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Results first half / 2017

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First half

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2017

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Core Business figures

Networks

		December 2016	December 2015
RAB (Local currency)			
Spain	(EUR MM)	9.1	9.1
United Kingdom	(GBP MM)	5.7	5.4
United States	(USD MM)	8.7	8.7
Brazil *	(BRL MM)	14.7	12.4
Elektro		3.3	2.8
Neoenergia		11.4	9.6

Distributed Electricity	H1 2017	H1 2016	vs. 2016
ELECTRICITY (GWh)			
Spain	46,361	45,926	0.9%
United Kingdom	17,621	18,199	-3.2%
United States	18,585	18,839	-1.4%
Brazil *	31,958	31,445	1.6%
Elektro	8,941	8,740	2.3%
Neoenergia	23,017	22,705	1.4%
Total	**114,524**	**114,410**	**0.1%**
GAS (GWh)			
United States	34,463	34,368	0.3%
Total	**34,463**	**34,368**	**0.3%**

Managed supply points	H1 2017	H1 2016	vs. 2016
ELECTRICITY (Millions)			
Spain	11.00	10.93	0.6%
United Kingdom	3,52	3.51	0.2%
United States	2.21	2.20	0.6%
Brazil *	13.49	13.30	1.4%
Total	**30.22**	**29.94**	**0.9%**
GAS (Millions)			
United States	1.02	1.01	1.1%
Total	**1.02**	**1.01**	**1.1%**
TOTAL SUPPLY POINTS	**31.23**	**30.95**	**0.9%**

Note: In terms of operational data, IFRS11 do not apply (see details under Operational Performance for the period)
*Includes 100% of Neoenergia

Generation business and Customers

	H1 2017	H1 2016	vs. 2016
TOTAL GROUP			
Net Production (GWh)	**71,016**	**74,526**	**-4.7%**
Renewables	29,276	33,335	-12.2%
Onshore	17,789	17,996	-1.2%
Offshore	387	340	13.9%
Hydro	10,691	14,447	-26.0%
Minihydro	257	417	-38.3%
Solar and others	152	135	12.7%
Nuclear	12,577	12,013	4.7%
Gas combined cycle	24,967	24,092	3.6%
Cogeneration	3,079	3,084	-0.1%
Coal (*)	1,117	2,003	-44.2%
Installed Capacity (MW)	**47,751**	**46,082**	**3.6%**
Renewables	28,270	27,287	3.6%
Onshore	15,099	14,227	6.1%
Offshore	359	194	84.9%
Hydro	12,388	12,444	-0.4%
Minihydro	304	303	0.5%
Solar and others	120	120	-
Nuclear	3,410	3,410	-
Gas combined cycle	13,957	13,248	5.3%
Cogeneration	1,241	1,263	-1.8%
Coal (*)	874	874	-
Electricity customers (No mill.)	**13,36**	**13,52**	**-1.2%**
Gas customers (No mill.)	**3,07**	**3,08**	**-0.4%**
Gas Supplies (GWh)	**52,078**	**57,747**	**-9.8%**
Gas Storage (bcm)	**2,52**	**2,52**	**0.2%**

Note: In terms of operational data, IFRS11 do not apply (see details under Operational Performance for the period)

* Longanet closure at the end of March 2016

	H1 2017	H1 2016	vs. 2016
SPAIN			
Net Production (GWh)	**27,737**	**34,179**	**-18.8%**
Renewables	11,658	19,668	-40.7%
Onshore	6,076	6,975	-12.9%
Hydro	5,291	12,245	-56.8%
Minihydro	257	417	-38.3%
Solar and others	34	32	8.9%
Nuclear	12,577	12,013	4.7%
Gas combined cycle	1,066	1,098	-2.9%
Cogeneration	1,319	1,116	18.2%
Coal	1,117	284	N/A
Installed Capacity (MW)	**26,166**	**26,166**	**-**
Renewables	15,821	15,820	-
Onshore	5,752	5,753	-
Hydro	9,715	9,715	-
Minihydro	304	303	0.5%
Solar and others	50	50	-
Nuclear	3,410	3,410	-
Gas combined cycle	5,695	5,695	-
Cogeneration	367	367	-0.1%
Coal	874	874	-
Electricity customers (No mill.)	**10.18**	**10.28**	**-1.0%**
Gas customers (No mill.)	**0.96**	**0.92**	**3.9%**
Gas Supplies (GWh)	**10,728**	**12,127**	**-11.5%**
Consumers	8,002	9,044	-11.5%
Gas Combined Cycle	2,726	3,083	-11.6%

	H1 2017	H1 2016	vs. 2016
UNITED KINGDOM			
Net Production (GWh)	**5,669**	**7,445**	**-23.9%**
Renewables	2,398	1,836	30.7%
Onshore	1,701	1,182	43.8%
Offshore	387	340	13.9%
Hydro	311	313	-0.9%
Gas combined cycle	3,271	3,890	-15.9%
Cogeneration	-	-	-
Coal (*)	-	1,719	-100.0%
Installed Capacity (MW)	**4,796**	**4,233**	**13.3%**
Renewables	2,828	2,265	24.9%
Onshore	1,906	1,508	26.4%
Offshore	359	194	84.9%
Hydro	563	563	-
Gas combined cycle	1,967	1,967	-
Cogeneration	1	1	-
Coal (*)	-	-	-
Electricity customers (No mill.)	**3.17**	**3.23**	**-1.8%**
Gas customers (No mill.)	**2.11**	**2.16**	**-2.2%**
Gas Supplies (GWh)	**41,350**	**45,620**	**-9.4%**
Consumers	30,407	32,353	-6.0%
Gas Combined Cycle	10,943	13,267	-17.5%
Gas Storage (bcm)	**0.08**	**0.08**	**5.9%**

* Longanet closure at the end of March 2016

	H1 2017	H1 2016	vs. 2016
EE.UU.			
Net Production (GWh)	**9,257**	**9,316**	**-0.6%**
Renewables	8,539	8,266	3.3%
Onshore	8,193	7,950	3.1%
Hydro	232	218	6.7%
Solar and others	114	99	14.7%
Gas combined cycle	5	13	-60.6%
Cogeneration	712	1,037	-31.3%
Installed Capacity (MW)	**7,023**	**6,674**	**5.2%**
Renewables	6,177	5,829	6.0%
Onshore	5,996	5,647	6.2%
Hydro	118	118	-
Solar and others	63	63	-
Gas combined cycle	209	209	-
Cogeneration	636	636	-
Gas Storage (bcm)	**2.44**	**2.44**	**-**

	H1 2017	H1 2016	vs. 2016
MEXICO			
Net Production (GWh)	**20,163**	**18,543**	**8.7%**
Renewables	438	515	-14.8%
Onshore	438	515	-14.8%
Gas combined cycle	18,768	17,275	8.6%
Cogeneration	957	754	27.0%
Installed Capacity (MW)	**6,157**	**5,396**	**14.1%**
Renewables	367	367	-
Onshore	367	367	-
Gas combined cycle	5,553	4,845	14.6%
Cogeneration	237	184	28.8%

	H1 2017	H1 2016	vs. 2016
BRAZIL (*)			
Net Production (GWh)	**7,525**	**4,290**	**75.4%**
Renewables	5,576	2,298	142.7%
Onshore	719	626	14.9%
Hydro	4,857	1,672	190.6%
Gas combined cycle	1,858	1,815	2.3%
Cogeneration	91	177	-48.9%
Installed Capacity (MW)	**2,987**	**2,992**	**-0.2%**
Renewables	2,454	2,384	2.9%
Onshore	463	337	37.4%
Hydro	1,991	2,047	-2.7%
Gas combined cycle	533	533	-
Cogeneration	-	75	-100.0%

	H1 2017	H1 2016	vs. 2016
REST OF THE WORLD			
Net Production (GWh)	**665**	**752**	**-11.6%**
Renewables	665	752	-11.6%
Onshore	661	748	-11.6%
Solar and others	4	5	-4.8%
Installed Capacity (MW)	**621**	**621**	**-**
Renewables	621	621	-
Onshore	615	615	-
Solar and others	6	6	-

* Includes 100% of Neoenergia

Stock Market Data

		H1 2017	H1 2016
Market capitalisation	EUR MM	43,261.9	37,982.9
Earnings per share (6,240,000,000 shares at 06/30/16 and 6,240,000,000 shares, at 06/30/17)	€	0.24	0.23
Net operating cash flow per share	€	0.52	0.51
P.E.R.	Times	15.64	16.16
Price/Book value (capitalisation to NBV at the end of the period)	Times	1.10	0.93

Economic/Financial Data*

Income Statement		H1 2017	H1 2016
Revenues	EUR (MM)	15,168.8	14,898.0
Gross Margin	EUR (MM)	6,851.0	6,776.3
EBITDA	EUR (MM)	3,751.8	3,892.1
EBIT	EUR (MM)	2,116.5	2,253.6
Net Profit	EUR (MM)	1,518.4	1,.456.7
Net Operating Expenses / Gross Margin	%	-28.35	-27.46

Balance Sheet

		June 2017	Dec. 2016
Total Assets	EUR (MM)	105,119	106,706
Shareholders' Equity	EUR (MM)	39,978	40,871
Net Financial Debt	EUR (MM)	29,474	29,230
ROE	%	7.0	6.1
Financial Leverage (1)	%	42.4	41.7
Net Financial Debt / Equity	%	75.3	71.5

Others

		June 2017	June 2016
Investments	EUR (MM)	2,512	1,859
Employees	No.	28,022	28,333

Credit rating of Iberdrola Senior Debt

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

(*) Financial terms are defined in the "Glossary"
(1) Net Financial Debt/(Net Financial Debt + Shareholder's Equity).

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Operating highlights for the period

The results for the first half of 2017 are up compared to those reported for the first quarter of the year, thanks to the good performance of the Networks business in the United States and Brazil, as well as the Generation and Supply business in Mexico, which were subject to a slight negative offset caused by the negative impact of the weather conditions in Spain (the low rainfall has meant both lower hydroelectric production, at more than 7 TWh for the period, and lower wind production), and by the lower contribution of the United Kingdom compared to last year, affected by the complex operational situation of the Generation and Supply business, as well as by the closure of the Longannet coal power station.

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

- In Spain, the period has been characterised by a significant drop in hydroelectric production (-52%), and lower production of the remaining renewable technologies (-3%) as a result of the weather conditions. Coal and gas station production has offset the aforementioned drops, with increases of 99% and 33% respectively. Electricity demand is slightly above that of the first half of 2016 (+1.1%), although in terms adjusted to the number of working days and temperature, demand increased by 1.5%.
- In the United Kingdom, electricity demand dropped by 2.2% compared to 2016. Customers' gas demand (does not include generation consumption) also dropped by 4.7%.
- In Avangrid's area of influence on the East coast of the US, electricity demand dropped slightly (-1.4%), whereas gas demand remained practically flat (+0.3%) compared to the first half of 2016, as a consequence of the lower temperatures compared with the preceding year
- Demand in Iberdrola's area of influence in Brazil grew by 1.6% compared to last year, with a 2.3% growth in Elektro's demand, and 1.4% growth in the case of Neoenergia.

During the first half of 2017, international markets of commodities evolved as follows:

- The average price of Brent oil is USD 51.8 per barrel compared with USD 39.7 per barrel in the same period of last year (+30%).
- The average price of gas (TTF) over the period is EUR 17.1/MWh compared with EUR 13.0/MWh in the first half of 2016 (+31%).
- The average price of API2 coal is USD 78.9/MT, compared with USD 47.0/MT (+68%) last year.
- The average cost of CO2 rights dropped from EUR 5.7/MT in the first half of 2016 to EUR 5.0/MT in the same period of 2017 (-13%).

The average performance of Iberdrola's main reference currencies against the Euro during the first half of 2017 compared to the same period of last year was as follows:

- The Pound Sterling depreciated by 11.4%.
- The Brazilian Real appreciated by 17.2%.
- The US Dollar appreciated by 2.8%.

At Iberdrola Group level, the impact of the depreciation of the Pound Sterling has been partly offset by the appreciation of the Brazilian Real and the US Dollar, with the effect of the exchange rate reaching EUR 19.2 million at EBITDA level.

The following exceptional highlights should be noted regarding the period analysed and the performance, compared to the same period of 2016:

- Net investment for the January to June 2017 period came to EUR 2,512.5 million, exceeding by 35.2% the net investment made in the same period of 2016. Of this investment, 80.1% focused on the Networks and Renewables businesses.
- Consolidated EBITDA dropped by 3.6% to EUR 3,751.8 million, up compared to the 8.3% drop recorded in the first quarter of the year, with good performance of the Networks business thanks to the United States and Brazil, and the generation contracted in Mexico, which is offset by the negative effect of the weather conditions in

Spain and the closure of Longannet in the United Kingdom.

- Net Profit increased by 4.2% to EUR 1,518.4 million. Income from Non-Current Assets totalled EUR 241.0 million versus EUR 46.9 million in the first half of 2016, thanks to the merger of Gamesa and Siemens Wind which contributed EUR 255 million, including an extraordinary merger dividend of EUR 198 million (collected on 11 April).

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

EUR Million	1H 2016	Vs 1H 2017
GROSS MARGIN	6,851.0	1.1%
EBITDA	3,751.8	-3.6%
EBIT	2,116.5	-6.1%
NET PROFIT	1,518.4	4.2%

The key financial figures for the period are as follows:

- Net Financial Debt was at EUR 29,474 million.

  Financial leveraging is at similar levels to those recorded on 31 December (42.4% compared to 41.7%).

- Funds from Operations in the first half of the year were EUR 3,275.2 million, a 1.73% increase compared to the previous year.

Neonergia Group incorporates Elektro´s Businesses

The shareholders of Neoenergia (Iberdrola, Previ and Banco de Brasil) have reached an agreement by which the company will incorporate the activity and businesses of Elektro, creating a leading utility company in Brazil and Latin America, focused on the Networks and Renewables businesses. Following this operation, Iberdrola will own a 52.45% stake in the resulting company, which will have 13.4 million supply points, 585,000 km. of distribution network and more than 3,500 MW of capacity under contract, in operation and under construction, mainly in renewable energies.

The transaction will be carried out maintaining the Group's financial solidity: with no cash component, and no capital increase, and strengthening our position in an already known company.

The operation will be closed once the ANEEL (*Agência Nacional de Energia Elétrica*) and BNDES (*Banco Nacional de Desenvolvimento Econômico e Social*) approvals have been received, both expected in August, having already obtained the approval of the CADE (*Conselho Administrativo de Defesa Econômica*).

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Operational performance for the period

1. Distributed energy and supply points

The Group's Regulatory Asset Base (RAB) stood at over €27.5 billion at the close of 2016.

		December 2016	December 2015
RAB (local currency)			
Spain	(EUR billions)	9.1	9.1
United Kingdom	(GBP billions)	5.7	5.4
United States	(USD billions)	8.7	8.7
Brazil *	(BRL billions)	14.7	12.4
Elektro		3.3	2.8
Neoenergia		11.4	9.6

During the first half of 2017, the electricity distributed by the Group amounted to 114,524 GWh, 0.1% more than in 2016, due to the increase in demand in Brazil and Spain, which offset the decline in the United Kingdom. Distributed gas (United States) reached 34,463 GWh, posting a growth of 0.3% over the same period of 2016.

The total supply points of the Group reached 30.22 millions in electricity and 1.02 millions in gas, with the following breakdown by country:

Supply points managed	1H 2017	1H 2016	vs. 2016
Electricity (Millions)			
Spain	11.00	10.93	0.6%
United Kingdom	3.52	3.51	0.2%
United States	2.21	2.20	0.6%
Brazil *	13.49	13.30	1.4%
Total Electricity	**30.22**	**29.94**	**0.9%**
Gas (Millions)			
USA	1.02	1.01	1.1%
Total Gas	**1.02**	**1.01**	**1.1%**
Total supply points	**31.23**	**30.95**	**0.9%**

* Includes 100% of Neoenergia

1.1. Spain

At close of June, Iberdrola Distribución Eléctrica had 11 million supply points, a 0.6% increase compared with 2016, and its energy distribution since the beginning of the year so far amounted to 46,361 GWh, a 0.9% increase compared with the previous year.

At the end of the first half of the year, the SAIDI indicator for Supply Quality stood at 46.1 minutes, greatly impacted by the wind and snow storm in January in Castilla La Mancha, the Region of Valencia and Murcia, which caused numerous issues.

The table shows the evolution of the SAIDI (System Average Interruption Duration Index in average voltage in minutes) and SAIFI (System Average Interruption Frequency Index in average voltage):

Year	SAIDI As at 30 June	SAIFI As at June 30
2015	30.7	0.57
2016	26.8	0.49
2017	46.1	0.61

During the current financial period, the investment made by the business in Spain made it possible to commission the facilities included in the following table:

Physical Units commissioned (January to June 2017)		Total	Voltage			
			Very High	High	Medium	Low
Lines	Overhead (km) (1)	85.5	-37.1	30.5	-21.3	113.4
	Underground (km)	270	0.2	2	122.6	145.2
Substations	Transformers (units)	9	8	0	1	
	Capacity increase (MVA)	1,230	1,190	9.5	30	
	Substations (units) (1)	3				
Secondary substations	Secondary substations (units)	261				
	Capacity increase (MVA)	98.0				

(1) Reduction in km of HV lines by substitution with VHV lines (some owned by REE) and, in addition, VHV/HV transformation is being replaced by VHV/MV, resulting in the elimination of some HV circuits. In June 2017, in the province of Valencia, the transformation works on 132kV to 220kV lines connecting the substations of Catadau, Valle del Cárcer, Valldigna and Gandía were completed, becoming part of the Transmission Network.

(2) New substations commissioned during the first quarter of 2017: Carril (380 kV) (Murcia), Tobarra 132 kV (Albacete) and Mudarra Iberdrola 220 kV (Valladolid).

Within the STAR smart grid project, 914,297 smart meters were installed during the first half of the year, reaching a total of 9,739,096 meters installed and 86.8% of meters integrated in the grid. According to the CNMC report of 23 February 2017, monitoring the effective integration of smart meters in Spain, Iberdrola is the leading distributor in quality remote management reading, with 95% of one-hour values captured remotely from the possible total.

1.2. United Kingdom

On 30 June, Scottish Power Energy Networks (SPEN) exceeded 3.52 million supply points. The volume of energy distributed during the half-year was 17,621 GWh, down 3.2% from the first half of 2017, mainly on the back of moderate winter temperatures (-1.7% adjusted for working days and temperature).

All service quality indicators improved compared with the first half of 2016.

Customer Minutes Lost (CML) was as follows:

CML (min)	Jan-Jun 2017	Jan-Jun 2016
Scottish Power Distribution (SPD)	14.71	17.01
Scottish Power Manweb (SPM)	16.87	18.89

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

CI (n° of interruptions)	Jan-Jun 2017	Jan-Jun 2016
Scottish Power Distribution (SPD)	19.81	24.61
Scottish Power Manweb (SPM)	15.52	22.63

In the United Kingdom, it is worth noting the positive development of Western Link; the underwater interconnection project between Scotland, Wales and England, which will be commissioned by the end of 2017. Offshore works will end in August, after more than 380 km of underwater cable have been laid and buried.

1.3 United States - AVANGRID

1.3.1 Electricity

At close of June 2017, Avangrid Networks had 2.2 million electricity supply points. The electricity distributed in the first half-year was 18,585 GWh, a 1.4% drop compared with the previous year. Adjusted by the effect of the temperature it implies a 1% decrease.

Supply quality indicators improved except for slight deviations due to the wind and snow storms, mainly affecting the New York area.

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

CAIDI (h)	Jan-Jun 2017	Jan-Jun 2016
Central Maine Power (CMP)	1.83	1.81
NY State Electric & Gas (NYSEG)	2.11	2.02
Rochester Gas & Electric (RGE)	1.98	1.71

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

SAIDI (min)	Jan-Jun 2017	Jan-Jun 2016
United Illuminating Company (UI)	13.10	23.20

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

SAIFI	Jan-Jun 2017	Jan-Jun 2016
Central Maine Power (CMP)	0.83	0.79
NY State Electric & Gas (NYSEG)	0.59	0.60
Rochester Gas & Electric (RGE)	0.24	0.25
United Illuminating Company (UI)	0.18	0.27

1.3.3 Gas

The number of gas users in the United States exceeded one million, which, until June, were supplied with 34,463 GWh, up 0.3% from the same period last year, mainly due to lower temperatures compared with 2016.

1.4. Brazil

At close of June 2016, Neoenergia had 10.9 million supply points in Brazil, while Elektro had 2.6 million. The distributed electricity volume for the first six months of 2017 was 23,017 GWh by Neoenergia and 8,941 GWh by Elektro, with an average increase of1.6 % compared with the previous year.

