ANNEX I

GENERAL

1st	HALF-YEARLY FINANCIAL REPORT FOR FINANCIAL YEAR	2017

REPORTING DATE 30/06/2017

I. IDENTIFICATION DATA

Registered Company Name: IBERDROLA, S.A.

Registered Address: PLAZA EUSKADI, Nº 5 48009 BILBAO (VIZCAYA)	**Tax Identification Number**
	A-48010615

II. SUPPLEMENTARY INFORMATION TO PREVIOUSLY RELEASED PERIODIC INFORMATION

Annex supplementary information

Explanation of the main modifications with respect to the previously released periodic information:
(complete only in the situations indicated in Section B) of the instructions)

In the context of the "Iberdrola flexible dividend" programme, a scrip issue was carried out in January 2017 and a second scrip issue is underway at the date of issue of the financial statements. According to IAS 33: Earnings per Share, these capital increases entailed correcting the basic and diluted earnings per share. The scrip issue of January 2017 has been taken into account when calculating the basic and diluted earnings per share for the periods ended 30 June 2017 and 2016, while the scrip issue of July 2017 has only been taken into account when calculating the diluted earnings per share for those same dates.

III. STATEMENT(S) BY THE PERSON(S) RESPONSIBLE FOR THE INFORMATION

To the best of our knowledge, the accompanying condensed annual financial statements, which have been prepared in accordance with applicable accounting principles, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer, or of the undertakings included in the consolidated financial statements taken as a whole, and the interim management report includes a fair review of the information required.

Comments on the above statement(s):

Person(s) responsible for this information:

In accordance with the power delegated by the board of directors, the board secretary certifies that the half-yearly financial report has been signed by the directors.

Name/Company Name	Office
Don José Ignacio Sánchez Galán	Chairman & CEO
Don Iñigo Víctor de Oriol Ibarra	Director
Doña Inés Macho Stadler	Director
Don Braulio Medel Cámara	Director
Doña Samantha Barber	Director
Doña María Helena Antolín Raybaud	Director
Don Ángel Jesús Acebes Paniagua	Director
Doña Georgina Kessel Martínez	Director
Doña Denise Mary Holt	Director
Don José Walfredo Fernández	Director
Don Manuel Moreu Munaiz	Director
Don Xabier Sagredo Ormaza	Director
Don Juan Manuel González Serna	Director
Don Francisco Martínez Córcoles	Director

Date this half-yearly financial report was signed by the corresponding governing body: 19/07/2017

IV. SELECTED FINANCIAL INFORMATION

1. INDIVIDUAL BALANCE SHEET (PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Units: Thousand euros

ASSETS		CURRENT P. 30/06/2017	PREVIOUS P. 31/12/2016
A) NON-CURRENT ASSETS	0040	45,400,547	46,260,412
1. Intangible assets:	0030	83,559	83,241
a) Goodwill	0031	0	0
b) Other intangible assets	0032	83,559	83,241
2. Property. plant and equipment	0033	213,887	214,206
3. Investment property	0034	0	0
4. Long-term investments in group companies and associates	0035	44,168,558	44,858,784
5. Long-term financial investments	0036	256,035	422,734
6. Deferred tax assets	0037	669,745	672,684
7. Other non-current assets	0038	8,763	8,763
B) CURRENT ASSETS	0085	3,042,089	2,051,550
1. Non-current assets held for sale	0050	0	0
2. Inventories	0055	0	0
3. Trade and other receivables:	0060	709,873	688,670
a) Trade receivables	0061	175,839	200,275
b) Other receivables	0062	113,349	87,799
c) Current tax assets	0063	420,685	400,596
4. Short-term investments in group companies and associates	0064	2,091,130	1,166,727
5. Short-term financial investments	0070	236,567	194,243
6. Prepayments for current assets	0071	1,644	1,910
7. Cash and cash equivalents	0072	2,875	0
TOTAL ASSETS (A + B)	0100	48,442,636	48,311,962

IV. SELECTED FINANCIAL INFORMATION

1. INDIVIDUAL BALANCE SHEET (PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS) (cont.)

Units: Thousand euros

EQUITY AND LIABILITIES		CURRENT P. 30/06/2017	PREVIOUS P. 31/12/2016
A) EQUITY (A.1 + A.2 + A.3)	0195	32,360,884	33,181,293
A.1) CAPITAL AND RESERVES	0180	32,441,036	33,274,400
1. Capital:	0171	4,680,000	4,771,559
a) Registered capital	0161	4,680,000	4,771,559
b) *Less: Uncalled capital*	0162	0	0
2. Share premium	0172	14,667,679	14,667,679
3. Reserves	0173	6,636,080	8,076,130
4. *Own shares and equity holdings*	0174	(508,615)	(1,073,787)
5. Prior periods' profit and loss	0178	6,613,921	5,400,882
6. Other shareholder contributions	0179	0	0
7. Profit (loss) for the period	0175	335,119	1,410,966
8. *Less: Interim dividend*	0176	0	0
9. Other equity instruments	0177	16,852	20,971
A.2) VALUATION ADJUSTMENTS	0188	(80,152)	(93,107)
1. Available-for-sale financial assets	0181	0	0
2. Hedging transactions	0182	(80,152)	(93,107)
3. Other	0183	0	0
A.3) GRANTS, DONATIONS AND BEQUESTS RECEIVED	0194	0	0
B) NON-CURRENT LIABILITIES	0120	10,173,787	10,793,528
1. Long-term provisions	0115	487,649	495,802
2. Long-term debts:	0116	1,444,780	1,493,325
a) Debt with financial institutions and bonds and other marketable securities	0131	1,235,805	1,292,520
b) Other financial liabilities	0132	208,975	200,805
3. Long-term payables to group companies and associates	0117	7,161,677	7,726,098
4. Deferred tax liabilities	0118	1,079,681	1,078,303
5. Other non-current liabilities	0135	0	0
6. Long-term accrual accounts	0119	0	0
C) CURRENT LIABILITIES	0130	5,907,965	4,337,141
1. Liabilities associated with non-current assets held for sale	0121	0	0
2. Short-term provisions	0122	0	0
3. Short-term debts:	0123	853,029	734,843
a) Bank borrowings and bonds and other negotiable securities	0133	538,476	339,120
b) Other financial liabilities	0134	314,553	395,723
4. Short-term payables to group companies and associates	0129	4,961,435	3,445,014
5. Trade and other payables:	0124	93,467	157,249
a) Suppliers	0125	16,302	42,297
b) Other payables	0126	77,165	114,952
c) Current tax liabilities	0127	0	0
6. Other current liabilities	0136	0	0
7. Current accrual accounts	0128	34	35
TOTAL EQUITY AND LIABILITIES (A + B + C)	0200	48,442,636	48,311,962

IV. SELECTED FINANCIAL INFORMATION

2. INDIVIDUAL PROFIT AND LOSS ACCOUNT (PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Units: Thousand euros

			PRESENT CURR. PERIOD (2nd HALF YEAR)		PREVIOUS CURR. PERIOD (2nd HALF YEAR)		CURRENT CUMULATIVE 30/06/2017		PREVIOUS CUMULATIVE 30/06/2016	
			Amount	%	Amount	%	Amount	%	Amount	%
(+)	Revenue	0205					650,438	100.00	511,384	100.00
(+/-)	Change in inventories of finished products and work in progress	0206					0	0.00	0	0.00
(+)	Own work capitalised	0207					1,359	0.21	1,191	0.23
(-)	Supplies	0208					(182,246)	(28.02)	(309.229)	(60.47)
(+)	Other operating revenue	0209					119,716	18.41	115,469	22.58
(-)	Personnel expenses	0217					(76,345)	(11.74)	(53,135)	(10.39)
(-)	Other operating expenses	0210					(103,761)	(15.95)	(96,645)	(18.90)
(-)	Depreciation and amortisation charge	0211					(28,632)	(4.40)	(30,823)	(6.03)
(+)	Allocation of grants for non-financial assets and other grants	0212					0	0.00	0	0.00
(+)	Reversal of provisions	0213					0	0.00	0	0.00
(+/-)	Impairment and gain (loss) on disposal of fixed assets	0214					(272)	(0.04)	63	0.01
(+/-)	Other profit (loss)	0215					12,119	1.86	0	0.00
=	**OPERATING PROFIT (LOSS)**	0245					392,376	60.32	138,275	27.04
(+)	Finance income	0250					7,192	1.11	11,918	2.33
(-)	Finance costs	0251					(145,520)	(22.37)	(167,369)	(32.73)
(+/-)	Changes in fair value of financial instruments	0252					67,708	10.41	102,521	20.05
(+/-)	Exchange differences	0254					5,133	0.79	(98)	(0.02)
(+/-)	Impairment and gain (loss) on disposal of financial instruments	0255					0	0.00	0	0.00
=	**NET FINANCE INCOME (COSTS)**	0256					(65,487)	(10.07)	(53,028)	(10.37)
=	**PROFIT (LOSS) BEFORE TAX**	0265					326,889	50.26	85,247	16.67
(+/-)	Income tax expense	0270					8,230	1.27	1,686	0.33
=	**PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING ACTIVITIES**	0280					335,119	51.52	86,933	17.00
(+/-)	Profit (loss) from discontinued operations. net of tax	0285					0	0.00	0	0.00
=	**PROFIT (LOSS) FOR THE PERIOD**	0300					335,119	51.52	86,933	17.00

EARNINGS PER SHARE		Amount (X.XX euros)	Amount (X.XX euros)	Amount (X.XX euros)	Amount (X.XX euros)
Basic	0290				
Diluted	0295				

In the half-yearly financial report for the first half of the year, the data relating to the present period match the cumulative data, which do not therefore need to be completed.

IV. SELECTED FINANCIAL INFORMATION

3. INDIVIDUAL STATEMENT OF CHANGES IN EQUITY

INDIVIDUAL STATEMENT OF RECOGNISED INCOME AND EXPENSE (PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Units: Thousand euros

			CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
A)	PROFIT (LOSS) FOR THE PERIOD (from the profit and loss account)	0305	335,119	86,933
B)	INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	0310	5,588	(38,843)
1.	From measurement of financial instruments:	0320	0	0
	a) Available-for-sale financial assets	0321	0	0
	b) Other income/(expenses)	0323	0	0
2.	From cash flow hedges	0330	7,450	(51,790)
3.	Grants. donations and bequests received	0340	0	0
4.	From actuarial gains and losses and other adjustments	0344	0	0
5.	Other income and expense recognised directly in equity	0343	0	0
6.	Tax effect	0345	(1,862)	12,947
C)	TRANSFERS TO PROFIT OR LOSS	0350	7,367	14,156
1.	From measurement of financial instruments:	0355	0	0
	a) Available-for-sale financial assets	0356	0	0
	b) Other income/(expenses)	0358	0	0
2.	From cash flow hedges	0360	9,823	18,875
3.	Grants, donations and bequests received	0366	0	0
4.	Other income and expense recognised directly in equity	0365	0	0
5.	Tax effect	0370	(2,456)	(4,719)
TOTAL RECOGNISED INCOME/(EXPENSE) (A + B + C)		0400	348,074	62,246

IV. SELECTED FINANCIAL INFORMATION

4. INDIVIDUAL STATEMENT OF CHANGES IN EQUITY (1/2)

INDIVIDUAL STATEMENT OF TOTAL CHANGES IN EQUITY (PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Units: Thousand euros

CURRENT PERIOD		Capital and reserves					Valuation adjustments	Grants. donations and bequests received	Total equity
		Capital	Share premium and Reserves (1)	Treasury stock	Profit (loss) for the period	Other equity instruments			
Closing balance at 01/01/2017	3010	4,771,559	28,144,691	(1,073,787)	1,410,966	20,971	(93,107)	0	33,181,293
Adjustments for changes in accounting policy	3011	0	0	0	0	0	0	0	0
Adjustment for errors	3012	0	0	0	0	0	0	0	0
Adjusted opening balance	3015	4,771,559	28,144,691	(1,073,787)	1,410,966	20,971	(93,107)	0	33,181,293
I. Total recognised income/(expense)	3020	0	0	0	335,119	0	12,955	0	348,074
II. Transactions with shareholders or owners	3025	(91,559)	(227,011)	565,172	(1,410,966)	0	0	0	(1,164,364)
1. Capital increases/ (reductions)	3026	(91,559)	(1,189,058)	1,280,176	0	0	0	0	(441)
2. Conversion of financial liabilities into equity	3027	0	0	0	0	0	0	0	0
3. Distribution of dividends	3028	0	1,223,765	0	(1,410,966)	0	0	0	(187,201)
4. Net trading with treasury stock	3029	0	2,353	(715,004)	0	0	0	0	(712,651)
5. Increases/ (reductions) for business combinations	3030	0	0	0	0	0	0	0	0
6. Other transactions with shareholders or owners	3032	0	(264,071)	0	0	0	0	0	(264,071)
III. Other changes in equity	3035	0	0	0	0	(4,119)	0	0	(4,119)
1. Equity-settled share-based payment	3036	0	0	0		(4,119)	0	0	(4,119)
2. Transfers between equity accounts	3037	0	0	0	0	0	0	0	0
3. Other changes	3038	0	0	0	0	0	0	0	0
Closing balance at 30/06/2017	3040	4,680,000	27,917,680	(508,615)	335,119	16,852	(80,152)	0	32,360,884

(1) The column of **Share premium and Reserves,** for the purposes of completing this statement, includes the following balance sheet equity headings: 2. Share premium. 3. Reserves. 5. Profit or loss brought forward. 6. Other shareholder contributions and 8. *Less: Interim dividend.*

IV. SELECTED FINANCIAL INFORMATION

4. INDIVIDUAL STATEMENT OF CHANGES IN EQUITY (2/2)

INDIVIDUAL STATEMENT OF TOTAL CHANGES IN EQUITY (PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Units: Thousand euros

PREVIOUS PERIOD		Capital and reserves					Valuation adjustments	Grants, donations and bequests received	Total equity
		Capital	Share premium and Reserves (1)	Treasury stock	Profit (loss) for the period	Other equity instruments			
Closing balance at 01/01/2016 (comparative period)	3050	4,752,652	29,703,449	(629,075)	116,613	36,371	(192,737)	0	33,787,273
Adjustments for changes in accounting policy	3051	0	0	0	0	0	0	0	0
Adjustment for errors	3052	0	0	0	0	0	0	0	0
Adjusted opening balance (comparative period)	3055	4,752,652	29,703,449	(629,075)	116,613	36,371	(192,737)	0	33,787,273
I. Total recognised income/(expense)	3060	0	0	0	86,933	0	(24,687)	0	62,246
II. Transactions with shareholders or owners	3065	(72,652)	(1,366,687)	355,107	(116,613)	0	0	0	(1,200,845)
1. Capital increases/ (reductions)	3066	(72,652)	(874,377)	946,566	0	0	0	0	(463)
2. Conversion of financial liabilities into equity	3067	0	0	0	0	0	0	0	0
3. Distribution of dividends	3068	0	(70,587)	0	(116,613)	0	0	0	(187,200)
4. Net trading with treasury stock	3069	0	(17)	(591,459)	0	0	0	0	(591,476)
5. Increases/ (reductions) for business combinations	3070	0	0	0	0	0	0	0	0
6. Other transactions with shareholders or owners	3072	0	(421,706)	0	0	0	0	0	(421,706)
III. Other changes in equity	3075	0	0	0	0	(8,758)	0	0	(8,758)
1. Equity-settled share-based payment	3076	0	0	0	0	(8,758)	0	0	(8,758)
2. Transfers between equity accounts	3077	0	0	0	0	0	0	0	0
3. Other changes	3078	0	0	0	0	0	0	0	0
Closing balance at 30/06/2016 (comparative period)	3080	4,680,000	28,336,762	(273,968)	86,933	27,613	(217,424)	0	32,639,916

(1) The column of **Share premium and Reserves,** for the purposes of completing this statement, includes the following balance sheet equity headings: 2. Share premium. 3. Reserves. 5. Profit or loss brought forward. 6. Other shareholder contributions and 8. *Less: Interim dividend.*

IV. SELECTED FINANCIAL INFORMATION

5. INDIVIDUAL STATEMENT OF CASH FLOWS
(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)

Units: Thousand euros

			CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
A)	CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2 + 3 + 4)	0435	(99,392)	(322,408)
1.	Profit (loss) before tax	0405	326,889	85,247
2.	Adjustments to profit (loss):	0410	(360,877)	(100,495)
(+)	Depreciation and amortisation charge	0411	28,632	30,823
(+/-)	Other net adjustments to profit (loss)	0412	(389,509)	(131,318)
3.	Changes in working capital	0415	(64,631)	(163,320)
4.	Other cash flows from operating activities:	0420	(773)	(143,840)
(-)	Interest paid	0421	(176,191)	(241,131)
(+)	Dividends received	0422	223,707	96,281
(+)	Interest received	0423	12,397	32,770
(+/-)	Income tax recovered/(paid)	0430	(8,768)	10,449
(+/-)	Other sums received/(paid) from operating activities	0425	(51,918)	(42,209)
B)	CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2)	0460	(332,342)	1,003,335
1.	Payments for investments:	0440	(1,167,933)	(533,018)
(-)	Group companies. associates and business units	0441	(1,138,426)	(458,132)
(-)	Property. plant and equipment. intangible assets and investment property	0442	(20,337)	(33,449)
(-)	Other financial assets	0443	(8,640)	(41,437)
(-)	Other assets	0444	(530)	0
2.	Proceeds from sale of investments	0450	835,591	1,536,353
(+)	Group companies. associates and business units	0451	827,560	1,532,576
(+)	Property, plant and equipment, intangible assets and investment property	0452	75	63
(+)	Other financial assets	0453	7,956	3,714
(+)	Other assets	0454	0	0
C)	CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2 + 3)	0490	434,609	(680,927)
1.	Sums received/(paid) in respect of equity instruments	0470	(429,447)	(591,939)
(+)	Issuance	0471	(404)	(427)
(-)	Redemption	0472	(37)	(36)
(-)	Acquisition	0473	(468,449)	(619,853)
(+)	Disposal	0474	39,443	28,377
(+)	Grants. donations and bequests received	0475	0	0
2.	Sums received/(paid) in respect of financial liability instruments:	0480	1,128,127	332,718
(+)	Issuance	0481	5,501,839	5,729,960
(-)	Repayment and redemption	0482	(4,373,712)	(5,397,242)
3.	Payment of dividends and remuneration on other equity instruments	0485	(264,071)	(421,706)
D)	EFFECT OF FOREIGN EXCHANGE RATE CHANGES	0492	0	0
E)	NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)	0495	2,875	0
F)	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	0499	0	0
G)	CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (E + F)	0500	2,875	0

COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD			CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016.
(+)	Cash on hand and at banks	0550	2,875	0
(+)	Other financial assets	0552	0	0
(-)	*Less: Bank overdrafts repayable on demand*	0553	0	0
	TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	0600	2,875	0

IV. SELECTED FINANCIAL INFORMATION

6. CONSOLIDATED BALANCE SHEET (ADOPTED IFRS) (1/2)

Units: Thousand euros

ASSETS		CURRENT P. 30/06/2017	PREVIOUS P. 31/12/2016
A) NON-CURRENT ASSETS	1040	93,372,312	95,980,120
1. Intangible assets:	1030	18,852,593	19,934,163
a) Goodwill	1031	8,408,081	8,711,053
b) Other intangible assets	1032	10,444,512	11,223,110
2. Property, plant and equipment	1033	63,074,685	63,834,384
3. Investment property	1034	362,788	462,342
4. Investments accounted for using the equity method	1035	2,190,667	2,239,655
5. Non-current financial assets	1036	1,353,907	1,664,339
6. Deferred tax assets	1037	6,805,507	6,958,154
7. Other non-current assets	1038	732,165	887,083
B) CURRENT ASSETS	1085	11,747,012	10,726,100
1. Non-current assets held for sale	1050	0	0
2. Inventories	1055	2,325,140	1,956,132
3. Trade and other receivables:	1060	6,419,254	5,862,492
a) Trade receivables	1061	4,285,709	4,408,953
b) Other receivables	1062	1,447,579	950,136
c) Current tax assets	1063	685,966	503,403
4. Other current financial assets	1070	1,253,944	1,474,790
5. Other current assets	1075	0	0
6. Cash and cash equivalents	1072	1,748,674	1,432,686
TOTAL ASSETS (A + B)	1100	105,119,324	106,706,220

IV. SELECTED FINANCIAL INFORMATION

6. CONSOLIDATED BALANCE SHEET (ADOPTED IFRS) (2/2)

Units: Thousand euros

EQUITY AND LIABILITIES		CURRENT P. 30/06/2017	PREVIOUS P. 31/12/2016
A) EQUITY (A.1 + A.2 + A.3)	1195	39,506,183	40,687,389
A.1) CAPITAL AND RESERVES	1180	38,255,610	37,899,476
1. Capital	1171	4,680,000	4,771,559
a) Registered capital	1161	4,680,000	4,771,559
b) *Less: Uncalled capital*	1162	0	0
2. Share premium	1172	14,667,676	14,667,676
3. Reserves	1173	11,460,575	11,575,869
4. *Own shares and equity holdings*	1174	(517,715)	(1,083,367)
5. Prior periods' profit and loss	1178	6,446,659	5,262,756
6. Other shareholder contributions	1179	0	0
7. Profit (loss) for the period attributable to the parent company	1175	1,518,415	2,704,983
8. *Less: Interim dividend*	1176	0	0
9. Other equity instruments	1177	0	0
A.2) ACCUMULATED OTHER COMPREHENSIVE INCOME	1188	(2,430,662)	(1,208,511)
1. Items that are not reclassified to profit or loss	1186	27,909	38,893
2. Items that may subsequently be reclassified to profit or loss	1187	(2,458,571)	(1,247,404)
a) Available-for-sale financial assets	1181	30	21
b) Hedging transactions	1182	(162,917)	(191,267)
c) Translation differences	1184	(2,301,932)	(1,059,117)
d) Other	1183	6,248	2,959
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY (A.1 + A.2)	1189	35,824,948	36,690,965
A.3) NON-CONTROLLING INTERESTS	1193	3,681,235	3,996,424
B) NON-CURRENT LIABILITIES	1120	51,106,103	51,943,653
1. Grants	1117	2,949,037	1,866,714
2. Long-term provisions	1115	4,692,033	4,904,875
3. Long-term financial liabilities:	1116	27,057,062	26,970,546
a) Debt with financial institutions and bonds and other marketable securities	1131	26,659,937	26,509,052
b) Other financial liabilities	1132	397,125	461,494
4. Deferred tax liabilities	1118	12,164,641	12,740,661
5. Other non-current liabilities	1135	4,243,330	5,460,857
C) CURRENT LIABILITIES	1130	14,507,038	14,075,178
1. Liabilities associated with non-current assets held for sale	1121	0	0
2. Short-term provisions	1122	502,822	143,643
3. Short-term financial liabilities:	1123	5,823,610	5,497,509
a) Debt with financial institutions and bonds and other marketable securities	1133	5,505,248	4,711,630
b) Other financial liabilities	1134	318,362	785,879
4. Trade and other payables:	1124	8,180,606	8,434,026
a) Suppliers	1125	4,488,740	5,490,634
b) Other payables	1126	3,037,323	2,706,269
c) Current tax liabilities	1127	654,543	237,123
5. Other current liabilities	1136	0	0
TOTAL EQUITY AND LIABILITIES (A + B + C)	1200	105,119,324	106,706,220

IV. SELECTED FINANCIAL INFORMATION

7. CONSOLIDATED PROFIT AND LOSS ACCOUNT (ADOPTED IFRS)

Units: Thousand euros

			PRESENT CURR. PERIOD (2nd HALF YEAR)		PREVIOUS CURR. PERIOD (2nd HALF YEAR)		CURRENT CUMULATIVE 30/06/2017		PREVIOUS CUMULATIVE 30/06/2016	
			Amount	%	Amount	%	Amount	%	Amount	%
(+)	Revenue	1205					15,168,848	100.00	14,898,041	100.00
(+/-)	Change in inventories of finished products and work in progress	1206					0	0.00	0	0.00
(+)	Own work capitalised	1207					319,409	2.11	291,300	1.96
(-)	Supplies	1208					(8,317,862)	(54.84)	(8,121,754)	(54.52)
(+)	Other operating revenue	1209					259,201	1.71	284,302	1.91
(-)	Personnel expenses	1217					(1,322,287)	(8.72)	(1,267,101)	(8.51)
(-)	Other operating expenses	1210					(2,355,547)	(15.53)	(2,192,652)	(14.72)
(-)	Depreciation and amortisation charge	1211					(1,529,387)	(10.08)	(1,515,290)	(10.17)
(+)	Allocation of grants for non-financial assets and other grants	1212					0	0.00	0	0.00
(+/-)	Impairment and gain (loss) on disposal of fixed assets	1214					(6,411)	(0.04)	(29,582)	(0.20)
(+/-)	Other profit (loss)	1215					(99,486)	(0.66)	(93,637)	(0.63)
=	**OPERATING PROFIT (LOSS)**	1245					2,116,478	13.95	2,253,627	15.13
(+)	Finance income	1250					162,074	1.07	159,480	1.07
(-)	Finance costs	1251					(566,872)	(3.74)	(605,635)	(4.07)
(+/-)	Changes in fair value of financial instruments	1252					(10,095)	(0.07)	84,664	0.57
(+/-)	Exchange differences	1254					1,346	0.01	306	0.00
(+/-)	Impairment and gain (loss) on disposal of financial instruments	1255					240,986	1.59	46,899	0.31
=	**NET FINANCE INCOME (COSTS)**	1256					(172,561)	(1.14)	(314,286)	(2.11)
(+/-)	Profit (loss) of equity-accounted investees	1253					45,823	0.30	31,696	0.21
=	**PROFIT (LOSS) BEFORE TAX**	1265					1,989,740	13.12	1,971,037	13.23
(+/-)	Income tax expense	1270					(416,201)	(2.74)	(466,402)	(3.13)
=	**PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING ACTIVITIES**	1280					1,573,539	10.37	1,504,635	10.10
(+/-)	Profit (loss) from discontinued operations, net of tax	1285					0	0.00	0	0.00
=	**CONSOLIDATED PROFIT (LOSS) FOR THE PERIOD**	1288					1,573,539	10.37	1,504,635	10.10
	A) Profit (loss) for the period attributable to the parent company	1300					1,518,415	10.01	1,456,729	9.78
	B) Profit (loss) attributable to non-controlling interests	1289					55,124	0.36	47,906	0.32

EARNINGS PER SHARE		Amount (X.XX euros)	Amount (X.XX euros)	Amount (X.XX euros)	Amount (X.XX euros)
Basic	1290			0.24	0.22
Diluted	1295			0.23	0.22

In the half-yearly financial report for the first half of the year, the data relating to the present period match the cumulative data, which do not therefore need to be completed.

