPY 10,000 million
(ii) Amount in Euros at 31 December 2018 corresponding to an issue for an initial principal of JPY 3,000 million
(iii) Amount in Euros at 31 December 2018 corresponding to an issue for an initial principal of GBP 500 million
(iv) Amount in Euros at 31 December 2018 corresponding to an issue for an initial principal of GBP 200 million
(v) Amount in Euros at 31 December 2018 corresponding to an issue for an initial principal of NOK 1,000 million
(vi) Amount in Euros at 31 December 2018 corresponding to an issue for an initial principal of NOK 800 million
(vii) Amount in Euros at 31 December 2018 corresponding to an issue for an initial principal of USD 50 million

All of the above issues are marketable securities on the Luxembourg Stock Exchange.

Details of bond issues and promissory notes under Bonds and other marketable securities at 31 December 2017 were as follows:

Current:

Principal (Thousands of Euros)		Disbursement date	Maturity date	Issue rate	Interest rate	Settlement of interest
50,000		26/03/2008	26/03/2018	99.110%	5.20%	Annual
665,800		09/05/2008	09/05/2018	99.440%	5.63%	Annual
63,731	(i)	21/07/2008	06/07/2018	At par	10.23%	Half-yearly
779,531						

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

Non-current:

Principal (Thousands of Euros)		Disbursement date	Maturity date	Issue rate	Interest rate	Settlement of interest
1,100,000		23/03/2010	23/03/2020	99.262%	4.13%	Annual
22,272	(ii)	31/03/2008	31/03/2023	At par	2.67%	Annual
111,358	(iii)	25/05/2006	25/05/2036	At par	3.07%	Half-yearly
75,000		15/03/2006	15/03/2021	At par	Spanish CPI + 1.50%	Annual
100,000		10/03/2008	10/03/2023	99.803%	5.81%	Annual
564,379	(iv)	29/01/2009	29/01/2024	99.064%	7.37%	Annual
120,000		11/05/2009	30/09/2019	At par	5.28%	Annual
50,000		11/05/2009	11/05/2019	At par	European CPI + 3.20%	Annual
125,000		04/06/2009	04/06/2019	99.887%	5.50%	Annual
225,751	(v)	01/07/2009	01/07/2022	99.545%	6.00%	Half-yearly
74,239	(vi)	18/11/2011	18/11/2019	At par	2.51%	Half-yearly
750,000		07/12/2016	07/03/2024	99.177%	1.00%	Annual
250,000		20/02/2017	20/02/2024	At par	3-month Euribor + 0.67%	Quarterly
100,000		20/02/2017	20/02/2029	At par	1.67%	Annual
1,000,000		07/03/2017	07/03/2025	99.360%	1.00%	Annual
60,000		10/05/2017	30/10/2030	At par	1.78%	Annual
101,415	(vii)	18/05/2017	18/05/2027	At par	2.70%	Annual
750,000		13/09/2017	13/09/2027	99.052%	1.25%	Annual
300,000		29/11/2017	29/11/2029	At par	1.62%	Annual
5,879,414						

- (i) Amount in Euros at 31 December 2017 corresponding to an issue for an initial principal of MXN 1,500 million
(ii) Amount in Euros at 31 December 2017 corresponding to an issue for an initial principal of JPY 3,000 million
(iii) Amount in Euros at 31 December 2017 corresponding to an issue for an initial principal of JPY 15,000 million
(iv) Amount in Euros at 31 December 2017 corresponding to an issue for an initial principal of GBP 500 million
(v) Amount in Euros at 31 December 2017 corresponding to an issue for an initial principal of GBP 200 million
(vi) Amount in Euros at 31 December 2017 corresponding to an issue for an initial principal of JPY 10,000 million
(vii) Amount in Euros at 31 December 2017 corresponding to an issue for an initial principal of NOK 1,000 million

All of the above issues are marketable securities on the Luxembourg Stock Exchange, except for the issue in Mexican pesos, the securities of which are listed on the Mexican Stock Exchange.