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

DEC (h)	Jan-Jun 2017	Jan-Jun 2016
Elektro	3.98	4.10
Coelba	9.42	11.82
Cosern	6.99	6.97
Celpe	8.18	8.33

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

FEC	Jan-Jun 2017	Jan-Jun 2016
Elektro	2.36	2.27
Coelba	3.89	4.36
Cosern	3.53	3.63
Celpe	3.69	3.56

On 24 April, Elektro was awarded 4 transmission projects (1 line measuring 580 km and 3 static compensators), with an estimated investment of BRL 900 million, in the auctions organised by the National Electric Energy Agency (ANEEL). The concession agreements are expected to be signed in August.

On the other hand, ANEEL has recognized the effort and progress made in Supply Quality by Celpe and Coelba companies during the last year.

Neonergia Group incorporates Elektro´s Businesses

The shareholders of Neoenergia (Iberdrola, Previ and Banco de Brasil) have reached an agreement by which the company will incorporate the activity and businesses of Elektro, creating a leading utility company in Brazil and Latin America, focused on the Networks and Renewables businesses. Following this operation, Iberdrola will own a 52.45% stake in the resulting company, which will have 13.4 million supply points, 585,000 km. of distribution network and more than 3,500 MW of capacity under contract, in operation and under construction, mainly in renewable energies.

The transaction will be carried out maintaining the Group's financial solidity: with no cash component, and no capital increase, and strengthening our position in an already known company.

The operation will be closed once the ANEEL (*Agência Nacional de Energia Elétrica*) and BNDES (*Banco Nacional de Desenvolvimento Econômico e Social*) approvals have been received, both expected in August, having already obtained the approval of the CADE (*Conselho Administrativo de Defesa Econômica*).

2. Electricity production and customers

At the end of the first half of 2017, Iberdrola's **installed capacity** amounted to 47,751 MW, 59% of which from renewable sources:

MW	1H 2017	vs.1H 2016
Renewables	**28,270**	**3.6%**
Onshore wind energy	15,099	6.1%
Offshore wind energy	359	84.9%
Hydroelectric	12,388	-0.4%
Mini-hydroelectric	304	0.5%
Solar and others	120	-
Nuclear	**3,410**	**-**
Gas combined cycle	**13,957**	**5.3%**
Cogeneration	**1,241**	**-1.8%**
Coal	**874**	**-**
Total	**47,751**	**3.6%**

* Includes 100% of Neoenergia

Net electricity production during the period was 71,016 GWh, with 59% derived from renewable sources:

GWh	1H 2017	vs.1H 2016
Renewables	**29,276**	**-12.2%**
Onshore wind energy	17,789	-1.2%
Offshore wind energy	387	13.9%
Hydroelectric	10,691	-26.0%
Mini-hydroelectric	257	-38.3%
Solar and others	152	12.7%
Nuclear	**12,577**	**4.7%**
Gas combined cycle	**24,967**	**3.6%**
Cogeneration	**3,079**	**-0.1%**
Coal	**1,117**	**-44.2%**
Total	**71,016**	**-4.7%**

* Includes 100% of Neoenergia

2.1 Spain and Portugal

In the first half of 2017, the **Energy Balance of the peninsular system** was characterised by a significant increase in thermal production compared with the same period of the previous year (+ 68%), mainly due to the reduction of hydropower production (-52%), having been a dry half-year, especially the month of January and the second quarter of the year. The remaining production from renewable sources decreased by 3% as a result of lower wind generation (-12%). Coal production increased with respect to 2016 by 99% and combined cycle by 33%. Demand increased by 1.1% compared to the first half of 2016, whilst it grew by +1.5% after adjusting for working days and temperature. The evolution of electricity consumption of the group of companies and industries shows that, over the last 12 months, consumption dropped -0.4%, remaining at similar levels for industrial consumers and decreasing by -1.9% for service consumers.

Renewable capacity and production

Regarding **Iberdrola**, at the close of the second quarter of 2017, it had a **renewable capacity** installed in Spain and Portugal of 15,913 MW, with the following breakdown:

SPAIN AND PORTUGAL	Installed MW Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Onshore wind (***)	5,600	244	5,844
Hydroelectric	9,715	-	9,715
Mini-hydroelectric	302	2	304
Solar and others	50	-	50
Total capacity(***)	15,667	246	15,913

(*) IFRS11, figures rounded to the nearest unit
(**) Includes the proportional MW share
(***) Includes 92MW from Portugal

Of the renewable installed capacity at the end of the second quarter of 2017 Iberdrola consolidates 15,667 MW and manages 246 MW through its investee companies.

The construction of two wind farms with a total capacity of 32.2 MW on the island of Tenerife is at the approval stage: Chimiche II (18.4 MW) and Las Aulagas (13.8 MW).

Renewable production reaches 11,769 GWh, as follows:

SPAIN AND PORTUGAL	GWh Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Onshore wind power (***)	5,961	226	6,186
Hydroelectric	5,291	-	5,291
Mini-hydroelectric	254	3	257
Solar and others	34	-	34
Total production	11,540	229	11,769

(*) IFRS11, figures rounded to the nearest unit
(**) Includes the proportional MW share
(***) Includes 110 Gwh in Portugal

The trend broken down by types of technology is as follows:

- Onshore wind production dropped by 13% to 6,186 GWh.
- Hydroelectric production amounted to 5,291 GWh, representing a decline of 57% (7 TWh) compared with the same period the previous year, since is compared with an exceptionally wet year to an exceptionally dry one. As at 30 June 2017, hydroelectric reserve levels were at 38% (equivalent to 4,268 GWh).
- On the other hand, mini-hydroelectric production reached 257 GWh, 38.3% less than in the same period of the previous year.

In **Portugal**, the work carried out in the **Támega hydroelectric complex stood out. This is one of the largest energy initiatives** in Portugal's history. The Támega complex, located in the north of Portugal, will consist of three large dams: Alto Támega, Daivões and Gouvães. The electric power generation capacity associated with these facilities will amount to 1,158 MW. With an investment of €1.5 billion, the facility will generate more than 1,760 GWh of energy per year. The new capacity contributes the equivalent of 6% of the installed capacity in Portugal, being able to prevent the emission of 1 million tons of CO_2 to the atmosphere. The works will continue until 2023. The development of this pumping infrastructure shows Iberdrola's commitment to this technology, the most efficient large-scale energy storage method currently available.

Thermal capacity and production

At the close of June 2017, Iberdrola's thermal capacity in Spain totalled 10,345 MW, broken down as follows:

SPAIN AND PORTUGAL	Consolidated installed MW	MW Investee companies (**)	Total
Nuclear*	3,166	244	3,410
Gas combined cycle	5,695	-	5,695
Cogeneration	301	66	367
Coal	874	-	874
Total capacity	10,036	310	10,345

(*) Includes Garoña
(**) Includes the proportional part of MW

During the first half of 2017, Iberdrola's **thermal production** increased by 10.8% to 16,079 GWh.

Of the 16,079 GWh produced, Iberdrola consolidated 15,810 GWh at EBITDA level, with 269 GWh being consolidated by the equity method in accordance with the IFRS 11. The breakdown is as follows:

SPAIN AND PORTUGAL	GWh Consolidated at EBITDA level	GWh Investee companies (*)	Total
Nuclear	12,541	36	12,577
Gas combined cycle	1,066	-	1,066
Cogeneration	1,086	233	1,319
Coal	1,117	-	1,117
Total production	15,810	269	16,079

(*) Includes the proportional part of MW

Retail business

As regards the retail business, as at 30 June 2017, the portfolio managed by Iberdrola included 16,375,440 contracts, a total of 22,631 more contracts than in the same period in 2016 (+0.1%). The breakdown is as follows:

	Spain	Portugal	Spain and Portugal
Electricity contracts	10,181,059	113,837	10,294,896
Gas contracts	957,202	3,298	960,500
Contracts for others prod. & serv.	5,030,132	89,912	5,120,044
Total	16,168,393	207,047	16,375,440

By market type they can be split into the following:

	Spain	Portugal	%
Liberalized market	12,532,752	207,047	78%
Last resort	3,635,641	-	22%
Total	16,168,393	207,047	100%

The electricity supplied on the liberalised market reached 26,801 GWh (23,455 GWh in Spain and 3,346 GWh in Portugal), compared with the 24,363 GWh (21,068 in Spain and 3,294 GWh in Portugal) supplied in the first half of 2016 (+10.8%).

Iberdrola's electricity sales in the first half of 2017 amounted to 42,400 GWh, measured at power substation busbars, of which 29,900 GWh were sold on the liberalised market. 4,600 GWh corresponded to energy at the voluntary price for small consumers (PVPC) and 7,900 GWh to other markets.

With regard to gas, during the first half of 2017, Iberdrola managed a total gas production of 1.72 bcm, of which 0.82 bcm were sold in wholesale transactions, 0.38 bcm were sold to end customers and 0.52 bcm went towards electricity production.

2.2. United Kingdom

Renewable capacity and production

At the end of the second quarter of 2017, the **renewable capacity** installed in the United Kingdom amounted to 2,828 MW, with an increase of 156 MW in wind energy compared with the first half of 2016.

UNITED KINGDOM	Installed MW Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Wind	2,250	15	2,265
Onshore wind	1,891	15	1,906
Offshore wind (***)	359	-	359
Hydroelectric	563	-	563
Total capacity	2,813	15	2,828

(*) IFRS11, figures rounded to the nearest unit
(**) Includes the proportional MW share
(***) Includes 165 MW of Wikinger in the testing phase

Of this capacity, 2,813 MW were consolidated and 15 MW were managed through investee companies.

During financial year 2016 and the first half of 2017, work was carried out on the construction of 473.78 MW that are subject to the ROCs system. Of this projects portfolio, work was completed for a total of 234.78 MW:

- 146.23 MW completed in 2016: 13.8 MW in May at Ewe Hill Phase 1, 45.06 MW in December at Black Law Ext. Phase 1, 69 MW in October in Dersalloch and 18.37 MW in November in Black Law Ext. Phase 2.
- 88.55 MW during the first half of 2017: 36.8 MW at Ewe Hill Phase 2 and 29.75 MW at Hare Hill Extension, both in February, and 22 MW at Glen App in April.

In addition, the works for the 239 MW of the Killgallioch wind farm are in progress, of which all the turbines have been installed and a total of 91.5 MW is pending commissioning, to be started in August.

In terms of **renewable production**, this amounted to 2,398 GWh in the United Kingdom with the following breakdown:

UNITED KINGDOM	GWh Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Wind	2,075	13	2,088
Onshore wind power	1,688	13	1,701
Offshore wind power	387	-	387
Hydroelectric	311	-	311
Total production	2,386	13	2,398

(*) IFRS11, figures rounded to the nearest unit
(**) Includes the proportional MW share

- Onshore wind production amounted to 1,701 GWh, 43.8% higher than that recorded in the first half of 2016, with a higher average capacity in operation (1,695.8 MW) as well as other wind effects.
- Offshore wind production increased by 13.9%, amounting to 387 GWh.
- Hydroelectric production dropped slightly (-0.9%) to 311 GWh, from 313 GWh in the first half of 2016.

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

In 2014, the company started the West of Duddon Sands project in the United Kingdom, located in the Irish Sea, with an installed attributable capacity of 194 MW.

In the Baltic Sea, Iberdrola continued with the construction work of the **Wikinger** wind farm. After the installation of jackets, cables and the offshore substation campaign were completed, the project is now in the process of installing turbines whose completion and commissioning is planned for the end of the year. At the end of June, 33 turbines (165 MW) had already been installed and were in the testing phase.

Iberdrola is also developing the **East Anglia** projects in the United Kingdom, on the North Sea. The East Anglia 1 project has commenced construction work, beginning with the onshore grid connection, as well as wiring and onshore substation works, which will connect the project to the National Grid. All major supply contracts have been signed and manufacturing has begun in different locations in Europe, including 102 turbines of 7MW each. Offshore work will begin in 2018 with the installation of foundations.

The other three Iberdrola-owned projects in progress in the East Anglia area, with a cumulative capacity of 2,800 MW, are being processed in accordance with the plans agreed with The Crown Estate. The most advanced project, East Anglia 3, during the third quarter 2017 is expected to receive environmental approval for the construction of its 1,200 MW of capacity. The next step for this project will be to garner a contract for the sale of production (CfD: Contract for Difference) to ensure its viability.

Proactive work is being carried out to increase the portfolio of projects in the German Baltic Sea, near the Wikinger wind farm, through participation in the auctions to be organised by the German regulator in April 2018.

In April 2012, the consortium formed by Iberdrola and the French company EOLE-RES was awarded by the French Government the exclusive rights for the operation of the offshore wind farm of **Saint-Brieuc**, with a capacity of 500 MW. The application for the building permit was submitted by the project in October 2015 and was granted in April 2017. This gives way to the pre-FID phase, with the geotechnical studies campaign currently in progress as the first milestone in the construction process.

Thermal capacity and production

Thermal capacity in the United Kingdom, at the end of June 2017, was 1,968 MW, with the following breakdown:

UNITED KINGDOM (SPW)	MW
Gas combined cycle	1,967
Cogeneration	1
Total	1,968

With regard to **production** from **thermal** generation in the United Kingdom, this fell by 40% during the first half of 2017 to 3,581 GWh, compared with 5,923 GWh in the previous year due to the dismantling of the coal-fired power station in Longannet.

The market share of the UK generation business in the first half of 2017 was 4.5%, compared with 5.6% in the previous year.

Retail business

Regarding **retail sales**, in the first half of 2017, customers were sold 11,102 GWh of electricity and 17,413 GWh of gas, compared with the first half of 2016: 10,647 GWh of electricity and 19,003 GWh of gas.

During the first half of 2017, Scottish Power had 3.2 million electricity customers and 2.1 million gas customers, continuing at levels similar to those of last year.

In addition, the Smart Meter Plan was launched during 2016, which will deploy more than 5 million by 2021, carried out by retailers in the United Kingdom. There are currently over 410,000 meters and the rate of installation continues to increase to meet the scheduled programme.

2.3. United States (AVANGRID)

Renewable capacity and production

At the end of the first half of 2017, the **renewable capacity** installed in the United States totalled 6,177 MW, broken down as follows:

USA	Installed MW Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Onshore wind power	5,835	161	5,996
Hydroelectric	118	-	118
Solar and others	63	-	63
Total capacity	6,016	161	6,177

(*) IFRS11, figures rounded to the nearest unit
(**) Includes the proportional MW share

The Company is present in 20 states, with a total of 5,996 MW of onshore wind capacity, of which 161 MW are managed through investee companies.

Installed capacity has increased by 6%, due to the increase in onshore wind capacity after completion of the works at Desert Wind (208 MW), which has a PPA signed with Amazon in North Carolina. In addition, work is advanced on El Cabo (298.2 MW) in New Mexico, Deerfield (30 MW) in Vermont, Tule (131.1 MW) in California and Twin Buttes II (75 MW) in Colorado, at the end of June the works of 142.8 MW are completed, with the remaining 391.5 MW expected to be installed before the end of 2017,and is in a pre-works phase in Montague (201.1 MW) in Oregon.

The construction of a total of 66 MW with photovoltaic technology has been approved: Gala (56 MW) work on which has already begun, and W'y East (10 MW), both in the state of Oregon.

As for **renewable production** in the United States, this amounts to 8,539 GWh, of which 8,320 GWh are consolidated by Iberdrola at EBITDA level and 219 GWh by the equity method.

USA	GWh Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Onshore wind power	7,974	219	8,193
Hydroelectric	232	-	232
Solar and others	114	-	114
Total production	8,320	219	8,539

(*) IFRS11, figures rounded to the nearest unit
(**) Includes the proportional MW share

In terms of trends broken down by technologies:

- Onshore wind production amounted to 8,193 GWh, 3% higher than that recorded in the first half of 2016.
- Hydroelectric production also increased by 6.7% to 232 GWh, compared with 218 GWh from the first half of 2016.
- Production of solar power and others increased by 14.7%, to 114 GWh.

2.4. Mexico

Renewable capacity and production

In Mexico, installed renewable capacity reached 367 MW of wind power, with no changes compared with the first half of 2016.

The construction of a total of 270 MWn with photovoltaic technology has commenced: Santiago Park (170 MWn) in San Luis de Potosí and Hermosillo (100 MWn) in Sonora.

Additionally, the construction of a total of 325.5 MW with onshore wind technology was approved: Santiago (105 MW) in San Luis de Potosí and Pier (220.5 MW) in Puebla.

The **renewable production** generated in the period was 438 GWh, 14.8% lower than in the first half of 2016.

Thermal capacity and production

In turn, **thermal capacity** at the end of the first half of 2017 was 5,790 MW, broken down as follows:

MEXICO	MW
Gas combined cycle	5,553
Cogeneration	237
Total	5,790

In this first half of the year, it is worth noting the commissioning of MXL in Monterrey III, providing an extra 22 MW to the power station for sale to private customers.

The following power stations are currently in the implementation process:

MEXICO	Total MW implemented
Cogeneration	**107**
Altamira	57
San Juan del Río	50
Combined cycle plants	**3,376**
Escobedo	857
Topolobampo II	887
El Carmen	866
Topolobampo III	766
Total	**3,483**

The development of the new projects consolidates Iberdrola's position in Mexico as the second company after the CFE and the largest private company in the country, with a huge gap with its competitors.

The electricity sold in Mexico during the second quarter of the year was 11,042 GWh, up 17% on the same quarter of the previous year. These sales, compounded by the 9,051 GWh from the first quarter, consolidate a total of 20,093 GWh for the first half of the year, an increase of 11% compared with the same half of the previous year.

2.5. Brazil

Renewable capacity and production

In Brazil, Iberdrola has a **renewable capacity** of 2,454 MW installed, according to the following breakdown:

BRAZIL	Installed MW Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Onshore wind	**187**	**276**	**463**
Hydroelectric	**1,991**	**-**	**1,991**
Total capacity	**2,178**	**276**	**2,454**

(*) IFRS11, figures rounded to the nearest unit
(**) Includes 100% Neoenergía

Of the total 463 MW of wind power installed, 187 MW are consolidated and 276 MW are managed through Neoenergia, which includes 84 MW from the wind farms in Calango 6 (30 MW), Santana I (30 MW) and Santana II (24 MW), whose installation was completed in 2016, and an additional 42 MW installed in the first half of 2017 corresponding to the Canoas (31.5 MW) and Lagoa 2 (10.5 MW) wind farms, installation of which is still under way. Commissioning of these two wind farms, along with Lagoa 1, is expected to take place during 2017 (94.5 MW in total).

Regarding **renewable production**, this amounted to 5,576 GWh during the first half of 2017, an increase of 142.7% (14.9% in onshore wind energy and 190.6% in hydroelectric energy).

BRAZIL	GWh Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Onshore wind power	**272**	**447**	**719**
Hydroelectric	**4,857**	**-**	**4,857**
Total production	**5,129**	**447**	**5,576**

(*) IFRS11, figures rounded to the nearest unit
(**) Includes 100% Neoenergía

2.6. Rest of the world

Renewable capacity and production

Installed **renewable capacity** in the rest of the world reached the 529 MW mark, broken down as follows:

	MW
Onshore wind power (*)	**523**
Solar	**6**
TOTAL	**529**

(*) Excludes Portugal

Onshore wind power is broken down as follows:

REST OF THE WORLD	MW consolidated at EBITDA level	MW managed by investee companies (**)	Total
Italy	10	-	10
Greece	255	-	255
Cyprus	20	-	20
Hungary	158	-	158
Romania	80	-	80
Total	523	0	523

In terms of **renewable production**, this amounted to 665 GWh in the first half-year with the following breakdown:

REST OF THE WORLD	GWh Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Onshore wind power	661	-	661
Hydroelectric	4	-	4
Total production	665	-	665

3. Other aspects

1. Shareholder remuneration

The Company's General Shareholders' Meeting held on 31 March 2017 was attended by a total of 4,986,855,908 shares (340,885,129 in person and 4,645,970,779 represented), reaching a quorum of 77.2% of the share capital (5.28% present and 71.92% represented). All the agreements on the Agenda proposed by the Board of Directors were adopted with an average 99.4% of votes.

It is worth noting the approval of item 11 on the Agenda, regarding the proposal of allocation of profit/loss and distribution of the dividend corresponding to the year 2016.

Iberdrola Scrip Dividend

Annual remuneration increased by over 11%, due to positive trends for profits during financial year 2016 - with a net profit of €2,705 million, 11.7% more than in 2015.

Therefore, compensation recognised in 2016 will amount to €0.312 gross per share, compared with €0.28 gross per share for 2015.

The first part of this remuneration - €0.135 gross per share - was paid in January through the program "Iberdrola Scrip Dividend". During this month of July Iberdrola paid €0.03 gross per share in cash, and the Company will also pay in July €0.147 gross per share through the "Iberdrola Scrip Dividend" programme.