IV. SELECTED FINANCIAL INFORMATION

8. CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE (ADOPTED IFRS)

Units: Thousand euros

			CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
A)	CONSOLIDATED PROFIT (LOSS) FOR THE PERIOD (from the profit and loss account)	1305	1,573,539	1,504,635
B)	OTHER COMPREHENSIVE INCOME – ITEMS THAT ARE NOT RECLASSIFIED TO PROFIT OR LOSS:	1310	(10,984)	69,638
1.	From revaluation/(reversal of revaluation) of property. plant and equipment and intangible assets	1311	(13,941)	92,282
2.	From actuarial gains and losses	1344	0	0
3.	Share in other comprehensive income of investments in joint ventures and associates	1342	0	0
4.	Other income and expenses that are not reclassified to profit or loss	1343	0	0
5.	Tax effect	1345	2,957	(22,644)
C)	OTHER COMPREHENSIVE INCOME – ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS:	1350	(1,434,385)	(1,638,997)
1.	Available-for-sale financial assets:	1355	9	(10)
	a) Valuation gains/(losses) taken to equity	1356	0	0
	b) Amounts transferred to profit or loss	1357	0	0
	c) Other reclassifications	1358	9	(10)
2.	Cash flow hedges:	1360	45,490	(187,477)
	a) Valuation gains/(losses) taken to equity	1361	(16,588)	(218,689)
	b) Amounts transferred to profit or loss	1362	62,078	31,212
	c) Amounts transferred at initial carrying amount of hedged items	1363	0	0
	d) Other reclassifications	1364	0	0
3.	Foreign currency translation:	1365	(1,518,733)	(1,476,073)
	a) Valuation gains/(losses)	1366	(1,518,733)	(1,476,073)
	b) Amounts transferred to profit or loss	1367	0	0
	c) Other reclassifications	1368	0	0
4.	Share in other comprehensive income of investments in joint ventures and associates:	1370	3,288	(367)
	a) Valuation gains/(losses) taken to equity	1371	3,283	(371)
	b) Amounts transferred to profit or loss	1372	5	4
	c) Other reclassifications	1373	0	0
5.	Other income and expenses that may subsequently be reclassified to profit or loss	1375	0	0
	a) Valuation gains/(losses) taken to equity	1376	0	0
	b) Amounts transferred to profit or loss	1377	0	0
	c) Other reclassifications	1378	0	0
6.	Tax effect	1380	35,561	24,930
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD (A + B + C)		1400	128,170	(64,724)
	a) Attributable to the parent company	1398	296,264	(71,015)
	b) Attributable to non-controlling interests	1399	(168,094)	6,291

IV. SELECTED FINANCIAL INFORMATION

9. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (ADOPTED IFRS) (1/2)

Units: Thousand euros

CURRENT PERIOD		Equity attributable to the parent company						Non-controlling interests	Total equity
		Capital and reserves					Valuation adjustments		
		Capital	Share premium and Reserves (1)	Treasury stock	Profit (loss) for the period attributable to the parent company	Other equity instruments			
Closing balance at 01/01/2017	3110	4,771,559	31,506,301	(1,083,367)	2,704,983	0	(1,208,511)	3,996,424	40,687,389
Adjustments for changes in accounting policy	3111	0	0	0	0	0	0	0	0
Adjustment for errors	3112	0	0	0	0	0	0	0	0
Adjusted opening balance	3115	4,771,559	31,506,301	(1,083,367)	2,704,983	0	(1,208,511)	3,996,424	40,687,389
I. Total comprehensive income/(expense) for the period	3120	0	0	0	1,518,415	0	(1,222,151)	(168,094)	128,170
II. Transactions with shareholders or owners	3125	(91,559)	1,067,007	565,652	(2,704,983)	0	0	(47,762)	(1,211,645)
1. Capital increases/ (reductions)	3126	(91,559)	(1,189,058)	1,280,176	0	0	0	0	(441)
2. Conversion of financial liabilities into equity	3127	0	0	0	0	0	0	0	0
3. Distribution of dividends	3128	0	2,517,783	0	(2,704,983)	0	0	(47,762)	(234,962)
4. Purchase / sale of treasury stock	3129	0	2,353	(714,524)	0	0	0	0	(712,171)
5. Equity increase/ (decrease) resulting from business combinations	3130	0	0	0	0	0	0	0	0
6. Other transactions with shareholders or owners	3132	0	(264,071)	0	0	0	0	0	(264,071)
III. Other changes in equity	3135	0	1,602	0	0	0	0	(99,333)	(97,731)
1. Equity-settled share-based payment	3136	0	(8,222)	0	0	0	0	0	(8,222)
2. Transfers among components of equity	3137	0	0	0	0	0	0	0	0
3. Other changes	3138	0	9,824	0	0	0	0	(99,333)	(89,509)
Closing balance at 30/06/2017	3140	4,680,000	32,574,910	(517,715)	1,518,415	0	(2,430,662)	3,681,235	39,506,183

(1) The column of **Share premium and Reserves,** for the purposes of completing this statement, includes the following balance sheet equity headings: 2. Share premium. 3. Reserves. 5. Profit or loss brought forward. 6. Other shareholder contributions and 8. *Less: Interim dividend*

IV. SELECTED FINANCIAL INFORMATION

9. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (ADOPTED IFRS) (2/2)

Units: Thousand euros

PREVIOUS PERIOD		Equity attributable to the parent company						Non-controlling interests	Total equity
		Capital and reserves					Valuation adjustments		
		Capital	Share premium and Reserves (1)	Treasury stock	Profit (loss) for the period attributable to the parent company	Other equity instruments			
Closing balance at 01/01/2016 (comparative period)	3150	4,752,652	31,304,757	(639,239)	2,421,578	0	(681,090)	3,797,395	40,956,053
Adjustments for changes in accounting policy	3151	0	0	0	0	0	0	0	0
Adjustment for errors	3152	0	0	0	0	0	0	0	0
Adjusted opening balance (comparative period)	3155	4,752,652	31,304,757	(639,239)	2,421,578	0	(681,090)	3,797,395	40,956,053
I. Total comprehensive income/(expense) for the period	3160	0	0	0	1,456,729	0	(1,527,744)	6,291	(64,724)
II. Transactions with shareholders or owners	3165	(72,652)	938,278	355,578	(2,421,578)	0	0	(44,521)	(1,244,895)
1. Capital increases/ (reductions)	3166	(72,652)	(874,377)	946,566	0	0	0	0	(463)
2. Conversion of financial liabilities into equity	3167	0	0	0	0	0	0	0	0
3. Distribution of dividends	3168	0	2,234,378	0	(2,421,578)	0	0	(44,521)	(231,721)
4. Purchase / sale of treasury stock	3169	0	(17)	(590,988)	0	0	0	0	(591,005)
5. Equity increase/ (decrease) resulting from business combinations	3170	0	0	0	0	0	0	0	0
6. Other transactions with shareholders or owners	3172	0	(421,706)	0	0	0	0	0	(421,706)
III. Other changes in equity	3175	0	(14,457)	0	0	0	0	(14,249)	(28,706)
1. Equity-settled share-based payment	3176	0	(18,354)	0	0	0	0	0	(18,354)
2. Transfers among components of equity	3177	0	0	0	0	0	0	0	0
3. Other changes	3178	0	3,897	0	0	0	0	(14,249)	(10,352)
Closing balance at 30/06/2016 (comparative period)	3180	4,680,000	32,228,578	(283,661)	1,456,729	0	(2,208,834)	3,744,916	39,617,728

(1) The column of **Share premium and Reserves,** for the purposes of completing this statement, includes the following balance sheet equity headings: 2. Share premium. 3. Reserves. 5. Profit or loss brought forward. 6. Other shareholder contributions and 8. *Less: Interim dividend*

IV. SELECTED FINANCIAL INFORMATION

10.A. CONSOLIDATED STATEMENT OF CASH FLOWS (INDIRECT METHOD) (ADOPTED IFRS)

	Units: Thousand euros		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
A)	CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2 + 3 + 4)	1435	2,566,541	2,908,531
1.	Profit (loss) before tax	1405	1,989,740	1,971,037
2.	Adjustments to profit (loss):	1410	1,710,352	1,890,188
(+)	Depreciation and amortisation charge	1411	1,529,387	1,515,290
(+/-)	Other net adjustments to profit (loss)	1412	180,965	374,898
3.	Changes in working capital	1415	(734,058)	(633,108)
4.	Other cash flows from operating activities:	1420	(399,493)	(319,586)
(-)	Interest paid	1421	0	0
(-)	Payment of dividends and remuneration on other equity instruments	1430	0	0
(+)	Dividends received	1422	52,634	40,919
(+)	Interest received	1423	0	0
(+/-)	Income tax recovered/(paid)	1424	(143,801)	(122,422)
(+/-)	Other sums received/(paid) from operating activities	1425	(308,326)	(238,083)
B)	CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2 + 3)	1460	(2,318,342)	(1,852,981)
1.	Payments for investments:	1440	(2,963,177)	(2,101,235)
(-)	Group companies. associates and business units	1441	(32,515)	0
(-)	Property, plant and equipment, intangible assets and investment property	1442	(2,930,662)	(1,996,305)
(-)	Other financial assets	1443	0	(104,930)
(-)	Other assets	1444	0	0
2.	Proceeds from sale of investments	1450	441,831	102,358
(+)	Group companies. associates and business units	1451	313,009	0
(+)	Property, plant and equipment, intangible assets and investment property	1452	912	975
(+)	Other financial assets	1453	127,910	101,383
(+)	Other assets	1454	0	0
3.	Other cash flows from investing activities	1455	203,004	145,896
(+)	Dividends received	1456	0	0
(+)	Interest received	1457	109,616	102,474
(+/-)	Other sums received/(paid) from investing activities	1458	93,388	43,422
C)	CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2 + 3 + 4)	1490	120,309	230,989
1.	Sums received/(paid) in respect of equity instruments	1470	(428,967)	(591,468)
(+)	Issuance	1471	(404)	(427)
(-)	Redemption	1472	(37)	(36)
(-)	Acquisition	1473	(468,449)	(619,382)
(+)	Disposal	1474	39,923	28,377
2.	Sums received/(paid) in respect of financial liability instruments:	1480	1,495,705	1,877,162
(+)	Issuance	1481	7,033,258	4,867,844
(-)	Repayment and redemption	1482	(5,537,553)	(2,990,682)
3.	Payment of dividends and remuneration on other equity instruments	1485	(310,909)	(443,691)
4.	Other cash flows from financing activities	1486	(635,520)	(611,014)
(-)	Interest paid	1487	(537,829)	(552,810)
(+/-)	Other sums received/(paid) from financing activities	1488	(97,691)	(58,204)
D)	EFFECT OF FOREIGN EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS HELD	1492	(52,520)	22,150
E)	NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)	1495	315,988	1,308,689
F)	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1499	1,432,686	1,153,273
G)	CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (E + F)	1500	1,748,674	2,461,962

	COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
(+)	Cash on hand and at banks	1550	226,765	105,418
(+)	Other financial assets	1552	1,521,909	2,356,544
(-)	*Less: Bank overdrafts repayable on demand*	1553	0	0
	TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1600	1,748,674	2,461,962

This template of the consolidated statement of cash flows (indirect method) allows the alternatives for classifying interest and dividends, both received and paid, provided for in the adopted IFRS. Each of the above items shall be classified in a single consistent manner, in each period. as operating, investing or financing activities.

IV. SELECTED FINANCIAL INFORMATION

10.B. CONSOLIDATED STATEMENT OF CASH FLOWS (DIRECT METHOD) (ADOPTED IFRS)

Units: Thousand euros

			CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
A)	**CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2 + 3 + 4)**	8435		
(+)	Proceeds from operating activities	8410		
(-)	Payments to suppliers and to personnel for operating expenses	8411		
(-)	Interest paid	8421		
(-)	Payment of dividends and remuneration on other equity instruments	8422		
(+)	Dividends received	8430		
(+)	Interest received	8423		
(+/-)	Income tax recovered/(paid)	8424		
(+/-)	Other sums received/(paid) from operating activities	8425		
B)	**CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2 + 3)**	8460		
1.	**Payments for investments:**	8440		
(-)	Group companies. associates and business units	8441		
(-)	Property, plant and equipment, intangible assets and investment property	8442		
(-)	Other financial assets	8443		
(-)	Other assets	8444		
2.	**Proceeds from sales of investments**	8450		
(+)	Group companies. associates and business units	8451		
(+)	Property, plant and equipment, intangible assets and investment property	8452		
(+)	Other financial assets	8453		
(+)	Other assets	8454		
3.	**Other cash flows from investing activities**	8455		
(+)	Dividends received	8456		
(+)	Interest received	8457		
(+/-)	Other flows from investing activities	8458		
C)	**CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2 + 3 + 4)**	8490		
1.	**Sums received/(paid) in respect of equity instruments**	8470		
(+)	Issuance	8471		
(-)	Redemption	8472		
(-)	Acquisition	8473		
(+)	Disposal	8474		
2.	**Sums received/(paid) in respect of financial liability instruments:**	8480		
(+)	Issuance	8481		
(-)	Repayment and redemption	8482		
3.	**Payment of dividends and remuneration on other equity instruments**	8485		
4.	**Other cash flows from financing activities**	8486		
(-)	Interest paid	8487		
(+/-)	Other sums received/(paid) from financing activities	8488		
D)	**EFFECT OF FOREIGN EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS HELD**	8492		
E)	**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)**	8495		
F)	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD**	8499		
G)	**CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (E + F)**	8500		

	COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		CURRENT PERIOD 30/06/2017	PREVIOUS PERIOD 30/06/2016
(+)	Cash on hand and at banks	8550		
(+)	Other financial assets	8552		
(-)	*Less: Bank overdrafts repayable on demand*	8553		
	TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	8600		

This template of the consolidated statement of cash flows (direct method) allows the alternatives for classifying interest and dividends, both received and paid, provided for in the adopted IFRS. Each of the above items shall be classified in a single consistent manner, in each period, as operating, investing or financing activities.

IV. SELECTED FINANCIAL INFORMATION

11. CHANGES IN THE COMPOSITION OF THE GROUP

Table 1:

BUSINESS COMBINATIONS AND OTHER ACQUISITIONS OR INCREASES IN HOLDINGS IN SUBSIDIARIES. JOINT VENTURES AND/OR INVESTMENTS IN ASSOCIATES (CURRENT PERIOD).						
Name of company (or business line) acquired or merged	Category	Effective date of transaction (dd/mm/yyyy)	(Net) cost of the combination (a) + (b) (thousand euros)		% of voting rights acquired	% of total voting rights in the company after acquisition
			(Net) amount paid in the acquisition + other costs directly attributable to the combination (a)	Fair value of equity instruments issued for the acquisition of the company (b)		
SP SMART METER ASSETS LTD	SUBSIDIARY	09-01-2017	0	0	100.00	100.00
EKTT 14-A SERVIÇOS DE TRANSMISSAO DE ENERGIA ELÉTRICA SPE S/A	SUBSIDIARY	23-05-2017	0	0	100.00	100.00
EKTT 15-A SERVIÇOS DE TRANSMISSAO DE ENERGIA ELÉTRICA SPE S/A	SUBSIDIARY	23-05-2017	0	0	100.00	100.00
IBERDROLA RENOVABLES MAGYARORSZAG KFT,	SUBSIDIARY	02-06-2017	67,503	0	25.00	100.00
WYEAST SOLAR, LLC	SUBSIDIARY	18-01-2017	0	0	81.50	81.50
BALTIC EAGLE GmbH	SUBSIDIARY	21-02-2017	30,000	0	100.00	100.00
IBERDROLA ENERGÍA TOPOLOBAMPO, S,A, de C,V,	SUBSIDIARY	17-03-2017	0	0	100.00	100.00
GHESA INGENIERÍA Y TECNOLOGÍA, S,A,	JOIN VENTURE	15-03-2017	0	0	0.97	42.15
EL CABO PARTNERS, LLC	SUBSIDIARY	10-05-2017	0	0	81.50	81.50
VINEYARD, LLC	ASSOCIATE	08-05-2017	8,912	0	40.75	40.75
EKTT 12-A SERVIÇOS DE TRANSMISSAO DE ENERGIA ELÉTRICA SPE S/A	SUBSIDIARY	23-05-2017	0	0	100.00	100.00
EKTT 13-A SERVIÇOS DE TRANSMISSAO DE ENERGIA ELÉTRICA SPE S/A	SUBSIDIARY	23-05-2017	0	0	100.00	100.00

Table 2:

REDUCTION IN HOLDINGS IN SUBSIDIARIES. JOINT VENTURES AND/OR INVESTMENTS IN ASSOCIATES OR OTHER TRANSACTIONS OF A SIMILAR NATURE (CURRENT PERIOD)					
Name of company (or business line) sold. spun off or retired	Category	Effective date of transaction (dd/mm/yyyy)	% of voting rights sold or retired	% of total voting rights in the company after disposal	Profit/(Loss) generated (thousand euros)
IBERDROLA CORPORATE SERVICES, INC,	SUBSIDIARY	24-01-2017	100.00	0.00	0
SUBGRUPO AMARA	SUBSIDIARY	27-04-2017	100.00	0.00	(15,271)
IBERDROLA DISTRIBUCIÓN DE GAS, S,A,U,	SUBSIDIARY	31-05-2017	100.00	0.00	0
IBERDROLA PORTUGAL ELECTRICIDADE E GAS, S,A,	SUBSIDIARY	09-05-2017	100.00	0.00	0
CLUBCALL TELEPHONE SERVICES, LTD	SUBSIDIARY	02-06-2017	100.00	0.00	0
CLUBLINE SERVICES, LTD	SUBSIDIARY	02-06-2017	100.00	0.00	0
TELEDATA (HOLDINGS), TLD	SUBSIDIARY	02-06-2017	100.00	0.00	0
TELEDATA (OUTSOURCING), LTD	SUBSIDIARY	02-06-2017	100.00	0.00	0
TELEDATA SCOTLAND, LTD	SUBSIDIARY	02-06-2017	100.00	0.00	0
THE CALLCENTRE SERVICE LTD	SUBSIDIARY	02-06-2017	100.00	0.00	0
THE INFORMATION SERVICE, LTD	SUBSIDIARY	02-06-2017	100.00	0.00	0
IBERDROLA ENERGIE ROMANIA, S,R,L,	SUBSIDIARY	17-03-2017	100.00	0.00	0
AFLUENTE GERAÇAO DE ENERGIA ELÉTRICA, S,A,	ASSOCIATE	17-03-2017	42.76	0.00	424
BAHIA PCH I, S,A,	ASSOCIATE	17-03-2017	39.00	0.00	0
CAPUAVA ENERGY, LTDA,	ASSOCIATE	17-03-2017	39.00	0.00	0
ENERGYWORKS DO BRASIL, LTDA,	ASSOCIATE	17-03-2017	39.00	0.00	0
GOIAS SUL GERAÇAO DE ENERGIA, S,A,	ASSOCIATE	17-03-2017	39.00	0.00	0
RIO PCH I, S,A,	ASSOCIATE	17-03-2017	27.30	0.00	0
GAMESA CORPORACIÓN TECNOLÓGICA, S,A,	ASSOCIATE	03-04-2017	11.62	8.07	255,445

IV. SELECTED FINANCIAL INFORMATION

12. DIVIDENDS PAID

		CURRENT PERIOD			PREVIOUS PERIOD		
		% of nominal value	Euros per share (X.XX)	Amount (thousand euros)	% of nominal value	Euros per share (X.XX)	Amount (thousand euros)
Ordinary shares	2158	0,00	0,00	0	0,00	0,00	0
Other shares (non-voting shares. redeemable shares. etc.)	2159						
Total dividends paid	2160	0,00	0,00	0	0,00	0,00	0
a) Dividends charged to profit and loss	2155	0,00	0,00	0	0,00	0,00	0
b) Dividends charged to reserves or share premium	2156						
c) Dividends in kind	2157						

IV. SELECTED FINANCIAL INFORMATION

13. BREAKDOWN OF FINANCIAL INSTRUMENTS BY NATURE AND CATEGORY (1/2)

Units: Thousand euros

FINANCIAL ASSETS: NATURE/CATEGORY		CURRENT PERIOD					
		Financial assets held for trading	Other financial assets at FVTPL	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging derivatives
Equity instruments	2061	0	0	412	0	0	0
Debt securities	2062	0	0	0	0	0	0
Derivatives	2063	26,145	0	0	0	0	228,044
Other financial assets	2064	0	0	0	117,444	0	0
Long-term/non-current	2065	26,145	0	412	117,444	0	228,044
Equity instruments	2066	1,852	0	0	0	0	0
Debt securities	2067	0	0	0	0	0	0
Derivatives	2068	31,389	0	0	0	0	163,890
Other financial assets	2069	0	0	0	2,132,210	0	0
Short-term/current	2070	33,241	0	0	2,132,210	0	163,890
INDIVIDUAL TOTAL	2075	59,386	0	412	2,249,654	0	391,934
Equity instruments	2161	0	0	58,913	0	0	0
Debt securities	2162	0	0	0	19,090	0	0
Derivatives	2163	110,683	0	0	0	0	529,170
Other financial assets	2164	0	0	322,322	313,729	0	0
Long-term/non-current	2165	110,683	0	381,235	332,819	0	529,170
Equity instruments	2166	1,852	0	0	0	0	0
Debt securities	2167	0	0	0	1,484	736	0
Derivatives	2168	93,850	0	0	0	0	477,636
Other financial assets	2169	0	0	0	678,386	0	0
Short-term/current	2170	95,702	0	0	679,870	736	477,636
CONSOLIDATED TOTAL	2175	206,385	0	381,235	1,012,689	736	1,006,806