9. VALUATION OF FINANCIAL INSTRUMENTS

A comparison of the carrying amount and fair value of financial instruments at 31 December 2018 and 2017 is as follows:

(Thousands of Euros)	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Investments in Group companies and associates	7,345,823	7,621,908	6,893,274	7,373,369
Total	7,345,823	7,621,908	6,893,274	7,373,369
Financial liabilities				
Bonds and other marketable securities	7,219,232	7,459,500	6,766,196	7,145,247
Trade payables	-	-	72	72
Total	7,219,232	7,459,500	6,766,268	7,145,319

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

10. AVERAGE SUPPLIER PAYMENT PERIOD. "REPORTING REQUIREMENT", THIRD ADDITIONAL PROVISION OF LAW 15/2010 OF 5 JULY 2010

Details of the information required for 2018 and 2017 are as follows:

Number of days	2018	2017
Average supplier payment period	26.1	31.3
Transactions paid ratio	26.1	30
Transactions payable ratio	-	46.2

Thousands of Euros	2018	2017
Total payments made	686	753
Total payments outstanding	-	63

The information contained in the table above has been prepared in accordance with Law 15/2010 of 5 July 2010, amending Law 3/2004 of 29 December 2004, which sets forth measures to combat late payments in commercial transactions, and in accordance with the Spanish Accounting and Auditing Institute (ICAC) Resolution of 29 January 2016 on information to be included in the notes to the annual accounts in relation to late payments to suppliers in commercial transactions. The specifications with which such information has been prepared are as follows:

- Transactions paid ratio: amount in days resulting from the sum of the products of the amount of each transaction paid and the number of payment days, divided by the total amount of payments made during the year.
- Transactions payable ratio: amount in days resulting from the sum of the products of the amount of each transaction payable and the number of days payable, divided by the total amount payable.
- Suppliers: trade payables included under current liabilities in the balance sheet in respect of balances payable to suppliers for goods or services.
- Suppliers of fixed assets and lease finance payables are not included.
- Fees, royalties, indemnities etc. are not included either as they are not commercial transactions.

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

11. TAXATION

11.1 Public entities

Details of balances payable to and receivable from public entities at 31 December 2018 and 2017 are as follows:

(Thousands of Euros)	2018	2017
Public entities, receivable:		
Taxation authorities, income tax receivable (a)	206	488
Total	206	488

(a) At 31 December 2018 and 2017, this heading reflects income tax receivable for 2018 and 2017, respectively, from Iberdrola Inversiones 2010, S.A., a company representing the tax Group in which the Company is included, for amounts of Euros 253 thousand and Euros 456 thousand.

(Thousands of Euros)	2018	2017
Public entities, payable:		
Taxation authorities, VAT	-	2
Total	-	2

11.2 Income tax

The Company files taxes under Vizcaya tax law.

In 2018 the Company filed consolidated income tax returns as a subsidiary of consolidated tax group 02415BSC, a group of companies which opted with effect as of 1 January 2015 to apply the consolidated tax regime set out in Vizcaya Provincial Law 11/2013 of 5 December 2013 on income tax and of which IBERDROLA, although not forming part thereof, is the Parent, and Iberdrola Inversiones 2010, S.A. is the representative company.

Group 02415BSC is comprised of 21 companies.

A reconciliation of the individual accounting loss with the individual tax loss for corporate income tax for 2018 and 2017 is as follows:

(Thousands of Euros)	2018
Loss before income tax	(980)
Taxable income/(tax loss)	(980)
Tax recoverable (26%)	255

(Thousands of Euros)	2017
Loss before income tax	(1,628)
Taxable income/(tax loss)	(1,628)
Tax recoverable (28%)	456

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

11.3 Accounting income tax expense

A breakdown of income tax between current and deferred taxes is as follows:

(Thousands of Euros)	2018	2017
	Income statement	Income statement
Effective tax income		
Current	(255)	(456)
Deferred	2	-
Total	(253)	(456)

Income tax accrued in 2018 and 2017 is as follows:

Thousands of Euros	2018	2017
Accounting loss before income tax	(980)	(1,628)
Adjusted accounting loss	(980)	(1,628)
Gross tax	(255)	(456)
Change in rates	2	-
Accrued tax income	(253)	(456)

11.4 Deferred taxes

Movement in deferred tax assets during 2018 and 2017 is as follows:

(Thousands of Euros)	01.01.18	Credit (debit) to the income statement	31.12.18
Deferred tax assets:			
Tax credits for loss carryforwards and deductions	12	(2)	10
Total	12	(2)	10

(Thousands of Euros)	01.01.17	Credit (debit) to the income statement	31.12.17
Deferred tax assets:			
Tax credits for loss carryforwards and deductions	12	-	12
Total	12	-	12

11.5 Tax inspections

At the date these annual accounts were authorised for issue, the Company has open to inspection by the Spanish taxation authorities the main applicable taxes for 2015 and subsequent years. In accordance with prevailing legislation, taxes cannot be considered definitive until they have been inspected by the taxation authorities or the inspection period of four years has elapsed.

The Company's directors and, where applicable, its tax advisors consider that no significant additional liabilities will arise for the Company as a result of the years open to inspection.

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12. INCOME AND EXPENSES

12.1 Finance costs

Details of finance costs during 2018 and 2017 are as follows:

(Thousands of Euros)	2018	2017
Interest on payables to Group companies	3,791	2,474
Interest on other payables		
Interest on bonds, obligations and other ⁽¹⁾	202,483	215,846
Total	206,274	218,320

(1) This amount includes an expense of Euros 3,627 thousand in 2018 and 2017 corresponding to transaction costs on the modification of a financial liability in 2010. This amount means finance costs are higher than finance income. This financial liability matures in 2020.

12.2 Revenues

Details of this item of the income statements for 2018 and 2017 are as follows:

(Thousands of Euros)	2018	2017
Finance income from marketable securities and other financial instruments		
Group companies and associates	205,747	217,188
Total	205,747	217,188

12.3 Exchange losses

Exchange losses in 2018 amounted to a net loss of Euros 5 thousand (2017: a net loss of Euros 14 thousand).

13. REMUNERATION OF SENIOR MANAGEMENT

The board of directors carries out the functions of senior management, understood as individuals with the authority and responsibility for planning, management and control of the company's activities, and note 14 is thus applicable to this note.

14. REMUNERATION OF THE BOARD OF DIRECTORS

During the period to which these annual accounts refer, as well as in 2017, the members of the Company's board of directors accrued no remuneration in their capacity as such.

No loans or advances have been extended to the directors, nor is any amount reflected in the balance sheets for 2018 and 2017 in respect of this item from prior years.

In 2018 and 2017 IBERDROLA, as parent of the group of companies to which the Company belongs, assumed the directors' public liability insurance premiums for damages caused when performing their duties.

Finally, at 31 December 2018 and 2017, the Company has not extended any guarantees to, nor has it assumed any commitments with former or current members of the board of directors in respect of pensions or life insurance, nor has it carried out any transactions with them other than those described in this note.

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15. INFORMATION ON COMPLIANCE WITH ARTICLE 229 OF THE SPANISH COMPANIES ACT

In compliance with article 229 of the Spanish Companies Act, which was introduced by Royal Decree Law 1/2010 of 2 July 2010, and amended by Law 31/2014 of 3 December 2014, to improve corporate governance, the members of the board of directors declare that they and any persons related to them, have not had any direct or indirect conflicts of interest with the Company.

16. RELATED PARTY BALANCES AND TRANSACTIONS

All transactions that the Company carries out with related parties are with its sole shareholder, and with companies of the IBERDROLA Group, Iberdrola Financiación, Iberdrola Distribución and Iberdrola Renovables Offshore Deutschland.

The transactions detailed below form part of the Company's ordinary business activity and are carried out on an arm's length basis.

16.1 Balances with Group companies and associates

Loans to Group companies and associates

Details of current and non-current loans to Group companies and associates in the balance sheets at 31 December 2018 and 2017 are as follows:

Thousands of Euros	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
Iberdrola, S.A.	248,612	873,598	1,122,210	728,628	1,240,002	1,968,630
Iberdrola Financiación, S.A.U.	120,430	5,762,432	5,882,862	(3,752)	4,514,618	4,510,866
Iberdrola Distribución Eléctrica, S.A.U.	(12)	99,958	99,946	49,977	99,945	149,922
Iberdrola Renovables Offshore Deutschland, GmbH	-	100,000	100,000	-	100,000	100,000
Accrued interest receivable	122,236	-	122,236	148,305	-	148,305
Total	491,266	6,835,988	7,327,254	923,158	5,954,565	6,877,723

The transactions above mainly comprise loans extended to various IBERDROLA Group companies for the same amount as debt issues placed on the Euromarket in different currencies. Information on the maturities of loans extended is disclosed in note 6.