Iberdrola has also raised its profit targets for 2020. The new forecasts have enabled the company to estimate an increase in the dividend for the coming years, reaching an annual shareholder remuneration of between €0.37 and €0.40 per share in 2020, while always maintaining a minimum of €0.31 gross per share. The pay out will range between 65% and 75%.

4

Analysis of the consolidated profit and loss account

The most notable figures for the first half of 2017 are as follows:

EUR million	Jan-Jun 2017	Jan-Jun 2016	%
REVENUES	15,168.8	14,898.0	1.8
GROSS MARGIN	6,851.0	6,776.3	1.1
EBITDA	3,751.8	3,892.1	(3.6)
EBIT	2,116.5	2,253.6	(6.1)
NET PROFIT	1,518.4	1,456.7	4.2
OPERATING CASH FLOW	3,275.2	3,219.4	1.7

The results for the period were up thanks to the Networks business's positive performance in the United States and Brazil and to the Generation and Supply business in Mexico, as well as the non-recurring impact of the merger of Gamesa with Siemens contributing EUR 255 million to the results. However, the organisation was buffeted by the following headwinds: (1) Spain suffered adverse weather conditions leading to a 7 TWh drop in hydroelectric output year-on-year, with wind output falling by 13%, while the Generation and Supply business bore higher taxes due to the increase in market prices; (2) weak performance of the Generation and Supply business in the United Kingdom due to the closure of Longannet higher non-energy costs and the drop in margins; and (3) the effect on the net finance expense of the positive impact of interest rate hedges in the first six months of 2016, with a variation of EUR 64 million.

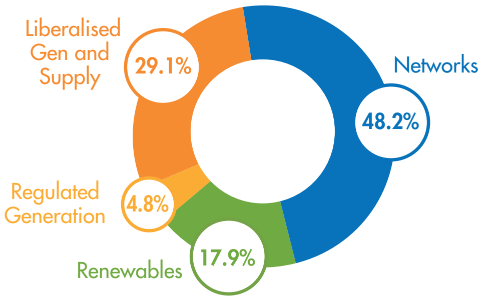
1 Gross Margin

The gross margin stood at EUR 6,851.0 million, up 1.1% year-on-year. The overall exchange rate effect was EUR -35 million.

This performance is mainly the result of the following:

- **The Networks business** increased by 5.8% with regard to the first half of 2016, to EUR 3,275.8 million.
  - In Spain, it posted a figure of EUR 995.1 million (-0.8%), affected by the recognition in 2016 of the accrual of investments from 4Q15, while the accrual for 4Q16 was recognised in the same year.
  - The United Kingdom's gross margin stood at EUR 597.6 million (-12.6%) primarily due to a weakening of the pound sterling. This business was also affected by a drop in demand in 2017 due to the weather; the effect of which will be corrected over the next two years and by the resettlements of previous years by less investments of those anticipated.
  - The United States' contribution over the period was EUR 1,481.6 million (+18.1%), driven up by the new rate cases in force and positive IFRS adjustments that will be corrected over the year.
  - The gross margin of Brazil (Elektro) stood at EUR 201.5 million (+31.5%),fuelled by a strengthening of the Real, an increase in energy distributed, and a favourable annual rate review (+9.1%) in August 2016.
- **The Generation and Supply Business** dropped by 6.2% to EUR 2,310.7 million.
  - It amounted to EUR 1,557.5 million (2.7%) in Spain, due to a production mix with a greater share of thermal output and a smaller contribution from hydroelectric during the period, offset by the uptick in the results of the gas business (EUR +168 million) after a contract price review.
  - The United Kingdom's gross margin amounted to EUR 399.1 million (-40.2%), negatively affected by the weakening of Sterling (EUR -45 million), lower output following the switch-off of Longannet, an increase in regulatory costs (ROCs), poorer gas sales and the narrowing of commercial margins.
  - Mexico contributed EUR 328.8 million to the gross margin (+25.1%) thanks to the increase in capacity after commissioning the new power plants for CFE (Baja California, 314 MW) and for private customers (Module V Monterrey, 300 MW; Ramos cogeneration, 50 MW).

Gross Margin by business



- **The Renewables business (wind, solar and others)** posted a gross margin of EUR 1,214.6 million (1.8%).
  - It amounted to EUR 406.9 million (-13.0%) in Spain, primarily due to a drop in wind output (-12.9%) with an exceptionally strong first quarter in 2016 which normalised during the year. The positive impact of the investment incentive review (Rinv) was offset by a lower regulatory asset than in 2016 because of higher market prices.
  - The US's contribution was EUR 448.8 million (+8.9%) as a result of higher output off the back of a capacity increase (208 MW of the Amazon facility in North Carolina), offsetting the drop in average prices, and a higher mark-to-market result on derivatives contracts arranged to hedge prices.
  - The United Kingdom posted a 19.4% increase to EUR 240.2 million driven by a higher wind output and increase in average capacity in operation (262 MW; +18.3%), despite a weakening of the pound.
  - Latin America's gross margin rose to EUR 57.4 million (+15.3%), with Mexico posting better results due to higher prices, and Brazil achieving a small improvement due to an increase in installed capacity and a strengthening of the Real.
- The contribution of **Other Businesses** totalled EUR 138.5 million (+51.7%).

2 Gross Operating Result - EBITDA

Consolidated EBITDA dropped 3.6% versus the first half of 2016 to EUR 3,751.8 million.

Aside from the improvement in the gross margin explained beforehand, the net operating expense rose 4.4% to EUR 1,942.4 million due to the recognition under IFRS of EUR 70 million of storm costs in the US Networks business (with no impact under US GAAP) and EUR 7 million in Spain. This will be recovered in forthcoming years. Stripping out these costs, other atypical costs and the exchange rate effect, the net operating expense improved by 0.4%.

Taxes rose by 13.0% to EUR 1,156.8 million, with the Generation and Supply business in Spain reporting a 32.6% rise due to higher market prices affecting the 7% tax on output and the recognition in 2016 of favourable court rulings (EUR 80 million) affecting the year-on-year comparison. Further, the United States Networks business incurred higher taxes.

3 Net Operating Result - EBIT

EBIT was EUR 2,116.5 million, 6.1% down on the first half of 2016.

Amortisations and Provisions dropped by -0.2%, totalling EUR 1,635.3 million:

- Amortisations rose 0.9% to EUR 1,529 million, positively affected by the extension of the useful life of combined cycle plants from 35 to 40 years and of hydroelectric plant electromechanical equipment from 35 to 50 years, offsetting the higher amortisation charges stemming from the increase in the group's activity.
- Provisions stood at EUR 105.9 million, with a lower charge of EUR 17.3 million as EUR 27 million was recognised in 2016 for non-recurring impacts.

4 Financial Result

The net finance result was EUR -413.5 million compared with EUR -361.2 million a year earlier.

- The drop in the average cost of debt to 3.09% (42 b.p. lower than last year) contributed to improving by EUR 27.9 million the result associated to debt, despite the average debt increasing by EUR 2,102 million.
- The result of derivatives and exchange differences worsened by EUR 95.3 million, largely due to the difference in foreign currency.
- Other non-recurrent effects that increase the financial result by EUR 15 million.

	1H 2016	1H 2017	Diff
Debt Result	**-463.9**	**-491.8**	**+27.9**
Derivatives and exchange differences	**-8.9**	**86.4**	**-95.3**
Others	**59.2**	**44.2**	**+15.0**
Financial result	**-413.5**	**-361.2**	**-52.4**

5 Results of Companies Consolidated by the Equity Method

The Results of Companies Consolidated by the Equity Method amounted to EUR 45.8 million compared with EUR 31.7 million for the same period in 2016 for the improvement of the renewable business, since in 2016 some onshore parks in Italy were sold with a loss of 5 M Eur, and other minor effects. As for Neoenergía (Brazil), its result in 2M Eur.

6 Income from Non-Current Assets

Income from Non-current Assets totalled EUR 241.0 million versus EUR 46.9 million in the first half of 2016, thanks to the merger of Gamesa and Siemens Wind which contributed EUR 255 million, including an extraordinary merger dividend of EUR 198 million (collected on 11 April).

7 Net Profit

Lastly, Net Profit amounted to EUR 1,518.4 million, up 4.2% on the figure for the first six months of 2016, as the drop in operating income was offset by the aforementioned extraordinary gain from Gamesa, and a lower tax rate positively affected by deferred taxes.

Funds from Operations as at 30 June 2017 was EUR 3,275.2 million, a increase of 1.3% compared with the same period of the previous year. The evolution of the benchmark credit ratios was as follows:

	1H 2017	Dec. 2016
Funds from Operations (FFO)*/Net Financial Debt	**21.6%**	**21.6%**
Retained Cash Flow (RCF)/ Net Financial Debt**	**19.4%**	**18.9%**
Net Financial Debt/EBITDA	**3.84x**	**3.74x**

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

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

5

Results by business

1. Networks business

The key figures for the Networks business are as follows:

(EUR million)	1H 2017	vs. 1H 2016
Revenues	4,609.6	5.8%
Gross margin	3,275.8	5.8%
EBITDA	1,978.3	4.4%
EBIT	1,244.5	3.7%

The Networks business saw its contribution to the gross margin rise by EUR 180 million (+5.8%), driven by the excellent performance of Networks USA (+18.1%) and Brazil (+31.5%), offsetting the decline in the United Kingdom due primarily to the exchange rate and in Spain, stemming from the recognition in 2016 of the accrual of investments in the fourth quarter of 2015.

1.1 Spain

(EUR million)	1H 2017	vs. 1H 2016
Revenues	997.0	-1.4%
Gross margin	995.1	-0.8%
EBITDA	771.1	-1.6%
EBIT	514.8	-6.1%

a) Gross Margin

The gross margin of the Networks business in Spain decreased by 0.8% to EUR 995.1 million, affected by the recognition in 2016 of the accrual of investments from the fourth quarter of 2015, while the accrual for the fourth quarter of 2016 was recognised in the same year.

b) Operating Profit / EBIT

EBITDA in this business amounted to EUR 771.1 million, with a 1.6% decline.

Net operating expenses increased by 2.6% to EUR 177.1 million. This stems from the storms in January 2017 (EUR 7 million).

EBIT for the Networks business in Spain totalled EUR 514.8 million (-6.1%). Amortisation and provisions totalled EUR 256.3 million (+8.7%), due to the new assets commissioned.

1.2 United Kingdom

(EUR million)	1H 2017	vs 1H 2016
Revenues	622.0	-12.6%
Gross margin	597.6	-12.6%
EBITDA	451.3	-13.9%
EBIT	313.1	-16.9%

a) Gross Margin

The gross margin of the Networks business in the United Kingdom (ScottishPower Energy Networks-SPEN) reached EUR 597.6 million (-11.4%), negatively affected by a weakening of the Pound (-11.4%) resulting in a reduction of EUR 68 million (gross margin in local currency down 2.7%), and a drop in demand (EUR -11 million), which we envisage will pick up over the next two years given the current remuneration framework and the adjustment by less investments than those foreseen in the previous year (EUR -13 million).

b) Operating Profit / EBIT

EBITDA totalled EUR 451.3 million (-13.9%; -4.1% in local currency), with a decrease in the net operating expense of 9.8% to EUR 95.3 million (+0.5% in local currency). Taxes dropped by 5.8% to EUR 51.1 million, also affected by the exchange rate.

Amortisation and provisions totalled EUR 138.2 million (-6.2%), mainly due to the change in the exchange rate. In local currency, amortisation and provisions increased, due to the new assets commissioned.

1.3 United States-AVANGRID

(EUR million)	1H 2017	vs. 1H 2016
Revenues	2,180.4	10.8%
Gross margin	1,481.6	18.1%
EBITDA	629.5	27.5%
EBIT	349.9	48.3%

a) Gross Margin

The gross margin is up 18.1% to EUR 1,481.6 million, due to the new rate cases in force in New York and Connecticut, an appreciation of the US dollar, and USGAAP-IFRS adjustments, primarily related with the updating of energy prices and volumes, which will be corrected throughout the year.

b) Operating Profit / EBIT

EBITDA increased by 27.5% to EUR 629.5 million. Aside from the change in gross margin, there was a 13.5% (EUR +58.8 million) rise in the net operating expense to EUR 493.5 million. This was due to the extra storm costs (EUR 72 million), partially offset by efficiencies and USGAAP-IFRS adjustments.

The Taxes item increased (9.8%) to EUR 358.6 million, due to a rise in taxes and the exchange rate.

EBIT totalled EUR 349.9 million (+48.3%), stripping out amortisation and provisions of EUR 279.5 million and which are up 8.5% due to higher assets commissioned.

1.4. Brazil - ELEKTRO

EUR million	1H 2017	vs 1H 2016
Revenues	810.3	21.7%
Gross margin	201.5	31.5%
EBITDA	126.4	36.2%
EBIT	66.6	71.2%

a) Gross Margin

The gross margin reached EUR 201.5 million (+31.5%) in the first six months, EUR 34.6 million of which was due to a strengthening of the Real and EUR 13.7 million to the business's performance thanks to a rise in energy distributed and the positive impact of the rates review in August 2016 (+9.1%).

b) Operating Profit / EBIT

EBITDA for the area amounted to EUR 126.4 million, a 36.2% improvement.

Net operating expenses climbed to EUR 74.1 million, up 24.5% compared to the same period in 2016 due to the exchange rate effect, without which there would only have been a 3.1% rise.

Amortisation and provisions amounted to EUR 59.8 million (+11.0%), affected mainly by the exchange rate.

As a consequence of this, EBIT came to EUR 66.6 million (+71.2%).

2. Generation and supply business

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

(EUR million)	1H 2017	vs. 1H 2016
Revenues	9,512.3	-1.5%
Gross margin	2,310.7	-6.2%
EBITDA	984.0	-19.7%
EBIT	555.4	-26.8%

The Generation and Supply business saw its contribution to the gross margin decline (-6.2%), primarily due to lower hydroelectric output and higher taxes in Spain (the latter deriving from high energy prices), and a poorly performing UK business. All of the aforesaid could not be offset by the decent performance of Mexican operations.

2.1 Spain

(EUR million)	1H 2017	vs. 1H 2016
Revenues	6,117.4	+5.9%
Gross margin	1,557.5	+2.7%
EBITDA	662.4	-12.4%
EBIT	420.6	-15.1%

a) Gross Margin

Iberdrola's Generation and Supply business in Spain recorded a 2.7% improvement in its gross margin to EUR 1,557.5 million. The following can be highlighted:

- A 20.1% decline in output due to the drop in hydroelectric (-56.8%, -7.3 TWh less than in 1H 2016) and combined cycle (-2.9%) outputs, which could not be offset by an increase in nuclear (+4.7%), cogeneration and coal-fired output. As a result of this generation mix, the cost of materials consumed rose 7.0%, absorbing the higher prices and uptick in sales.
- At 30 June 2017, hydroelectric reserves were at 4,267.8 GWh, which means that reservoirs were at 38% of their capacity.
- Of the energy generated, 75% was distributed through forward sales while 25% was sold on the spot market.
- Greater commercial activity due to a greater sales volume in electricity as well as products and services.
- Positive impact of the gas business compared to the first half of 2016 (EUR +168 million), primarily due to the extraordinary price review of our portfolio of supply agreements.

b) Operating Profit /EBIT

EBITDA decreased by 12.4% to EUR 662.4 million. Operating expenses, meanwhile, rose 3.2% to EUR 396.2 million, essentially due to the positive impact in the first half of 2016 of the compensation received from various insurance claims. Not including non-recurring items, net operating expenses remained stable.

The Taxes item also rose by 32.6% to EUR 499.0 million, as a result of an increase in taxes on output due to higher market prices and a greater share of nuclear output. Following the enactment of RDL 7/2016, the Social Bonus (Bono Social) started to be recognised in this business as from December 2016 (previously it was recognised under Corporation). This is because the RDL requires suppliers to fund the subsidy.

Amortisation and provisions declined 7.4% to EUR 241.8 million due to a lengthening of the useful life of CCGTs (from 35 to 40 years) and of hydroelectric plant electromechanical equipment (from 35 to 50).

As a result of all of the above, EBIT recorded a drop of 15.1% compared to the first six months of 2016, reaching EUR 420.6 million.

2.2. United Kingdom

(EUR million)	1H 2017	vs. 1H 2016
Revenues	2,507.8	-23.3%
Gross margin	399.1	-40.2%
EBITDA	56.7	-78.7%
EBIT	-64.5	-153.3%

a) Gross Margin

The gross margin of ScottishPower's Energy Wholesale and Retail business was EUR 399.1 million (-40.2%). In the local currency, this item decreased by 33.4%.

- The *Energy Wholesale* business saw its contribution to the gross margin decline (GBP 49.5 million) due to the more limited output of the plants and lower margins on ancillary services and bottleneck management. In both instances, the closure of the Longannet coal-fired power station in March 2016 played a major role.
- The Retail business also made a smaller contribution to the gross margin, GBP 107.5 million:
  - Electricity margin declined, despite the 10.7% rate rise in April 2017, affected by higher energy costs and, above all, non-energy costs: higher cost of ROCs (+21%) due to a rise in both the unit price and the fact a large percentage of renewable energy had to be purchased (29.0% in 15/16, 34.8% in 16/17 and 40.9% in 17/18), and higher transmission costs (up from 19% to 22% in April 2016, with a slight decrease in April 2017 of -1.7%).
  - The gas business also posted poorer results due to narrower margins and volumes (-8.4%) – the latter due to warmer weather – which could not be offset by the 4.7% rate rise in force since April.

b) Operating Profit / EBIT:

EBITDA for the Liberalised business in the United Kingdom reached EUR 56.7 million (-78.7%), due to the depreciation of the Pound by -11.4%, and the decline in the gross margin described beforehand. In the local currency, this item decreased by 76.3%.

Net operating expenses totalled EUR 268.6 million improving by 19.6 %, pared back by a favourable exchange rate and lower costs due to the previously mentioned closure of the Longannet plant, and also given that the 2016 figure included a fine imposed by Ofgem (EUR -26 million). These impacts are partially offset by the higher cost of attracting new customers and outsourcing of the commercial business.

Taxes totalled EUR 73.8 million (+10.6%), primarily due to EUR -16 million of costs associated with the Warm Home Discount (WHD) efficiency programme – costs that were not accrued between April and August 2016 as the renewal conditions for this programme had not been defined.

Amortisation and provisions amount to EUR 121.2 million and are down EUR 24.3 million; EUR 13.8 million of which being due to a weakening of the pound against the euro.

As a result, EBIT totalled EUR -64.5 million compared to EUR 121.1 million in the same period of 2016.

2.3 México

(EUR million)	1H 2017	vs. 1H 2016
Revenues	929.7	+36.5%
Gross margin	328.8	+25.1%
EBITDA	267.6	+26.9%
EBIT	218.1	+31.2%

a) Gross Margin

In Mexico, the gross margin climbed to EUR 328.8 million (+25.1%), primarily thanks to new capacity coming on stream. On the one hand, the Baja California combined cycle plant (314 MW), under an IPP (Independent Power Producer) scheme with the Mexican Federal Electricity Commission (CFE), and on the other, the supply of power to private customers, the commissioning of Module V of the Monterrey combined cycle plant (300 MW) and the Ramos cogeneration plant (53 MW) contribute a EUR 66 million increase in the gross margin of the business in Mexico. As well as the improvement in prices to private customers as a result of the CFE rate increase.

b) Operating Profit / EBIT

EBITDA totalled EUR 267.6 million (+26.9%). Net operating expenses were up EUR 9.1 million (+17.8%) to EUR 59.9 million, mainly due to the higher maintenance costs associated with the new installed capacity. The Amortisations and Provisions item increased by 11.1% to EUR 49.5 million due to the greater number of assets in operation and the extension of the useful life of CCGTs mentioned beforehand.

As a result of the aforesaid, the business's EBIT reached EUR 218.1 million, a rise of 31.2% year on year.

3. Renewables*

(EUR million)	2017	vs. 2015
Revenues	1,321.7	1.9%
Gross margin	1,214.6	1.8%
EBITDA	819.6	-2.0%
EBIT	383.5	-4.1%

a) Gross Margin

During the first half of 2017, the gross margin totalled EUR 1,214.6 million, an amount 1.8% higher than that for the previous year. As explained later, this change is principally due to less wind in Spain compared to 2016 – a year of extraordinary high wind resources. This was largely offset by the United Kingdom, due to the higher capacity in operation (+18.3%) and greater load factor and by the United States where capacity in operation also rose (+3.8%). The gross margin also includes higher mark-to-market gains from derivatives contracts arranged to hedge wind output at merchant prices long term in the US business.