FINANCIAL LIABILITIES: NATURE/CATEGORY		CURRENT PERIOD			
		Financial liabilities held for trading	Other financial liabilities at FVTPL	Debts and payables	Hedging derivatives
Bank borrowings	2076	0	0	1,235,805	0
Bonds and other negotiable securities	2077	0	0	0	0
Derivatives	2078	6,426	0	0	203,182
Other financial liabilities	2079	0	0	7,161,044	0
Long-term debts/Non-current financial liabilities	2080	6,426	0	8,396,849	203,182
Bank borrowings	2081	0	0	538,476	0
Bonds and other marketable securities	2082	0	0	0	0
Derivatives	2083	3,223	0	0	163,340
Other financial liabilities	2084	0	0	5,109,459	0
Short-term debts/Current financial liabilities	2085	3,223	0	5,647,935	163,340
INDIVIDUAL TOTAL	2090	9,649	0	14,044,784	366,522
Bank borrowings	2176	0	0	5,622,619	0
Bonds and other negotiable securities	2177	0	0	21,037,318	0
Derivatives	2178	40,912	0	0	331,708
Other financial liabilities	2179	0	0	24,506	0
Long-term debts/Non-current financial liabilities	2180	40,912	0	26,684,443	331,708
Bank borrowings	2181	0	0	1,543,926	0
Bonds and other negotiable securities	2182	0	0	3,961,322	0
Derivatives	2183	58,210	0	0	191,315
Other financial liabilities	2184	0	0	68,837	0
Short-term debts/Current financial liabilities	2185	58,210	0	5,574,085	191,315
CONSOLIDATED TOTAL	2190	99,122	0	32,258,528	523,023

(FVTPL: fair value through profit or loss)

IV. SELECTED FINANCIAL INFORMATION

13. BREAKDOWN OF FINANCIAL INSTRUMENTS BY NATURE AND CATEGORY (2/2)

Units: Thousand euros		PREVIOUS PERIOD					
NATURE/CATEGORY		Financial assets held for trading	Other financial assets at FVTPL	Available-for-sale financial assets	Loans and receivables	Held-to-maturity investments	Hedging derivatives
Equity instruments	5061	0	0	412	0	0	0
Debt securities	5062	0	0	0	10,100	0	0
Derivatives	5063	48,735	0	0	0	0	394,345
Other financial assets	5064	0	0	0	128,159	0	0
Long-term/non-current	5065	48,735	0	412	138,259	0	394,345
Equity instruments	5066	4,584	0	0	0	0	0
Debt securities	5067	0	0	0	1,402	0	0
Derivatives	5068	11,948	0	0	0	0	140,946
Other financial assets	5069	0	0	0	1,204,000	0	0
Short-term/current	5070	16,532	0	0	1,205,402	0	140,946
INDIVIDUAL TOTAL	5075	65,267	0	412	1,343,661	0	535,291
Equity instruments	5161	0	0	59,489	0	0	0
Debt securities	5162	0	0	0	16,461	0	0
Derivatives	5163	108,124	0	0	0	0	801,058
Other financial assets	5164	0	0	315,073	364,134	0	0
Long-term/non-current	5165	108,124	0	374,562	380,595	0	801,058
Equity instruments	5166	4,584	0	0	0	0	0
Debt securities	5167	0	0	0	1,593	3,018	0
Derivatives	5168	283,082	0	0	0	0	410,783
Other financial assets	5169	0	0	0	771,730	0	0
Short-term/current	5170	287,666	0	0	773,323	3,018	410,783
CONSOLIDATED TOTAL	5175	395,790	0	374,562	1,153,918	3,018	1,211,841

FINANCIAL LIABILITIES: NATURE/CATEGORY		PREVIOUS PERIOD			
		Financial liabilities held for trading	Other financial liabilities at FVTPL	Debts and payables	Hedging derivatives
Bank borrowings	5076	0	0	1,292,520	0
Bonds and other negotiable securities	5077	0	0	0	0
Derivatives	5078	24,068	0	0	195,166
Other financial liabilities	5079	0	0	7,707,669	0
Long-term debts/Non-current financial liabilities	5080	24,068	0	9,000,189	195,166
Bank borrowings	5081	0	0	339,120	0
Bonds and other negotiable securities	5082	0	0	0	0
Derivatives	5083	8,765	0	0	378,290
Other financial liabilities	5084	0	0	3,453,717	0
Short-term debts/Current financial liabilities	5085	8,765	0	3,792,837	378,290
INDIVIDUAL TOTAL	5090	32,833	0	12,793,026	573,456
Bank borrowings	5176	0	0	5,728,278	0
Bonds and other negotiable securities	5177	0	0	20,780,774	0
Derivatives	5178	24,487	0	0	393,343
Other financial liabilities	5179	0	0	43,664	0
Long-term debts/Non-current financial liabilities	5180	24,487	0	26,552,716	393,343
Bank borrowings	5181	0	0	1,014,297	0
Bonds and other negotiable securities	5182	0	0	3,697,333	0
Derivatives	5183	251,239	0	0	441,250
Other financial liabilities	5184	0	0	93,390	0
Short-term debts/Current financial liabilities	5185	251,239	0	4,805,020	441,250
L CONSOLIDATED	5190	275,726	0	31,357,736	834,593

(FVTPL: fair value through profit or loss)

IV. SELECTED FINANCIAL INFORMATION

14. Segment information

Units: thousand euros

Table 1:

GEOGRAPHIC AREA		Distribution of revenue by geographic area			
		INDIVIDUAL		CONSOLIDATED	
		CURRENT PERIOD	PREVIOUS PERIOD	CURRENT PERIOD	PREVIOUS PERIOD
Domestic market	2210	422,275	474,659	6,980,553	6,613,932
Exports:	2215	228,163	36,725	8,188,295	8,284,109
a) European Union	2216	332	36,866	3,450,992	4,168,412
b) OECD countries	2217	204,584	(141)	3,859,251	3,384,820
c) Other countries	2218	23,247	0	878,052	730,877
TOTAL	2220	650,438	511,384	15,168,848	14,898,041

Table 2:

		Ordinary revenue					
		CONSOLIDATED					
		Ordinary revenue from foreign customers		Ordinary revenue between segments		Total ordinary revenue	
SEGMENTS		CURRENT PERIOD	PREVIOUS PERIOD	CURRENT PERIOD	PREVIOUS PERIOD	CURRENT PERIOD	PREVIOUS PERIOD
Generation and supply	2221	9,652,284	9,772,064	(36,380)	2,822	9,615,904	9,774,886
Renewable	2222	689,360	667,094	632,352	629,783	1,321,712	1,296,877
Networks	2223	4,450,471	4,168,187	159,153	189,377	4,609,624	4,357,564
Other businesses	2224	497,622	376,549	2,419	1,952	500,041	378,501
Corporation and adjustments	2225	(120,889)	(85,853)	20,212	14,985	(100,677)	(70,868)
	2226						
	2227						
	2228						
	2229						
	2230						
(-) Adjustments and elimination of ordinary revenue between segments	2231			(777,756)	(838,919)	(777,756)	(838,919)
TOTAL	2235	15,168,848	14,898,041	0	0	15,168,848	14,898,041

Table 3:

		Profit (loss)	
		CONSOLIDATED	
SEGMENTS		CURRENT PERIOD	PREVIOUS PERIOD
Generation and supply	2250	573,136	769,854
Renewable	2251	382,848	384,004
Networks	2252	1,268,592	1,226,291
Other businesses	2253	41,154	4,055
Corporation and adjustments	2254	(103,429)	(98,881)
	2255		
	2256		
	2257		
	2258		
	2259		
Total profit (loss) of segments reported	2260	2,162,301	2,285,323
(+/-) Unallocated profit (loss)	2261	(172,561)	(314,286)
(+/-) Elimination of internal profit (loss) (between segments)	2262		
(+/-) Other profit (loss)	2263		
(+/-) Income tax and/or profit (loss) from discontinued activities	2264		
PROFIT (LOSS) BEFORE TAX	2270	1,989,740	1,971,037

IV. SELECTED FINANCIAL INFORMATION

15. AVERAGE WORKFORCE

		INDIVIDUAL		CONSOLIDATED	
		CURRENT PERIOD	PREVIOUS PERIOD	CURRENT PERIOD	PREVIOUS PERIOD
AVERAGE WORKFORCE	2295	651	600	28,150	28,508
Men	2296	362	340	21,474	21,768
Women	2297	289	260	6,676	6,740

IV. SELECTED FINANCIAL INFORMATION

16. REMUNERATION RECEIVED BY DIRECTORS AND MANAGING DIRECTORS

DIRECTORS:

Type of remuneration:		Amount (thousand euros)	
		CURRENT PERIOD	PREVIOUS PERIOD
Fixed remuneration	2310	1,375	1,125
Variable remuneration	2311	3,185	3,250
Attendance fees	2312	370	338
Directors' fees	2313	2,281	2,301
Options on shares and/or other financial instruments	2314	0	0
Other	2315	5,017	4,491
TOTAL	2320	12,228	11,505

Other benefits:

Advances	2326	0	0
Loans granted	2327	0	0
Pension funds and plans: Contributions	2328	0	0
Pension funds and plans: Contracted obligations	2329	0	0
Life insurance premiums	2330	0	0
Guarantees granted to directors	2331	116	(128)

MANAGING DIRECTORS:		Amount (thousand euros)	
		CURRENT PERIOD	PREVIOUS PERIOD
Total remuneration paid to managing directors	2325	12,669	11,796

IV. SELECTED FINANCIAL INFORMATION

17. RELATED-PARTY TRANSACTIONS (1/2)

Units: Thousand euros

RELATED-PARTY TRANSACTIONS		CURRENT PERIOD				
EXPENSES AND REVENUE		Significant shareholders	Directors and managing directors	Group employees. companies and entities	Other related parties	Total
1) Finance costs	2340	0	0	7	0	7
2) Management and cooperation contracts	2341	0	0	0	0	0
3) R&D transfers and licence agreements	2342	0	0	0	0	0
4) Leases	2343	0	0	0	0	0
5) Receipt of services	2344	0	0	4,291	24,417	28,708
6) Purchase of goods (finished or in progress)	2345	0	0	29,609	776	30,385
7) Allowance for bad and doubtful debts	2346	0	0	0	0	0
8) Losses on retirement or disposal of assets	2347	0	0	0	0	0
9) Other expenses	2348	0	0	0	0	0
EXPENSES (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9)	2350	0	0	33,907	25,193	59,100
10) Finance income	2351	0	0	14,242	0	14,242
11) Management and cooperation contracts	2352	0	0	0	0	0
12) R&D transfers and licence agreements	2353	0	0	0	0	0
13) Dividends received	2354	0	0	0	0	0
14) Leases	2355	0	0	0	0	0
15) Provision of services	2356	0	0	6,425	0	6,425
16) Sale of goods (finished or in progress)	2357	0	0	7,586	915	8,501
17) Gains on retirement or disposal of assets	2358	0	0	0	0	0
18) Other revenue	2359	0	0	0	0	0
REVENUE (10 + 11 + 12 + 13 + 14 + 15 + 16 + 17 + 18)	2360	0	0	28,253	915	29,168

		CURRENT PERIOD				
OTHER TRANSACTIONS:		Significant shareholders	Directors and managing directors	Group employees, companies and entities	Other related parties	Total
Purchase of property, plant and equipment, intangible assets and other assets	2371	0	0	0	133,404	133,404
Financing agreements: loans and capital contributions (lender)	2372	0	0	0	0	0
Finance lease arrangements (lessor)	2373	0	0	0	0	0
Repayment or cancellation of loans and lease arrangements (lessor)	2377	0	0	0	0	0
Sale of property, plant and equipment, intangible assets and other assets	2374	0	0	0	0	0
Financing agreements: loans and capital contributions (borrower)	2375	0	0	0	0	0
Finance lease arrangements (lessee)	2376	0	0	0	0	0
Repayment or cancellation of loans and lease arrangements (lessee)	2378	0	0	0	0	0
Collateral and guarantees given	2381	0	0	0	0	0
Collateral and guarantees received	2382	0	0	0	0	0
Commitments assumed	2383	0	0	0	0	0
Commitment/Guarantees cancelled	2384	0	0	0	0	0
Dividends and other earnings distributed	2386	19,172	263	0	0	19,435
Other transactions	2385	0	0	0	0	0

IV. SELECTED FINANCIAL INFORMATION

17. RELATED-PARTY TRANSACTIONS (2/2)

Units: Thousand euros

RELATED-PARTY TRANSACTIONS		PREVIOUS PERIOD				
EXPENSES AND REVENUE		Significant shareholders	Directors and managing directors	Group employees, companies and entities	Other related parties	Total
1) Finance costs	6340	0	0	0	0	0
2) Management and cooperation contracts	6341	0	0	0	0	0
3) R&D transfers and licence agreements	6342	0	0	0	0	0
4) Leases	6343	0	0	109	0	109
5) Receipt of services	6344	0	534	20,953	29,368	50,855
6) Purchase of goods (finished or in progress)	6345	0	0	45,726	0	45,726
7) Allowance for bad and doubtful debts	6346	0	0	0	0	0
8) Losses on retirement or disposal of assets	6347	0	0	215	0	215
9) Other expenses	6348	0	0	0	0	0
EXPENSES (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9)	6350	0	534	67,003	29,368	96,905
10) Finance income	6351	0	0	0	0	0
11) Management and cooperation contracts	6352	0	0	0	0	0
12) R&D transfers and licence agreements	6353	0	0	0	0	0
13) Dividends received	6354	0	0	0	0	0
14) Leases	6355	0	0	2	0	2
15) Provision of services	6356	0	0	12,563	552	13,115
16) Sale of goods (finished or in progress)	6357	0	0	0	0	0
17) Gains on retirement or disposal of assets	6358	0	0	0	0	0
18) Other revenue	6359	0	0	0	0	0
REVENUE (10 + 11 + 12 + 13 + 14 + 15 + 16 + 17 + 18)	6360	0	0	12,565	552	13,117

		PREVIOUS PERIOD				
OTHER TRANSACTIONS:		Significant shareholders	Directors and managing directors	Group employees. companies and entities	Other related parties	Total
Purchase of property, plant and equipment, intangible assets and other assets	6371	0	0	0	197,883	197,883
Financing agreements: loans and capital contributions (lender)	6372	0	0	0	0	0
Finance lease arrangements (lessor)	6373	0	0	0	0	0
Repayment or cancellation of loans and lease arrangements (lessor)	6377	0	0	0	0	0
Sale of property. plant and equipment. intangible assets and other assets	6374	0	0	0	0	0
Financing agreements: loans and capital contributions (borrower)	6375	0	0	0	0	0
Finance lease arrangements (lessee)	6376	0	0	0	0	0
Repayment or cancellation of loans and lease arrangements (lessee)	6378	0	0	0	0	0
Collateral and guarantees given	6381	0	0	0	0	0
Collateral and guarantees received	6382	0	0	0	0	0
Commitments assumed	6383	0	0	0	0	0
Commitment/Guarantees cancelled	6384	0	0	0	0	0
Dividends and other earnings distributed	6386	3,082	245	0	0	3,327
Other transactions	6385	0	0	0	0	0

V. EXPLANATORY NOTES TO THE INTERIM FINANCIAL STATEMENTS/CONDENSED ANNUAL FINANCIAL STATEMENTS FOR THE INTERIM PERIOD

Annex

Explanatory notes to the financial statements (1)

Annex

Condensed annual financial statements (2)

The Annex contains:

- Selected Condensed Individual Interim Financial Information Management Report for the six-month period ending on 30 June 2017 and Limited Review Report on the Individual Selected Condensed Interim Financial Information.
- Interim Condensed Consolidated Financial Statements. Interim Consolidated Management Report for the six-month period ending on 30 June 2017 and Limited Review Report on the Interim Consolidated Financial Statements.
- Liability Statement.

(1) Explanatory notes to the financial statements: *Explanatory notes to the interim financial statements* and other Selected financial information required in Chapter IV of this template should be attached here, and shall contain at least the minimum disclosures required in the instructions for the preparation of the half-yearly financial report.

(2) Condensed annual financial statements:

(2.1) Issuers that prepare condensed consolidated annual financial statements: If the consolidated financial statement templates of Sections 6. 7. 8. 9 and 10.A or 10.B of Chapter IV of the Selected financial information do not meet the requirements established in the adopted international accounting standard applicable to interim financial information, or if the issuer voluntarily chooses to prepare condensed consolidated annual financial statements for the interim period including its own condensed financial statement templates, it shall attach in this section the condensed consolidated annual financial statements for the interim period, which shall contain, at least, all the minimum disclosures required under the adopted international accounting standard applicable to interim financial information, without prejudice to the obligation to additionally complete the financial information contained in Chapter IV on Selected financial information.

(2.2) Issuers that do not prepare condensed consolidated annual financial statements: In the exceptional case that the individual financial statement templates of Sections 1. 2. 3. 4 and 5 of Chapter IV on Selected financial information do not comply with the requirements established by Article 13 of Royal Decree 1362/2007; or if the issuer voluntarily draws up condensed individual annual financial statements for the interim period including its own condensed financial statement templates, it shall attach in this section the condensed individual annual financial statements for the interim period, which shall contain, at least, all the minimum disclosures required under the adopted international accounting standard applicable to interim financial information, without prejudice to the obligation to additionally complete the financial information contained in Chapter IV on Selected financial information.

VI. INTERIM MANAGEMENT REPORT

Annex

Interim management report

The Limited Review Report and Consolidated Limited Review Report are included in the annex to Chapter V.

VII. AUDIT REPORT

Annex

Audit report

The Limited Review Report and Consolidated Limited Review Report are included in the annex to Chapter V.

CONDENSED INDIVIDUAL INTERIM FINANCIAL STATEMENTS AND INTERIM DIRECTORS' REPORT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

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

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

Limited Review Report on the Condensed Individual Interim Financial Statements

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

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

Introduction

We have carried out a limited review of the accompanying condensed individual interim financial statements (the interim financial statements) of Iberdrola, S.A. (the "Company"), which comprise the balance sheet at 30 June 2017, the income statement, statement of changes in equity, statement of cash flows and the notes to the condensed individual interim financial statements for the six-month period then ended. The Directors of the Company are responsible for the preparation of the interim financial statements in accordance with the accounting principles and minimum content set out in articles 12 and 13 of Royal Decree 1362/2007 of 19 October 2007, implementing Securities Market Law 24/1988 of 28 July 1998, in relation to the transparency requirements relating to information on issuers whose securities are admitted for trading on official secondary markets or on other regulated markets of the European Union (Royal Decree 1362/2007), and Circular 1/2008 of 30 January 2008, on periodic information of issuers with securities admitted for trading on official markets in relation to half-yearly financial reports, interim management reports and, where appropriate, quarterly financial reports, amended by Circular 5/2015 of 28 October 2015 of the Spanish National Securities Market Commission (Circular 1/2008). Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

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

Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2017 have not been prepared, in all material respects, in accordance with the accounting principles and minimum content set out in articles 12 and 13 of Royal Decree 1362/2007 and with Circular 1/2008.

Emphasis of Matter. Basis of Accounting and Use

We draw your attention to note 2.1 to the accompanying interim financial statements, which describes the basis of the accounting principles and criteria used. It also states that the interim financial statements have been prepared solely in relation to the publication of the half-yearly financial report required by article 119 of the Revised Securities Market Law implemented by Royal Decree 1362/2007 of 19 October 2007, and that they do not contain all the information required for complete interim financial statements prepared in accordance with the applicable financial reporting framework. Accordingly, the accompanying interim financial statements should be read in this context together with the annual accounts of the Company for the year ended 31 December 2016 and the condensed consolidated interim financial statements for the six-month period ended 30 June 2017. This matter does not modify our conclusion.

Report on Other Legal and Regulatory Requirements

The accompanying interim directors' report for the six-month period ended 30 June 2017 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The interim directors' report is not an integral part of the interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2017. Our work is limited to the verification of the interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Iberdrola, S.A.

KPMG Auditores, S.L.

(*Signed on original in Spanish*)

Enrique Asla García

21 July 2017

CONTENTS

IBERDROLA, S.A.
Balance sheets at 30 June 2017 and 31 December 2016
(Expressed in thousands of Euros)

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

ASSETS	30.06.17 (unaudited)	31.12.16(*) (audited)
NON-CURRENT ASSETS	45,400,547	46,260,412
Intangible assets	**83,559**	**83,241**
Computer software	73,910	75,463
Other intangible assets	9,649	7,778
Property, plant and equipment	**213,887**	**214,206**
Land and buildings	167,576	167,659
Technical installations and other items	40,122	42,455
Under construction and advances	6,189	4,092
Non-current investments in Group companies and associates	**44,168,558**	**44,858,784**
Equity instruments	44,052,548	44,699,767
Loans to companies	95,734	106,284
Debt securities	-	10,100
Derivatives	19,855	42,212
Other financial assets	421	421
Non-current investments	**256,035**	**422,734**
Equity instruments	412	412
Loans to third parties	9,105	9,800
Derivatives	234,334	400,868
Other financial assets	12,184	11,654
Deferred tax assets	**669,745**	**672,684**
Non-current trade receivables	**8,763**	**8,763**
CURRENT ASSETS	3,042,089	2,051,550
Trade and other receivables	**709,873**	**688,670**
Trade receivables	40,435	88,469
Trade receivables from Group companies and associates	135,404	111,806
Other receivables	94,191	87,552
Personnel	308	127
Current tax assets	420,685	400,596
Public entities, other	18,850	120
Current investments in Group companies and associates	**2,091,130**	**1,166,727**
Loans to companies	31,589	26,689
Debt securities	-	1,402
Derivatives	3,393	5,191
Other financial assets	2,056,148	1,133,445
Current investments	**236,567**	**194,243**
Equity instruments	1,852	4,584
Loans to companies	5,402	-
Derivatives	191,886	147,703
Other financial assets	37,427	41,956
Prepayments for current assets	**1,644**	**1,910**
Cash and cash equivalents	**2,875**	**-**
TOTAL ASSETS	48,442,636	48,311,962

(*) The balance sheet at 31 December 2016 is presented for comparative purposes only.
The accompanying notes are an integral part of the condensed individual interim financial statements.

IBERDROLA, S.A.
Balance sheets at 30 June 2017 and 31 December 2016
(Expressed in thousands of Euros)

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

LIABILITIES	30.06.17 (unaudited)	31.12.16(*) (audited)
EQUITY	**32,360,884**	**33,181,293**
CAPITAL AND RESERVES	**32,441,036**	**33,274,400**
Capital	**4,680,000**	**4,771,559**
Registered capital	4,680,000	4,771,559
Share premium	**14,667,679**	**14,667,679**
Reserves	**6,636,080**	**8,076,130**
Legal and statutory	968,999	958,272
Other reserves	5,667,081	7,117,858
Own shares and equity holdings	**(508,615)**	**(1,073,787)**
Prior years' profit and loss	**6,613,921**	**5,400,882**
Retained earnings	6,613,921	5,400,882
Profit for the period	**335,119**	**1,410,966**
Other equity instruments	**16,852**	**20,971**
VALUATION ADJUSTMENTS	**(80,152)**	**(93,107)**
Hedging transactions	(80,152)	(93,107)
NON-CURRENT LIABILITIES	**10,173,787**	**10,793,528**
Non-current provisions	**487,649**	**495,802**
Long-term employee benefits	312,166	321,614
Other provisions	175,483	174,188
Non-current payables	**1,444,780**	**1,493,325**
Loans and borrowings	1,174,532	1,230,316
Finance lease payables	61,273	62,204
Derivatives	203,185	195,539
Other financial liabilities	5,790	5,266
Group companies and associates, non-current	**7,161,677**	**7,726,098**
Deferred tax liabilities	**1,079,681**	**1,078,303**
CURRENT LIABILITIES	**5,907,965**	**4,337,141**
Current payables	**853,029**	**734,843**
Loans and borrowings	536,466	337,171
Finance lease payables	2,010	1,949
Derivatives	95,240	344,583
Other financial liabilities	219,313	51,140
Group companies and associates, current	**4,961,435**	**3,445,014**
Trade and other payables	**93,467**	**157,249**
Suppliers	8,874	25,480
Suppliers, Group companies and associates	7,428	16,817
Other payables	46,977	63,394
Personnel (salaries payable)	8,310	16,666
Public entities, other	21,878	34,892
Current accruals	**34**	**35**
TOTAL EQUITY AND LIABILITIES	**48,442,636**	**48,311,962**

(*) The balance sheet at 31 December 2016 is presented for comparative purposes only.
The accompanying notes are an integral part of the condensed individual interim financial statements.