Other financial liabilities with Group companies and associates

Details of the current portion of Other financial assets with Group companies and associates at 31 December 2018 and 2017 are as follows:

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

Thousands of Euros	2018	2017
	Balances receivable	Balances payable
Current		
Iberdrola, S.A.	18,569	15,551
Total	18,569	15,551

The balance receivable from IBERDROLA reflects the reciprocal current account contract denominated in Euros. Interest is settled annually by capitalising it on the 1st of January each year, and the interest rates are as follows:

- Balances receivable from IBERDROLA: 3-month Euribor + 0.46%.
- Balances payable to IBERDROLA: 3-month Euribor + 0.46%.

Guarantees with Group companies and associates

Thousands of Euros	2018	2017
	Balances payables	Balances payable
Current		
Iberdrola, S.A. ⁽¹⁾	684	518
Total	684	518

(1) This amount corresponds to the interest accrued payable on internal guarantees extended by IBERDROLA to the Company each time an issue is placed. The associated finance cost is Euros 3,791 thousand and Euros 2,474 thousand in 2018 and 2017, respectively.

At 31 December 2018, all of the Company's existing issues are secured by IBERDOLA (note 8), which amount to Euros 7,139,701 thousand (Euros 6,658,946 thousand at 31 December 2017).

16.2 Related party transactions

The transactions detailed below form part of the Company's ordinary business activity and are carried out on an arm's length basis.

The most important transactions in 2018 and 2017 were as follows:

(Thousands of Euros)	2018	2017
	Group entities or subsidiaries	Group entities or subsidiaries
Expenses and income		
Finance costs with Iberdrola, S.A.	3,791	2,474
Receipt of services from Iberdrola, S.A.	293	270
Total expenses	4,084	2,744
Finance income from marketable securities and other financial instruments		
Group companies and associates		
Iberdrola, S.A.	88,600	120,094
Iberdrola Financiación, S.A.U.	109,423	86,743
Remaining Group companies	7,724	10,351
Total income	205,747	217,188

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

17. AUDIT FEES

Fees for audit services rendered to the Company during 2018 and 2017 by the auditor of accounts amounted to Euros 7thousand, respectively.

In 2018 and 2017, the auditor of accounts provided audit-related services amounting to Euros 50 thousand, respectively.

18. EVENTS AFTER THE REPORTING PERIOD

The most significant events after the reporting period were as follows:

Transaction	Thousands of Euros	Currency	Coupon	Disbursement date	Maturity date
Principal new investment activities					
Intercompany loan increase	50,000	EUR	1.881%	17/01/2019	30/10/2030
Principal new financing transactions					
Bond increase	50,000	EUR	1.782%	17/01/2019	30/10/2030

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

IBERDROLA FINANZAS, S.A.U. (Sociedad Unipersonal)

Directors' Report for the year ended 31 December 2018

1. SIGNIFICANT EVENTS IN 2018

Key indicators of the IBERDROLA FINANZAS, S.A.U. income statement.

Revenues in 2018 amounted to Euros 205,747 thousand and derived from marketable securities and other financial instruments of Groups companies and associates.

Operating expenses totalled Euros 448 thousand.

Net finance cost amounted to Euros 206,279 thousand, mainly on account of payables to Group companies and associates and to third parties.

The Company made a pre-tax loss of Euros 980 thousand, while income tax received totalled Euros 253 thousand, resulting in a net loss of Euros 727 thousand compared to a net loss of Euros 1,172 thousand in 2017.

2. BUSINESS PERFORMANCE

The Company was incorporated on 16 February 2005 with the sole purpose of issuing preferential shares and other marketable debt instruments in Spanish and foreign secondary markets.