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

- The average selling price of renewable output is EUR 67/MWh, up 2.5% on the first quarter of the previous year.
- Capacity in operation during the period increased by 3.3%, up to 14,667.7 MW. However, output dipped by 1.8% to 17,633 GWh due to lower average load factors, primarily in Spain.
- The consolidated load factor was 27.7%; lower by 1 percentage point than that of the same period of the previous year, and down from current long-term benchmark values.
  - The wind load factor in Spain also fell year on year by 3.4 percentage points to 24.5%.
  - In the United States, a wind load factor of 32.2% was posted; practically unchanged from that of the same period a year earlier (-0.2 pp), but down on the forecast for this period of the year.
  - In the United Kingdom (onshore wind power), a load factor of 22.9% was recorded, significant higher than the equivalent period of the previous year (+4.2 pp), and lower than historical averages.
  - In Mexico and Brazil, both countries with strong wind resources, the load factors reached 27.5% and 33.4% respectively.
  - The Rest of the World (RoW) registered a load factor of 24.7%.
  - The company's first offshore farm, West of Duddon Sands, reached a load factor of slightly more than 45% (+5.8 bp), above historical averages.
- The mark-to-market gain on derivatives hedging output in the United States contributed EUR 8 million to the gross margin, compared with EUR 1 million of negative contribution in the first half of 2016.

One must analyse the trend of the results separately for each market in which the Company operates. It can be seen that the results of the United Kingdom and the United States have offset the poorer results in Spain. By business, the gross margin[1] has been as follows:

- **Wind Energy Spain**: The gross margin stood at EUR 380.3 million (-13.9%) due to a year-on-year fall in output of 12.8% and a 1.3% decrease in the average price.
- **Wind Energy United States**: The gross margin grew by 5.9% reaching a total of EUR 414.6 million, due to a +2.9% increase in output, a +3.8% increase in average capacity in operation, and dollar appreciation of +2.8%. Prices in the local currency remained stable versus 2016.
- **Wind Energy United Kingdom - Onshore**: The gross margin climbed by 22.5% to EUR 186.5 million partly due to output increasing by 44.2%, to better climatic conditions, and to the rise in average installed capacity (+18.3%). This improvement offsets the fall in prices in the local currency (5.4%), partially due to the elimination of LECs and a weakening of the pound (-11.4%).

* The Renewables Business includes wind, solar and minihydro

1 The average prices referred to in the following paragraphs are calculated as gross margin/output.

- **Wind Energy United Kingdom - Offshore**: The West of Duddon Sands farm has contributed EUR 53.7 million to the gross margin for the period; significantly up on the figure for the first half of 2016 (+9.9%). Output (+13.9%) and the selling price in the local currency (+7.5%) are also up (due to the increased value of ROCs, higher selling prices and lower T&D costs). This has easily offset the drop in the pound (-11.4%).
- **Wind Energy Mexico**: The wind resource was exceptionally high during the prior period. Consequently, that and the fact that load factors were below average in 2017 meant that output is down year-on-year by 14.8%. The price in local currency rose by 19.2% as a result of the increase in prices of commodities that form part of the benchmark index (CFE) of the sale contracts under the category of 'self-procurement'. Taking all of these effects into consideration, the gross margin totalled EUR 34.4 million (+4.4%).
- **Wind Energy Brazil**: Although output remained practically flat (+1.3%), the country's gross margin reached EUR 22.9 million (+36.6%). This stemmed from an increase in the average price, driven by both an 11.6% rise in prices in the local currency and the Real's appreciation (+17.2%).
- **Wind Energy Rest of the World**: Output dipped by 2.4% due to lower load factors, while average prices were up slightly (+0.8%) leading to a 1.6% decrease in the gross margin to EUR 60.1 million.
- **Minihydro and Other Renewables**: The gross margin was EUR 36.8 million (+4.2%), primarily due to negative re-settlements in 2016 of 2009-2011 revenues from the Puertollano thermal solar power plant, which affected the comparison by approximately EUR -9.7 million, offsetting the 40.6% drop in minihydro output.

b) Operating Profit / EBIT

- EBITDA registered a 2.0% drop, totalling EUR 819.6 million. In addition to the aforementioned gross margin trend (+1.8%), there was a 13.2% rise in net operating expenses due to the recognition in 2016 of non-recurring operating income of EUR 23.6 million. Stripping out atypical items, the figure stood at 3.4% – in line with the average increase in capacity in operation.
- Amortisation and provisions totalled EUR 436.2 million, remaining stable compared to the same period in 2016, given that provisions for wind farm development costs in the United Kingdom were recognised in the previous year but not in 2017.
- Lastly, taking into account all of the above, EBIT reached the figure of EUR 383.5 million, down -4.1%.

4. Other business

(EUR million)	1H 2017	vs. 1H 2016
Revenues	500.0	32.1%
Gross margin	138.5	51.7%
EBITDA	26.3	N/A
EBIT	21.0	N/A

a) Gross Margin

The gross margin reached EUR 138.5 million, up 51.7% on 2016 due to asset sales (EUR +47.9 million) and a slight increase in the engineering margin (EUR +5 million).

b) Operating Profit /EBIT

EBITDA totalled EUR -26.3 million. Net operating expenses of these businesses amounted to EUR 111.4 million (5.4%).

Amortisation and provisions totalled EUR 5.3 million and EBIT was EUR 21.0 million.

5. Corporation

The Corporation item includes the Group's overheads and the cost of administration services of the corporate areas that are subsequently billed to the other companies. Taxes were down in the year-on-year comparison as in 2017 the Social Bonus in Spain was reclassified to the Generation and Supply business.

6

Balance Sheet Analysis

January - June 2017

	June 2017	vs Dic. 2016
TOTAL ASSETS	105,119	-1.5%
Fixed assets	63,075	-1.2%
Intangible assets	18,853	-5.4%
Long-term investments	3,545	-9.2%
Shareholders´equity	39,506	-2.9%

On 30 June 2017, the Iberdrola financial statements showed Total Assets of EUR 105,119 million.

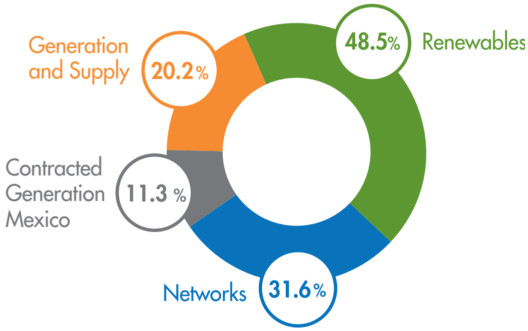
1. Fixed assets

Total net investment for the January to June 2017 period reached EUR 2,512.5 million. This can be broken down as follows:

(EUR M)	Jan-Jun 2017	%
Networks Business	**793.0**	**31.6%**
Spain	137.1	
UK	297.8	
USA	324.8	
Brazil	33.3	
Renewables Business	**1,219.0**	**48.5%**
Spain	12.4	
UK	521.1	
USA	446.6	
Brazil	12.0	
Mexico	159.5	
Others	67.5	
Generation and Supply Business	**506.3**	**20.2%**
Spain	136.5	
UK	83.5	
Mexico	284.2	
Brazil	2.1	
USA and Canada	0.0	
Other Business	**-42.9**	**-1.7%**
Corporation and Adjustments	**37.1**	**1.5%**
Total investment	**2,512.5**	**100.0%**

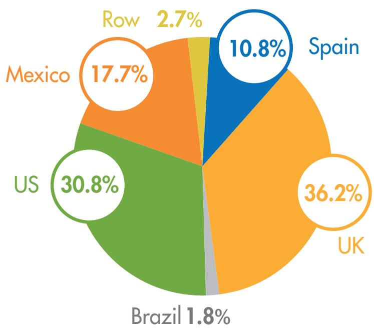
Investments in the period focused on the Renewables and Networks Businesses. These two businesses in combination with the Contracted Generation Business in Mexico accounted for 91.4% of total investments made during the period running from January to June 2017.

Inverstments by Business (Jan-June 2017)



Investments made in countries with an A rating (USA and the United Kingdom) are noteworthy, thereby fulfilling the provisions of the 2016-2020 Strategic Plan. The graph below shows the geographical breakdown of investments over the period:

Inverstments by geographical areas(Jan.-June 2017)



Investments in the Renewables business totalled EUR 1,219 million, making for 48.5% of the total. The EUR 521.1 million invested in the United Kingdom are particularly noteworthy, which were mainly intended for Wikinger project, and the EUR 446.6 million in the USA.

In the section on the "Networks Business", most of the investments were made in the United Kingdom and the USA, for a total of EUR 297.8 million and EUR 324.8 million, respectively.

2. Share capital

In line with the commitment announced in the Outlook 2016-2020 to keep the number of shares stable at 6,240 million, on 24 May 2017, a reduction of share capital took place by means of the redemption of 219,990,000 treasury shares, representative of 3.4% of the share capital. Thus, the Company's share capital at 30 June 2017 totalled 6,240,000,000 bearer shares with a nominal value of EUR 0.75 each.

Said reduction of share capital was approved by the Company's General Shareholders' Meeting held on 31 March 2017, under point twelve of the agenda, and implemented by the Board of Directors of Iberdrola in its meeting of 25 April 2017.

3. Financial Debt

Adjusted net financial debt on 30 June 2017 rose by EUR 1,663 million to EUR 29,474 million as compared with the EUR 27,811 million booked on 30 June 2016 and similar to the EUR 29,230 million registered on 31 December 2016.
With regard to 31 March 2017, the debt has been decreased by EUR 287 million. This trend is explained by the company's investments and is as expected.

Consequently, the financial leverage increased to 42.4% with respect to the 41.4% booked at 30 June 2016.

The ratings issued by rating agencies are as follows:

Credit rating of Iberdrola Senior Debt

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

Regarding the trend of the Company's financial cost, it was at 3.09% on 30 June 2017, 42 bp below the 3.51% on 30 june 2016.

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

	June 17	June 16
Euro	47.2%	48.2%
British Pound	21.6%	22.2%
Dollar	29.7%	28.1%
Brazilian Real and other currencies	1.5%	1.5%
Fixed Rate	50.8%(***)	45.5%
Variable Rate	49.2%	54.3%
Capped Rate	-	0.2%

(*) Net Financial Debt including forwards and swaps.

(**) Gross Financial Debt.

(***) debt at fixed rate 62.1%, adding EUR 3,550 million of forward swap already fixed at 06/30/17 (11.3%) to fixed rate debt (50.8%)

In accordance with the policy of minimising the financial risks of the Company, the foreign currency risk has continued to be mitigated through the financing of international businesses in local currencies (British Pound, Brazilian Real, US dollar, etc.) or in their functional currencies (US dollar, in the case of Mexico). The percentage of financial debt in Fixed Rate was also increased to 49.3%. If we add EUR 3,550 million of forward swap, fixed rate debt amount to 62.1%

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

	June 17	June 16
Corporation	73.0%	70.9%
UK	7.0%	8.3%
USA	15.2%	14.1%
Brazil	2.4%	3.0%
Mexico	0.9%	2.1%
Others	1.4%	1.6%
Total	100.0%	100.0%

(*) Gross Financial Debt without project finance

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

	Mar. 17	Mar. 16
Euro Bond	41.2%	37.8%
Dollar Bond	21.1%	21.0%
British Pound Bond	9.2%	10.7%
Remaining bonds	1.0%	1.2%
Notes	6.0%	6.5%
EIB	6.5%	6.0%
Project Finance	0.8%	2.6%
Bank loans	14.2%	14.3%
TEI	0.4%	0.7%
Total	100.0%	100.0%

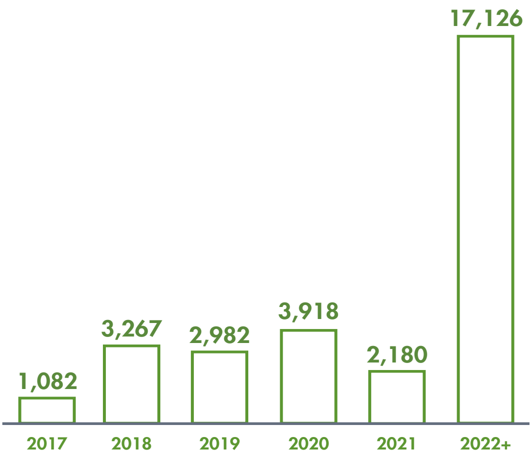
(*) Gross Financial Debt.

At the end of the first quarter. Iberdrola has a strong liquidity position with a total of EUR 8,725 million. equivalent to more than 24 months of the company's financing needs.

EUR million

Credit Lines Maturity	Available
2018 and onwards	6,720
Total credit line	**6,976**
Cash and IFT	1,749
Total Adjusted Liquidity	**8,725**

Iberdrola has a good debt maturity profile, with approximately 6.3 years of average debt life, as a result, among other factors, of the management of liabilities carried out throughout this financial year. The following chart shows the debt maturity profile.



2018 includes Eur 500 M with an extension option of 6 + 6 months
2020 includes Eur 975 M with an extension option of 1 year

Lastly, the change in **financial leverage** was as follows:

	June 17	June 16
Shareholders' Equity *	**39,978**	**39,785**
Gross Financial Debt *	32,215	31,523
Cash flow	1,808	2,469
Derivative assets	933	1,244
Net Financial Debt	**29,474**	**27,811**
Leverage	42.4%	41.1%

* The calculation of net financial debt does not include 183 M and 469 M Euros corresponding to accumulator derivative instruments of treasury stock at the end of June 2016 and 2017 respectively. The amounts indicated reflect the cost of the maximum number of shares to be acquired. The company estimates that the acquisition will be exercised for half the maxim.

4. Working capital

The working capital recorded a rise of EUR 740 million over the last 12 months, as a result of several effects:

- A net increase in public administrations and inventories by EUR 320 million and EUR 455 million, respectively, which increased working capital.
- An EUR 387 million increase in provisions, which decreased working capital.
- An EUR 316 million decrease in commercial creditors payable, which increased working capital.
- Other effects to a lesser extent.

CURRENT ASSETS	June 17	June 16	Variation
Nuclear Fuel	332	335	(3)
Inventories	1,994	1,536	458
Commercial debtors and Other accounts receivable	5,374	5,249	125
Current financial investments	682	820	(138)
Asset derivative financial instruments	156	194	(38)
Public Administrations	1,045	608	437
TOTAL CURRENT ASSETS*:	**9,583**	**8,742**	**841**

*Does not include cash or debt asset derivatives

CURRENT LIABILITIES	June17	June 16	Variation
Provisions	503	116	387
Liability derivative financial instruments	114	200	(86)
Commercial creditors and other accounts payable	6,299	6,615	(316)
Public Administrations	1,882	1,765	117
TOTAL CURRENT LIABILITIES:**	**8,798**	**8,696**	**102**

**Does not include financial debt or debt liabilities derivatives

NET WORKING ASSETS	**786**	**46**	**740**

5. Funds from operations

Funds from Operations as at 30 June 2017 have increased by 1.7% to EUR 3,275.2 million.

	Jan-June 2017	Jan-June 2016	Var.
Net Profit (+)	1,518.4	1,456.7	4.2%
Depreciations (-)	-1,635.3	-1,638.5	-0.2%
P/L Equity (-)	45.8	31.7	44.6%
Extraordinary results (-)	241.0	46.9	413.8%
Non-recurring corporate taxes (-)	-0.1	-11.3	-99.2%
Financial provisions capitalized (-)	-55.2	-48.7	13.3%
Minorities P/L (-)	-55.1	-47.9	15.1%
Adjustment tax deductible items (+) *	89.8	89.8	-
Dividends Equity consolidated subsidiaries (+)	249.7	43.9	469.3%
Allocation of capital subsidies to income (-)	41.5	38.8	7.1%
FFO	3,275.2	3,219.4	1.73%

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

6. Finance transactions

Main new financing transactions carried out in 2017

Borrower	Transaction	Amount	Currency	Interest rate	Maturity date
Iberdrola Finanzas	Green private placement	100	Eur	Euribor 3m+0,67%	7 años
Iberdrola Finanzas	Private placement	50	Eur	1,667%	12 años
Iberdrola Financiación*	Bilateral green loan	500	Eur	Euribor+0,30%	1,5 años
Iberdrola Finanzas	Green bond	1.000	Eur	1,00%	8 años
Iberdrola Finanzas	Private placement increase	50	Eur	1,667%	12 años
Iberdrola Finanzas	Private placement	60	Eur	1,782%	13 años
Iberdrola Finanzas**	Private placement	1.000	Nok	2,70%	10 años
RG&E	Bond US Market	300	Usd	3,10%	10 años
Iberdrola Finanzas	Green private placement increase	150	Eur	Euribor 3m+0,67%	7 años
Elektro**	4131 Loan	50	Usd	2,315%	3 años
Iberdrola Financiación	BEI Loan	500	Eur	-	-

* Optionality of extending by 6 + 6 months, at Iberdrola's discretion
** Transactions swaped into the currency of each company

Main financing extension transactions carried out in 2017

Borrower	Transaction	Amount	Currency	Extension	Maturity date
Iberdrola SA	Syndicated credit	1.900	Eur	+1 año	5 años
Iberdrola SA	Syndicated credit	2.500	Eur	+1 año	5 años
Iberdrola Financiación	Syndicated loan	900	Eur	+1 año	3 años
Iberdrola Financiación	Bilateral loan	75	Eur	+1 año	3 años
Iberdrola SA	Syndicated credit	500	Eur	+1 año	5 años

Second Quarter Financing

Capital market

On 6 April, Iberdrola carried out an additional private placement (performed in February 2017) under the EMTN programme for a total of EUR 50 million with a 1.667% coupon maturing in February 2029.

In May, Iberdrola issued two private placements under the EMTN programme. The first of these was a EUR 60 million bond at a fixed interest rate of 1.782%, maturing in October 2030. The second placement was made for NOK 1,000 million (equivalent to EUR 107 million) with a cost in EUR of 1.405%, maturing in 10 years.

RG&E, the distributor belonging to the subsidiary Avangrid in the USA, issued bonds on 24 May for USD 300 million with a 3.10% coupon, maturing in June 2027.

On 22 June, Iberdrola carried out an additional private placement (performed in February) in the 'Green Bond' format for a total of EUR 150 million with a floating rate coupon (3-month Euribor + 67 bp) maturing in February 2024. The funds attained will be allocated to refinancing the Puertollano solar farm.

Banking market

Elektro, the electricity distribution company belonging to the Iberdrola subsidiary in Brazil, entered into a bank loan on 26 May under Law 4131, for a total amounting to USD 50 million (equivalent to BRL 163 million) with a cost in BRL of 104.9% of the CDI rate, maturing in three years.

On 20 June, Iberdrola formalised a loan for EUR 500 million with the European Investment Bank to finance the modernisation of the electricity distribution networks and digitalisation of meters in Spain. The maturity and interest rate conditions will be specified when the disbursement is ordered.

On 21 June, Iberdrola extended the term of a syndicated loan signed in 2016 for the amount of EUR 500 million, extending its maturity by one year until June 2022.

7. Credit ratings

	Rating	Outlook	Date	Rating	Outlook	Date	Rating	Outlook	Date
Iberdrola S.A.	Baa1	Positive	April 2016	BBB+	Stable	April 2016	BBB+	Stable	Mar. 2014
Iberdrola Finance Ireland Ltd.(*)	Baa1	Positive	April 2016	BBB+		April 2016	BBB+	Stable	Mar. 2014
Iberdrola Finanzas S.A.U.(*)	Baa1	Positive	April 2016	BBB+		April 2016	BBB+	Stable	Mar. 2014
Iberdrola Finanzas S.A.U. (Escala Nacional)(*)	Aaa(mex)	Stable	Nov. 2012	mxAAA		April 2016	AAA (mex)	Stable	Mar. 2014
Iberdrola International B.V.(*)	Baa1	Positive	April 2016	BBB+		April 2016	BBB+	Stable	Mar. 2014
Avangrid	Baa1	Stable	April 2016	BBB+	Stable	April 2016	BBB+	Stable	Sept. 2016
CMP	A2	Stable	April 2016	A-	Stable	April 2016	BBB+	Stable	Nov. 2013
NYSEG	A3	Stable	April 2016	A-	Stable	April 2016	BBB+	Stable	Nov. 2013
RG&E	A3	Stable	May 2017	A-	Stable	April 2016	BBB+	Stable	Sept. 2016
UI	Baa1	Stable	April 2016	A-	Stable	Sept. 2016	BBB+	Stable	Sept. 2016
CNG	A3	Stable	April 2016	A-	Stable	Sept. 2016	A-	Stable	Sept. 2016
SCG	Baa1	Positive	April 2016	A-	Stable	Sept. 2016	BBB+	Stable	Sept. 2016
BCG	Baa1	Positive	April 2016	A-	Stable	Sept. 2016	A-	Stable	Sept. 2016
Scottish Power Ltd	Baa1	Positive	April 2016	BBB+	Stable	April 2016	BBB+	Stable	Mar. 2014
Scottish Power UK Plc	Baa1	Positive	April 2016	BBB+	Stable	April 2016	BBB+	Stable	Mar. 2014
Scottish Power UK Holdings Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
Scottish Power Energy Networks Holdings Ltd				BBB+	Stable	April 2016			
ScottishPower Generation Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
SP Transmission Ltd	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
SP Manweb plc	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
SP Distribution plc	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
ScottishPower Energy Management Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
ScottishPower Energy Retail Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
Scottish Power Investment Ltd	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
Neoenergia S.A.				BB	Negative	Feb 2016			
Coelba				BB	Negative	Feb 2016			
Celpe				BB	Negative	Feb 2016			
Cosern				BB	Negative	Feb 2016			
Neoenergía (Escala nacional)				brAA-	Negative	Feb 2016			
Coelba (Escala nacional)				brAA-	Negative	Feb 2016			
Celpe (Escala nacional)				brAA-	Negative	Feb 2016			
Cosern (Escala nacional)				brAA-	Negative	Feb 2016			
Elektro (Escala nacional)				brAA-	Negative	Feb 2016			

(*) Guaranteed by Iberdrola, S.A.