IBERDROLA, S.A.

Income statements for the six-month periods ended 30 June 2017 and 2016

(Expressed in thousands of Euros)

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

	Note	30.06.17 (unaudited)	30.06.16 (*) (unaudited)
CONTINUING OPERATIONS			
Revenues	9	**650,438**	**511,384**
Sales		184,748	308,008
Services rendered		332	-
Finance income from investments in equity instruments of Group companies and associates		455,313	194,687
Finance income from marketable securities and other financial instruments of Group companies and associates		10,045	8,689
Self-constructed assets		**1,359**	**1,191**
Supplies		**(182,246)**	**(309,229)**
Merchandise used		(182,668)	(309,229)
Subcontracted work		422	-
Other operating income		**119,716**	**115,469**
Non-trading and other operating income		119,663	115,424
Operating grants taken to income		53	45
Personnel expenses		**(76,345)**	**(53,135)**
Salaries and wages		(49,531)	(42,230)
Employee benefits expense		(26,814)	(10,905)
Other operating expenses		**(103,761)**	**(96,645)**
External services		(96,790)	(90,354)
Taxes		(5,295)	(4,751)
Losses, impairment and changes in trade provisions		53	(2)
Other operating expenses		(1,729)	(1,538)
Amortisation and depreciation		**(28,632)**	**(30,823)**
Impairment and gains/(losses) on disposal of fixed assets		**(272)**	**63**
Gains/(losses) on disposal and other		(272)	63
Impairment and gains/(losses) on disposal of financial instruments of Group companies and associates		**12,119**	**-**
Impairment and losses		11,287	-
Gains/(losses) on disposal and other		832	-
RESULTS FROM OPERATING ACTIVITIES		392,376	138,275
Finance income		**7,192**	**11,918**
Marketable securities and other financial instruments			
Other		7,192	11,918
Finance costs		**(145,520)**	**(167,369)**
Group companies and associates		(156,015)	(167,267)
Other		17,467	8,592
Provision adjustments		(6,972)	(8,694)
Change in fair value of financial instruments		**67,708**	**102,521**
Trading portfolio and other		67,708	102,521
Exchange gains/(losses)		**5,133**	**(98)**
NET FINANCE COST		(65,487)	(53,028)
PROFIT BEFORE INCOME TAX		326,889	85,247
Income tax		**8,230**	**1,686**
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		335,119	86,933
PROFIT FOR THE PERIOD		335,119	86,933

(*) The income statement for the six-month period ended 30 June 2016 is presented for comparative purposes only.
The accompanying notes are an integral part of the condensed individual interim financial statements.

IBERDROLA, S.A.

Statements of changes in equity for the six-month periods ended 30 June 2017 and 2016

(Expressed in thousands of Euros)

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

A) Statements of recognised income and expense for the six-month periods ended 30 June 2017 and 2016

	30.06.2017 (unaudited)	30.06.2016 (*) (unaudited)
PROFIT OF THE PERIOD	**335,119**	**86,933**
INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY		
Cash flow hedges	7,450	(51,790)
Tax effect	(1,862)	12,947
TOTAL INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY	**5,588**	**(38,843)**
TRANSFERS TO THE INCOME STATEMENT		
Cash flow hedges	9,823	18,875
Tax effect	(2,456)	(4,719)
TOTAL TRANSFERS TO INCOME STATEMENT	**7,367**	**14,156**
TOTAL RECOGNISED INCOME AND EXPENSE	**348,074**	**62,246**

(*) The statement of recognised income and expense for the six-month period ended 30 June 2016 is presented for comparative purposes only.

The accompanying notes are an integral part of the condensed individual interim financial statements,

IBERDROLA, S.A.

B) Statements of changes in equity for the six-month periods ended 30 June 2017 and 2016
(Expressed in thousands of Euros)

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

	Capital	Share premium	Reserves	Own shares and equity holdings	Prior years' profit and loss	Profit for the period	Other equity instruments	Valuation adjustments	Total
2016 OPENING BALANCE	**4,752,652**	**14,667,679**	**9,564,784**	**(629,075)**	**5,470,986**	**116,613**	**36,371**	**(192,737)**	**33,787,273**
Total recognised income and expense	-	-	-	-	-	86,933	-	(24,687)	62,246
Transactions with shareholders or owners									
Scrip issue (note 6)	45,246	-	(45,673)	-	-	-	-	-	(427)
Acquisition of free allocation rights (note 6)	-	-	(421,706)	-	-	-	-	-	(421,706)
Distribution of profit	-	-	-	-	(70,587)	(116,613)	-	-	(187,200)
Transactions with own shares and equity instruments (net)	-	-	(17)	(591,459)	-	-	-	-	(591,476)
Capital decrease (note 6)	(117,898)	-	(828,704)	946,566	-	-	-	-	(36)
Other changes in equity	-	-	-	-	-	-	(8,758)	-	(8,758)
CLOSING BALANCE FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016	**4,680,000**	**14,667,679**	**8,268,684**	**(273,968)**	**5,400,399**	**86,933**	**27,613**	**(217,424)**	**32,639,916**
2017 OPENING BALANCE	**4,771,559**	**14,667,679**	**8,076,130**	**(1,073,787)**	**5,400,882**	**1,410,966**	**20,971**	**(93,107)**	**33,181,293**
Total recognised income and expense	-	-	-	-	-	335,119	-	12,955	348,074
Transactions with shareholders or owners									
Scrip issue (note 6)	73,433	-	(73,837)	-	-	-	-	-	(404)
Capital decrease (note 6)	(164,992)	-	(1,115,221)	1,280,176	-	-	-	-	(37)
Acquisition of free allocation rights (note 6)	-	-	(264,071)	-	-	-	-	-	(264,071)
Distribution of profit	-	-	10,726	-	1,213,039	(1,410,966)	-	-	(187,201)
Transactions with own shares and equity instruments (net)	-	-	2,353	(715,004)	-	-	-	-	(712,651)
Other changes in equity	-	-	-	-	-	-	(4,119)	-	(4,119)
CLOSING BALANCE FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017	**4,680,000**	**14,667,679**	**6,636,080**	**(508,615)**	**6,613,921**	**335,119**	**16,852**	**(80,152)**	**32,360,884**

(*) The statement of changes in equity for the six-month period ended 30 June 2016 is presented for comparative purposes only.
The accompanying notes are an integral part of the condensed individual interim financial statements.

IBERDROLA, S.A.
Statements of cash flows for the six-month periods ended 30 June 2017 and 2016
(Expressed in thousands of Euros)

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

	30.06.2017 (unaudited)	30.06.2016 (*) (unaudited)
Profit for the year before tax	**326,889**	**85,247**
Adjustments for:	**(360,877)**	**(100,495)**
Amortisation and depreciation	28,632	30,823
Impairment	(11,287)	-
Gains/losses on disposals of fixed assets	272	(63)
Gains/losses on disposals of financial instruments	(832)	-
Finance income	(472,550)	(215,294)
Finance costs	145,520	167,369
Exchange (gains)/losses	(5,133)	98
Change in fair value of financial instruments	(67,708)	(102,521)
Other income and expenses	22,209	19,093
Changes in operating assets and liabilities	**(64,631)**	**(163,320)**
Inventories	-	35
Trade and other receivables	(848)	(79,407)
Trade and other payables	(63,783)	(83,948)
Other cash flows from (used in) operating activities	**(773)**	**(143,840)**
Interest paid	(176,191)	(241,131)
Dividends received	223,707	96,281
Interest received	12,397	32,770
Income tax received/(paid)	(8,768)	10,449
Other amounts (paid)/received	(51,918)	(42,209)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	**(99,392)**	**(322,408)**
Payments for investments	**(1,167,933)**	**(533,018)**
Group companies and associates	(1,138,426)	(458,132)
Intangible assets	(20,337)	(15,710)
Property, plant and equipment	(8,640)	(17,739)
Other financial assets	(530)	(41,437)
Proceeds from sale of investments	**835,591**	**1,536,353**
Group companies and associates	827,560	1,532,576
Property, plant and equipment	75	63
Other financial assets	7,956	3,714
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	**(332,342)**	**1,003,335**
Proceeds from and payments for equity instruments	**(429,447)**	**(591,939)**
Issue of equity instruments	(404)	(427)
Capital decrease	(37)	(36)
Acquisition of own equity instruments	(468,449)	(619,853)
Sale of own equity instruments	39,443	28,377
Proceeds from and payments for financial liability instruments	**1,128,127**	**332,718**
Issue of:	5,501,839	5,729,960
Loans and borrowings	199,138	370,450
Group companies and associates	5,302,701	5,359,510
Redemption and repayment of:	(4,373,712)	(5,397,242)
Loans and borrowings	(321,107)	(653,882)
Group companies and associates	(4,033,799)	(4,729,726)
Other payables	(18,806)	(13,634)
Dividends and interest on other equity instruments paid	**(264,071)**	**(421,706)**
Acquisition of free allocation rights	(264,071)	(421,706)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES	**434,609**	**(680,927)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**2,875**	**-**
Cash and cash equivalents at beginning of period	**-**	**-**
Cash and cash equivalents end of period	**2,875**	**-**

(*) The statement of cash flows for the six-month period ended 30 June 2016 is presented for comparative purposes only.
The accompanying notes are an integral part of the condensed individual interim financial statements.

1. COMPANY ACTIVITY

According to article 5 of its by-laws, the statutory activity of Iberdrola, S.A. (hereinafter IBERDROLA), incorporated in Spain, is as follows:

To carry out all manner of activities, works, and services inherent in or related to the business of production, transmission, switching, and distribution or supply of electric power or electricity by-products and applications thereof, and the raw material or energy needed for the generation thereof; energy, engineering, information-technology, telecommunications, and internet-related services; water treatment and distribution; the integral provision of urban and gas supply services, as well as other gas storage, regasification, transportation, or distribution activities, which will be carried out indirectly through the ownership of shares or equity interests in other companies that will not engage in the supply of gas.

The distribution, representation, and marketing of all manner of goods and services, products, articles, merchandise, software programs, industrial equipment and machinery, tools, utensils, spare parts, and accessories.

The investigation, study, and planning of investment and corporate organisation projects, as well as the promotion, creation, and development of industrial, commercial, or service companies.

The provision of services assisting or supporting companies and businesses in which it has an interest or which are within its corporate group, for which purpose it may provide appropriate guarantees and bonds in favour thereof.

The aforementioned activities may be carried out in Spain as well as abroad, and may be carried out, in whole or in part, either directly by IBERDROLA or through the ownership of shares or equity interests in other companies, subject in all cases and at all times to applicable legal provisions for each industry, especially the electricity industry.

Additionally, IBERDROLA provides services to other Group companies, such as natural gas purchases to meet the needs of the Group’s electricity generation plants, IT services and other non-operating, backbone and support services, as well as Group financing, which it manages centrally.

IBERDROLA on an individual level has no environmental liabilities, expenses, assets, provisions or contingencies that could have a significant effect on its equity, financial position or results. Consequently, these notes to the condensed individual interim financial statements do not include any specific disclosures regarding environmental issues.

The registered office of IBERDROLA is located at Plaza Euskadi 5, Bilbao (Spain).

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

2.1 Accounting standards applied

The condensed individual interim financial statements (hereinafter the interim financial statements) were prepared in accordance with the accounting principles and standards set out in articles 12 and 13 of Royal Decree 1362/2007 of 19 October 2007, implementing Securities Market Law 24/1988 of 28 July 1998, in relation to the transparency requirements relating to information on issuers whose securities are admitted for trading on official secondary markets or on other regulated markets of the European Union (Royal Decree 1362/2007), and Circular 1/2008 of 30 January 2008, on periodic information of issuers with securities admitted for trading on official markets in relation to half-yearly financial reports, interim management reports and, where appropriate, quarterly financial reports (amended by Circular 5/2015 of 28 October 2015 of the Spanish National Securities Market Commission). The accounting principles and measurement criteria used to prepare the interim financial statements are the same as those used for the financial statements at the reporting date.

The interim financial statements do not contain all the information required for complete individual financial statements prepared in accordance with generally accepted accounting principles in Spain. Specifically, they include the content necessary to comply with the selected financial information disclosure requirements for individual financial statements as stipulated in Rule 2 of Circular 1/2008, amended by Circular 5/2015, for issuers required under prevailing legislation to present individual interim financial statements in their half-yearly reporting. Accordingly, the interim financial statements should be read together with the IBERDROLA annual accounts for the year ended 31 December 2016 and the condensed consolidated interim financial statements for the period from 1 January 2017 to 30 June 2017.

The interim financial statements have been prepared in relation to the publication of the half-yearly financial report required by article 119 of Revised Securities Market Law 24/1998 of 28 July 1998, implemented by Royal Decree 1362/2007 of 19 October 2007.

The IBERDROLA balance sheet at 30 June 2017 reflects negative working capital of EUR 2,865,876 thousand, mainly due to the existence of current payables to Group companies and associates amounting to Euros 4,961,435 thousand. IBERDROLA's directors consider that this working capital deficit will be covered through funds generated by the businesses of the IBERDROLA Group.

As indicated, IBERDROLA´s directors have prepared the condensed consolidated interim financial statements for the six-month period ended 30 June 2017 in accordance with prevailing legislation and International Financial Reporting Standards. The main figures of the IBERDROLA Group's condensed consolidated interim financial statements for the six-month periods ended 30 June 2017 and 2016 (except for total assets and equity for 2016, which correspond to the figures contained in the consolidated annual accounts of the IBERDROLA Group at 31 December 2016) are as follows:

Thousands of Euros	2017	2016
Total assets	**105,119,324**	**106,706,220**
Equity:		
IBERDROLA parent	35,824,948	36,690,965
Non-controlling interests	3,145,837	3,445,898
Holders of perpetual subordinated bonds	535,398	550,526
Revenue	15,168,848	14,898,041
Profit for the period:		
IBERDROLA parent	1,518,415	1,456,729
Non-controlling interests	43,804	37,196
Holders of perpetual subordinated bonds	11,320	10,710

2.2 Comparative information

Pursuant to article 12 of Royal Decree 1362/2007 of 19 October 2007, which implements Securities Markets Law 24/1998 of 28 July 1998, the following is presented for comparative purposes:

- The balance sheets as at 30 June 2017 and 31 December 2016.
- The income statements, statements of changes in equity and statements of cash flows for the six-month periods ended 30 June 2016 and 2017.

3. ACCOUNTING PRINCIPLES

3.1 Intangible assets

Intangible assets are measured at acquisition price or production cost, less accumulated amortisation and any impairment losses. An intangible asset is recognised only if it is probable that it will generate future economic benefits that will flow to IBERDROLA and if its cost can be measured reliably.

The acquisition price or production cost includes specific and generic financial costs incurred prior to putting into operating condition assets that take more than one year to be ready for use.

Intangible assets are amortised systematically over their useful lives. The recoverability of intangible assets is analysed when events or changes in circumstances take place that indicate that their carrying amount may not be recovered. Amortisation methods and periods are reviewed at each financial year end and adjusted prospectively, as required.

Patents, licences, trademarks and similar rights

These assets are recognised at acquisition cost and are amortised on a straight line basis over the shorter of their period of validity or the period to which they contribute to revenue generation.

Computer software

The costs incurred in connection with the basic computer systems used by IBERDROLA management and developed in-house, as well as the amounts paid for the ownership or the right to use computer programs, are recognised under intangible assets in the balance sheet. These items are amortised on a straight line basis over a maximum period of five years from the date on which each application comes into service. Personnel expenses for employees who have worked on IT projects are recognised as an increase in the cost of the projects and recorded under self-constructed assets in the income statement.

3.2 Property, plant and equipment

Property, plant and equipment is measured at acquisition or production cost, including the legally permitted revaluations undertaken by IBERDROLA pursuant to Royal Decree-Law 7/1996, less any accumulated depreciation and impairment losses.

The acquisition price or production cost includes specific and generic finance costs incurred prior to putting into operating condition assets that take more than one year to be ready for use. In accordance with the provision of the Spanish Accounting and Auditing Institute resolution of 14 April 2015 establishing the criteria for calculating production cost, as of 1 January 2015 the procedure followed by IBERDROLA to determine capitalisable finance costs is as follows:

- The specific financing sources used for the acquisition or construction of certain IBERDROLA assets are allocated to these assets in such a way that finance costs are capitalised in full.

- General sources of financing, whether equity or borrowings, are assigned proportionately to the rest of IBERDROLA's assets. Finance costs accrued on borrowings and allocated to property, plant and equipment under construction are capitalised by applying the average effective interest rate for all general financing sources to the average aggregate capitalisable investment.

Personnel expenses related directly or indirectly to buildings under construction are recognised as an increase in the cost of said assets and recorded under self-constructed assets in the income statement.

Leases are classified as finance leases when, based on an analysis of the nature of the agreement and its conditions, it is revealed that all the risk and rewards of ownership of assets under contract have been transferred to IBERDROLA and, therefore, the items acquired through these leases are accounted for according to their nature in property, plant and equipment at an amount equal to the lower of fair value and the present value of minimum payments established at the beginning of the lease contract.

IBERDROLA transfers work under construction to property, plant and equipment in use once installations commence operation.

Repairs that do not extend the useful lives of the assets and maintenance costs are recognised in the income statement in the period in which they are incurred. Costs incurred for expansion or improvements that increase the productivity or extend the useful lives of assets are recognised as an increase in the value of the assets.

Replacements or renewals of complete items are recognised as increases in the value of property, plant and equipment and the items replaced or renewed are derecognised.

Depreciation expenses are recognised in the income statement. Depreciation of items of property, plant and equipment commences once the corresponding test period has concluded. Depreciation of property, plant and equipment included in the balance sheet at 30 June 2017 is based on cost using the straight line method over the following estimated useful lives:

	Average years of estimated useful life
Buildings	50
Information technology equipment	4 – 8
Other property, plant and equipment	4 – 40

At each financial year end, IBERDROLA reviews and adjusts, where necessary, the residual values, useful lives and amortisation method for property, plant and equipment, adjusting them prospectively as appropriate.

3.3 Impairment of non-current non-financial assets

IBERDROLA assesses, at least annually, the carrying amounts of its non-current non-financial assets to determine if there is any indication of impairment. If any such indicators exist, the recoverable amount of the assets is estimated.

The recoverable amount is the higher of fair value less costs to sell and value in use. When assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market estimations of the time value of money and the specific risks associated with the assets. For those assets that do not generate cash flows that are largely independent, the recoverable amount is determined for the cash-generating units to which the asset belongs.

Impairment losses are recognised for all assets or, where appropriate, their cash-generating units, when the carrying amount exceeds the recoverable amount. Impairment losses are recognised in the Income statement and reversed if there has been a change in the estimates used to calculate the recoverable amount of the asset. Reversal of an impairment loss is recognised in the income statement up to the extent where the increased carrying amount cannot exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised for the asset.

The income statements for the six-month periods ended 30 June 2017 and 2016 do not include any amounts in this regard.

3.4 Financial instruments

3.4.1. Financial assets

a) Classification and measurement

For measurement purposes, the financial assets held by IBERDROLA are classified as follows:

1. Loans and receivables
2. Equity investments in Group companies and associates
3. Available-for-sale financial assets
4. Assets held for trading

Financial assets are measured on initial recognition at fair value. Barring evidence to the contrary, fair value is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs, except in the case of financial assets held for trading, for which directly attributable transaction costs are recognised directly in the income statement in the year the financial asset is acquired. Additionally, the initial measurement of financial assets held for trading and available-for-sale financial assets includes the amount of any preferential subscription rights or similar rights acquired.

a.1) Loans and receivables

These are financial assets arising from the sale of goods or rendering of services in the ordinary course of business. This heading also includes non-trade loans, defined as financial assets that are neither equity instruments nor derivatives, and not having a commercial substance, with fixed or determinable payments that are not quoted in an active market. It does not include financial assets for which IBERDROLA may not substantially recover all of its initial investment due to circumstances other than credit impairment.

After initial recognition, financial assets included in this category are carried at amortised cost. Interest incurred on these assets is recognised in the income statement using the effective interest rate method.

However, trade loans maturing in less than one year that do not have a contractual interest rate, as well as advance payments and loans granted to employees, dividends receivable and the required disbursement of equity instruments expected to be received in the short term, are measured both initially and subsequently at nominal value when the impact of not discounting cash flows is not material.

a.2) Equity investments in Group companies and associates

This heading includes equity investments in Group companies and associates.

These include investments in companies over which the Company has control (Group companies), joint control through a statutory or contractual agreement with one or more partners (jointly controlled entities) or exerts significant influence (associates).

These assets are initially recognised at fair value. In the absence of evidence to the contrary, this is the transaction price, which is equivalent to the fair value of the consideration given plus directly attributable transaction costs, except in the case of transaction costs related to the acquisition of Group companies, which are recognised in the income statement.

In the case of non-monetary contributions to a Group company for the purpose of a business, the investment is measured at the carrying amount at which the assets delivered are recognised in the consolidated financial statements at the transaction date. The consolidated financial statements to be used are those of the group or largest subgroup in which the assets are included, the parent company of which is Spanish. In the event the aforementioned financial statements have not been prepared, in accordance with the exemptions provided for in consolidation regulations the pre-transaction value in the individual financial statements of the contributing company shall be used.

These financial assets are subsequently measured at cost net of any accumulated impairment.

When these assets must be valued, for derecognition or other purposes, they are measured using the weighted average cost method by standard groups, understood to be securities with the same rights attached. In the event of the sale of preferential subscription rights and similar rights, or the segregation thereof to exercise them, the cost of the rights will reduce the carrying amount of the respective assets.

a.3) Available-for-sale financial assets

Available-for-sale assets are debt securities and equity instruments of other companies that are not classified in any of the preceding categories.

Subsequent to initial recognition, they are measured at fair value, excluding any transaction costs that may be incurred upon disposal. Any gains or losses in fair value are recognised directly in equity until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is transferred to the income statement. Impairment losses and exchange gains and losses on monetary financial assets denominated in foreign currency are recognised in the income statement. Interest on these assets, calculated using the effective interest rate method, and dividends accrued are also recognised in the income statement.

Investments in equity instruments whose fair value cannot be reliably measured are shown at cost, less any accumulated impairment. When these assets must be valued, for derecognition or other balance sheet purposes, they are measured using the weighted average cost method by homogeneous groups. In the event of the sale of preferential subscription rights and similar rights, or the segregation thereof to exercise them, the cost of the rights will reduce the carrying amount of the respective assets. This amount corresponds to the fair value or cost of the rights, depending on how the related financial assets are measured.

a.4) Assets held for trading

A financial asset is considered as held for trading when:

a) it originates or is acquired for the purpose of selling it in the short term;

b) it forms part of a portfolio of identified financial instruments that are managed together and for which there is an evidence of a recent actual pattern of generating profit in the short-term; or

c) it is a derivative, unless it is a financial guarantee contract or has been designated as a hedging instrument.

Subsequent to initial recognition, they are measured at their fair value including any attributable transaction costs incurred upon disposal. Any changes in fair value are recognised in the income statement for the period.

IBERDROLA has classified in this category derivative financial instruments that do not meet the criteria for hedge accounting in accordance with applicable accounting policies.

b) Interest and dividends received on financial assets

Interest and dividends generated by financial assets after their acquisition are taken to income. Interest is recognised using the effective interest rate method and dividends are recognised when the right to their collection is established.