The Company provided the financing obtained on the debt markets to its sole shareholder, Iberdrola S.A. (hereinafter, and interchangeably, the "sole shareholder" or "IBERDROLA") until 7 December 2016, except in the period 23 March 2010 (inclusive) to 7 April 2011 (including this date), during which it provided the financing obtained on the debt markets to Iberdrola Financiación, S.A.U. (hereinafter, "Iberdrola Financiación"). As of 7 December 2016 it has provided the entire financing obtained on the markets to Iberdrola Financiación and Iberdrola Distribución Eléctrica, S.A.U. (hereinafter "Iberdrola Distribución"), companies which are wholly owned by the sole shareholder. It also extended a loan to Iberdrola Renovables Offshore Deutschland, GmbH (hereinafter "Iberdrola Renovables Offshore Deutschland") with the funds obtained through a capital increase in 2013.

During 2018, the Company continued to service the debt of existing bond issues as well as place new issues. In July, it renewed its Euro Medium Term Notes Programme ("EMTN").

3. PRINCIPAL RISK FACTORS

The IBERDROLA Group is exposed to certain inherent risks due to the different countries, sectors and markets where it operates, and the activities it carries out, which can prevent the Company from achieving its objectives and executing its strategies successfully.

The IBERDROLA Group's financing and financial risk policies have been approved by IBERDROLA's board of directors and are applied by the Company. Based on these policies, the Company has an organisation and systems allowing it to identify, measure and manage the financial risks to which it is exposed.

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The activity with financial instruments exposes the Company to credit, market and liquidity risks. Since the Company is a financial vehicle corporation of the IBERDROLA Group, the Company's exposure to these risks should be evaluated in the environment of the IBERDROLA Group.

4. ENVIRONMENTAL ISSUES

The Company has no environmental liabilities, expenses, assets, provisions or contingencies that could have a significant effect on its equity, financial position or results. Consequently, these notes to the annual accounts do not include any specific disclosures regarding environmental issues.

5. OUTLOOK FOR 2019

Company activity for 2019 will focus on placing issues under its EMTN programme and lending the funds obtained to Iberdrola Financiación, as well as servicing the debt of existing bond issues.

6. RESEARCH AND DEVELOPMENT ACTIVITIES

During the year, the Company did not incur any research and development costs.

7. OWN SHARES AND CAPITAL REDUCTION

The Company holds no own shares at 31 December 2018.

8. FINANCIAL DERIVATIVES AND HEDGING TRANSACTIONS

The Company has no derivative financial instruments at 31 December 2018.

9. COMPLIANCE WITH ARTICLE 262.1 OF THE SPANISH COMPANIES ACT IN RELATION TO THE AVERAGE SUPPLIER PAYMENT PERIOD

As disclosed in note 10, the Company's average supplier payment period in 2018 was 26 days.

10. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are disclosed in note 18 to the annual accounts.

11. NON-FINANCIAL INFORMATION AND DIVERSITY

Concerning Law 11/2018 on non-financial information and diversity, the Company is not required to present a non-financial information statement as the Company is included in the consolidated directors' report of Iberdrola, S.A., which will be filed at the Bilbao Mercantile Registry.

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PROPOSED APPLICATION OF LOSSES

The proposal for application of losses for 2018, authorised by the directors and expected to be approved by the sole shareholder, is to carry forward losses as accumulated losses.

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

Annual accounts, directors' report and proposal for application of losses of IBERDROLA FINANZAS S.A.U. for the year 1 January 2018 to 31 December 2018, authorised for issue by the board of directors.

Jesús Martínez Pérez
Director

Juan Carlos Rebollo Liceaga
Director

Guillermo Colino Salazar
Director

Guillermo Colino Salazar, Secretary to the Company's board of directors certifies that the above signatures of the Company's directors have been provided in his presence and that this document comprises the annual accounts, directors' report and the proposal for application of losses of the Company for 2018. This documentation has been authorised for issue by the Company's board of directors at a meeting held on the aforementioned date and therefore within the period stipulated by article 253.1 of the Revised Spanish Companies Act and is included on 32 sheets of paper, printed on one side.

Bilbao, 29 March 2019