7

Financial Statements Tables

Balance Sheet *(Unaudited)*

Assets

M Eur

	June 2017	December 2016	Variation
NON-CURRENT ASSETS	**93,372**	**95,980**	**-2,608**
Intangible assets	**18,853**	**19,934**	**-1,082**
Goodwill	8,408	8,711	-303
Other intagible assets	10,445	11,223	-779
Real Estate properties	**363**	**462**	**-100**
Property, plant and equipment	**63,075**	**63,834**	**-760**
Property, plant and equipment in use	55,864	57,343	-1,479
Property, plant and equipment in the course of construction	7,211	6,491	719
Non current financial investments	**3,545**	**3,904**	**-359**
Investments accounted by equity method	2,191	2,240	-49
Non-current financial assets	59	59	-1
Other non-current financial assets	655	696	-41
Derivative financial instruments	640	909	-269
Non-current receivables	**732**	**887**	**-155**
Deferred tax assets	**6,806**	**6,958**	**-153**
CURRENT ASSETS	**11,747**	**10,726**	**1,021**
Assets held for sale	0	0	0
Nuclear fuel	**332**	**323**	**9**
Inventories	**1,994**	**1,634**	**360**
Current trade and other receivables	**6,419**	**5,862**	**557**
Tax receivables	686	503	183
Other tax receivables	359	143	216
Trade and other receivables	5,374	5,216	159
Current financial assets	**1,254**	**1,475**	**-221**
Current financial assets	2	5	-3
Other current financial assets	681	776	-96
Derivative financial instruments	571	694	-122
Cash and cash equivalents	**1,749**	**1,433**	**316**
TOTAL ASSETS	**105,119**	**106,706**	**-1,587**

Equity and Liabilities

M Eur

	June 2017	Dec. 2016	Variation
EQUITY:	**39,506**	**40,687**	**-1,181**
Of shareholders of the parent	**35,825**	**36,691**	**-866**
Share capital	4,680	4,772	-92
Unrealised assets and liabilities appreciation reserve	-129	-149	21
Other reserves	32,575	31,506	1,069
Treasury stock	-518	-1,083	566
Translation differences	-2,302	-1,059	-1,243
Net profit of the year	1,518	2,705	-1,187
Hybrid Capital	**535**	**551**	**-15**
Of minority interests	**3,146**	**3,446**	**-300**
EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY	**25**	**44**	**-19**
NON-CURRENT LIABILITIES	**51,082**	**51,900**	**-818**
Deferred income	**6,433**	**6,590**	**-157**
Provisions	**4,692**	**4,905**	**-213**
Provisions for pensions and similar obligations	2,121	2,381	-259
Other provisions	2,571	2,524	47
Financial Debt	**27,033**	**26,927**	**106**
Loans and others	26,660	26,509	151
Derivative financial instruments	373	418	-45
Other non-current payables	**759**	**737**	**22**
Deferred tax liabilities	**12,165**	**12,741**	**-576**
EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY	**69**	**93**	**-25**
CURRENT LIABILITIES	**14,438**	**13,982**	**456**
Provisions	**503**	**144**	**359**
Provisions for pensions and similar obligations	6	10	-4
Other provisions	497	134	363
Financial Debt	**5,755**	**5,404**	**351**
Loans and others	5,505	4,712	794
Derivative financial instruments	250	692	-443
Trade and other payables	**8,182**	**8,434**	**-252**
Trade payables	4,490	5,491	-1,001
Current tax liabilities and other tax payables	655	237	417
Other tax payables	1,227	914	313
Other current liabilities	1,810	1,792	18
TOTAL EQUITY AND LIABILITIES	**105,119**	**106,706**	**-1,587**

Profit and Loss *(Unaudited)*

M Eur

	June 2017	June 2016	%
REVENUES	**15,168.8**	**14,898.0**	**1.8**
Procurements	(8,317.9)	(8,121.8)	2.4
GROSS MARGIN	**6,851.0**	**6,776.3**	**1.1**
NET OPERATING EXPENSES	**(1,942.4)**	**(1,860.7)**	**4.4**
Net Personnel Expense	**(1,002.9)**	**(975.8)**	**2.8**
Personnel	(1,322.3)	(1,267.1)	4.4
Capitalized personnel costs	319.4	291.3	9.6
Net External Services	**(939.5)**	**(884.9)**	**6.2**
External Services	(1,198.7)	(1,169.2)	2.5
Other Operating Income	259.2	284.3	(8.8)
LEVIES	**(1,156.8)**	**(1,023.5)**	**13.0**
EBITDA	**3,751.8**	**3,892.1**	**(3.6)**
Amortisations and Provisions	(1,635.3)	(1,638.5)	(0.2)
EBIT	**2,116.5**	**2,253.6**	**(6.1)**
Financial Expenses	**(702.5)**	**(918.5)**	**(23.5)**
Financial Income	**288.9**	**557.3**	**(48.2)**
Financial Result	**(413.5)**	**(361.2)**	**14.5**
Results of Companies Consolidated by Equity Method	**45.8**	**31.7**	**44.6**
Results from Non-Current Assets	**241.0**	**46.9**	**413.8**
PBT	**1,989.7**	**1,971.0**	**0.9**
Corporate Tax	(416.2)	(466.4)	(10.,8)
Minorities	(55.1)	(47.9)	15.1
NET PROFIT	**1,518.4**	**1,456.7**	**4.2**

Results by Business *(Unaudited)*

M Eur

June 2017	Networks	Generation and Supply	Renewables	Other Business	Corp. and adjustments
Revenues	4,609.6	9,512.3	1,321.7	500.0	(774.9)
Procurements	(1,333.8)	(7,201.6)	(107.1)	(361.5)	686.2
GROSS MARGIN	**3,275.8**	**2,310.7**	**1,214.6**	**138.5**	**(88.7)**
NET OPERATING EXPENSES	(840.1)	(749.1)	(286.7)	(111.4)	44.8
Net Personnel Expense	(473.3)	(232.2)	(99.5)	(77.8)	(120.1)
Personnel	(716.9)	(248.4)	(115.1)	(77.8)	(164.1)
Capitalized personnel costs	243.6	16.2	15.5	-	44.0
Net External Services	(366.8)	(516.9)	(187.2)	(33.6)	164.9
External Services	(533.7)	(570.6)	(232.2)	(34.1)	172.0
Other Operating Income	167.0	53.7	45.0	0.6	(7.1)
Levies	(457.4)	(577.7)	(108.3)	(0.9)	(12.6)
EBITDA	**1,978.3**	**984.0**	**819.6**	**26.3**	**(56.4)**
Amortisation and Provisions	(733.8)	(428.6)	(436.2)	(5.3)	(31.3)
EBIT/Operating Profit	**1,244.5**	**555.4**	**383.5**	**21.0**	**(87.8)**
Financial Result	(198.5)	(70.0)	(63.7)	(6.5)	(74.7)
Results of companies consolidated by equity method	24.1	17.8	(0.6)	20.2	(15.6)
Results of non-current assets	0.3	0.4	(0.1)	239.9	0.5
PBT	**1,070.4**	**503.5**	**319.0**	**274.5**	**(177.7)**
Corporate tax and minority shareholders	(294.0)	(52.7)	(41.2)	(6.4)	(77.1)
NET PROFIT	**776.4**	**450.8**	**277.8**	**268.2**	**(254.8)**

M Eur

June 2016	Networks	Generation and Supply	Renewables	Other Business	Corp. and adjustments
Revenues	4,357.6	9,656.3	1,296.9	378.5	(791.2)
Procurements	(1,262.0)	(7,192.0)	(103.8)	(287.2)	723.3
GROSS MARGIN	**3,095.5**	**2,464.3**	**1,193.1**	**91.3**	**(67.9)**
NET OPERATING EXPENSES	(772.4)	(791.2)	(253.4)	(105.7)	62.0
Net Personnel Expense	(469.6)	(243.5)	(89.3)	(74.1)	(99.3)
Personnel	(694.8)	(258.6)	(100.9)	(74.1)	(138.7)
Capitalized personnel costs	225.2	15.1	11.6	-	39.4
Net External Services	(302.9)	(547.6)	(164.0)	(31.5)	161.2
External Services	(458.5)	(614.4)	(231.6)	(32.6)	168.0
Other Operating Income	155.7	66.7	67.6	1.0	(6.7)
Levies	(428.6)	(447.1)	(103.2)	(0.9)	(43.6)
EBITDA	**1,894.5**	**1,226.0**	**836.5**	**(15.3)**	**(49.5)**
Amortisation and Provisions	(694.6)	(467.0)	(436.8)	(5.0)	(35.1)
EBIT/Operating Profit	**1,199.8**	**759.0**	**399.7**	**(20.3)**	**(84.6)**
Financial Result	(207.9)	(38.6)	(75.5)	(0.1)	(39.0)
Results of companies consolidated by equity method	26.5	10.9	(15.7)	24.3	(14.2)
Results of non-current assets	3.0	(6.4)	(1.6)	16.8	35.0
PBT	**1,021.4**	**724.9**	**306.9**	**20.8**	**(102.9)**
Corporate tax and minority shareholders	(267.0)	(124.3)	(66.8)	6.9	(63.1)
NET PROFIT	**754.4**	**600.6**	**240.1**	**27.6**	**(165.9)**

Networks Business *(Unaudited)*

M Eur

June 2017	SPAIN	UNITED KINGDOM	US	BRAZIL
Revenues	997.0	622.0	2,180.4	810.3
Procurements	(1.9)	(24.4)	(698.7)	(608.8)
GROSS MARGIN	995.1	597.6	1,481.6	201.5
NET OPERATING EXPENSES	(177.1)	(95.3)	(493.5)	(74.1)
Net Personnel Expense	(109.1)	(45.3)	(270.1)	(48.8)
Personnel	(163.0)	(111.6)	(381.6)	(60.7)
Capitalized personnel costs	53.9	66.3	111.5	11.9
Net External Services	(68.0)	(50.0)	(223.4)	(25.3)
External Services	(154.0)	(78.5)	(264.6)	(36.8)
Other Operating Income	86.0	28.5	41.2	11.4
Levies	(46.8)	(51.1)	(358.6)	(0.9)
EBITDA	771.1	451.3	629.5	126.4
Amortisation and Provisions	(256.3)	(138.2)	(279.5)	(59.8)
EBIT/Operating Profit	514.8	313.1	349.9	66.6
Financial Result	(37.1)	(56.1)	(82.8)	(22.6)
Results of companies consolidated by equity method	1.4	-	5.6	17.0
Results of non-current assets	0.3	-	-	-
PBT	479.5	257.1	272.7	61.1
Corporate tax and minority shareholders	(114.4)	(51.6)	(110.0)	(18.0)
NET PROFIT	365.1	205.4	162.7	43.1

M Eur

June 2016	SPAIN	UNITED KINGDOM	US	BRAZIL
Revenues	1,010.9	712.0	1,968.6	666.0
Procurements	(7.3)	(28.3)	(713.6)	(512.8)
GROSS MARGIN	1,003.6	683.8	1,255.0	153.2
NET OPERATING EXPENSES	(172.6)	(105.6)	(434.7)	(59.6)
Net Personnel Expense	(114.6)	(52.4)	(265.6)	(36.9)
Personnel	(167.7)	(126.5)	(352.7)	(47.9)
Capitalized personnel costs	53.1	74.0	87.1	11.0
Net External Services	(58.0)	(53.2)	(169.1)	(22.7)
External Services	(146.2)	(91.8)	(189.7)	(31.3)
Other Operating Income	88.2	38.6	20.7	8.6
Levies	(47.0)	(54.2)	(326.6)	(0.8)
EBITDA	783.9	524.0	493.7	92.8
Amortisation and Provisions	(235.7)	(147.3)	(257.7)	(53.9)
EBIT/Operating Profit	548.2	376.7	236.0	38.9
Financial Result	(29.9)	(64.1)	(94.8)	(19.1)
Results of companies consolidated by equity method	1.3	-	6.1	19.1
Results of non-current assets	0.4	0.3	2.3	-
PBT	519.9	312.9	149.6	38.9
Corporate tax and minority shareholders	(136.9)	(66.0)	(55.9)	(8.2)
NET PROFIT	383.1	246.9	93.7	30.7

Generation and Supply Business *(Unaudited)*

M Eur

June 2017	SPAIN	UNITED KINGDOM	MEXICO	OTHERS
Revenues	6,117.4	2,507.8	929.7	(42.6)
Procurements	(4,559.9)	(2,108.7)	(600.9)	67.9
GROSS MARGIN	**1,557.5**	**399.1**	**328.8**	**25.3**
NET OPERATING EXPENSES	(396.2)	(268.6)	(59.9)	(24.5)
Net Personnel Expense	(145.9)	(65.5)	(9.1)	(11.7)
Personnel	(154.4)	(68.9)	(13.2)	(11.9)
Capitalized personnel costs	8.4	3.4	4.2	0.2
Net External Services	(250.3)	(203.1)	(50.8)	(12.8)
External Services	(266.2)	(230.3)	(61.4)	(12.7)
Other Operating Income	15.9	27.2	10.6	(0.1)
Levies	(499.0)	(73.8)	(1.4)	(3.6)
EBITDA	**662.4**	**56.7**	**267.6**	**(2.7)**
Amortisation and Provisions	(241.8)	(121.2)	(49.5)	(16.1)
EBIT/Operating Profit	**420.6**	**(64.5)**	**218.1**	**(18.8)**
Financial Result	(12.3)	(.5)	(43.1)	(14.1)
Results of companies consolidated by equity method	(3.9)	(0.1)	-	21.7
Results of non-current assets	0.2	0.1	-	-
PBT	**404.6**	**(65.0)**	**175.0**	**(11.2)**
Corporate tax and minority shareholders	(55.7)	15.3	(25.9)	13.6
NET PROFIT	**348.9**	**(49.7)**	**149.1**	**2.4**

M Eur

June 2016	SPAIN	UNITED KINGDOM	MEXICO	OTHERS
Revenues	5,777.5	3,269.9	681.2	(72.3)
Procurements	(4,261.2)	(2,602.5)	(418.4)	90.0
GROSS MARGIN	**1,516.3**	**667.4**	**262.9**	**17.7**
NET OPERATING EXPENSES	(383.8)	(334.1)	(50.8)	(22.5)
Net Personnel Expense	(145.7)	(77.0)	(10.5)	(10.3)
Personnel	(155.1)	(79.5)	(13.4)	(10.7)
Capitalized personnel costs	9.3	2.5	2.9	0.4
Net External Services	(238.0)	(257.1)	(40.3)	(12.2)
External Services	(270.0)	(285.7)	(47.7)	(10.9)
Other Operating Income	32.0	28.6	7.4	(1.3)
Levies	(376.2)	(66.7)	(1.2)	(3.0)
EBITDA	**756.3**	**266.6**	**210.8**	**(7.8)**
Amortisation and Provisions	(261.0)	(145.5)	(44.6)	(15.8)
EBIT/Operating Profit	**495.3**	**121.1**	**166.3**	**(23.7)**
Financial Result	(9.4)	(1.2)	(16.5)	(11.5)
Results of companies consolidated by equity method	(9.2)	(0.3)	-	20.3
Results of non-current assets	(5.9)	-	(0.4)	-
PBT	**470.8**	**119.7**	**149.3**	**(14.9)**
Corporate tax and minority shareholders	(69.0)	(22.7)	(45.2)	12.6
NET PROFIT	**401.7**	**97.0**	**104.2**	**(2.3)**

Renewables Business *(Unaudited)*

M Eur

June 2017	SPAIN	UNITED KINGDOM	US	LATAM	Row
Revenues	413.9	260.8	524.9	60.5	61.6
Procurements	(7.0)	(20.6)	(76.0)	(3.1)	(0.4)
GROSS MARGIN	**406.9**	**240.2**	**448.8**	**57.4**	**61.3**
NET OPERATING EXPENSES	(91.9)	(52.6)	(113.9)	(15.5)	(12.8)
Net Personnel Expense	(27.7)	(10.4)	(56.5)	(1.7)	(3.2)
Personnel	(27.7)	(17.6)	(64.9)	(1.7)	(3.2)
Capitalized personnel costs	-	7.2	8.3	-	-
Net External Services	(64.2)	(42.3)	(57.3)	(13.8)	(9.6)
External Services	(82.7)	(44.3)	(94.2)	(13.9)	(10.6)
Other Operating Income	18.5	2.1	36.9	0.1	0.9
Levies	(57.5)	(8.9)	(39.9)	(.3)	(1.7)
EBITDA	**257.5**	**178.7**	**295.0**	**41.6**	**46.7**
Amortisation and Provisions	(119.8)	(70.0)	(212.3)	(18.6)	(15.5)
EBIT/Operating Profit	**137.7**	**108.8**	**82.8**	**23.0**	**31.2**
Financial Result	(23.1)	(10.6)	(13.0)	(14.8)	(2.2)
Results of companies consolidated by equity method	2.7	(0.6)	(5.5)	2.8	-
Results of non-current assets	(0.1)	-	-	-	-
PBT	**117.1**	**97.6**	**64.2**	**11.0**	**29.0**
Corporate tax and minority shareholders	(35.0)	(20.0)	16.1	6.4	(8.7)
NET PROFIT	**82.1**	**77.6**	**80.4**	**17.4**	**20.3**

M Eur

June 2016	SPAIN	UNITED KINGDOM	US	LATAM	Row
Revenues	474.8	221.1	486.0	52.2	62.7
Procurements	(7.2)	(20.0)	(73.7)	(2.4)	(.4)
GROSS MARGIN	**467.5**	**201.1**	**412.3**	**49.8**	**62.3**
NET OPERATING EXPENSES	(95.4)	(41.1)	(93.9)	(12.3)	(10.7)
Net Personnel Expense	(25.4)	(8.7)	(50.5)	(1.4)	(3.3)
Personnel	(25.4)	(16.1)	(54.7)	(1.4)	(3.3)
Capitalized personnel costs	-	7.4	4.2	-	-
Net External Services	(70.0)	(32.4)	(43.4)	(10.9)	(7.3)
External Services	(84.4)	(49.8)	(88.4)	(10.8)	(9.5)
Other Operating Income	14.4	17.4	45.0	-	2.2
Levies	(52.5)	(8.9)	(39.3)	(0.7)	(1.7)
EBITDA	**319.7**	**151.1**	**279.1**	**36.8**	**49.9**
Amortisation and Provisions	(121.5)	(82.6)	(199.3)	(17.5)	(15.8)
EBIT/Operating Profit	**198.2**	**68.5**	**79.8**	**19.2**	**34.1**
Financial Result	(42.1)	(10.9)	(14.3)	(5.0)	(3.2)
Results of companies consolidated by equity method	(0.7)	(0.6)	(7.1)	1.6	(8.8)
Results of non-current assets	(1.7)	-	-	-	-
PBT	**153.6**	**57.0**	**58.4**	**15.8**	**22.0**
Corporate tax and minority shareholders	(43.7)	(16.7)	6.9	(2.4)	(10.9)
NET PROFIT	**109.9**	**40.4**	**65.3**	**13.5**	**11.1**