When dividends are clearly derived from profits generated prior to the acquisition date because amounts higher than the profits generated by the investment since acquisition have been distributed, they are not recognised as income, but rather the carrying amount of the investment is reduced.

c) Impairment of financial assets

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

c.1) Loans and receivables

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

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

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

The income statements of the six-month periods ended 30 June 2017 and 2016 do not include any amounts in this regard.

c.2) Equity investments in Group companies and associates

When there is objective evidence that the carrying amount of an investment cannot be recovered, it is adjusted accordingly.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the present value of future cash flows from the investment. Unless better evidence of the recoverable amount is available, when estimating impairment of such investments, the investee's equity is taken into consideration, corrected for any net unrealised gains existing at the measurement date.

Impairment losses and reversals are recognised as an expense or income, respectively, in the Income statement. Impairment can be reversed up to the limit of the carrying amount that would have been recognised for the investment if no impairment loss had been recognised.

During the six-month period ended 30 June 2017 IBERDROLA recognised impairment losses of Euros 18,497 thousand and reversals of impairment of Euros 29,784 thousand in relation to investments in Group companies (no impairment losses or reversals were made in the six-month period ended 30 June 2016).

c.3) Impairment of available for sale financial assets

IBERDROLA considers objective evidence of impairment to be a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost. In this regard, for available-for-sale financial assets, a significant or prolonged decline in fair value (stock market value for listed instruments) is considered to be 40% or a loss of value below acquisition price for at least 18 months.

d) Derecognition of financial assets

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

3.4.2. Financial liabilities

a) Classification and measurement

Financial liabilities are initially recognised at fair value which, in the absence of evidence to the contrary, is the transaction price and equates to the fair value of the consideration received. Directly attributable transaction costs are included in the initial measurement of financial liabilities, recognised in trade and other payables. For other financial liabilities, said costs are recognised in the income statement.

a.1) Debts and payables

These are financial liabilities arising from the purchase of goods or services in the ordinary course of business. This heading also includes non-trade payables defined as financial liabilities that are not derivative instruments and are not trade-related.

Subsequent to initial recognition, these financial liabilities are measured at amortised cost. Accrued interest is recognised in the income statement using the effective interest method.

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

a.2) Liabilities held for trading

A financial liability is considered as held for trading when:

- it is issued with the purpose of reacquiring it in the short term;
- it forms part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of generating profit in the short-term; or
- it is a derivative, unless it is a financial guarantee contract or has been designated as a hedging instrument.

Subsequent to initial recognition, they are measured at fair value including any attributable transaction costs incurred upon disposal. Any changes in fair value are recognised in the income statement for the period.

IBERDROLA has classified in this category derivative financial instruments that do not meet the criteria for hedge accounting in accordance with applicable accounting policies.

b) Derecognition of financial liabilities

IBERDROLA derecognises a financial liability when the obligation is discharged.

If there is an exchange of debt instruments, and the conditions thereof are substantially different, the original financial liability is derecognised and the new financial liability is recognised.

The difference between the carrying amount of a financial liability, or part of that liability, that has been derecognised and the consideration paid, including attributable transaction costs and any asset transferred (other than cash) or liability assumed, is recognised in profit or loss for the reporting period in which it arises.

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

3.4.3 <u>Financial derivatives and hedges</u>

Derivative financial instruments are initially recognised in the balance sheet at fair value, which equates to acquisition cost, and subsequently remeasured at fair value as necessary. Any gains or losses arising from changes in the fair value of derivatives are taken directly to the income statement except for those that qualify for hedge accounting, in which case the changes in fair value are temporarily recognised in equity.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges: when hedging the exposure to changes in the fair value of a recognised asset or liability or a firm commitment.

- Cash flow hedges: when hedging the exposure to variability in cash flows that is either attributable to a specific risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in a firm commitment.

- Hedges of net investments in foreign operations.

At the inception of a hedging relationship, IBERDROLA formally identifies and documents all operations. This documentation includes the inception and maturity date of the hedge, the identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the instrument's effectiveness is assessed. In addition, hedges are regularly reviewed to determine that they are highly effective both prospectively and retrospectively.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

a) Fair value hedges

In the case of fair value hedges, changes in the fair value of the derivative financial instruments designated as hedges and changes in the fair value of a hedged item due to the hedged risk are recognised in the income statement.

b) Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised temporarily in equity, transferring these amounts to the income statement in the period in which the hedged transaction affects profit.

c) Hedges of net investments in foreign operations

Hedges of investments in subsidiaries, jointly controlled entities and associates are treated as fair value hedges for the foreign currency component.

3.4.4. Contracts for the sale or purchase of non-financial items

IBERDROLA performs a detailed analysis of all its contracts for the purchase or sale of non-financial items to ensure they are classified correctly for accounting purposes.

As a general rule, contracts that are settled net of cash or in another financial asset are classified as derivatives and are recognised and measured as described in this note, except for contracts entered into and held for the purpose of the receipt or delivery of a non-financial item in accordance with IBERDROLA's purchase, sale, or usage requirements.

Contracts to purchase or sell non-financial items to which the exception described in the previous paragraph applies are designated as "own-use contracts" and are recognised as IBERDROLA receives or delivers the rights or obligations originating from these contracts.

3.5 Cash and cash equivalents

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

- They can be converted into cash.
- At the time of acquisition their maturity is less than three months.
- They have no significant risk of change in value.

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

3.6 Own shares

Own shares held by IBERDROLA at the end of the period are included under own shares and equity holdings in the balance sheet and are measured at acquisition cost.

Gains and losses obtained by IBERDROLA on the sale of these own shares are recognised in other reserves in the balance sheet.

3.7 Post-employment and other employee benefits

Contributions to post-employment benefits under defined benefit plans are recognised in personnel expenses in the income statement when accrued.

In the case of defined benefit plans, IBERDROLA's recognises the related expense on an accrual basis over the working lives of the employees based on actuarial studies by independent experts using the projected credit unit method to measure the obligation accrued at the end of the period. Any actuarial gains and losses are recognised in other reserves when they arise. The provision recognised in this regard represents the present value of the defined benefit obligation less the fair value of plan assets.

If the fair value of the assets exceeds the present value of the obligation, the amount of the asset cannot exceed the present value of the benefits that may revert to the Company in the form of direct refunds or lower future contributions, plus, where applicable, the portion of unrecognised past service costs yet to be taken to profit and loss.

3.8 Redundancy and other early retirement plans for employees

IBERDROLA recognises termination benefits when there is an agreement with the employees in question or a certain expectation that such an agreement will be reached for them to cease their relationship with the Company in exchange for an indemnity payment.

IBERDROLA has labour force reduction plans in progress which guarantee that benefits will be received throughout the pre-retirement period.

IBERDROLA recognises all the expenses relating to these plans when the obligation arises.

3.9 Termination benefits

In accordance with prevailing legislation, IBERDROLA is liable to pay termination benefits to employees whose services are discontinued.

3.10 Share-based payment plans

The delivery of IBERDROLA shares to employees as compensation for their services is recognised under personnel expenses in the income statement as the workers perform these services, with a credit to other reserves in the balance sheet at the fair value of the equity instruments on the grant date, i.e. the date that IBERDROLA and its employees reach an agreement establishing the terms of the share delivery.

3.11 Provisions and contingencies

IBERDROLA recognises provisions for liabilities and charges to cover probable or certain quantifiable third-party liabilities arising from litigation in progress or from indemnity payments, obligations or unpaid expenses of an undetermined amount, collateral and other similar guarantees provided by the Company, based on its best estimates. Provisions are recognised when the liability or obligation arises, with a charge to the relevant income statement heading based on the nature of the obligation, and for the present value thereof, when the effect of discounting the obligation is material. Changes in these provisions arising from yearly restatements are recognised under finance costs in the income statement.

Provisions are recognised in the balance sheet when IBERDROLA has a present obligation (legal, contractual, implicit or explicit) as a result of past events and it is probable that an outflow of resources embodying future economic benefits will be required to settle the obligation.

3.12 Foreign currency transactions

IBERDROLA's interim financial statements are presented in thousands of euros, the functional currency of the Company.

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

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

3.13 Income tax

The income tax expense for the interim period is calculated by multiplying the profit before tax by the best estimate of the adjusted weighted average tax rate expected for the year and, if appropriate, by the tax effect of any items that should be recognised in full during the interim period. Consequently, the effective tax rate calculated for the preparation of the interim financial statements could differ from the tax rate estimated by the directors for the full year.

The effective tax rate for the six-month period ended 30 June 2017 is 2.52% (1.98% for the six-month period ended 30 June 2016).

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

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

3.15 Income and expenses

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

Revenue from the sale of goods or services is measured at the fair value of the consideration received or receivable, less any discounts, rebates or similar items, as well as indirect taxes levied on transactions which can be passed on to third parties. The Company includes interest incorporated in trade balances maturing in less than one year that do not have a contractual rate of interest, when the effect of not discounting future receipts is not material.

Income is recognised based on the economic substance of the transaction and is recognised when all of the following conditions are met:

- IBERDROLA has transferred to the buyer the significant risks and rewards of ownership of the goods, regardless of the legal title.
- IBERDROLA retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of the revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to IBERDROLA.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

As a holding of the IBERDROLA Group, IBERDROLA recognises dividends and income accrued from the financing of subsidiaries under revenue in the income statement.

3.16 Related party transactions

Related party transactions are accounted for in accordance with the criteria indicated above.

4. SEASONALITY

From a half-year perspective, IBERDROLA's activity is not particularly seasonal.

5. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

5.1 Accounting estimates

The preparation of these interim financial statements required IBERDROLA to make certain assumptions and estimates. The main estimates used in the preparation of these interim financial statements, which are disclosed in note 6.1. to IBERDROLA's annual accounts for 2016, are as follows:

- Provision for pensions and similar obligations and restructuring plans.
- Asset impairment.
- Provisions for liabilities and charges.
- Useful lives of property, plant and equipment.
- Analysis of the recoverability of deferred tax assets.

The criteria used to calculate the estimates made in these interim financial statements are the same as those used in the preparation of IBERDROLA's consolidated annual accounts for 2016.

Although these estimates were made on the basis of the best information available on the facts analysed at the date these interim financial statements were issued, future events might make it necessary to revise these estimates (upwards or downwards) in subsequent years. Changes in accounting estimates would be applied prospectively, and the effects recognised in future periods. In any event, after the corresponding analysis, IBERDROLA considers that at 30 June 2017, its most significant assets do not show any signs of impairment.

Additionally, the calculation of income tax in the income statements for the six-month periods ended 30 June 2017 and 2016 has been made based on the best estimate of the expected weighted average tax rate for the corresponding years. Therefore, the amount recognised for this item for the six-month period ended 30 June 2017 may require adjustments in subsequent periods should the annual tax rate be modified.

5.2 Sources of uncertainty

There are certain aspects which, at the date these interim financial statements were issued, constitute a source of uncertainty over the accounting effect these aspects could have in future periods. The main uncertainties are as follows:

- Article 12.5 of Spanish Income Tax Law, approved by Royal Decree 4/2004, allows for tax amortisation of goodwill arising from the acquisition of equity interests in foreign companies. IBERDROLA elected to apply this incentive to the acquisition of Scottish Power Plc. (currently Scottish Power Ltd.), and Energy East Inc. (currently Avangrid, Inc.).

In October 2007, the European Commission decided to launch a formal investigation into this tax measure to examine whether it was compatible with the internal market.

In 2009 and 2011 the European Commission issued two decisions (the "First Decision" and the "Second Decision") deeming article 12.5 to constitute state aid incompatible with the single market, and therefore, it instructed that the aid be recovered and that the article be no longer applied in the future. However, the amortisation deducted and the future application of the tax measure could remain in place for acquisitions transacted or agreed prior to 21 December 2007, the date on which the launch of the formal investigation was announced, (such as those carried out by IBERDROLA) given that the companies acted with legitimate expectations.

In February 2014, the Spanish National Court held that article 12.5 should not be applied to indirect acquisitions (acquisitions of operating companies through the acquisition of equity interests in a holding company), a verdict that has been appealed by the parties involved.

In October 2014, the European Commission issued a third decision (the "Third Decision") which determined that as the Directorate General of Taxation, and later the Central Economic Administrative Court, changed their criteria in 2012, admitting that the deduction provided for in article 12.5 could be applied to indirect acquisitions, which thus extended the scope of application of the initial tax regime, it concluded that it constituted new state aid incompatible with the internal market. Additionally, as this measure was introduced after the launch of the formal investigation was announced, the Commission considered that legitimate expectations were not generated for companies which made indirect acquisitions prior to 21 December 2017 as they were aware of the administrative practice that excluded indirect acquisitions form the scope of application of the tax measure. In its decision, the Commission instructed Spain, which appealed the decision, to recover the aid.

On 7 November 2014, the General Court of the European Union (GCEU) handed down two verdicts quashing the first two decisions mentioned earlier as it deemed the deduction provided for in article 12.5 not to be state aid as its selective nature was not established. These decisions were appealed by the European Commission.

On 27 February 2015, the GCEU issued a ruling rejecting the provisional stay of the Third Decision, meaning the Spanish taxation authorities should proceed with recovering the aid. However, this ruling mentions a document dated 9 January 2015, sent to the Kingdom of Spain by the Commission's Directorate General for Competition, in which the latter declares that recovery of the aid will not be actively pursued until the European Court of Justice concludes on the appeals filed by the Commission against the General Court rulings of 7 November 2014. On the same date the Third Decision was published in the Official Journal of the European Union, against which IBERDROLA filed an appeal before the General Court on 22 May 2015.

On 21 December 2016, the Court of Justice of the European Union issued a decision on the appeals for cassation filed by the European Commission against the rulings handed down by the General Court on 7 November 2014. In its decision, said rulings were quashed and the case was referred back to the General Court for reassessment of the selectivity of the tax measure, and the grounds for appeal cited by the interested parties that were not analysed in the rulings were ordered to be examined. This ruling reinstates the First and Second Decisions. Consequently, the European Commission declared that it will work with the Spanish authorities to recover any outstanding aid granted, including the aid declared incompatible with the internal market in the Third Decision.

On 1 June 2017, the tax and customs division of the Spanish taxation authorities notified IBERDROLA of the commencement of the procedure to recover state aid, which is currently underway.

Effective recovery of the aid will remain provisional pending the final outcome of the appeals filed against the three decisions.

At the date these financial statements were issued, no verdict has been reached on the appeals.

IBERDROLA and, if applicable, its legal and tax advisors, consider that no significant additional liabilities will arise for IBERDROLA from this matter.

6. SIGNIFICANT TRANSACTIONS CARRIED OUT AND OTHER EVENTS IN THE SIX-MONTH PERIODS ENDED 30 JUNE 2017 AND 2016

Six-month period ended 30 June 2017

Significant transactions carried out by IBERDROLA during the six-month period ended 30 June 2017 are as follows:

Corporate transactions

- In relation to the merger agreement of the wind energy divisions of Gamesa Corporación Tecnológica, S.A. (GAMESA) and Siemens AG (SIEMENS) initiated in 2016, whereby Siemens Wind HoldCo (absorbed company) would be absorbed by GAMESA (absorbing company):
    - On 13 March 2017 the European Competition Authorities unconditionally cleared the merger, thereby meeting all the conditions precedent to which the merger was subject.
    - On 29 March 2017, the board of directors of GAMESA agreed that all the conditions for executing the merger deed had been met, and the deed was filed at the Vizcaya Mercantile Registry on 3 April.

As a result, GAMESA issued shares representing approximately 59% of its capital for delivery to SIEMENS, and approved the extraordinary merger dividend of Euros 3.5976 per share, which was distributed on 11 April 2017.

Following the merger, the IBERDROLA Group holds an equity interest of 8% and is represented on the board of directors.

- In April 2017 IBERDROLA sold its investment in Amara, S.A.U. for Euros 8,000 thousand, which gave rise to a gross gain of Euros 814 thousand, recognised in the income statement under Impairment and gains/(losses) on disposal of financial instruments of Group companies and associates – Gains/(losses) on disposal and other.
- On 4 April 2017, Hidrola I, S.L.U. approved a dividend distribution of Euros 360,317 miles. IBERDROLA recognised an amount of Euros 353,165 thousand, reducing the carrying amount of the investment in non-current investments in Group companies and associates under equity instruments, as it did not come from earnings generated after its incorporation.
- The effect of the net investment hedges meant investments in Group companies, joint ventures and associates were reduced by Euros 301,415 thousand.

Scrip issue

- On 25 January 2017, the second scrip issue approved by the shareholders of IBERDROLA at their annual general meeting held on 8 April 2016, under section B of the sixth item on the agenda introducing the Iberdrola flexible dividend system, was carried out. The number of ordinary shares issued, with a par value of Euros 0.75 each, was 97,911,000, and the nominal amount of the scrip issue was Euros 73,433 thousand, a rise of 1,539% compared to IBERDROLA's share capital prior to the scrip issue.

  During the period established, the holders of 1,956,083,947 free allocation rights accepted the IBERDROLA Group's irrevocable commitment to purchase the rights. Consequently, the IBERDROLA Group acquired these rights for a total gross amount of Euros 264,071 thousand.

Capital reduction

- On 24 May 2017 it was agreed to implement the share capital reduction approved by the shareholders at their annual general meeting held on 31 March 2017 under the fourteenth item on the agenda, through the redemption of own shares. As a result, IBERDROLA's share capital has been reduced by Euros 164,992 thousand through the redemption of 219,990,000 own shares. Following the reduction, share capital stood at Euros 4,680,000 thousand, represented by 6,240,000,000 shares.

Financing operations

- On 13 February 2017 IBERDROLA extended, for the second time, the term of two syndicated loans signed in February 2015 for Euros 4,400 million which matured in 2021. This extension affects a total of Euros 4,188 million, with maturity extended to February 2022.

- On 21 June 2017 IBERDROLA extended the term of the syndicated loan signed in 2016 for Euros 500 million and maturing in 2021 to June 2022.

- During the six-month period ended 30 June 2017, IBERDROLA continued to guarantee the issues carried out by its financial subsidiaries Iberdrola International, B.V., Iberdrola Finanzas, S.A.U. and Iberdrola Finance Ireland, Ltd., notably the following:

  - On 20 February 2017 Iberdrola Finanzas, S.A.U. closed a private bond issue under the EMTN programme, and in 'Green Bond' format, for Euros 100 million. The bonds mature on 20 February 2024 and pay a coupon of 3-month Euribor + 0.67%. The funds obtained will be used to refinance wind farms in Spain. This issue was increased on 22 June by an additional Euros 150 million. The funds obtained in the increase will be used to refinance the wind farm in Puertollano.

  - On 20 February 2017 Iberdrola Finanzas, S.A.U. closed a private bond issue under the EMTN programme for Euros 50 million. The bonds mature on 20 February 2029 and pay a coupon of 1.667%. This issue was increased on 6 April by an additional Euros 50 million.

  - On 7 March 2017 Iberdrola Finanzas, S.A.U. closed a public bond issue, in 'Green Bond' format, under the EMTN programme for Euros 1,000 million. The bonds mature on 7 March 2025 and pay a coupon of 1.0%. The funds obtained will be used to finance and refinance the marine wind farm in Wikinger, Germany, and wind farms in Spain. The operation corresponds to the Company's fifth public 'Green Bond' issue.

  - On 10 May 2017 Iberdrola Finanzas, S.A.U. closed a private bond issue under the EMTN programme for Euros 60 million. The bonds mature on 30 October 2030 and pay a coupon of 1.782%.

  - On 18 May 2017 Iberdrola Finanzas, S.A.U. closed a private bond issue under the EMTN programme for NOK 1,000 million. The bonds mature on 18 May 2027 and pay a coupon equivalent to 1.405% in Euros.

Other significant operations

- On 11 March 2014, the state taxation authorities initiated a general tax inspection of the 2/86 Tax Group, headed by IBERDROLA. The years and taxes inspected were income tax for 2008 to 2011; Value Added Tax for 2010 and 2011; withholdings on personal income taxes from May 2009 to December 2011, and withholdings on capital gains tax and non-residents tax for 2010 and 2011.

  In December 2015, a mixture of agreed and contested tax assessments were raised on income tax for 2008 to 2011 (specific assessments on transfer pricing), while agreed assessments (zero tax due) were raised on withholdings on personal income tax, capital gains tax and non-residents tax.

  In the first half of 2016, the agreed and contested tax assessments in connection with income tax for 2008 to 2011 and Value Added Tax for 2010 and 2011 were signed, and the confirmatory settlement agreements of the contested assessments were received.

  The most relevant adjustments in the accepted tax assessments concerned the inclusion of Iberdrola Distribución Eléctrica, S.A. in Tax Group 2/86 for income tax for 2008 and 2009, following the Supreme Court rulings of November 2014.

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

  - Quantification of the financial goodwill liable for fiscal amortisation due to the acquisition of SCOTTISH POWER.
  - Alleged incompatibility of the dividend exemption of SCOTTISH POWER with the deductibility of a negative portfolio value adjustment due to hedges of a net investment.
  - Discrepancies in tax consolidation criteria.

  Additionally, in July 2016 the Advisory Committee observed a debtor-swap operation in a number of bond issues under the circumstances provided for in article 15.1 of Spain's General Tax Law, which in September resulted in new tax assessments being raised for 2009, 2010 and 2011 which were contested.

  Agreed and accepted assessments were settled during the first six months of 2016, and had no material equity effect on the income statement, as provision had already been made for the liabilities in prior years' financial statements.

Concerning the contested tax assessments and their settlement agreements, the IBERDROLA Group considers that it acted in line with reasonable interpretations of applicable legislation, and it thus filed economic-administrative claims in due time and format with the Central Economic Administrative Court, having been notified at the beginning of June that it had 1 month to make submissions, to be presented the first week of July. As the necessary bank guarantees had been extended, execution of the settlement agreements is automatically stayed.

Finally, in January 2017 the Inspection's own Technical Bureau declared the penalties proposed by the Inspection in its disciplinary proceedings instigated in September 2016 in relation to the discrepancies over financial goodwill arising on the acquisition of SCOTTISH POWER, to be unjustified, as it considered that IBERDROLA had acted based on a reasonable interpretation of the law. There are no other disciplinary proceedings in relation to this general inspection.

The directors of the IBERDROLA Group and its tax advisors believe that the Group will not incur any significant liabilities in addition to those already recognised in the interim financial statements, arising from the confirmatory settlement agreements in the contested tax assessments.

In addition to the above, other inspections have been carried out at different times by the same and other taxation authorities, leading to tax assessments being raised against a number of Group companies, some of which were signed on a contested basis and have been appealed. The directors of the IBERDROLA Group and its tax advisors believe that the amounts arising from these inspections or appeals will not result in any significant liabilities in addition to those already recognised.

Six-month period ended 30 June 2016

The main transactions carried out by IBERDROLA during the six-month period ended 30 June 2016 were as follows:

Scrip issue

- On 26 January 2016, the second scrip issue approved by the shareholders of IBERDROLA at their annual general meeting held on 27 March 2015, under section B of the sixth item on the agenda introducing the Iberdrola flexible dividend system, was carried out. The final number of ordinary shares issued, with a par value of Euros 0.75 each, was 60,327,000, and the nominal amount of the scrip issue was Euros 45,246 thousand, a rise of 0,952 % compared to IBERDROLA's share capital prior to the scrip issue.

  During the period established, the holders of 3,320,519,969 free allocation rights accepted IBERDROLA's irrevocable commitment to purchase the rights. Consequently, IBERDROLA acquired these rights for a total gross amount of Euros 421,706 thousand.

Capital reduction

- On 26 April 2016 IBERDROLA agreed to implement the share capital reduction approved by the shareholders at their annual general meeting held on 8 April 2016 under the twelfth item on the agenda, through the redemption of own shares. As a result, IBERDROLA's share capital was reduced by Euros 117,898 thousand through the redemption of 157,197,000 own shares.

Financing operations

- On 13 February 2016 IBERDROLA extended the term of two syndicated loans totalling Euros 4,243 million by one year to 13 February 2021.

- On 29 June, IBERDROLA signed a syndicated five-year credit facility for Euros 500 million, with an option to extend maturity by 1 + 1 years.

  During the six-month period ended 30 June 2016, IBERDROLA continued to guarantee the issues carried out by its financial subsidiaries Iberdrola International, B.V., Iberdrola Finanzas, S.A.U. and Iberdrola Finance Ireland, Ltd.

7. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

At 30 June 2017 and 31 December 2016, the carrying amount of each category of financial assets and liabilities, except equity investments in Group companies and associates, trade and other receivables, trade and other payables and cash, is as follows:

	Non-current financial assets									
Thousands of Euros	**Equity instruments**		**Debt securities**		**Loans and receivables**		**Derivatives**		**Total**	
Categories	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**
Assets held for trading	-	-	-	-	-	-	26,145	48,735	**26,145**	**48,735**
Loans and receivables	-	-	-	10,100	117,444	128,159	-	-	**117,444**	**138,259**
Available-for-sale assets measured at cost	412	412	-	-	-	-	-	-	**412**	**412**
Hedging derivatives	-	-	-	-	-	-	228,044	394,345	**228,044**	**394,345**
Total	**412**	**412**	**-**	**10,100**	**117,444**	**128,159**	**254,189**	**443,080**	**372,045**	**581,751**

	Current financial assets									
Thousands of Euros	**Equity instruments**		**Debt securities**		**Loans and receivables**		**Derivatives**		**Total**	
Categories	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**
Assets held for trading	1,852	4,584	-	-	-	-	31,389	11,948	**33,241**	**16,532**
Loans and receivables	-	-	-	1,402	2,132,210	1,204,000	-	-	**2,132,210**	**1,205,402**
Hedging derivatives	-	-	-	-	-	-	163,890	140,946	**163,890**	**140,946**
Total	**1,852**	**4,584**	**-**	**1,402**	**2,132,210**	**1,204,000**	**195,279**	**152,894**	**2,329,341**	**1,362,880**

	Non-current financial liabilities							
Thousands of Euros	Loans and borrowings		Derivatives		Other		Total	
Categories	30.06.17	31.12.16	30.06.17	31.12.16	30.06.17	31.12.16	30.06.17	31.12.16
Liabilities held for trading	-	-	6,426	24,068	-	-	**6,426**	**24,068**
Debts and payables	1,235,805	1,292,520	-	-	7,161,044	7,707,669	**8,396,849**	**9,000,189**
Hedging derivatives	-	-	203,182	195,166	-	-	**203,182**	**195,166**
Total	**1,235,805**	**1,292,520**	**209,608**	**219,234**	**7,161,044**	**7,707,669**	**8,606,457**	**9,219,423**

	Current financial liabilities							
Thousands of Euros	Loans and borrowings		Derivatives		Other		Total	
Categories	30.06.17	31.12.16	30.06.17	31.12.16	30.06.17	31.12.16	30.06.17	31.12.16
Liabilities held for trading	-	-	3,223	8,765	-	-	**3,223**	**8,765**
Debts and payables	538,476	339,120	-	-	5,109,459	3,453,717	**5,647,935**	**3,792,837**
Hedging derivatives	-	-	163,340	378,290	-	-	**163,340**	**378,290**
Total	**538,476**	**339,120**	**166,563**	**387,055**	**5,109,459**	**3,453,717**	**5,814,498**	**4,179,892**

8. OTHER INFORMATION

The structure of IBERDROLA's workforce is as follows:

	30.06 2017		30.06.2016	
	Average headcount	Final headcount	Average headcount	Final headcount
Male	362	367	340	341
Female	289	298	260	264
Total	**651**	**665**	**600**	**605**

9. REVENUES

The distribution of revenues from IBERDROLA's ordinary activities, by activity and geographical market, is as follows:

	Six-month period ended	
Thousands of Euros	30.06.2017	30.06.2016
Gas	182,230	298,674
Spain	158,983	261,949
Rest of the European Union	-	36,866
OECD countries	-	(141)
Rest of the countries	23,247	-
Other	2,850	9,334
Total	**185,080**	**308,008**
Finance income from equity investments in Group companies and associates	455,313	194,687
Finance income from marketable securities and other financial instruments of Group companies and associates	10,045	8,689
Total	**465,358**	**203,376**
Total	**650,438**	**511,384**

Details of dividends from Group companies are as follows:

	Six-month period ended	
Thousands of Euros	30.06.2017	30.06.2016
Avangrid, Inc.	204,584	194,687
Iberdrola Energía, S.A.U.	240,577	-
Other	10,152	-
Total	**455,313**	**194,687**

10. REMUNERATION RECEIVED BY THE BOARD OF DIRECTORS AND SENIOR EXECUTIVES

Details of remuneration and other benefits received by the directors during the six-month periods ended 30 June 2017 and 2016 are shown in the table below:

Thousands of Euros	30.06.2017	30.06.2016
Fixed remuneration	1,375	1,125
Variable remuneration	3,185	3,250
Allowances	370	338
By-law stipulated remuneration	2,281	2,301
Transactions involving shares and/or other financial instruments	-	-
Other [1]	5,017	4,491
Total	**12,228**	**11,505**

[1] Includes shares received from settlement of the 2011-2013 and the 2014-2016 Strategic Bonuses for the chairman, chief executive officer and business chief operating officer.

Thousands of Euros	30.06.2017	30.06.2016
Advances	-	-
Loans extended	-	-
Funds and pension plans: Contributions	-	-
Funds and pension plans: Obligations assumed	-	-
Life insurance premiums	-	-
Guarantees extended to the directors	116	(128)

Details of total remuneration received by senior executives during the six-month periods ended 30 June 2017 and 2016 are shown in the table below:

Thousands of Euros	30.06.2017	30.06.2016
Total remuneration received by senior executives [1]	12,669	11,796

[1] Includes shares received from the settlement of the 2011-2013 and 2014-2016 strategic bonuses and taxes and cash settlements related to the strategic bonus.

11. RELATED PARTY TRANSACTIONS

The most noteworthy transactions carried out during the six-month periods ended 30 June 2017 and 2016 are as follows:

	Six-month period ended 30.06.2017				
Thousands of Euros	Significant shareholders [1]	Thousands of Euros	Significant shareholders [1]	Thousands of Euros	Significant shareholders [1]
Income and expenses					
Merchandise used	-	-	21,214	-	21,214
External services	-	-	12,490	-	12,490
Finance costs	-	-	156,015	-	156,015
Total expenses	**-**	**-**	**189,719**	**-**	**189,719**
Sales	-	-	180,541	-	180,541
Non-trading and other operating income	-	-	119,601	-	119,601
Dividends	-	-	455,313	-	455,313
Finance income	-	-	10,045	-	10,045
Total income	**-**	**-**	**765,500**	**-**	**765,500**
Other transactions					
Purchase of property, plant and equipment, intangible assets or other assets	-	-	318	-	318
Dividends and other benefits distributed [3]	19,172	263	-	-	19,435

	Six-month period ended 30.06.2016				
Thousands of Euros	Significant shareholders [1]	Thousands of Euros	Significant shareholders [1]	Thousands of Euros	Significant shareholders [1]
Income and expenses					
Merchandise used	-	-	41,965	-	41,965
External services	-	-	15,092	-	15,092
Finance costs	-	-	167,267	-	167,267
Total expenses	**-**	**-**	**224,324**	**-**	**224,324**
Sales	-	-	261,949	-	261,949
Non-trading and other operating income	-	-	115,292	-	115,292
Dividends	-	-	194,687	-	194,687
Finance income	-	-	8,689	-	8,689
Total income	**-**	**-**	**580,617**	**-**	**580,617**
Other transactions					
Purchase of property, plant and equipment, intangible assets or other assets	-	-	2,123	-	2,123
Dividends and other benefits distributed [3]	3,082	245	-	-	3,327

(1) Related party transactions are deemed those carried out by shareholders who exercise significant influence on the financial and operational decisions of the entity. Significant influence is defined as having at least one director on the board.

This also applies to shareholders whose interest in the Company enables them to engage in proportional representation.

At the date these financial statements were issued, only Qatar Investment Authority meets this condition, so the amounts related to the six-month periods ended 30 June 2017 and 2016 refer to transactions with this shareholder.

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

(3) The amounts considered as dividends and other benefits distributed in the first six months of 2017 and 2016 correspond to the flexible dividend and to fees for attending the annual general meeting received by the related party, if applicable.

12. FINANCIAL POSITION AND EVENTS AFTER 30 JUNE 2017

At 30 June 2017 IBERDROLA has undrawn loans and credit facilities amounting to approximately Euros 5,174,461 thousand.

The situation in the previous paragraph ensures that IBERDROLA's cash requirements will be covered for the following months.

The following significant event took place between 30 June 2017 and the date these interim financial statements were issued:

Iberdrola flexible dividend

On 3 July 2017, the facts in relation to the implementation of the first scrip issue (Iberdrola flexible dividend) approved by the shareholders of IBERDROLA during the twelfth item on the agenda of the annual general meeting held on 31 March 2017, were determined and were as follows:

- The maximum number of new shares to be issued under the scrip issue is 132,765,957.
- The number of free allocation rights required to receive one new share is 47.
- The maximum nominal amount of the scrip issue is Euros 99,574,467.75.
- The acquisition price of each free allocation right under the purchase commitment assumed by IBERDROLA is Euros 0.147.

Additionally, on 8 July 2017, a cash dividend of Euros 0.03 per share, approved by the shareholders at the annual general meeting held on 31 March 2017, was paid. The total sum paid amounted to Euros 187,090 thousand.

Directors' report for the six-month period ended 30 June 2017

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

1. BUSINESS PERFORMANCE

IBERDROLA is a holding company and, therefore, its earnings chiefly come from dividends and revenues from financing granted to investees. It also supplies wholesale gas for subsequent delivery to its subsidiary, Iberdrola Generación España, S.A.U.

2. SIGNIFICANT EVENTS IN THE FIRST HALF OF 2017

2.1 IBERDROLA's key income statement indicators

Revenues for the six-month period ended 30 June 2017 amounted to Euros 650 million, of which Euros 185 million corresponds to sales (mainly gas to its subsidiary Iberdrola Generación España S.A.U.), Euros 455 million to dividends received from Group companies and associates, and Euros 10 million to finance income from the financing of subsidiaries. The increase in revenues of Euros 139 million is due to the net effect of:

- The decline in wholesale gas activity during the period, which lowered revenues by Euros 123 million.
- An increase of Euros 260 million in dividends received from subsidiaries during the period, Euros 10 million more received from Avangrid, Inc. compared to the same period in 2016, and Euros 250 million in dividends received from Iberdrola Energía, S.A., Hidrola I, S.L. and Amara, S.A.U.
- A rise of Euros 2 million in finance income from the financing of subsidiaries.

Supplies for the period totalled Euros 182 million, mainly in relation to wholesale gas supplies for subsequent delivery to Iberdrola Generación España, S.A.U., a drop of Euros 127 million in line with the aforementioned decline in activity.

Other operating income of Euros 120 million, personal expenses net of capitalisation of Euros 75 million, operating expenses of Euros 104 million, amortisation and depreciation of Euros 29 million and impairment reversals of Euros 12 million, led to an operating result of Euros 392 million for the period, a rise of Euros 254 million compared to the same period the prior year.

Net finance cost amounted to Euros 65 million compared to Euros 53 million in the same period of 2016. This increase is basically due to the effect of settling derivatives with positive market value on the first half of 2016.

Profit before tax amounts to Euros 327 million and income tax income to Euros 8 million, giving a net profit for the period of Euros 335 million, compared to Euros 87 million for the same period in 2016.

2.2 Balance sheet

IBERDROLA's balance sheet at 30 June 2017 reflects negative working capital of Euros 2,866 million, mainly due to the existence of current payables to Group companies and associates amounting to Euros 4,961 million, which will be covered by cash generated from its activity and dividends from subsidiaries.

2.3 Significant transactions

The main transactions carried out by IBERDROLA during the six-month period ended 30 June 2017 are described in note 6.

3. MAIN RISKS AND UNCERTAINTIES

The main sources of uncertainty are disclosed in note 5.

4. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are described in note 12.

FINANCIAL REPORT FOR THE FIRST HALF OF 2016
STATEMENT OF RESPONSIBILITY

The members of the Board of Directors of IBERDROLA, S.A. state that, to the best of their knowledge, the selected financial information of IBERDROLA, S.A., as well as the consolidated annual accounts of IBERDROLA, S.A. and its subsidiaries, for the first half of fiscal year 2016, issued by the Board of Directors at its meeting of July 19, 2016, and prepared in accordance with applicable accounting standards, present a fair view of the assets, financial condition and results of operations of IBERDROLA, S.A. as well as of the subsidiaries included within its scope of consolidation, taken as a whole, and that the interim management report contains a fair assessment of the required information.

Bilbao, July 19, 2016

Mr. José Ignacio Sánchez Galán
Chairman & Chief Executive Officer

Mr. Iñigo Víctor de Oriol Ibarra
Director

Ms. Inés Macho Stadler
Director

Mr. Braulio Medel Cámara
Director

Ms. Samantha Barber
Director

Ms. Maria Helena Antolín Raybaud
Director

Mr. Santiago Martínez Lage
Director

Mr. José Luis San Pedro Guerenabarrena
Director

Mr. Ángel Jesús Acebes Paniagua
Director

Ms. Georgina Yamilet Kessel Martínez
Director

Ms. Denise Mary Holt
Director

Mr. José Walfredo Fernández
Director

Mr. Manuel Moreu Munaiz
Director

Mr. Xabier Sagredo Ormaza
Director

This note is drafted by the secretary of the Board of Directors to put on record that the director Mr Braulio Medel Cámara has not signed this document executed in his absence due to reasons of force majeure, having being signed in his stead by the non-executive director Ms. Inés Macho Stadler on the basis of the express proxy granted for such purpose by Mr Braulio Medel Cámara.

Julián Martínez-Simancas Sánchez

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND CONSOLIDATED DIRECTORS' REPORT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

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

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

Limited Review Report on the Condensed Consolidated Interim Financial Statements

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

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

Report on the Condensed Consolidated Interim Financial Statements

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of Iberdrola, S.A. (the "Company") and subsidiaries (the "Group"), which comprise the consolidated statement of financial position at 30 June 2017, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flow and the notes to the condensed consolidated interim financial statements for the six-month period then ended. Pursuant to article 12 of Royal Decree 1362/2007, the Directors of the Company are responsible for the preparation of these interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

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

Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2017 have not been prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”, as adopted by the European Union, for the preparation of condensed interim financial statements, pursuant to article 12 of Royal Decree 1362/2007.

Emphasis of Matter

We draw your attention to the accompanying note 2, which states that these interim financial statements do not include all the information required in complete consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying interim financial statements should therefore be read in conjunction with the Group’s consolidated annual accounts for the year ended 31 December 2016. This matter does not modify our conclusion.

Report on Other Legal and Regulatory Requirements

The accompanying interim consolidated Directors’ report report for the six-month period ended 30 June 2017 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. The interim consolidated Directors’ report is not an integral part of the interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2017. Our work is limited to the verification of the interim consolidated Directors’ report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Iberdrola, S.A. and subsidiaries.

Paragraph on Other Matters

This report has been prepared at the request of the Company's management in relation to the publication of the six-month financial report required by article 119 of the Revised Securities Market Law, enacted by Royal Decree 1362/2007 of 19 October 2007.

KPMG Auditores, S.L.

(*Signed on original in Spanish*)

Enrique Asla García

21 July 2017

CONTENTS

IBERDROLA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 30 JUNE 2017 AND 31 DECEMBER 2016

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

Thousands of Euros			
ASSETS	Note	30.06.2017 (unaudited)	31.12.2016 (*) (audited)
Intangible assets		**18,852,593**	**19,934,163**
Goodwill		8,408,081	8,711,053
Other intangible assets		10,444,512	11,223,110
Investment property		**362,788**	**462,342**
Property, plant and equipment	**7**	**63,074,685**	**63,834,384**
Property, plant and equipment in use		55,863,963	57,343,025
Property, plant and equipment under construction		7,210,722	6,491,359
Non-current investments		**3,544,574**	**3,903,994**
Equity-accounted investees		2,190,667	2,239,655
Non-current securities portfolio	8	58,913	59,489
Other non-current investments	8	655,141	695,668
Derivative financial instruments	8	639,853	909,182
Trade and other receivables, non-current		**732,165**	**887,083**
Deferred tax assets		**6,805,507**	**6,958,154**
NON-CURRENT ASSETS		**93,372,312**	**95,980,120**
Nuclear fuel		**331,632**	**322,630**
Inventories		**1,993,508**	**1,633,502**
Trade and other receivables, current		**6,419,254**	**5,862,492**
Current tax assets		685,966	503,403
Public entities, other		358,927	143,379
Other trade and other receivables, current		5,374,361	5,215,710
Current investments	**8**	**1,253,944**	**1,474,790**
Current securities portfolio		1,852	4,584
Other current investments		680,606	776,341
Derivative financial instruments		571,486	693,865
Cash and cash equivalents	**9**	**1,748,674**	**1,432,686**
CURRENT ASSETS		**11,747,012**	**10,726,100**
TOTAL ASSETS		**105,119,324**	**106,706,220**

(*) The consolidated statement of financial position at 31 December 2016 is presented for comparative purposes only.

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AT 30 JUNE 2017 AND 31 DECEMBER 2016

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

Thousands of Euros

EQUITY AND LIABILITIES	Note	30.06.2017 (unaudited)	31.12.2016 (*) (audited)
Parent	**10**	**35,824,948**	**36,690,965**
Subscribed capital		4,680,000	4,771,559
Revaluation reserve for unrealised assets and liabilities		(128,730)	(149,394)
Other reserves		32,574,910	31,506,301
Own shares		(517,715)	(1,083,367)
Translation differences		(2,301,932)	(1,059,117)
Net profit for the period		1,518,415	2,704,983
Non-controlling interests		**3,145,837**	**3,445,898**
Perpetual subordinated bonds		**535,398**	**550,526**
EQUITY		**39,506,183**	**40,687,389**
NON-CURRENT EQUITY INSTRUMENTS OF A FINANCIAL LIABILITY NATURE	**8**	**24,505**	**43,664**
Deferred income		**6,433,054**	**6,590,302**
Provisions		**4,692,033**	**4,904,875**
Provisions for pensions and similar obligations		2,121,185	2,380,590
Other provisions		2,570,848	2,524,285
Financial debt	**8**	**27,032,557**	**26,926,882**
Financial debt - loans and other	12	26,659,937	26,509,052
Derivative financial instruments		372,620	417,830
Other non-current payables		**759,313**	**737,269**
Deferred tax liabilities		**12,164,641**	**12,740,661**
NON-CURRENT LIABILITIES		**51,081,598**	**51,899,989**
CURRENT EQUITY INSTRUMENTS OF A FINANCIAL LIABILITY NATURE	**8**	**68,837**	**93,390**
Provisions		**502,822**	**143,643**
Provisions for pensions and similar obligations		5,693	9,771
Other provisions		497,129	133,872
Financial debt	**8**	**5,754,773**	**5,404,119**
Financial debt - loans and other	12	5,505,248	4,711,630
Derivative financial instruments		249,525	692,489
Trade and other payables		**8,180,606**	**8,434,026**
Trade payables		4,488,740	5,490,634
Current tax liabilities		654,543	237,123
Public entities, other		1,227,480	914,493
Other current liabilities		1,809,843	1,791,776
CURRENT LIABILITIES		**14,438,201**	**13,981,788**
TOTAL EQUITY AND LIABILITIES		**105,119,324**	**106,706,220**

(*) The consolidated statement of financial position at 31 December 2016 is presented for comparative purposes only.

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2017 AND 2016

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

Thousands of Euros	Note	30.06.2017 (unaudited)	30.06.2016 (*) (unaudited)
Revenues	6	15,168,848	14,898,041
Supplies		(8,317,862)	(8,121,754)
GROSS MARGIN		**6,850,986**	**6,776,287**
Personnel expenses		(1,322,287)	(1,267,101)
Capitalised personnel expenses		319,409	291,300
Net personnel expenses		(1,002,878)	(975,801)
External services		(1,198,744)	(1,169,161)
Other operating income		259,201	284,302
Net external services		(939,543)	(884,859)
Net operating expense		(1,942,421)	(1,860,660)
Taxes		(1,156,803)	(1,023,491)
GROSS OPERATING PROFIT / EBITDA		**3,751,762**	**3,892,136**
Amortisation, depreciation and provisions		(1,635,284)	(1,638,509)
OPERATING PROFIT / EBIT		**2,116,478**	**2,253,627**
Share of profit of equity-accounted investees, net of taxes		45,823	31,696
Finance income		288,947	557,378
Finance costs		(702,494)	(918,563)
Net finance cost		(413,547)	(361,185)
Gains on disposal of non-current assets	5	256,675	48,527
Losses on disposal of non-current assets	5	(15,689)	(1,628)
Net gains on disposal of non-current assets		240,986	46,899
PROFIT BEFORE INCOME TAX		**1,989,740**	**1,971,037**
Income tax	13	(416,201)	(466,402)
NET PROFIT FOR THE PERIOD		**1,573,539**	**1,504,635**
Non-controlling interests		(43,804)	(37,196)
Perpetual subordinated bondholders		(11,320)	(10,710)
NET PROFIT ATTRIBUTABLE TO THE PARENT		**1,518,415**	**1,456,729**
BASIC EARNINGS PER SHARE IN EUROS		**0.243**	**0.226**
DILUTED EARNINGS PER SHARE IN EUROS		**0.238**	**0.221**

(*) The consolidated income statement for the period ended 30 June 2016 is presented for comparative purposes only.