Quarterly Results *(Unaudited)*

M Eur

	Jan-Mar 2017	Apr-June 2017
REVENUES	**8.289.5**	**6.879.4**
Procurements	(4.723.1)	(3.594.8)
GROSS MARGIN	**3.566.4**	**3.284.6**
NET OPERATING EXPENSES	**(940.9)**	**(1.001.5)**
Net Personnel Expense	**(493.2)**	**(509.7)**
Personnel	(650.6)	(671.7)
Capitalized personnel costs	157.4	162.0
Net External Services	**(447.7)**	**(491.9)**
External Services	(573.3)	(625.5)
Other Operating Income	125.6	133.6
LEVIES	**(763.9)**	**(392.9)**
EBITDA	**1.861.6**	**1.890.1**
Amortisations and Provisions	(834.6)	(800.7)
EBIT	**1.027.0**	**1.089.4**
Financial Expenses	**(505.7)**	**(196.8)**
Financial Income	**299.8**	**(10.9)**
Financial Result	**(205.9)**	**(207.6)**
Results of Companies Consolidated by Equity Method	**28.0**	**17.8**
Results from Non-Current Assets	**256.2**	**(15.2)**
PBT	**1.105.3**	**884.5**
Corporate Tax	(250.1)	(166.1)
Minorities	(27.6)	(27.6)
NET PROFIT	**868.7**	**588.0**

	Jan-Mar 2016	Apr-June 2016
REVENUES	**8.184.8**	**6.713.3**
Procurements	(4.534.9)	(3.586.9)
GROSS MARGIN	**3.649.9**	**3.126.4**
NET OPERATING EXPENSES	**(931.4)**	**(929.3)**
Net Personnel Expense	**(511.2)**	**(464.6)**
Personnel	(648.0)	(619.1)
Capitalized personnel costs	136.8	154.5
Net External Services	**(420.2)**	**(464.7)**
External Services	(574.4)	(594.8)
Other Operating Income	154.2	130.1
LEVIES	**(691.5)**	**(332.0)**
EBITDA	**2.027.1**	**1.865.1**
Amortisations and Provisions	(777.6)	(860.9)
EBIT	**1.249.5**	**1.004.1**
Financial Expenses	**(470.2)**	**(448.3)**
Financial Income	**330.0**	**227.3**
Financial Result	**(140.1)**	**(221.1)**
Results of Companies Consolidated by Equity Method	**10.0**	**21.7**
Results from Non-Current Assets	**29.1**	**17.8**
PBT	**1.148.5**	**822.6**
Corporate Tax	(254.3)	(212.1)
Minorities	(25.5)	(22.4)
NET PROFIT	**868.7**	**588.0**

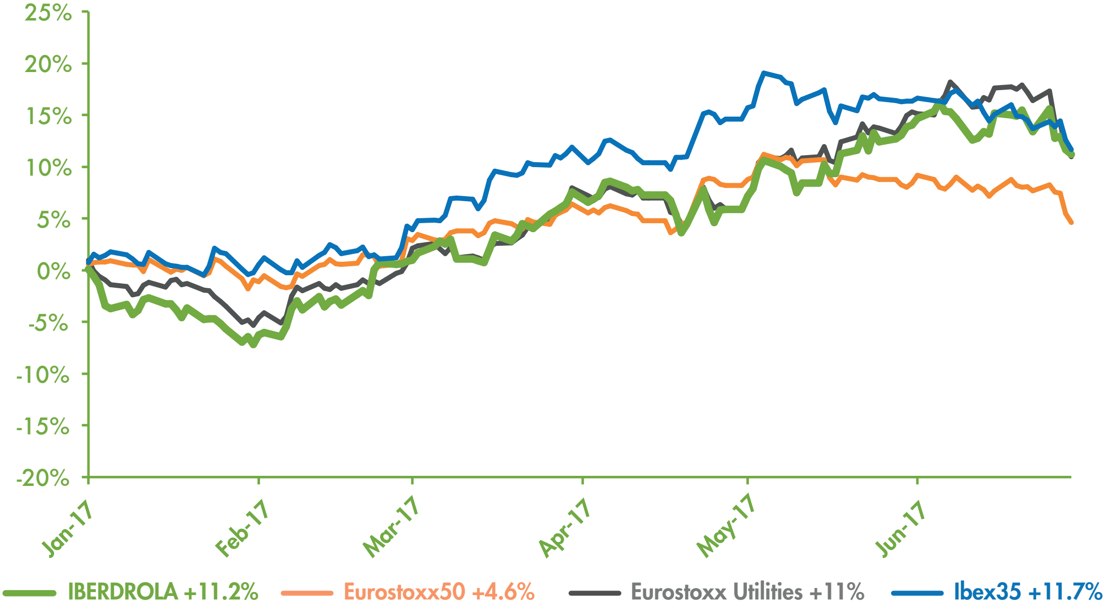
Statement of Origin and Use of Founds *(Unaudited)*

	June 2017		June 2016		Variation
EBITDA		**3,751.8**		**3,892.1**	**(140.3)**
Adjustments to results and others		**(443.5)**		**(410.9)**	**(32.6)**
Financial payments and cash receipts		**(350.1)**		**(392.6)**	**42.5**
Corporate Tax Payment		**(143.8)**		**144.1**	**(287.9)**
Provision payments (net of normal expenses)		**(229.5)**		**(183.8)**	**(45.7)**
Operating Cash Flow		**2,584.9**		**3,048.9**	**(464.0)**
Dividends Paid		**(310.9)**		**(443.7)**	**(54.4)**
Retained Cash Flow		**2,274.0**		**2,605.2**	**(518.4)**
Total Cash Flow allocations:		**(2,943.7)**		**(2,378.0)**	**(565.7)**
Net Investments	*(2,512.5)*		*(1,858.7)*		*(653.8)*
Divestments	*313.9*		*102.4*		*211.5*
Treasury stock	*(714.5)*		*(591.0)*		*(123.5)*
Capital issue	*(0.4)*		*(0.5)*		*0.1*
Hybrid	*(30.2)*		*(30.2)*		-
Exchange rate differentials		**867.8**		**733.0**	**134.8**
Change in regulatory receivables		**17.3**		**(28.0)**	**45.3**
Working capital variations and other variations		**(743.8)**		**(843.1)**	**286.5**
Decrease/(Increase) in net debt		**(528.4)**		**89.1**	**(617.5)**

8

Stock Market Evolution

Iberdrola stock performance vs Index



Iberdrola's share

	H1 2017	H1 2016
Number of outstanding shares	6,240,000,000	6,240,000,000
Price at the end of the period	6.933	6.087
Average price of the period	6.531	6.050
Average daily volume	25,070,750	29,790,036
Maximum volume (04-06-2017/01-04-2016)	122,920,322	86,439,332
Minimum volume (05-29-2017/05-16-2016)	5,568,159	4,444,650
Dividends paid (€) (1)	0.140	0.132
Gross Final dividend (01-23-2017 /01-29-2016)	0.135	0.127
Shareholder´s Meeting attendance bonus	0.005	0.005
Dividend yield (2)	4.24%	4.53%

(1) Iberdrola fixed guaranteed price for the rights
(2) Dividends paid in the last 12 months and Shareholder´ Meeting attendance bonus/price at the end of period.

9

Regulation

In the second quarter of 2017, a group of provisions was approved affecting the energy sector. This section presents the most significant regulatory changes.

1. Regulation in the European Union

Allegations about strategic reserves: The period for submission of allegations in the investigation by the DGCOMP on Germany's strategic reserves begins. On 23 January 2017, Germany reported draft legislation on the reserve capacity, along with an assessment of the need for the measure. After assessing the measure, the Commission reached the provisional conclusion that this constitutes state aid. The interested parties may submit their statements within one month after the publication date (19 May).

Brexit: Council Decision (EU) 2017/900 concerning the establishment of the ad hoc Working Party on Article 50 TEU chaired by the General Secretariat of the Council. Under this decision, an ad hoc Working Party on article 50 TEU is created, which shall assist Coreper and the Council in all matters pertaining to the withdrawal of the United Kingdom from the Union. It will cease to exist when its mandate has been fulfilled.

2. Regulation in Spain

Spanish Electricity Sector

General State Budget Act: On 26 June, the General State Budget Act for 2017 was passed. This Act was published on 28 June.

In relation to the electricity sector: the Act includes € 3,746 million for funding regulated costs (€ 2,650 million in taxes on generation, € 360 million in CO2 auctions and € 736 million to fund the 50% excess cost of the non-mainland and island systems).

In turn, it authorises payment of lawsuits in 2017 arising from court judgements or international decisions, to be charged to the historical surplus from 2014-2016.

The budget also includes € 60 million to fund the investment in renewable energy projects that receive FEDER aid, charged to the historical surplus, a total of € 150 million in aid for energy intensive industries, up to € 50 million in aid for transportation using alternative fuels and recharging infrastructures and up to €10 million in aid for coal power plants to reduce their emissions, subject to European state aid regulations.

Hydroelectric tax: In June, a Royal Decree-Act was published and later approved with measures to mitigate the drought in certain river basins. This Royal Decree-Act includes an increase in the hydroelectric tax, bringing the tax rate from 22% to 25.5%, applied to income earned from hydroelectric power production. The measure enters into force on the publication date of the Royal Decree-Act and has no expiry date.

Deadline for application of nuclear power plant renewal: In May and June, Ministry Orders were published that postponed the deadline for application for operation renewal of the Almaraz, Vandellós, Trillo, Cofrentes and Ascó nuclear power plants.

Renewal shall be applied for within 2 months after the Government approves the Comprehensive Energy and Climate Plan. This plan is part of the developments required under the Clean Energy Package.

In the case of Trillo, Cofrentes and Ascó, if the Plan is approved more than three years and two months prior to the authorisation expiry date, a new authorisation for up to three years can be requested before said expiry date.

If the Plan is not approved two months before the date on which the owner must submit the Periodic Safety Review, the request can be deemed as submitted when the Review is furnished.

Auctions on new renewable capacity: On 31 March, the RD that provided the legal support for the second renewable energy auction was passed, and the Ministry Order and Resolutions that regulate the auction procedure and remuneration parameters were published.

A maximum of 3,000 MW of renewable power were scheduled to be up for auction on the Spanish mainland, excluding cogeneration. It applied to new facilities, and power upgrades on existing plants or projects that had already received authorisation or prior registration were not admitted.

The auction took place on 17 May, in which 2,980 MW were assigned to wind power, 1 MW to photovoltaic and 19 MW were assigned to other technologies. The maximum discount was applied, which means the awardees will not receive premiums, except under any revisions that could be conducted in subsequent regulatory periods if the market price drops below a certain level.

In June, the RD announcing the third renewable energy auction and the Ministry Order establishing the remuneration parameters for it were published. Furthermore, on 1 July, the Resolution on the call for bids in the auction was published.

The auction shall take place on 26 July, with a minimum of 2,000 MW and a maximum of 3,000 MW of wind and photovoltaic energy up for auction. This limit shall be increased with all the power offered at the marginal discount, provided that the cost overrun is zero and lower than the value established in the confidential provision of the Resolution calling for bids to the auction. As in the auction that took place in May, the capacity must be new and located on the Spanish mainland. The applicable procedure and rules are the same as for the auction in May. However, the maximum reduction percentages increase, compared to the previous auction.

Slurry remuneration: The Ministry Order that establishes remuneration for slurry facilities since July 2013 was published in the Official State Gazette.

The Ministry Order was published as a result of judgements handed down in relation to appeals filed against Royal Decree 413/2014, on remuneration for renewables, cogeneration and waste, and against Order IET/1045/2014, which approves remuneration parameters.

These judgements nullified the premiums granted to these facilities, considering them insufficient, and established a period of four months for the Government to publish a Ministry Order with new remuneration parameters.

The Ministry Order adjusts the parameters applicable to slurry facilities since July 2013, establishes the parameters for the next regulatory period, 2017-2019, and modifies the useful life of the facilities, which goes from 25 years to 15 years.

Spanish Supreme Court Judgement on the 2013 deficit: In April, the judgement by the Spanish Supreme Court on the appeal filed by UNESA against the 2015 Ministry Order on access tariffs was published in the Official State Gazette. In relation to the 2013 deficit, the judgement rules that interest is owed to the UNESA companies from the time of the contribution (rather than starting 1 January 2014). The CNMC must establish the calculation method.

2006 CO2 rights deduction: Under the writ of execution issued on 4 May, the Spanish Supreme Court recognised Iberdrola's right to interest on the deduction of emissions rights conducted in 2006, for some € 31 million, after ruling on the preliminary issue of enforcement of the judgement handed down. The interest is related to amounts incorrectly deducted from non-assignee facilities of the first National CO2 Rights Allocation Plan.

In a separate judgement, the SC also ruled that Iberdrola be paid € 1 million in interest on emissions rights deducted in 2007.

Supreme Court Judgement on RD 900/2015, regarding self-consumption: In June, the Official State Gazette published the Supreme Court Judgement that nullifies art. 4.3 of the RD on self-consumption, as refers to the possibility of connecting production to shared facilities of several consumers, which the Court interprets as referring to feed-in facilities. The judgement also nullifies several articles relating to the obligation to register in a nationwide registry.

Spanish Gas Sector

Last resort gas tariffs for Q3 2017: The Resolution of 28 June by the Directorate General of Energy Policy and Mines publishes the last resort tariff for natural gas valid starting on 1 July 2017. Prices experience an average drop of 1% compared to those of the previous quarter. The drop is due to the reduction in the cost of commodities resulting from the improved exchange rate, within a setting in which the Brent price is similar to that of the previous quarter. Therefore, prices are 7% lower than in January 2015, when they reached record highs.

3. Regulation in the United Kingdom

Brexit. The UK issued notice of invocation of Article 50 of the Treaty on the EU on 29 March 2017. After a break for the general election, negotiations began on 19 June 2017.

Retail prices. During the election campaign prior to the general election on 08 June 2017, the Conservative Party indicated that it would legislate a cap on the price of tariffs. However, this bill was not announced in the Queen's Speech. On 21 June, the Secretary of State for Energy wrote to OFGEM, requesting actions beyond the recommendations given by the CMA (Competition and Markets Authority) in its final report on the investigation of energy markets. OFGEM responded on 3 July, announcing it would expand the CMA's recommendations for certain vulnerable clients.

Capacity Market: On 20 June 2017, OFGEM announced its final decision on industry's proposals known as CMP264 and CMP265, which favour the so-called "WACM4" option. This substantially eliminates the benefits (in relation to transmission tariffs) for distribution-connected generation progressively over a three-year period, starting in April 2018. Furthermore, on 22 March 2017, BEIS announced its decision to recover the costs of capacity payments on "gross" demand starting in 2018, thus preventing the current embedded subsidy for distribution-connected generation.

On 15 June 2017, National Grid published its 2017/2018 plan on the capacity market, which establishes that the T-1 auction (for energy delivery in 2018/19) shall begin on 30 January 2018 and that the T-4 auction (delivery in 2021/22) shall begin on 6 February 2018. This date for the T-4 is set somewhat later than usual (previous auctions took place in December), to afford more time to tackle the necessary reforms in the capacity market.

On 7 July, BEIS published the parameters for the upcoming capacity market auctions, assigning 50.1 GW for the T-4 auction, for capacity to be delivered in the 2021/22 period, and 6 GW for the T-1 auction, for capacity to be delivered in the 2018/19 period. In addition, National Grid published a report highlighting that the capacity assigned to the T-4 auction on 6 February 2018 takes into account the risk that the small diesel generators awarded in previous auctions may not be built due to the reduction of the "embedded subsidies" announced by OFGEM. National Grid is reviewing the capacity reduction factors applied to the batteries in the auction, which are currently the same as those applied to pumping, and will publish its report before the capacity auctions are held.

Renewable energy auction: The CfD renewables auction for offshore wind farms and other technologies began on 3 April 2017 with a total budget of GBP 290 million. The sealed envelopes with the bids shall be opened in August 2017 and the results are expected on 11 September 2017.

4. Regulation in the USA

Paris Agreement. On 1 June 2017, President Trump announced that the United States "*will withdraw from the Paris Climate Agreement*". The President added that the United States "*will begin negotiations to re-enter the Paris Agreement or a completely new agreement in terms that are fair to the United States*". The goal of the US in the Paris Agreement was to reduce carbon dioxide emissions by 26%-28% below 2005 levels. Even though the formal withdrawal may not take effect until November 2020, the President has declared that the United States will cease any application of the Paris Agreement, including the "Nationally Determined Contribution" and funding of the Green Climate Fund. Several world leaders have responded to Trump's call to renegotiate by stating that the agreement is irreversible. In response to this decision, numerous governors, including those of California, Washington and New York, have formed the "United States Climate Alliance", with the aim of achieving the country's climate goals. And more than 1,000 state, city, corporate and university leaders, including California, New York, Microsoft, Google, Apple and Facebook, signed an open letter in which they state that they are committed to achieving the goals of the Paris Agreement. Former Mayor of the city of New York, Michael Bloomberg, the UN Secretary-General's Special Envoy for Cities and Climate Change, submitted a statement entitled "We Are Still In" to the UNFCC (United Nations Framework Convention on Climate Change) and will submit a "Naturally Determined Contribution" that represents the efforts of cities, states, companies and others.

Environmental Protection Agency. On 8 June 2017, the EPA (Environmental Protection Agency) presented its proposal for revision of the CPP (Clean Power Plan) to the OMB (Office of Management and Budget), requesting the repeal thereof and arguing that the Obama Administration had gone too far in setting the carbon emissions reduction goals, setting its sights on the broad energy system instead of individual facilities. The EPA is also developing a financial analysis of the CPP. In turn, the Supreme Court halted the lawsuit on the CPP. The D.C. Circuit Court of Appeals halted its study of the case until late June while the Administration decides how to handle the regulation.

NARUC Manual. In November 2016, NARUC (National Association of Regulatory Utility Commissioners) published its manual on Distributed Energy Resources Compensation. The manual provides regulators and stakeholders with information about how to handle Distributed Energy opportunities while also maintaining an affordable, reliable and safe electricity supply. The manual discusses the design of tariffs and compensation, availability and use of new technology, provides an explanation about what Distributed Energy is, and describes some types. NARUC is currently working with public and private stakeholders to put the manual into practice.

PTC/ITC. In December 2015, Congress approved legislation extending and gradually reducing tax credits for renewable production (PTC) and tax credits for solar investment (ITC). Any developers starting building works on a wind farm before 2017 will receive the credit in full, whereas those starting construction between 2017 and 2019 will receive a reduced credit. Developers starting building works on a solar project before 2020 will access an investment credit (ITC) of 30%. Projects starting construction after 2019 will be entitled to a lower ITC. Treasury issued the guide with the PTC application procedure. Wind energy developers will have at least four years as from the start of construction, or up to 31 December 2018, to complete a project according to the "safe harbour" qualification regulations. Some members of the Trump Administration and Congress have supported maintaining the PTC as is, reducing the likelihood of changes to the PTC and ITC.

DOE Study. On 14 April 2017, the Department of Energy Secretary, Rick Perry, announced a 60-day review of the impacts that the policies have on the availability of "baseload" production. The DOE has indicated that the report will focus on geographic or regional issues in which wind, in one region in particular, could be contributing to grid problems now or in the future, market regulations in certain regions that undermine conventional power sources and thus favour renewable energy, and regulatory charges on coal and nuclear power, which are excessive. The DOE assured that the report will not attack the PTC (Production Tax Credit). Publication is pending.

Renewables. Nevada passed an increase in the Renewable Portfolio Standard up to 40% by 2030, which is still pending signature by Governor Sandoval. The California Senate passed a bill to accelerate and increase its Renewable Portfolio Standard.

Transmission. On 22 March 2016, an administrative judge of the Federal Energy Regulation Committee (FERC) issued an initial ruling for claims II and III on the Return on Equity (ROE) in New England, confirming that the basic ROE for each of the periods was unfair and unreasonable, but alleging that 'the anomalous conditions of the capital market' considered, guaranteed a higher basic ROE than that proposed by the plaintiffs. The judge recommends a basic ROE of 9.59% with a maximum limit of 10.42% for the second claim of December 2012. For the claim relating to the 2014-2015 period (claim III), the judge recommends a basic ROE of 10.90% with a maximum limit of 12.19%. The decision is subject to the approval of the Committee, which is expected in 2017.

On 29 April 2016, the Eastern Massachusetts Consumer-Owned Systems issued a fourth claim, recommending a basic ROE of 8.93%. On 20 September 2016, the FERC issued an Order to proceed with claim IV. No decision is expected on this fourth claim until 2018.

In April 2017, the Appeals Court issued a ruling ordering the FERC to reconsider its order on the claim from 2011 ("First claim") regarding the ROE (Return on Equity) of transmission facilities in New England. The FERC order under review had reduced the ROE from 11.14% to 10.57%. The court concluded that the FERC had acted incorrectly because it had not established that 11.14% was "unreasonable" before setting the new ROE. The court also concluded that the FERC had not put forth a reasoned decision as to why it chose 10.57% as the new ROE. The procedure is again under consideration by the FERC.

5. Regulation in Brazil

Tariff Flags during the second quarter of 2017: In April and May, red flag 1 was activated, which entails increasing the rate by BRL 30/MWh. In June, the green flag was applied, due to the increase in rainfall.

Conta de Desenvolvimento Energético – CDE: ANEEL established an annual quota of the CDE for 2017 for each distributor: Elektro has been allocated BRL 941 million, which represents an 8.2 % decrease from the value for 2016. This does not impact results because it is a direct transfer to the end consumer rate.

Subsequently, on 25 April, ANEEL decided to reduce the monthly quota of the CDE (due to the reduction in the provisions for loans granted in 2014 to cover the extraordinary cost of purchasing energy during the drought period). This led to a reduction of approximately BRL 6 million in the monthly account for Elektro. This value was updated in the tariff readjustment and has no financial impact on the distributors.

Excess contracting of distributors: In 2017, implementation of the measures to reduce excess contracting of distributors continued. Throughout the first half of the year, rounds of the centralised mechanism for negotiations were held between overly-contracted distributors and generators who want to reduce the volume of energy contracted (Mechanism for Compensation of Surpluses and Deficits of New Energy-MCSD). Elektro took part in all the rounds held in 2017: the first one took place in January (for the January-December 2017 contracting period), the second in April (for the April-December contracting period) and a special round was held to reduce the contracts from January 2018 to December 2021. Another two rounds of this mechanism are expected to take place in 2017.

6. Regulation in Mexico

Long-Term Auctions: On 27 June, the final version of the Conditions for Bidding in the 2017 Long-Term Auction was published, which is compounded by the information already published regarding Local Marginal Prices (PML), Time Adjustment Factors (FAH) and Expected Differences (DE) per region. The document has the same structure and contents as the auctions in previous years, and the only new feature is the entry of new potential buyers (Load Management Bodies) other than the CFE. Furthermore, a schedule is introduced, spanning from 25 July to 22 November.

Clearinghouse for the Long-Term Auction (SLP): On 23 June, SENER published in the Official Journal of the Federation the Operating Guide of the Clearinghouse for Contracts assigned by means of Long-Term Auctions. The Guide enables Load Management Bodies (ERC) other than the Basic Services Supplier (SSB) to participate in Purchase Offers in the SLP. The main goal is for these ERC to cover the needs of the CEL through this process. The Clearinghouse is the counterparty to both buyers and sellers at once, so the Conditions for Bidding in the current SLP include both contracts as appendixes. The draft version opens up the possibility for the Clearinghouse to absorb the contracts arising from the first two SLPs called in 2015 and 2016, in which the only purchasing counterparty was the CFE acting as SSB.

Medium-Term Auctions: On 12 June, the Manual for Medium-Term Auctions (SMP) was published in the Official Journal. These auctions shall take place at yearly intervals and their aim is to enable Market Participants to enter into Power Purchase Agreements of up to 3 years. In turn, this allows the Basic Services Suppliers to meet the requirements established by the Energy Regulation Committee, CRE, and also meet their Capacity and Energy needs within 3 years at the most, to reduce their short-term exposure to prices. This auction is expected to be called in August.

First-Hand Sales of Natural Gas: On 27 June, the CRE published in the Official Journal of the Federation the Agreement by which notice is issued in compliance with provision two of Resolution RES/996/2015, for the purposes of entry into force of the reserve capacity scheme and the general terms and conditions for first-hand sales of natural gas. The notice provides for the Transitional Scheme to end starting 1 July. Previously, on 16 June, the CRE had published in the Official Journal of the Federation the Agreement that renders null and void the methodology passed under RES/998/2015 for establishing maximum natural gas prices subject to first-hand sale. It also eliminates the maximum price for natural gas subject to first-hand sale, so that it can be determined under free market conditions.

Open Season on Natural Gas: On 8 May, the First SISTRANGAS Open Season was awarded, assigning 2.3 million GJ/d in the different sections of the system. Thus, CENAGAS is preparing to offer the transportation service of 6.3 million GJ/d in firm base to the system starting 1 July, which represents 97% of the total published available capacity. The excess price paid by clients that have received capacity assignments shall be equal to zero in all cases. The results for Iberdrola are as follows:

- Iberdrola Energia Monterrey, S.A. de C.V (5,478 GJ/d)
- Iberdrola Energia Altamira De Servicios, S.A. de C.V (12,800 GJ/d)
- Iberdrola Cogeneración Altamira, S.A. de C.V. (14,295 GJ/d)
- Iberdrola Cogeneración Ramos, S.A. de C.V. (2,284 GJ/d)
- Enertek, S.A. de C.V. (2,631 GJ/d)

Energy Transition: On 4 May, the *Regulations of the Law on Energy Transition* were published in the Official Journal of the Federation, the purpose of which is to establish the mechanisms and procedures by which the different stakeholders responsible for the observance and compliance with the *Law on Energy Transition* may prepare and update the Transition Strategy to Promote the Use of Cleaner Technologies and Fuels, the *National Programme for Sustainable Energy Use (PRONASE)*, the assessment of Planning Instruments, formulation and/or adjustment of the methodology for quantification of gas emissions and the procedure that must be followed by parties interested in receiving the Recognition of Energy Efficiency Excellence.

10

Iberdrola and Sustainability

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

1. Sustainability Indicators

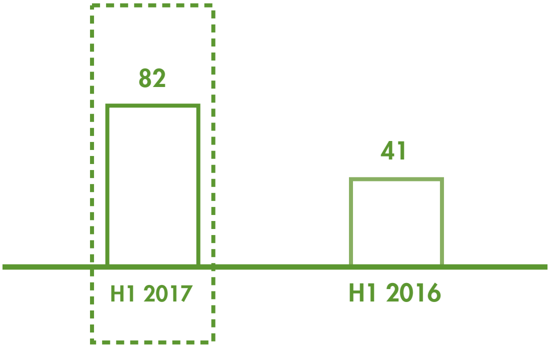
Sustainability Indicators	H1 2017	H1 2016
Contribution to GDP (Gross Margin) (*)	0.52%	0.56%
Contribution to GDP (Net revenues) (*)	1.40%	1.32%
Net Profit (EUR million)	1,518.4	1,456.7
Dividend yield (%)(**)	4.24	4.53
C02 emissions over the period (gr. CO2 /KWh): Total	163	162
C02 emissions over the period (gr. CO2 /KWh): Spain	82	41
C02 emissions over the period (gr. CO2 /KWh): UK	229	424
C02 emissions over the period (gr. CO2 /KWh): USA	31	45
C02 emissions over the period (gr. CO2 /KWh): Brazil	86	152
C02 emissions over the period (gr. CO2 /KWh): Mexico	360	356
Emission-free production: Total (GWh)	41,852	45,348
Emission-free production: Spain (GWh)	24,235	31,681
Ratio emission-free production to total production: Total (%)	59%	61%
Ratio emission-free production to total production: Spain (%)	87%	93%
Emission-free installed capacity: Total (MW)	31,679	30,696
Emission-free installed capacity: Spain (MW)	19,231	19,230
Emission-free instaled capacity: Total (%)	66%	67%
Emission-free instaled capacity: Spain (%)	74%	74%
Ratio high-emission technologies production: Total (%)	2%	3%
Ratio low-emission technologies production: Total (%)	39%	36%

(*) Soruce: Iberdrola Results and National Quarterly Accounting for Spain – INE (Last data published in Q4 2016)
(**) Dividends paid in the last 12 months and Shareholder´ Meeting attendance bonus/price at the end of period.

SPAIN. Development of specific thermal mix emissions, Global: CO2, SO2, particles and NOx.

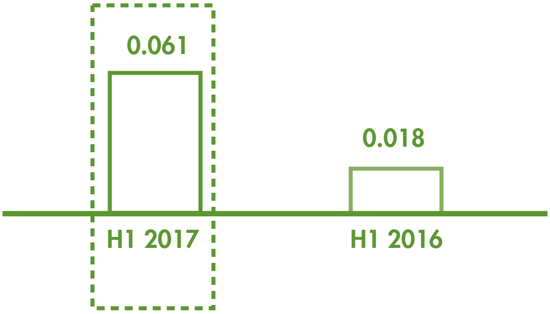
CO2 specific emissions mix, GLOBAL

(g/kWh)



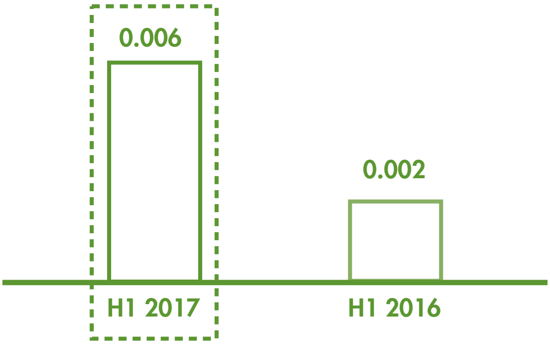
SO2 specific emissions mix, GLOBAL

(g/kWh)



Specific particulate emissions Mix GLOBAL

(g/kWh)



NOx specific emissions mix, GLOBAL

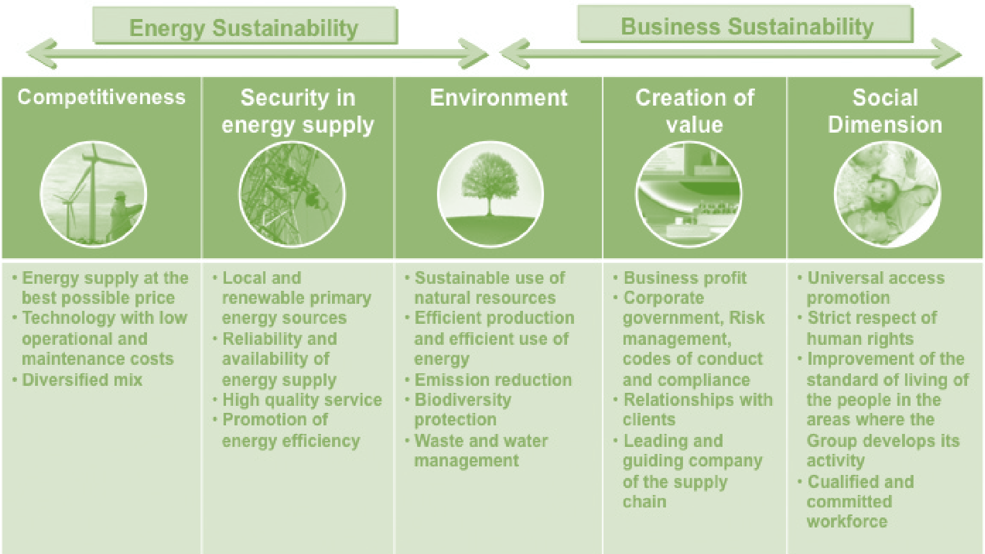
(g/kWh)

2. Índices, rankings and recognitions

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

Sustainability	
	Ranking
Dow Jones Sustainability World Index 2016	World Leader utility sector 2016. Iberdrola member in all editions
Global 100	Selected in 2017
FTSE4Good	First utility with nuclear assets to meet standards for FTSE 4Good. 7 years in a row selected
CDP Index 2016	A-List
Global Roundtable on Climate Change	IBERDROLA one of the developers
Sustainability Yearbook Robeco Sam 2016	Classified as "Gold Class" in the electricity sector.
MERCO 2017	Leader among Spanish utilities: electricity, gas, and water industry
Euronext Vigeo Eiris index: World 120, Eurozone 120 & Europe 120	Iberdrola selected
Nesweek and Green Rankings 2016	Iberdrola unique Spanish utility and fifth worldwide
MSCI Global Sustainability Index Series	Iberdrola selected AAA
2017 World's Most Ethical Company	Iberdrola selected. Only Spanish utility
Fortune Global 500	Iberdrola selected
Stoxx ESG Leaders/Eurostoxx Sustainability 40	Iberdrola selected
Carbon Ranking Global 800/Europe 300	Iberdrola selected

Sustainability Policy:



3. Contribution to social development

IBERDROLA's most significant actions with regard to social commitment in the Jan.-June 2017 period have been:

3.1. Corporate Social Responsibility (CSR) Recognition

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

IBERDROLA has been included in the 2017 *World's Most Ethical Company* ranking, made by the Ethisphere Institute, which recognises organisations that provide ethical leadership and conduct at corporate level. This ranking assesses the integration of values and corporate culture in decision-making and daily management and the influence that the companies have on improving society.

- **IBERDROLA, the only Spanish power company among the top 100 most sustainable companies in the world**

IBERDROLA was the only Spanish power company selected among the top 100 most sustainable companies in the world, according to the highly reputable index, *Global 100 Most Sustainable Corporations in the World*, created by Corporate Knights.

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

IBERDROLA is the winner of all four categories assessed: best investor relations and best CEO, CFO and Director of Investor Relations, according to the *2017 All-European Executive Team* ranking by the prestigious Institutional Investor Research Group.

- **IBERDROLA's 2017 Shareholders' Meeting publishes the Sustainable Event certification again**

IBERDROLA was the first Spanish company and the first electricity utility, among the world's 10 largest, to be awarded the ISO 20121 Sustainable Event certification for its General Shareholders' Meeting, as well as the *Erronka Garbia* environmental label awarded by the Basque Regional Government. In 2017, these certificates were again issued for the General Meeting.

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

Our Company was the IBEX 35 leader in terms of fiscal transparency in 2016, according to the Transparency Report on the Fiscal Responsibility of Companies, drafted by the Fundación Compromiso y Transparencia (Commitment and Transparency Foundation).

- **Elektro, best power distributor in Brazil.**

Elektro received, for the eighth time, the Abradee Award for the Best Power Distributor in Brazil granted by the Brazilian Association of Electric Power Distributors.

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

Elektro was awarded the prize for the 'Best Company to work for in Latin America' for the third year in a row, according to the study carried out by Great Place to Work.

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

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

3.2. Relations with Stakeholders

- **Presentation of the 2017 Together Iberdrola Solidarity Award**

The Chairman of IBERDROLA, Ignacio Galán, presented the *2017 Together Iberdrola Solidarity Award* during the General Shareholders' Meeting, which went to *Fundación Cadete*, whose goal is to help children with disabilities and their families, fostering their integration in society.

- **ScottishPower, customer care award**

ScottishPower received the Customer Care Award during the course of *Utility Week Industry*, in acknowledgement of its improved care and commitment to its customers.

- **Avangrid earns the *Utility Customer Champion* award.**

The AVANGRID subsidiaries, Central Maine Power (CMP) and NYSEG, were honoured as *Utility Customer Champion*, in the residential customer survey *2016 Utility Trusted & Customer Engagement*, conducted by Market Strategies International. This survey measures brand trust, customer commitment, product experience and operational quality.

3.3. Staff

- **Corporate Volunteer Programme**

With regard to IBERDROLA's Volunteer Programme, organised through the *International Volunteer Portal* (a website that serves as a meeting point to reinforce the Group's global community of volunteers), the following can be highlighted for this period:

- **10th IBERDROLA Tree Day.** The ninth edition of Tree Day was held in Muxika (Vizcaya), in collaboration with the Gorabide Association and the Lurgaia Foundation.
- **Initiatives to help disadvantaged people.** Different actions have been launched in countries where the company is established, such as:
  - **Volunteer Days**. Volunteer days devoted to games and sports and environmental-awareness, aimed at people with disabilities, have been held in diverse Autonomous Communities.
  - **'IBERDROLA Operation Kilo' initiative.** A new edition of this solidarity initiative was held to collect food with the aim of helping to mitigate the difficult economic situation of vulnerable families. Distribution is carried out through different aid organisations.
  - **'Solidarity Recycling' Initiative.** The goal of this initiative is to raise funds for social and charitable purposes by collecting and reclaiming diverse types of used objects at corporate offices.
  - **IBERDROLA with refugees:** IBERDROLA has joined the first public-private alliance to bring electricity to refugee camps: *Alianza Shire*. Our volunteers have taken on the responsibility of providing training on the use and maintenance of electrical facilities.
  - Elektro's initiatives include the **Meninos ecológicos** initiative, offering environmental training and awareness-raising opportunities, as well as professional development, to young people from the neighbouring areas (Araras, Pariquera-Açu and Eldorado).
- **INVOLVE (INternational VOLunteering Vacation for Education) Initiative**. The sixth edition of this corporate volunteering programme will be held, in which IBERDROLA employees from other regions will travel to Brazil and Mexico during their holidays to help teenagers at risk of social exclusion improve their employability, by means of IT and web application training.

3.4 Community Action

One of the most significant goals of the Iberdrola Foundations is harnessing the company's capacity and experience to offer added value to the group's social action. It should be noted that the foundation activities include promoting and developing social programmes and projects that can be categorised into four priority lines of industry-related work. Its specific strategic goals and activities in the first half of 2017 are detailed below:

a) **Training and research:** the aim of this industry area is the creation and transfer of knowledge to provide social value through training or research and to contribute to the development of a sustainable energy model.

Call for Research Scholarships and Grants

The aim of the Research Scholarships and Grants Programme of Iberdrola Foundation is to promote a new generation of professionals to contribute to a more sustainable energy model. In the 2017 edition, students from five countries (Spain, United Kingdom, United States, Mexico and Brazil) participate to study at leading universities in energy technology, environmental science and information technology. Thanks to this programme, more than 600 students have been able to study in master's or research programmes since 2010.

During the second quarter of 2017, the awards were announced in the International Scholarships Programme of the Iberdrola Group Foundations, granting a total of 115 scholarships: 40 Master's in Spain, 37 Master's in United Kingdom, 15 Master's in United States and 20 research grants. This programme includes three scholarships for restoration workshops at the Prado Museum and Bilbao Fine Arts Museum. In addition to their own Scholarships Programme, the Foundations support other academic institutions with 2 Fulbright scholarships and 10 Carolina Foundation scholarships. Finally, grants are awarded for bachelor's level studies through 9 scholarships at ICAI Comillas and 6 scholarships at Instituto Tecnológico de Monterrey.

Language immersion programmes in Spain

This programme aims to collaborate in fostering bilingualism (Spanish-English) both for students and for teachers requiring English training, taking advantage of the availability of Iberdrola residences and facilities during the holiday season.

During this second quarter, the courses for 2017 were planned and coordinated with the Regional Departments of Education in the Autonomous Regions of Castile-Leon, Extremadura and Valencia. The courses will takes place during the months of July and August. It is estimated that a total of some twenty teachers and more than a hundred students will benefit from these programmes.

In the United Kingdom, Scottish Power Foundation renews its vocational training programmes for the return to employment of reserve military forces. Another outstanding project is that developed by "Children University", which offers education in basic skills and job training to a thousand young people, so that they can then work in the construction industry.

Avangrid Foundation also cooperates with academic institutions at university or vocational training level in the field of the power industry. These initiatives are rounded off with financial aid for low-income students to help them continue and complete their studies, thus facilitating their inclusion in the job market.

b) **Sustainability and Biodiversity**: Fostering protection of the environment and helping to enhance biodiversity, studying the impact of climate change on nature, is the aim of this line of work by the Iberdrola Group Foundations.

Bird migration monitoring programme (MIGRA)

The Iberdrola Foundation Spain collaborates with Sociedad Española de Ornitología (Spanish Society of Ornithology), SEO/BirdLife, in the MIGRA project, aimed at studying the migratory movements of birds present in Spain in order to come up with a scientific basis for the movements of each species over several years, to find out about their habits, migratory routes, resting areas during the journey and hibernation areas.

In the six years that the programme has been conducted, a total of 809 birds of 28 different species have been tagged. In 2017, more than eighty taggings of these species are scheduled to take place: lesser kestrels, swifts and red kites. On 29 May, to celebrate International Migratory Bird Day, swifts were tagged in Nuevo Baztan, Navarre. Up to now, a total of 37 birds have been tagged in the first half of 2017.

In addition to publications and scientific articles in specialised media, the presentation of a specific monographic work on the migratory routes of the Booted Eagle in Spain and the impact of climate change on this species is planned for the last half of the year.

Other noteworthy initiatives

In the field of biodiversity, Scottish Power Foundation continues to promote its collaboration project with the Royal Society of Protection of Birds of Scotland. The programme includes a project aimed at improving access to the Loch Lomond reserve and training for members of Young Scots Climate 2050, an association of young leaders who conduct studies and raise awareness about climate change and work to support environmental protection.

Avangrid Foundation plans to select some thirty collaboration projects supporting programmes for efficient energy use, care for the environment, promotion of electric vehicles, development of efficient homes and construction, and marine and shore habitat improvement projects.

There are two highly interesting initiatives that combine academic training with benefits for the environment or direct social action in Brazil. These are two recurring programmes: "Cuida Colmena" , which consists in bee breeding and farming in the area of Elektro, training some twenty young people who will carry out internships for the project in 2017. "Flyways" supports conservation of birds in danger of extinction in the North-east region of the country, having completed the first census in the Rio Grande do Norte region and hiring local staff.

c) **Art and Culture**: In this area, work is done to collaborate with relevant institutions to promote programmes that help preserve artistic and cultural heritage, as a driving force for local development.