The accompanying notes are an integral part of the condensed consolidated interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2017 AND 2016

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

	30.06.2017 (Unaudited)				30.06.2016 (*) (Unaudited)			
Thousands of Euros	Parent	Non-controlling interests	Perpetual subordinated bondholders	Total	Parent	Non-controlling interests	Perpetual subordinated bondholders	Total
NET PROFIT FOR THE PERIOD	**1,518,415**	**43,804**	**11,320**	**1,573,539**	**1,456,729**	**37,196**	**10,710**	**1,504,635**
OTHER COMPREHENSIVE INCOME TO BE TAKEN TO THE CONSOLIDATED INCOME STATEMENT IN THE COMING YEARS								
Revaluation reserves for unrealised assets and liabilities	**28,360**	**2,193**	**-**	**30,553**	**(130,584)**	**(9,413)**	**-**	**(139,997)**
Change in value of available-for-sale investments	9	-	-	9	(10)	-	-	(10)
Change in value of cash flow hedges	41,884	3,606	-	45,490	(171,800)	(15,677)	-	(187,477)
Tax effect	(13,533)	(1,413)	-	(14,946)	41,226	6,264	-	47,490
Translation differences	**(1,242,815)**	**(225,411)**	**-**	**(1,468,226)**	**(1,466,431)**	**(32,202)**	**-**	**(1,498,633)**
TOTAL	**(1,214,455)**	**(223,218)**	-	**(1,437,673)**	**(1,597,015)**	**(41,615)**	-	**(1,638,630)**
OTHER COMPREHENSIVE INCOME THAT WILL NOT BE TAKEN TO THE CONSOLIDATED INCOME STATEMENT IN THE COMING YEARS								
Revaluation reserves for unrealised assets and liabilities	**(10,984)**	**-**	**-**	**(10,984)**	**69,638**	**-**	**-**	**69,638**
Change in value of cash flow hedges	(13,941)	-	-	(13,941)	92,282	-	-	92,282
Tax effect	2,957	-	-	2,957	(22,644)	-	-	(22,644)
TOTAL	**(10,984)**	**-**	**-**	**(10,984)**	**69,638**	**-**	**-**	**69,638**
OTHER COMPREHENSIVE INCOME OF EQUITY-ACCOUNTED INVESTEES (NET OF TAXES)								
Revaluation reserves for unrealised assets and liabilities	**3,288**	**-**	**-**	**3,288**	**(367)**	**-**	**-**	**(367)**
TOTAL	**3,288**	**-**	-	**3,288**	**(367)**	**-**	-	**(367)**
TOTAL NET PROFIT RECOGNISED DIRECTLY IN EQUITY	**(1,222,151)**	**(223,218)**	-	**(1,445,369)**	**(1,527,744)**	**(41,615)**	-	**(1,569,359)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**296,264**	**(179,414)**	**11,320**	**128,170**	**(71,015)**	**(4,419)**	**10,710**	**(64,724)**

(*) The consolidated statement of comprehensive income for the six-month period ended 30 June 2016 is presented for comparative purposes only.
The accompanying notes are an integral part of these condensed interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2017 AND 2016

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

			Other reserves										
Thousands of Euros	Subscribed capital	Own shares	Legal reserve	Revaluation reserve	Share premium	Other restricted reserves	Retained earnings	Revaluation reserve for unrealised assets and liabilities	Translation differences	Net profit for the period	Non-controlling interests	Perpetual subordinated bonds	*Total*
Balance at 01.01.2017	**4,771,559**	**(1,083,367)**	**958,271**	**368,436**	**14,667,676**	**528,691**	**14,983,227**	**(149,394)**	**(1,059,117)**	**2,704,983**	**3,445,898**	**550,526**	**40,687,389**
Comprehensive income for the period	-	-	-	-	-	-	-	20,664	(1,242,815)	1,518,415	(179,414)	11,320	128,170
Transactions with shareholders or owners													
Scrip issue (note 10)	73,433	-	-	(73,433)	-	-	(404)	-	-	-	-	-	(404)
Capital reduction (note 10)	(164,992)	1,280,176	-	-	-	164,992	(1,280,213)	-	-	-	-	-	(37)
Acquisition of free allocation rights (note 10)	-	-	-	-	-	-	(264,071)	-	-	-	-	-	(264,071)
Distribution of 2016 profit	-	-	-	-	-	-	2,517,783	-	-	(2,704,983)	(47,762)	-	(234,962)
Transactions with own shares	-	(714,524)	-	-	-	-	2,353	-	-	-	-	-	(712,171)
Other changes in equity													
Share-based payments	-	-	-	-	-	-	(8,222)	-	-	-	-	-	(8,222)
Other movements	-	-	-	-	-	-	9,824	-	-	-	(72,885)	(26,448)	(89,509)
Balance at 30.06.2017	**4,680,000**	**(517,715)**	**958,271**	**295,003**	**14,667,676**	**693,683**	**15,960,277**	**(128,730)**	**(2,301,932)**	**1,518,415**	**3,145,837**	**535,398**	**39,506,183**

Thousands of Euros	Subscribed capital	Own shares	Other reserves: Legal reserve	Other reserves: Revaluation reserve	Other reserves: Share premium	Other reserves: Other restricted reserves	Retained earnings	Revaluation reserve for unrealised assets and liabilities	Translation differences	Net profit for the period	Non-controlling interests	Perpetual subordinated bonds	*Total*
Balance at 01.01.2016	**4,752,652**	**(639,239)**	**958,271**	**505,241**	**14,667,676**	**410,793**	**14,762,776**	**(222,051)**	**(459,039)**	**2,421,578**	**3,246,287**	**551,108**	**40,956,053**
Comprehensive income for the period	-	-	-	-	-	-	-	(61,313)	(1,466.431)	1,456,729	(4,419)	10,710	(64,724)
Transactions with shareholders or owners													
Scrip issue (note 10)	45,246	-	-	(45,246)	-	-	(427)	-	-	-	-	-	(427)
Capital reduction	(117,898)	946,566	-	-	-	117,898	(946,602)	-	-	-	-	-	(36)
Acquisition of free allocation rights (note 10)	-	-	-	-	-	-	(421,706)	-	-	-	-	-	(421,706)
Distribution of 2015 profit	-	-	-	-	-	-	2,234,378	-	-	(2,421,578)	(44,521)	-	(231,721)
Transactions with own shares	-	(590,988)	-	-	-	-	(17)	-	-	-	-	-	(591,005)
Other changes in equity													
Share-based payments	-	-	-	-	-	-	(18,354)	-	-	-	-	-	(18,354)
Other movements	-	-	-	-	-	-	3,897	-	-	-	11,349	(25,598)	(10,352)
Balance at 30.06.2016	**4,680,000**	**(283,661)**	**958,271**	**459,995**	**14,667,676**	**528,691**	**15,613,945**	**(283,364)**	**(1,925,470)**	**1,456,729**	**3,208,696**	**536,220**	**39,617,728**

(*) The consolidated statement of changes in equity for the six-month period ended 30 June 2016 is presented for comparative purposes only.
The accompanying notes are an integral part of these condensed interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2017 AND 2016

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

Thousands of Euros	Note	30.06.2017 (unaudited)	30.06.2016 (*) (unaudited)
Profit before income tax		**1,989,740**	**1,971,037**
Adjustments for			
Amortisation, depreciation, provisions and personnel pension expenses		1,705,350	1,732,897
Proceeds from investments in associates and joint ventures.		(45,823)	(31,696)
Grants applied		(121,736)	(125,299)
Finance income and costs		413,547	361,185
Gains on disposal of non-current assets		(240,986)	(46,899)
Movement in working capital			
Movement in trade and other receivables		(44,126)	92,521
Movement in inventories		(60,604)	275,852
Movement in trade and other payables		(629,328)	(1,000,630)
Effect of translation differences on working capital of foreign companies		-	1,086
Movement in non-current trade and other receivables		(8,733)	(1,937)
Payment of provisions		(299,593)	(238,083)
Income tax paid		(143,801)	(122,422)
Dividends received		52,634	40,919
Net cash flows from operating activities		**2,566,541**	**2,908,531**
Acquisition of intangible assets		(112,939)	(103,621)
Acquisition of associates		(32,515)	
Securities portfolio		210	(18,395)
Other investments		12,869	(43,971)
Acquisition of investment property		(1,810)	(1,221)
Acquisition of property, plant and equipment		(2,815,913)	(1,891,463)
Capital grants		93,388	54,673
Movement in working capital on account of current financial assets		114,831	(42,564)
Interest received		109,616	102,474
Income tax		-	(11,251)
Proceeds from disposal of non-financial assets		912	975
Proceeds from disposal of financial assets		313,009	101,383
Net cash flows used in investing activities		**(2,318,342)**	**(1,852,981)**
Acquisition of free allocation rights		(264,071)	(421,706)
Dividends paid to non-controlling interests		(46,838)	(21,985)
Perpetual subordinated bonds		(30,188)	(30,188)
Issues and drawdowns of financial debt		7,033,258	4,867,844
Repayment of financial debt		(5,537,553)	(2,990,682)
Interest paid excluding capitalised interest		(537,829)	(552,810)
Movement in working capital due to the receivable for financing the revenue imbalance		-	(28,016)
Transactions with shareholders		(67,503)	-
Cash outflows due to capital reduction		(37)	(36)
Cash outflows due to scrip issue		(404)	(427)
Acquisition of own shares		(468,449)	(619,382)
Proceeds from disposal of own shares		39,923	28,377
Net cash flows from financing activities		**120,309**	**230,989**
Effect of exchange rate fluctuations on cash and cash equivalents		**(52,520)**	**22,150**
Net increase in cash and cash equivalents		**315,988**	**1,308,689**
Cash and cash equivalents at beginning of period		**1,432,686**	**1,153,273**
Cash and cash equivalents at end of period		**1,748,674**	**2,461,962**

(*) The consolidated statement of cash flows for the six-month period ended 30 June 2016 is presented for comparative purposes only.
The accompanying notes are an integral part of these condensed consolidated interim financial statements.

IBERDROLA, S.A. AND SUBSIDIARIES

Notes to the condensed consolidated interim financial statements for the six-month period ended 30 June 2017

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

1. ACTIVITY OF THE GROUP

According to article 5 of its by-laws, the statutory activity of Iberdrola, S.A. (hereinafter IBERDROLA), incorporated in Spain, is as follows:

- To carry out all manner of activities, works, and services inherent in or related to the business of production, transmission, switching, and distribution or supply of electric power or electricity by-products and applications thereof, and the raw material or energy needed for the generation thereof; energy, engineering, information-technology, telecommunications, and internet-related services; water treatment and distribution; the integral provision of urban and gas supply services, as well as other gas storage, regasification, transportation, or distribution activities, which will be carried out indirectly through the ownership of shares or equity interests in other companies that will not engage in the supply of gas.

- The distribution, representation, and marketing of all manner of goods and services, products, articles, merchandise, software programs, industrial equipment and machinery, tools, utensils, spare parts, and accessories.

- The investigation, study, and planning of investment and corporate organisation projects, as well as the promotion, creation, and development of industrial, commercial, or service companies.

- The provision of services assisting or supporting companies and businesses in which it has an interest or which are within its corporate group, for which purpose it may provide appropriate guarantees and bonds in favour thereof.

The aforementioned activities may be carried out in Spain as well as abroad, and may be carried out, in whole or in part, either directly by IBERDROLA or through the ownership of shares or equity interests in other companies, subject in all cases and at all times to applicable legal provisions for each industry, especially the electricity industry.

In general, the statutory activity of the subsidiaries consists of the production, switching, distribution and supply of electricity and gas, the provision of telecommunications services, and real estate, engineering and other related activities in Spain and abroad

The registered office of IBERDROLA is located at Plaza Euskadi 5, Bilbao (Spain).

2. BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

a) Accounting standards applied

The condensed consolidated interim financial statements for the six-month period ended 30 June 2017 (hereinafter, the financial statements) were issued by the board of directors of IBERDROLA on 19 July 2017.

These financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, and include additional information to that required by this standard, pursuant to article 12 of Royal Decree 1362/2007. However, they do not include all the information and disclosures required in a complete set of consolidated annual accounts prepared under International Financial Reporting Standards adopted by the European Union (hereinafter, IFRS-EU). Consequently, in order for them to be properly interpreted, these financial statements should be read in conjunction with the IBERDROLA Group' consolidated annual accounts for the year ended 31 December 2016.

The accounting policies used to prepare these financial statements are the same as those applied in the preparation of the consolidated annual accounts for the year ended 31 December 2016.

When preparing these financial statements, the IBERDROLA Group has not early-applied any published standard, interpretation or amendment that has not yet come into force.

At the date these financial statements were issued, the following standards, amendments and interpretations, effective for periods beginning on or after 1 January 2017, had been issued:

		Mandatory application	
Standard		IASB	European Union
Amendments to IAS 7	Statement of Cash Flows: Disclosure initiative	01.01.2017	(*)
Amendments to IAS 12	Recognition of Deferred Tax assets for Unrealised Losses	01.01.2017	(*)
IFRS 15	Revenue from Contracts with Customers	01.01.2018	01.01.2018
IFRS 9	Financial Instruments	01.01.2018	01.01.2018
Amendments to IFRS 4	Application of IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	01.01.2018	(*)
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	01.01.2018	(*)
IFRIC 22	Foreign Currency Transactions and Advance Consideration	01.01.2018	(*)
Amendments to IAS 40	Transfers of Investment Property	01.01.2018	(*)
Cycle 2014-2016	Annual improvements to various standards	01.01.2017/ 01.01.2018	(*)
IFRS 16	Leases	01.01.2019	(*)
Amendments to IFRS 15	Clarifications to the standard	01.01.2018	(*)
IFRS 17	Insurance Contracts	01.01.2021	(*)
IFRIC 23	Uncertainty over Income Tax treatments	01.01.2019	(*)

(*) Pending approval by the European Union.

The IBERDROLA Group continues to analyse the impact of the application of these standards, interpretations and approved amendments, which is not mandatory in 2017, and believes that had they been applied, they would not have had a material impact on these interim financial statements, except insofar as IFRS 9, IFRS 15 and IFRS 16 are concerned.

In this regard, the IBERDROLA Group continues to assess the impacts derived from first-time application of IFRS 9, IFRS 15 and IFRS 16, but it is not possible to disclose additional information to that included in the annual accounts for 2016.

The IBERDROLA Group will not early-apply any of the above standards.

b) Significant Accounting Policies

The principles, criteria and methods of consolidation applied when preparing these financial statements are the same as those used in the preparation of the IBERDROLA Group's consolidated annual accounts for 2016. With the exception of the transactions described in note 5, there have been no major changes to the consolidated Group compared to that disclosed in the aforementioned consolidated annual accounts.

c) Comparative information

- Each year IBERDROLA reviews the useful lives of its assets based on internal and external information sources. As result of this review, in 2017 the IBERDROLA Group considered the best estimate of the useful life of combined cycle power plants to be 40 years (compared to 35 years considered previously), and 50 years for the electro-mechanical equipment of hydroelectric power plants (compared to 35 years considered previously).

  Consequently, amortisation, depreciation and provisions in the consolidated income statement for the six-month period ended 30 June 2017 include the impact of this change in estimate which, in line with accounting regulations, has been applied prospectively since 1 January 2017 and has reduced depreciation by approximately Euros 34 million. The IBERDROLA Group estimates that in the second half of 2017 this change in useful life will result in a similar reduction in depreciation to that recognised in the first half of 2017. Depreciation will continue falling as the useful lives of the hydroelectric and combined cycle power plants in operation at 1 January 2017 decline.

- In the context of the "Iberdrola flexible dividend" programme, a scrip issue was carried out in January 2017 (see note 10), and a second scrip issue is underway (see note 20) at the date of issue of these financial statements. According to IAS 33: Earnings per Share, these capital increases entailed correcting the basic and diluted earnings per share. The scrip issue of January 2017 has been taken into account when calculating the basic and diluted earnings per share for the periods ended 30 June 2017 and 2016, while the scrip issue of July 2017 has only been taken into account when calculating the diluted earnings per share for those same dates.

3. SEASONALITY

From a half-year perspective, the IBERDROLA Group's activity is not particularly seasonal.

4. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

a) Accounting estimates

The preparation of these financial statements required IBERDROLA to make certain assumptions and estimates. The main estimates used in the preparation of these financial statements concerned the following:

- Unbilled power supplied.
- Settlements of regulated activities in Spain.
- Analysis of contracts to buy and sell energy supplies to ensure that they are properly accounted for.
- Provisions for liabilities and charges.
- Useful lives of property, plant and equipment.
- Closure and dismantling costs of facilities.
- Provision for pensions and similar obligations and restructuring plans.
- Fair value of investment property.
- Impairment of intangible assets, goodwill and property, plant and equipment.
- Other intangible assets.
- Analysis of the recoverability of deferred tax assets.

The criteria used to calculate the estimates made in these financial statements are the same as those used in the preparation of the IBERDROLA Group's consolidated annual accounts for 2016.

Although these estimates were made on the basis of the best information available on the events analysed at the date these financial statements were issued, future events might make it necessary to revise these estimates (upwards or downwards) in subsequent years. Changes in accounting estimates would be applied prospectively, and the effects recognised in future periods.

In accordance with applicable accounting regulations, the IBERDROLA Group performs impairment tests on cash-generating units that require impairment testing each year, unless there are indications of impairment at another time, in which case a recoverability analysis is carried out. In this regard, the IBERDROLA Group considers that, except as indicated in note 14, its most significant assets do not show any signs of impairment at 30 June 2017.

In addition, the IBERDROLA Group believes that there are no discontinued operations at 30 June 2017 or at the date these financial statements were issued.

In accordance with IAS 34 Interim Financial Reporting, the calculation of income tax in the consolidated income statements for the six-month periods ended 30 June 2017 and 2016 has been made based on the best estimate of the expected tax rate for the corresponding years. Therefore, the amount recognised for this item for the six-month period ended 30 June 2017 may require adjustments in subsequent periods should the annual tax rate be modified.

b) Sources of uncertainty

There are certain aspects which, at the date these financial statements were issued, constitute a source of uncertainty over their accounting effect:

- Article 12.5 of Spanish Income Tax Law, approved by Royal Decree 4/2004, allows for tax amortisation of goodwill arising from the acquisition of equity interests in foreign companies. IBERDROLA elected to apply this incentive to the acquisition of Scottish Power Plc. (currently Scottish Power Ltd.), and Energy East Inc. (currently AVANGRID).

  In October 2007, the European Commission decided to launch a formal investigation into this tax measure to examine whether it was compatible with the internal market.

  In 2009 and 2011 the European Commission issued two decisions (the "First Decision" and the "Second Decision") deeming article 12.5 to constitute state aid incompatible with the single market, and therefore, it instructed that the aid be recovered and that the article be no longer applied in the future. However, the amortisation deducted and the future application of the tax measure could remain in place for acquisitions transacted or agreed prior to 21 December 2007, the date on which the launch of the formal investigation was announced, (such as those carried out by IBERDROLA) given that the companies acted with legitimate expectations.

  In February 2014, the Spanish National Court held that article 12.5 should not be applied to indirect acquisitions (acquisitions of operating companies through the acquisition of equity interests in a holding company), a verdict that has been appealed by the parties involved.

  In October 2014, the European Commission issued a third decision (the "Third Decision") which determined that as the Directorate General of Taxation, and later the Central Economic Administrative Court, changed their criteria in 2012, admitting that the deduction provided for in article 12.5 could be applied to indirect acquisitions, which thus extended the scope of application of the initial tax regime, it concluded that it constituted new state aid incompatible with the internal market. Additionally, as this measure was introduced after the launch of the formal investigation was announced, the Commission considered that legitimate expectations were not generated for companies which made indirect acquisitions prior to 21 December 2017 as they were aware of the administrative practice that excluded indirect acquisitions form the scope of application of the tax measure. In its decision, the Commission instructed Spain, which appealed the decision, to recover the aid.

On 7 November 2014, the General Court of the European Union (GCEU) handed down two verdicts quashing the first two decisions mentioned earlier as it deemed the deduction provided for in article 12.5 not to be state aid as its selective nature was not established. These decisions were appealed by the European Commission.

On 27 February 2015, the GCEU issued a ruling rejecting the provisional stay of the Third Decision, meaning the Spanish taxation authorities should proceed with recovering the aid. However, this ruling mentions a document dated 9 January 2015, sent to the Kingdom of Spain by the Commission's Directorate General for Competition, in which the latter declares that recovery of the aid will not be actively pursued until the European Court of Justice concludes on the appeals filed by the Commission against the General Court rulings of 7 November 2014.

On the same date the Third Decision was published in the Official Journal of the European Union, against which IBERDROLA filed an appeal before the General Court on 22 May 2015.

On 21 December 2016, the Court of Justice of the European Union issued a decision on the appeals for cassation filed by the European Commission against the rulings handed down by the General Court on 7 November 2014. In its decision, said rulings were quashed and the case was referred back to the General Court for reassessment of the selectivity of the tax measure, and the grounds for appeal cited by the interested parties that were not analysed in the rulings were ordered to be examined. This ruling reinstates the First and Second Decisions. Consequently, the European Commission declared that it will work with the Spanish authorities to recover any outstanding aid granted, including the aid declared incompatible with the internal market in the Third Decision.

On 1 June 2017, the tax and customs division of the Spanish taxation authorities notified IBERDROLA of the commencement of the procedure to recover state aid, which is currently underway.

Effective recovery of the aid will remain provisional pending the final outcome of the appeals filed against the three decisions.

At the date these consolidated financial statements were issued, no verdict has been reached on the appeals.

- Currently, there are different mechanisms (market economics and tax incentives) that make renewable energy facilities in the United States sufficiently profitable.

One of the main tax mechanisms are Production Tax Credits (PTCs). At the date of issue of these consolidated interim financial statements, these credits would affect facilities whose construction commences before the end of 2019 and which enter into operation by 2023. Other existing mechanisms include accelerated fiscal depreciation (Modified Accelerated Cost Recovery System or MACR) and Renewable Energy Certificates (REC).

The MACR is a system of accelerated fiscal depreciation applicable, under US legislation, to approximately 95% of the investment in a wind farm. At present, there is no foreseeable end to this programme.

In addition to the PTC and MACR, Renewable Portfolio Standards (RPS) also deserve a mention. Through RPS, each state sets a renewable energy target to be consumed by the distributors in each state. These targets, which are compulsory in the majority of states, refer to the renewable energy percentage as part of the total energy distributed. They are regulated through quotas and green certificates (REC). The value of the REC depends on various factors, such as technology, and supply and demand for them in each state.

The potential uncertainty that could arise from PTCs not being renewed beyond the current scheme is offset by such relevant factors as the RPS. Therefore, the IBERDROLA Group believes that these mechanisms will allow the carrying amount of its tangible and intangible renewable energies assets in the United States, as reflected in the consolidated statement of financial position at 30 June 2017, to be recovered.

- The IBERDROLA Group has interests in several nuclear facilities, all of which are located in Spain. The operating licences in effect for nuclear plants cover a period of 30 to 40 years from when they became operational. These plants are governed by Sustainable Economy Law, enacted on 15 February 2011, which provides, with no time limit, that the share of nuclear power in the production mix will be determined in accordance with its production timetable and the licence renewals requested by nuclear plant owners within the framework of prevailing legislation.

  Taking the above into account, as well as the investment and maintenance policies followed at its nuclear plants, the IBERDROLA Group considers that the corresponding operating licences will be renewed at least until the plants are 40 years old. Accordingly, for accounting purposes the plants will be depreciated over this period.

- On 2 June 2014, Nuclenor, S.A., in which IBERDROLA has a 50% interest and which is owner of the Santa María de Garoña nuclear power plant, applied to the Nuclear Safety Council (hereinafter, NSC) for a new operating licence valid until 2031. The plant was disconnected from the electricity grid in 2012.

  During the first six months of 2017, two events occurred in relation to this application: the NSC at its plenary session held on 8 February 2017 agreed to set the limits and conditions attached to the application to renew the plant's operating licence, and on 11 July 2017, the Ministry for Energy, Tourism and the Digital Agenda (MINETAD) announced the start of the public hearing process in relation to the renewal of the operating licence for the Santa María de Garoña power plant. At the date these condensed consolidated interim financial statements were issued, the board of directors of Nuclenor had not yet reached a decision on the plant's continuity.

- Note 16 of these financial statements describes the main contingent assets and liabilities of the IBERDROLA Group, the majority of which have arisen from ongoing litigation and whose future course cannot be determined with certainty at the date these financial statements were issued.

- The IBERDROLA Group is currently involved in negotiations and/or arbitration over some of its long-term contracts to supply or sell raw materials. During the six-month period ended 30 June 2017, the associated effects have been updated and recognised in the financial statements. It is believed that their outcomes will not entail a significant change to the amounts shown in these financial statements.

- The financial statements include certain assets related to the rendering of disputed construction services, and which in certain cases are the subject of arbitration or judicial proceedings. The Company's directors consider that the assets recognised in the financial statements comply with the requirements of accounting legislation as their recovery is considered probable.

The IBERDROLA Group and, if applicable, its legal and tax advisors, consider that no significant asset losses or additional liabilities will arise for the IBERDROLA Group from the matters mentioned in the preceding paragraphs.

5. SIGNIFICANT TRANSACTIONS CARRIED OUT AND OTHER EVENTS IN THE SIX-MONTH PERIODS ENDED 30 JUNE 2017 AND 2016

Changes in the consolidated Group

- In April 2017, the IBERDROLA Group sold its interest in Amara, S.A.U. for Euros 8,000 thousand, resulting in a gross capital loss of Euros 15,271 thousand which has been recognised under losses on disposal of non-current assets in the consolidated income statement for the six months ended 30 June 2017.

- In relation to the merger agreement of the wind energy divisions of Gamesa Corporación Tecnológica, S.A. (GAMESA) and Siemens AG (SIEMENS) initiated in 2016, whereby Siemens Wind HoldCo (absorbed company) would be absorbed by GAMESA (absorbing company):

  - On 13 March 2017 the European Competition Authorities unconditionally cleared the merger, thereby meeting all the conditions precedent to which the merger was subject.

  - On 29 March 2017, the board of directors of GAMESA agreed that all the conditions for executing the merger deed had been met, and the deed was filed at the Vizcaya Mercantile Registry on 3 April.

  As a result, GAMESA issued shares representing approximately 59% of its capital for delivery to SIEMENS, meaning the IBERDROLA Group’s interest was diluted from 19.69% 8.07%.

  The profit obtained from this dilution amounted to Euros 255,445 thousand, which has been recognised under gains on disposal of non-current assets in the consolidated income statement for the six months ended 30 June 2017.

Following the merger, the IBERDROLA Group holds an equity interest of 8% and is represented on the board of directors.