Restoration Programme

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

The **Atlantic Romanesque Programme** is the most significant programme of this kind in Spain. This ambitious programme entails the restoration and maintenance of Romanesque churches located in northern Portugal, Salamanca and Zamora. The programme was launched in 2010 and more than ten religious buildings have been restored since then thanks to the joint efforts of the central administration, the church and the corporate initiative through Iberdrola Foundation.

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

During this second quarter, the following activities have taken place:

In Castile-Leon:

- Development of Phase 2 of the project in Yecla de Yeltes, Salamanca.
- Work done on the series of murals in the chapel in Muga de Sayago, Zamora.
- Activities in the San Martin de Tours church, Salamanca: analysis of information supplied by sensors, diagnosis and assessment of the most suitable solution for structural stabilisation of the vault and walls of the chevet.
- Indicator table of the project and monitoring.

In Portugal: work has resumed in the projects in Guimaràes and Boticas chapels.

Prado Museum in Madrid and Bilbao Fine Arts Museum

Iberdrola Foundation Spain collaborates with the Prado Museum in Madrid and the Bilbao Fine Arts Museum, supporting their respective restoration workshops. Throughout the second quarter of 2017, the following works have been restored:

At the Prado Museum:

- The sculpture of Demetrius I Poliorcetes, a restored monumental bronze from the Hellenistic period.
- The painting by Titian, "Philip II offering the Infante don Ferdinand to Victory"

At the Bilbao Fine Arts Museum:

- The sculpture by Eduardo Chillida, "Meeting Place IV"

Lighting programme

During this second quarter, the new lighting in the Church of the Monastery of El Paular in Madrid and on the façade of the Irun City Hall was unveiled.

The lighting work is based on the latest LED technology, with a view to sustainability and energy savings in the installation, affording lower consumption than the previous fixtures. Furthermore, from an environmental perspective, energy efficiency is also improved through lower CO_2 emissions.

Exhibition or music support programmes

Guggenheim Museum, Bilbao

Within the framework of the special collaboration between Iberdrola and this contemporary art museum, an exclusive collaborative exhibition of great artistic relevance with large influx of visitors is held each year. In the second quarter of 2017, a retrospective of American artist, Bill Viola, opened to the public on 30 June.

As to the cultural collaborations carried out by Scottish Power Foundation, a new milestone was reached in the alliance with the National Museum of Scotland: a room devoted to Energy. The alliance between the Avangrid Foundation and Kilbourne Hall, of the Eastman School of Music in Rochester, has become consolidated and collaboration with more than thirty cultural entities is planned, to promote events related to music, theatre, literature and art throughout the year.

d) **Cooperation and Solidarity**: through the Social Grants Programme, solidarity initiatives are promoted that aim to help improve the quality of life of the most vulnerable people.

Social Grants

Iberdrola Foundation Spain, in its annual call for social projects, selects initiatives that help overcome situations of poverty and social exclusion and improve the quality of life of the seriously ill, dependent or disabled. The most vulnerable groups take priority in the selection: children and youth.

In the 2017 edition, the focus of the Sustainable Development Goals (SDG) has been included in the call, so projects must be geared toward achieving Goals 1, 3, 4, 5 and 10.

The application period ended in June and all the social project proposals submitted shall be assessed during the third quarter, with an expert committee selecting those of the best quality.

During this second quarter, the 30 projects selected in the call from 2016 continue to be monitored to confirm that they are progressing adequately and to foster relationships and outreach with the Social Agencies.

In the United Kingdom, Scottish Power Foundation supports 13 institutions in programmes that provide assistance to relatives and individuals with diseases or serious illnesses such as blindness, cancer, autism and Alzheimer's. Educational support activities for families with limited resources or at risk of exclusion are also promoted. The following are of note:

Venture Scotland: project to support young vulnerable people aged 16 to 30. This is a personal development programme in the open air, individualised and flexible, which focuses on enabling young people to make real and sustainable changes to their lives.

Music in Hospitals Scotland: Music therapy project to improve the quality of life of hospitalised patients.

The Outward Bound Trust: this Trust is an educational organisation carrying out leisure and free time projects for children.

Scottish Huntington's Association: project to improve the quality of life of people living with Huntington's disease.

The Prince and Princess of Wales Hospice: helping improve the quality of life of children and youth with palliative care services.

Erskine: care for ex-Service men and women in Scotland.

In the United States, Avangrid Foundation will promote new collaborations with social institutions, to facilitate aid such as power supply to people in disadvantaged situations, collaboration in fighting against diseases such as cancer, heart disease, fibrosis and leukaemia and receiving donations for social centres and facilities for the disadvantaged or at risk of exclusion to continue operating. Among the institutions with which activities have been carried out in the past and whose projects will be extended in 2017, the following can be highlighted:

Operation Fuel: cooperation with the local government and base community organisation at more than 100 locations throughout Connecticut to ensure that vulnerable families have access to energy assistance throughout the year. Assistance is also given in applying for energy assistance programmes, food, clothing, health services, childcare, etc. All Hands Raised: cooperation with the Center for Musculoskeletal Care (CMC) devoted to young athletes, adults and patients.

Matching Gifts to Education: donations by employees to educational institutions.

- *Saint Patrick's Church*: Charity run in support of the South Tier Food Bank.
- *United Way Worldwide – Trust*: Employee donation campaign.

In Mexico, the foundation activities in social aid focus on initiatives in the vicinity of the power plants through a programme devoted to improving the neighbouring schools, which should be expanded in upcoming periods.

Cooperation for Development:

On 1 July 2017, the electrification and drinking water supply project in rural communities of Oaxaca (Mexico) conducted in collaboration with Save the Children and Energy Without Borders came to an end. After the assessment phase and awareness-raising in the field, the positive impact on the communities was confirmed. Save the Children, Energy Without Borders and Iberdrola are considering standardising the working model for the second half of this year, since it is deemed a good practice in cooperation for development.

Institutional Collaboration.

Lastly, Iberdrola Foundation Spain continues to support and collaborate with prominent cultural, social, scientific and cooperation institutions in Spain. During the first quarter of 2017, more than 45 institutional collaborations were monitored, most notably: Instituto Elcano, Baluarte Foundation, COTEC, Royal Spanish Academies of Language, History and Medicine, Instituto Cervantes, Awards by Princesa de Asturias and Princesa de Girona, Rey Jaime I Awards, Atapuerca Foundation, Energy Foundation of the Regions of Madrid and Asturias, Casa de América, Spanish Red Cross Foundation, Energy without Borders, Scientific and Literary Circles, Victims of Terrorism Foundation, General Foundation of the University of Salamanca, and more.

Sustainable Development Goals (SDG):

The 2030 Agenda represents a call to global action to tackle the main environmental, social and economic challenges threatening the future of our planet. Iberdrola has incorporated the Sustainable Development Goals into its corporate strategy.

The most relevant event to take place this quarter was the Conferences with Social Agencies held under the SDG approach. Some hundred people representing more than forty social organisations met at the headquarters of Iberdrola Foundation Spain to participate in three working groups on child poverty, disabilities and climate change. The dialogue that took place with these entities has resulted in best practices and future challenges that will serve as guidelines for the future of the Iberdrola foundations.

4. Corporate Governance

The Corporate Governance highlights during the first half of financial year 2017 were as follows:

- On 25 October 2016, IBERDROLA approved the second implementation of the increase in paid-up share capital approved by the 2016 General Shareholders' Meeting and, on 25 January 2017, it reported the implementation.
- On 9 January 2017, IBERDROLA published the financial calendar for financial year 2017.
- The IBERDROLA Board of Directors, at its meeting of 21 February 2017, prepared the individual

financial statements and management reports of the Company and the consolidated statements and reports with its subsidiaries, corresponding to the financial year ended 31 December 2016, as well as the proposals to distribute a cash dividend of EUR 0.030 gross per share with rights to such payment and to approve an increase of paid-up capital for the free-of-charge allocation of new shares to the shareholders of the Company, within the framework of the shareholder compensation system named *Iberdrola Scrip Dividend*.

Likewise, the CNMV was notified of the offer to workers of Iberdrola Group in Spain to receive shares, in full or in part, of the annual variable compensation corresponding to financial year 2016.

- Also on 21 February, IBERDROLA notified the CNMV of the agreement to carry out a buyback programme of the Company's treasury shares in accordance with the authorisation conferred by the General Shareholders' Meeting held on 28 March 2014, under point nine on the agenda. In relation with this, since that date, IBERDROLA periodically reported to the CNMV on the share buyback programme until 22 May 2017, the date when it ended. As a result, the Company acquired a total of 31,035,687 treasury shares, representing approximately 0.480%.
- On 22 February 2016, the Company submitted to the CNMV its Presentation of Results for the financial year ending on 31 December 2016.
- On 24 February 2017, IBERDROLA sent the Annual Corporate Governance Report, the *Annual Report on Remuneration of Directors* and the statistical information corresponding to financial year 2016 to the CNMV.
- On 12 April 2017, the Company submitted its energy production report for the first quarter of 2017.
- On 26 April 2017, IBERDROLA notified the CNMV of the agreement on the implementation of the first increase in paid-in share capital approved by the 2017 General Shareholders' Meeting, publishing the corresponding memorandum on the same date.

  Subsequently, on 24 May 2017, IBERDROLA reported the implementation of the first increase in paid-up capital, through which the *Iberdrola Scrip Dividend* is implemented.
- On 26 April 2017, the Company submitted to the CNMV its Presentation of Results for the first quarter of 2017.
- On 8 June 2017, the CNMV was notified of the agreement reached on 7 June by the shareholders of Neoenergia, S.A. (BB Banco de Investimento S.A., Caixa de Previdência dos Funcionários do Banco do Brasil and Iberdrola Energía, S.A.) regarding the consolidation of Elektro Holding, S.A. in Neoenergia.

General Shareholders' Meeting

During the meeting held on 21 February 2017, the Board of Directors of IBERDROLA agreed to call a General Shareholders' Meeting for 31 March 2017. In addition, the Board approved the payment of a gross attendance bonus of EUR 0.005 per share for the shareholders present or represented at the General Shareholders' Meeting.

The announcement of the call for the General Shareholders' Meeting was published by the Company in the Official Bulletin of the Commercial Registry on 24 February 2017.

On 31 March 2017, the Company's General Shareholders' Meeting was held at first session, with a quorum of 77.20% of the share capital (5.28% present and 71.92% represented), and each and every agreement put to vote that had been included in the meeting agenda was approved, as detailed below:

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

The General Shareholders' Meeting approved the individual financial statements of Iberdrola and the consolidated statements with its subsidiaries, corresponding to financial year 2016, the Company's individual management report and the report on the consolidated management with its subsidiaries, and the corporate management and performance of the Board of Directors during financial year 2016.

Furthermore, the General Shareholders' Meeting approved the selection of KPMG Auditores, S.L.

as the accounts auditor for the Company and its consolidated group for financial years 2017, 2018 and 2019, including the delegation in favour of the Board of Directors, with full powers of substitution, of the powers necessary to enter into the corresponding service contract with KPMG Auditores, S.L.

Agreement regarding the updating of the Corporate Governance system

The General Shareholders' Meeting approved:

i. Under point eleven on the agenda, the appropriation of earnings proposed by the Board of Directors, which includes the payment of a dividend corresponding to financial year 2016 of EUR 0.03 gross per share.

ii. Under points twelve and thirteen on the agenda, two increases in paid-up share capital by issuing new ordinary shares of the Company, with a maximum reference market value of EUR 1,032 million and EUR 1,168 million, respectively, for the free-of-charge allocation of the new shares to the Company's shareholders. Said agreements include the delegation to the Board of Directors, with full powers of substitution, of the powers required to execute capital increases, including that of newly drafting the article in the *Articles of Association* that regulates the share capital.

   These capital increases were agreed in order to implement the two new editions of the "Iberdrola Scrip Dividend" system and offer all the Company's shareholders newly issued paid-up shares or, eventually, the purchase of free-of-charge allocation rights that shareholders receive for the shares they hold, for a guaranteed fixed price, in accordance with the Company's *Shareholder Remuneration Policy*.

iii. Under point fourteen on the agenda, a decrease in share capital through the amortization of a maximum of 219,990,000 treasury shares, representing 3.41% of the Company's share capital, by means of the amortisation of 188,954,313 treasury shares currently in the portfolio, and of a maximum of 31,035,687 treasury shares acquired through a repurchase programme for their amortisation.

   This agreement includes the delegation to the Board of Directors, with full powers of substitution, of the powers necessary for its execution, including, among other questions, the powers to redraft the article in the Articles of Association that regulates share capital and to request exclusion from trading and cancellation of the accounting records of the amortised shares.

iv. Under point fifteen on the agenda, a strategic bonus aimed at executive directors, senior management and the management team of the Company and its subsidiaries, linked to the Company's performance during the 2017-2019 period, to be paid through delivery of Iberdrola shares in the three years following the end of said three-year period.

Agreement regarding authorisation to issue fixed income securities

The General Shareholders' Meeting agreed to authorise the Board of Directors to issue simple bonds or obligations, notes and other fixed income securities of a similar nature that are not convertible or redeemable for shares and to secure the issues of securities by the Company's subsidiaries up to a limit of EUR 6,000 million for notes and EUR 20,000 million for other fixed income securities.

Agreement regarding general matters

The General Shareholders' Meeting agreed, notwithstanding the delegations included in the previous agreements, to grant the relevant powers jointly and severally to the Board of Directors, the Delegate Executive Committee, the Chairman and CEO and the Secretary of the Board of Directors to enable any of them, with any powers required by Law, to execute the agreements adopted.

Agreement regarding the agreement put to advisory vote

Lastly, the *Annual Report Regarding the Remuneration of Directors* corresponding to financial year 2016 was put to advisory vote by the General Shareholders' Meeting.

Board of Directors

In addition to the appointments of Mr Juan Manuel González Serna, as an independent director, and Mr Francisco Martínez Córcoles, as executive director, mentioned above, it must be noted that the Board of Directors also agreed on the following appointments to committees on 31 March:

i. Appointment of Ms Samantha Barber as a new member of the Delegate Executive Committee to fill the vacancy left by outgoing member Mr José Luis San Pedro Guerenabarrena.

ii. Appointment of Mr Juan Manuel González Serna as a member of the Remuneration Committee, thus filling the vacancy left by Mr Santiago Martínez Lage.

Corporate Governance System

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

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

Since the start of financial year 2017, the following updates and reviews of the Corporate Governance System of IBERDROLA have been made:

– On 21 February 2017, a reform of the Corporate Governance System was approved, which sought to develop the content of the *Corporate Fiscal Policy* within the framework of the corporate and governance structures, reinforce Iberdrola Group's commitment to human rights, introduce other improvements in corporate governance that affect the *Policy for Selecting Candidates to be Directors*, and the *Regulations of the Board of Directors*, among others, and to update the contents of the *Risk Policies* as a result of the annual review thereof, after receiving the report from the Audit and Risk Supervision Committee.

– As mentioned in the section on the agreements of the General Shareholders' Meeting, on 31 March 2017, the amendment of the *Articles of Association* and the *Regulations of the General Shareholders' Meeting* was approved.
On the same date, the Board of Directors of IBERDROLA agreed on a reform aimed at (i) updating the text in the Introduction to the Corporate Governance System to include the amendments to the Articles of Association approved by the General Shareholders' Meeting and to introduce other new contents and improvements, and (ii) to adapt the contents of several rules in light of the appointment of Business CEO of Iberdrola Group, Mr Francisco Martínez Córcoles, as executive director, whose position shall henceforth be Business COO - Executive Director of Iberdrola Group.

– On 19 June 2017, a reform of the Corporate Governance System was approved, the aim of which was (i) to amend the *Regulations of the Board of Directors* in order to standardise the definition of senior management, (ii) to amend the regulations on the duties of the secretary of the Board of Directors and of meetings and appearances of their advisory committees to strengthen their coordination, (iii) to amend Article 32 of the *Regulations of the Board of Directors* so that, when the minutes as a whole are approved in the following session, part of the minutes can be approved at the end of the meeting and, finally, (iv) to amend the *Internal Regulations for Conduct in the Securities Markets* to clarify that communications between directors and the Company must be channelled through the Secretary of the Board of Directors.

All documents that comprise the Corporate Governance System are published (in their full or summarised version) both in Spanish and in English on the corporate website www.iberdrola.com, which also offers the option of downloading them for consultation onto an e-book reader or any other mobile device.

Information Transparency

One of the core principles underlying IBERDROLA's corporate governance practices is to ensure maximum transparency in financial and non-financial information provided to shareholders, investors and markets. In this respect, there has been a high level of activity during financial year 2017 to ensure that institutional investors and financial analysts are kept fully informed.

On-Line Shareholders (OLS)

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

CNMV: Significant Events from April to June 2017

Date	Event	Registration Nº
03/04/2017	Operations carried out by Iberdrola, S.A. under its share repurchasing programme between 27 and 31 March 2017	250243
10/04/2017	Operations carried out by Iberdrola, S.A. under its share repurchasing programme between 03 and 07 April 2017	250564
12/04/2017	The Company reports its 2017 Energy Production report.	250671
18/04/2017	Iberdrola announces the Presentation of the Results from the First Quarter of 2017.	250751
20/04/2017	Operations carried out by Iberdrola, S.A. under its share repurchasing programme between 10 and 19 April 2017	250822
25/04/2017	Operations carried out by Iberdrola, S.A. under its share repurchasing programme between 20 and 25 April 2017	251100
26/04/2017	Implementation of the first increase in paid-in share capital approved by the General Shareholders' Meeting of 31 March 2017 and publication of the corresponding memorandum	251115
26/04/2017	The Company issues information regarding the results of the first quarter of 2017	251122
26/04/2017	Presentation of results corresponding to the first quarter of 2017	251131
04/05/2017	Operations carried out by Iberdrola, S.A. under its share repurchasing programme between 26 April and 3 May 2017.	251542
11/05/2017	Operations carried out by Iberdrola, S.A. under its share repurchasing programme between 4 and 10 May 2017	251938
22/05/2017	Operations carried out by Iberdrola, S.A. under its share repurchasing programme between 11 and 22 May 2017. End of programme.	252357
24/05/2017	Implementation of the reduction in share capital through the redemption of treasury stock, approved by the General Shareholders' Meeting held on 31 March 2017, under point fourteen on the agenda.	252407
30/05/2017	Inscription of the deed of reduction in share capital through redemption of treasury stock executed by the Delegate Executive Committee in their meeting of 24 May 2017.	252621
08/06/2017	Agreement by the shareholders of Neoenergia to incorporate the activity and business of Elektro Holding, S.A.	253046
08/06/2017	Presentation of the agreement by the shareholders of Neoenergia to incorporate the activity and business of Elektro Holding, S.A.	253048

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Glossary of terms

Alternative Performance Measures	Definition
Market capitalisation	Number of shares at the close of the period x price at the close of the period
Earnings per share	Net profit for the quarter / number of shares at the close of the period
PER	Price at the close of the period / Earnings per share for the last four quarters
Price / Book value	Market capitalisation / Net equity
Dividend yield (%)	Dividends paid in the last 12 months and attendance bonus / price at close of the period
Gross Margin	Net Revenue - Procurements
Net Operating Expenses	Personnel expense - Capitalized personnel expense + External services - Other Operating Income
Net Operating Expenses / Gross Margin	Net Operating Expenses / Gross Margin
Net Personnel Expense	Personnel Expense - Capitalized Personnel Expense
Net External Services	External Services - Other Operating Income
Gross Operating Profit (EBITDA)	Operating Profit + Depreciations, Amortisations and Provisions
Net Operating Profit (EBIT)	Operating Profit
Financial Result	Financial Revenue - Financial Expenses
Income from Non-Current Assets	Benefits from sale of non-current assets - Losses from sale of non-current assets
ROE	Net Profit of the four last quarters / Net Equity
Financial leverage	Net Financial Debt/(Net Financial Debt + Net Equity)
Gross Financial Debt	Financial Debt (loans and other,not included accumulative derivatives of treasury stocks) + equity instruments with certain characteristics of financial liability + Liability derivative debt instruments
Net Financial Debt	Gross Financial Debt – Asset derivative debt instruments - Other short-term credits - Cash and other cash equivalents
Net Financial Debt / Equity	Net Financial Debt / Net Equity
Net Financial Debt / EBITDA	Net Financial Debt / EBITDA for the last four quarters
Funds from Operations (FFO)	See section 'Funds From Operations' in the report
Funds From Operations (FFO) / Net Financial Debt	FFO for the last four quarters / Net Financial Debt
Net Operating Cash Flow per Share	FFO for the quarter / Number of shares at close of the period
Retained Cash Flow (RCF) / Net Financial Debt	RCF for the last four quarters / Net Financial Debt
Retained Cash Flow (RCF)	See 'Cash Flow Statement' section

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