Other relevant facts

- On 8 June 2017, the shareholders of Neoenergia, S.A. (NEOENERGIA), namely BB Banco de Investimento S.A. (Banco do Brasil), Caixa de Previdência dos Funcionários do Banco do Brasil (Previ) and Iberdrola Energía, S.A.U. (IBERDROLA ENERGÍA), reached an agreement whereby NEOENERGIA would incorporate the activities and business of Elektro Holding, S.A. (ELEKTRO).

  NEOENERGIA is a leading private group in the electricity sector in Brazil. The group operates in 11 states and its activities encompass energy generation, transmission, distribution and supply. Banco do Brasil and Previ currently hold interests of 12% and 49%, respectively, in the capital of NEOENERGIA, whilst the remaining 39% is held by IBERDROLA ENERGÍA.

  Following the operation, Banco do Brasil and Previ will hold interests of approximately 9.35% and 38.21%, respectively, of the capital of NEOENERGIA, whilst IBERDROLA ENERGÍA will hold a 52.45% interest, incorporating as consideration the business of ELEKTRO. The operation also includes a commitment by IBERDROLA to carry out an IPO of NEOENERGIA when requested by Banco do Brasil and Previ.

  In order for NEOENERGIA to incorporate the activities and business of ELEKTRO, the former's shareholders, i.e. Banco do Brasil, Previ and IBERDROLA ENERGÍA, have signed an agreement setting out the pertinent terms and conditions as well as a new shareholders agreement that replaces the existing agreement (signed in 2005) to govern, inter alia, the following: (i) the need for certain reserved matters to be approved by a qualified majority, (ii) the existence of limitations on share transfers, (iii) the right of IBERDROLA ENERGÍA to appoint the majority of the members of the board of directors of NEOENERGIA, and (iv) the obligation of the IBERDROLA Group to channel all its investments in Brazil through NEOENERGIA.

  The operation will be arranged between NEOENERGÍA and ELEKTRO through a legal form under Brazilian law known as "*incorporação*", which will entail a share capital increase at NEOENERGIA (to be subscribed in full by IBERDROLA ENERGÍA), the extinguishment of ELEKTRO and the transfer en bloc of its assets and liabilities to NEOENERGIA, which will acquire by universal succession the rights and obligations of the former.

  The documentation for the operation signed between Banco do Brasil, Previ and IBERDROLA ENERGÍA is subject to certain conditions, such as the procurement of the pertinent regulatory authorisations in Brazil and approval from the shareholders of NEOENERGIA and ELEKTRO at their annual general meetings.

  The Brazilian competition authority, *Conselho Administrativo de Defesa Econômica (CADE)*, has unconditionally cleared the merger of NEOENERGIA and ELEKTRO, as published in the Official Gazette on 4 July.

  Compliance with the pending requirements will result in a step acquisition of NEOENERGIA. Control is due to be taken during the third quarter of 2017.

Six-month period ended 30 June 2016

The most significant transactions in the first six months of 2016 are described in note 5 to the financial statements for the six-month period ended on 30 June 2016.

6. SEGMENT REPORTING

According to IFRS 8 “Operating segments”, an operating segment is a component of an entity:

i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),

ii) whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and

iii) for which discrete financial information is available.

Transactions among the different segments are conducted on an arm's length basis.

The operating segments identified by the IBERDROLA Group are as follows:

- Network business: includes energy distribution and transmission activities, as well as any other regulated activity in Spain, the United Kingdom, the United States and Brazil.

- Liberalised business: includes energy generation and supply businesses as well as the gas trading and storage business that the Group operates in Spain, Portugal, the United Kingdom and North America.

- Renewable business: includes activities related to renewable energies in Spain, the United Kingdom, the United States and the rest of the world.

- Other businesses: comprise non-energy, engineering and construction lines of business.

Additionally, the Corporation collects the Group’s overheads (Single Corporation) and the costs of the administrative services of the corporate business units which are subsequently invoiced directly to the rest of the companies through service agreements.

The IBERDROLA Group globally manages not only financing activities but also the effects of taxation on profits. Consequently, finance income and costs and income tax have not been allocated to operating segments.

The key indicators for the operating segments identified are as follows:

Segmentation by business for the six-month period ended 30 June 2017

	Liberalised				Renewables					Networks					Other businesses	Total Segments	Corporation and adjustments	
Thousands of Euros	**Spain and Portugal**	**United Kingdom**	**America**	**Total**	**Spain**	**United Kingdom**	**United States**	**Rest of the world**	**Total**	**Spain**	**United Kingdom**	**United States**	**Brazil**	**Total**	**Total**	**Total**	**Total**	**Total**
REVENUES																		
External sales	6,239,318	2,466,171	946,795	**9,652,284**	7,172	35,085	524,917	122,186	**689,360**	931,427	528,406	2,180,353	810,285	**4,450,471**	**497,622**	**15,289,737**	**(120,889)**	**15,168,848**
Intersegment sales	(121,915)	41,590	43,945	**(36,380)**	406,711	225,711	(52)	(18)	**632,352**	65,547	93,606	-	-	**159,153**	**2,419**	**757,544**	**20,212**	**777,756**
Eliminations				**(103,582)**					**-**					**-**	**-**	**(103,582)**	**(674,174)**	**(777,756)**
Total sales				**9,512,322**					**1,321,712**					**4,609,624**	**500,041**	**15,943,699**	**(774,851)**	**15,168,848**
PROFIT/(LOSS)																		
Segment results from operating activities	420,589	(64,503)	199,272	**555,358**	137,723	108,762	82,763	54,211	**383,459**	514,832	313,083	349,945	66,626	**1,244,486**	**20,959**	**2,204,262**	**(87,784)**	**2,116,478**
Share of profit of equity-accounted investees, net of taxes	(3,884)	(76)	21,738	**17,778**	2,678	(556)	(5,543)	2,810	**(611)**	1,443	-	5,633	17,030	**24,106**	**20,195**	**61,468**	**(15,645)**	**45,823**
ASSETS																		
Segment assets	9,358,791	6,915,330	4,250,287	**20,524,408**	4,257,418	5,990,182	11,428,564	1,596,113	**23,272,277**	11,115,543	11,529,530	19,614,533	1,426,234	**43,685,840**	**1,815,098**	**89,297,623**	**340,193**	**89,637,816**
Equity-accounted investees	19,003	1,712	396,477	**417,192**	61,902	7,193	129,543	115,696	**314,334**	49,787	90	134,309	605,996	**790,182**	**669,046**	**2,190,754**	**(87)**	**2,190,667**
LIABILITIES																		
Segment liabilities	2,027,924	1,070,209	667,739	**3,765,872**	493,556	677,258	2,014,152	149,469	**3,334,435**	5,685,494	1,725,470	3,361,889	478,804	**11,251,657**	**427,292**	**18,779,256**	**615,376**	**19,394,632**
OTHER INFORMATION																		
Total cost incurred during the period in acquiring property, plant and equipment and non-current intangible assets	115,992	83,475	286,316	**485,783**	12,393	521,058	446,553	171,522	**1,151,526**	137,116	297,782	324,839	33,252	**792,989**	**770**	**2,431,068**	**(6,096)**	**2,424,972**
Amortisation and depreciation expense for the period	241,763	121,232	65,629	**428,624**	119,807	69,965	212,282	34,104	**436,158**	256,300	138,203	279,537	59,791	**733,831**	**5,333**	**1,603,946**	**31,338**	**1,635,284**
Expenses for the period other than amortisation and depreciation which did not entail cash outflows	6,420	13,910	2,278	**22,608**	1,000	1,367	3,699	282	**6,348**	8,159	22,695	31,469	2,080	**64,403**	**684**	**94,043**	**26,512**	**120,555**

Segmentation by business for the six-month period ended 30 June 2016

	Liberalised				Renewables					Networks					Other businesses	Total Segments	Corporation and adjustments	
Thousands of Euros	Spain and Portugal	United Kingdom	America	Total	Spain	United Kingdom	United States	Rest of the world	Total	Spain	United Kingdom	United States	Brazil	Total	Total	Total	Total	Total
REVENUES																		
External sales	5,836,176	3,215,867	720,021	**9,772,064**	46,318	20,075	486,048	114,653	**667,094**	943,133	590,445	1,968,570	666,039	**4,168,187**	**376,549**	**14,983,894**	**(85,853)**	**14,898,041**
Intersegment sales	(58,720)	53,984	7,558	**2,822**	428,441	201,044	-	298	**629,783**	67,774	121,603	-	-	**189,377**	**1,952**	**823,934**	**14,985**	**838,919**
Eliminations				**(118,607)**					**-**					**-**		**(118,607)**	**(720,312)**	**(838,919)**
Total sales				**9,656,279**					**1,296,877**					**4,357,564**	**378,501**	**15,689,221**	**(791,180)**	**14,898,041**
PROFIT/(LOSS)																		
Segment results from operating activities	495,260	121,100	142,635	**758,995**	198,157	68,477	79,758	53,308	**399,700**	548,228	376,683	236,007	38,920	**1,199,838**	**(20,261)**	**2,338,272**	**(84,645)**	**2,253,627**
Share of profit of equity-accounted investees, net of taxes	(9,185)	(256)	20,300	**10,859**	(733)	(592)	(7,090)	(7,281)	**(15,696)**	1,300	-	6,086	19,067	**26,453**	**24,316**	**45,932**	**(14,236)**	**31,696**
ASSETS																		
Segment assets	9,448,037	6,991,139	3,911,999	**20,351,175**	4,498,861	5,152,869	10,805,847	1,544,462	**22,002,039**	10,853,749	11,463,500	18,650,591	1,468,517	**42,436,357**	**1,808,242**	**86,597,813**	**987,010**	**87,584,823**
Equity-accounted investees	16,066	1,738	382,336	**400,140**	56,572	12,805	146,747	105,510	**321,634**	51,016	-	99,814	648,708	**799,538**	**610,062**	**2,131,374**	**-**	**2,131,374**
LIABILITIES																		
Segment liabilities	2,251,172	679,025	571,791	**3,501,988**	517,270	479,044	1,938,828	237,577	**3,172,719**	5,935,018	1,738,783	3,109,278	481,360	**11,264,439**	**397,881**	**18,337,027**	**795,073**	**19,132,100**
OTHER INFORMATION																		
Total cost incurred during the period in acquiring property, plant and equipment and non-current intangible assets	89,669	45,306	183,594	**318,569**	9,619	452,186	186,188	(1,184)	**646,809**	148,330	300,007	311,351	24,235	**783,923**	**1,130**	**1,750,431**	**11,674**	**1,762,105**
Amortisation and depreciation expense for the period	261,045	145,536	60,392	**466,973**	121,506	82,600	199,324	33,371	**436,801**	235,714	147,310	257,711	53,879	**694,614**	**4,978**	**1,603,366**	**35,143**	**1,638,509**
Expenses for the period other than amortisation and depreciation which did not entail cash outflows	5,077	13,194	2,120	**20,391**	969	1,290	3,025	137	**5,421**	8,505	20,445	33,228	1,246	**63,424**	**1,801**	**91,037**	**21,296**	**112,333**

Additionally, a breakdown of revenues and non-current assets by geographical area are as follows:

Thousands of Euros	30.06.2017	30.06.2016
Revenues		
Spain	6,980,553	6,613,932
United Kingdom	3,066,021	3,858,273
North America	3,859,251	3,384,820
Brazil	877,516	719,027
Rest of the world	385,507	321,989
Total	**15,168,848**	**14,898,041**

Thousands of Euros	30.06.2017	30.06.2016
Non-current assets (*)		
Spain	23,287,047	23,658,858
United Kingdom	21,804,936	22,023,794
North America	34,017,549	32,457,057
Brazil	1,292,391	1,343,537
Rest of the world	1,888,143	1,293,617
Total	**82,290,066**	**80,776,863**

(1) Excluding non-current financial investments, deferred tax assets and non-current trade and other receivables.

A reconciliation of segment assets and liabilities with total assets and liabilities in the consolidated statements of financial position, is as follows:

Thousands of Euros	30.06.2017	30.06.2016
Segment assets	**89,637,816**	**87,584,823**
Non-current investments	3,544,574	3,717,138
Deferred tax assets	6,805,507	6,799,508
Trade and other receivables, current (*)	1,274,453	1,133,115
Current financial investments (**)	1,063,407	1,273,725
Current tax assets	685,966	310,950
Public entities, other	358,927	297,033
Cash and cash equivalents	1,748,674	2,461,962
Total Assets	**105,119,324**	**103,578,254**

(*) Trade and other receivables amounting to Euros 4,099,908 and Euros 4,116,757 thousand at 30 June 2016 and 2017, respectively, have been allocated to operating segments.

(**) Corresponds to current financial investments, except for prepayments for current assets amounting to Euros 190,537 thousand and Euros 194,954 thousand at 30 June 2016 and 2017, respectively, which have been allocated to each of the operating segments.

Thousands of Euros	30.06.2017	30.06.2016
Segment liabilities	**19,394,632**	**19,132,100**
Equity	39,506,183	39,617,728
Non-current equity instruments of a financial liability nature	24,505	78,629
Non-current financial debt	27,032,557	25,798,828
Deferred tax liabilities	12,164,641	11,799,749
Other non-current payables	759,313	661,347
Current equity instruments of a financial liability nature	68,837	99,948
Current financial debt	5,754,773	6,025,950
Other current liabilities (*)	413,883	363,975
Total Equity And Liabilities	**105,119,324**	**103,578,254**

7. PROPERTY, PLANT AND EQUIPMENT

The total cost incurred in acquiring property, plant and equipment as well as the depreciation and impairment charges for the six-month periods ended 30 June 2017 and 2016 disclosed for each operating segment of the IBERDROLA Group are included in the following table:

	30.06.2017		30.06.2016	
Thousands of Euros	Cost incurred in property, plant and equipment	Depreciation charge and impairment provisions	Cost incurred in property, plant and equipment	Depreciation charge and impairment provisions
Liberalised Business	**477,728**	**314,694**	**306,749**	**349,607**
Spain and Portugal	115,419	215,247	89,136	240,597
United Kingdom	76,255	37,854	34,774	52,523
America	286,054	61,593	182,839	56,487
Renewables Business	**1,137,772**	**429,545**	**646,642**	**431,039**
Spain	12,386	114,769	9,619	118,396
United Kingdom	520,971	69,424	452,085	82,194
United States	444,851	210,997	185,979	197,514
Rest of the world	159,564	34,355	(1,041)	32,935
Networks Business	**738,135**	**537,625**	**725,247**	**540,780**
Spain	133,385	248,851	144,290	233,916
United Kingdom	292,155	134,895	295,710	144,021
United States	312,595	150,605	285,247	160,092
Brazil	-	3,274	-	2,751
Other Business	**137**	**1,213**	**1,090**	**1,465**
Corporation and adjustments	**(28,764)**	**16,029**	**(4,514)**	**15,020**
Total	2,325,008	1,299,106	1,675,214	1,337,911

Investment commitments at 30 June 2017 and 2016 amounted to Euros 6,051,080 thousand and Euros 5,358,018 thousand, respectively.

During the six-month periods ended 30 June 2017 and 2016, the IBERDROLA Group has not carried out any significant disposals of property, plant and equipment in relation to these financial statements.

8. DISCLOSURE OF INFORMATION RELATIVE TO FINANCIAL ASSETS AND LIABILITIES

At 30 June 2017 and 31 December 2016, the carrying amount of each category of financial assets and liabilities, except trade and other receivables, trade and other payables and other non-current payables, is as follows:

	Non-current financial assets									
Thousands of Euros	**Equity instruments**		**Debt securities**		**Other financial assets**		**Derivatives**		**Total**	
Categories	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**
Assets at fair value through profit or loss										
Held for trading	-	-	-	-	-	-	110,683	108,124	110,683	108,124
Loans and receivables	-	-	19,090	16,461	313,729	364,134	-	-	332,819	380,595
Assets available for sale	58,913	59,489	-	-	322,322	315,073	-	-	381,235	374,562
Hedging derivatives	-	-	-	-	-	-	529,170	801,058	529,170	801,058
Total	**58,913**	**59,489**	**19,090**	**16,461**	**636,051**	**679,207**	**639,853**	**909,182**	**1,353,907**	**1,664,339**

	Current financial assets									
Thousands of Euros	**Equity instruments**		**Debt securities**		**Other financial assets**		**Derivatives**		**Total**	
Categories	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**	**30.06.17**	**31.12.16**
Assets at fair value through profit or loss:										
Held for trading	1,852	4,584	-	-	-	-	93,850	283,082	95,702	287,666
Loans and receivables	-	-	1,484	1,593	678,386	771,730	-	-	679,870	773,323
Held-to-maturity investments	-	-	736	3,018	-	-	-	-	736	3,018
Hedging derivatives	-	-	-	-	-	-	477,636	410,783	477,636	410,783
Total	**1,852**	**4,584**	**2,220**	**4,611**	**678,386**	**771,730**	**571,486**	**693,865**	**1,253,944**	**1,474,790**

	Non-current financial liabilities									
Thousands of Euros	Loans and borrowings		Bonds and other marketable securities		Other financial assets		Derivatives		Total	
Categories	30.06.17	31.12.16	30.06.17	31.12.16	30.06.17	31.12.16	30.06.17	31.12.16	30.06.17	31.12.16
Liabilities at fair value through profit or loss										
Held for trading	-	-	-	-	-	-	40,912	24,487	40,912	24,487
Debts and payables	5,622,619	5,728,278	21,037,318	20,780,774	24,505	43,664	-	-	26,684,442	26,552,716
Hedging derivatives	-	-	-	-	-	-	331,708	393,343	331,708	393,343
Total	**5,622,619**	**5,728,278**	**21,037,318**	**20,780,774**	**24,505**	**43,664**	**372,620**	**417,830**	**27,057,062**	**26,970,546**

	Current financial liabilities									
Thousands of Euros	Loans and borrowings		Bonds and other marketable securities		Other financial assets		Derivatives		Total	
Categories	30.06.17	31.12.16	30.06.17	31.12.16	30.06.17	31.12.16	30.06.17	31.12.16	30.06.17	31.12.16
Liabilities at fair value through profit or loss										
Held for trading	-	-	-	-	-	-	58,210	251,239	58,210	251,239
Debts and payables	1,543,926	1,014,297	3,961,322	3,697,333	68,837	93,390	-	-	5,574,085	4,805,020
Hedging derivatives	-	-	-	-	-	-	191,315	441,250	191,315	441,250
Total	**1,543,926**	**1,014,297**	**3,961,322**	**3,697,333**	**68,837**	**93,390**	**249,525**	**692,489**	**5,823,610**	**5,497,509**

Details of loans and borrowings under other under current financial liabilities in the preceding table are as follows:

Thousands of Euros	30.06.2017	31.12.2016
Loans and other	941,924	641,006
Obligations to acquire own shares in the future (note 10):		
Total return swaps	-	11,899
Put sold	17,400	-
Accumulators (shares realised)	1,999	9,283
Accumulators (potential shares)	469,097	183,669
Finance lease payables	6,586	32,260
Security and other deposits	106,920	136,180
Total	**1,543,926**	**1,014,297**

The estimated fair value of the financial debt considering the effect of hedging at 30 June 2017 has not changed significantly compared to the estimated fair value of financial debt at 31 December 2016 included in the annual accounts for that year, as the benchmark interest rates and the structure of the debt have not changed substantially during the six-month period ended 30 June 2017.

The IBERDROLA Group recognises assets available for sale and derivative financial instruments at fair value and classifies them according to three levels:

- Level 1: quoted assets and liabilities in liquid markets.
- Level 2: assets and liabilities whose fair value has been determined using valuation techniques based on observable market inputs.
- Level 3: assets and liabilities whose fair value has been determined using valuation techniques not based on observable market inputs.

Details of financial instruments measured at fair value by level is as follows:

Thousands of Euros	Value at 30.06.2017	Level 1	Level 2	Level 3
Securities portfolio	26,017	24,165	1,852	-
Other investments – receivables in Brazil	322,322	–	322,322	–
Derivative financial instruments (financial assets)	1,211,339	8,712	1,064,991	137,636
Derivative financial instruments (financial liabilities)	(622,145)	(10,294)	(494,088)	(117,763)

Thousands of Euros	Value at 31.12.2016	Level 1	Level 2	Level 3
Other investments – receivables in Brazil	315,073	–	315,073	–
Derivative financial instruments (financial assets)	1,603,047	30,402	1,415,860	156,785
Derivative financial instruments (financial liabilities)	(1,110,319)	(65,508)	(918,560)	(126,251)

At 30 June 2017 and 31 December 2016, equity instruments of unlisted companies classified as available for sale, measured at acquisition cost, and whose fair value cannot be measured reliably, amount to Euros 34,748 thousand and Euros 64,073 thousand, respectively.

A reconciliation of opening and closing balances for financial instruments classified as Level 3 of the fair-value hierarchy is as follows:

Thousands of Euros	Derivative financial instruments
Balance at 31.12.2016	**30,534**
Income and expense recognised in the consolidated income statement	5,823
Income and expense recognised in equity	(4,829)
Purchases	1,294
Sales and settlements	(5,456)
Translation differences	(1,615)
Transfer from Level 3	(5,879)
Balance at 30.06.2017	**19,873**

Thousands of Euros	Derivative financial instruments
Balance at 31.12.2015	**(23,327)**
Income and expense recognised in the consolidated income statement	20,437
Income and expense recognised in equity	(21,530)
Purchases	1,529
Sales and settlements	(5,848)
Translation differences	261
Transfer from Level 3	5,951
Balance at 30.06.2016	**(22,527)**

The fair value of Level 3-classified derivative financial instruments has been determined using the discounted cash flow method. Projections of these cash flows are based on unobservable market inputs, which mainly correspond to purchase and sales price estimates that the Group normally uses, based on its experience in the markets in which it operates.

None of the possible foreseeable scenarios of the indicated inputs would result in a material change in the fair value of the financial instruments classified at this level.

9. CASH AND CASH EQUIVALENTS

Details of this heading of the consolidated statements of financial position are as follows:

Thousands of Euros	30.06.2017	31.12.2016
Cash	226,765	181,692
Current deposits	1,521,909	1,250,994
Total	**1,748,674**	**1,432,686**

As a general rule, cash and cash equivalent accrue interest at a rate similar to the market rate for daily deposits. Current deposits mature within three months and earn market interest rates for deposits of this nature. There are no restrictions on significant cash withdrawals.

10. EQUITY

Subscribed capital

Movement in the share capital of IBERDROLA during the six-month period ended 30 June 2017 was as follows:

	Date	% Capital	Number of shares	Nominal	Euros
Balance at 01.01.2017			**6,362,079,000**	**0.75**	**4,771,559,250**
Free capital increase	25 January 2017	1.539%	97,911,000	0.75	73,433,250
Capital reduction	24 May 2017	3.41%	(219,990,000)	0.75	(164,992,500)
Balance at 30.06.2017			**6,240,000,000**	**0.75**	**4,680,000,000**

19 January 2017 signalled the end of the trading period of the free allocation rights corresponding to the second scrip issue approved by the shareholders of IBERDROLA at their annual general meeting held on 8 April 2016, under section B of the sixth item on the agenda introducing the Iberdrola flexible dividend system.

During the period established, the holders of 1,956,083,947 free allocation rights accepted the IBERDROLA Group's irrevocable commitment to purchase the rights. Consequently, the IBERDROLA Group acquired these rights for a total gross amount of Euros 264,071 thousand.

On 24 May 2017 it was agreed to implement the share capital reduction approved by the shareholders at their annual general meeting held on 31 March 2017 under the fourteenth item on the agenda, through the redemption of own shares.

There were no movements in IBERDROLA's share capital other than those described above, and there are no claims on IBERDROLA's share capital other than those provided for in the Spanish Companies Act.

Own shares

The IBERDROLA Group buys and sells own shares in accordance with prevailing legislation and the agreements adopted at the general meetings of shareholders. Transactions include buying and selling Company shares and arranging derivatives on them.

The balances of the different instruments at 30 June 2017 and 31 December 2016 are as follows:

	30.06.2017		31.12.2016	
	Number of shares	Thousands of Euros	Number of shares	Thousands of Euros
Own shares held by IBERDROLA	2,894,124	20,119	151,224,777	868,936
Own shares held by SCOTTISH POWER	1,326,848	9,100	1,374,405	9,580
Total return swaps	-	-	1,867,929	11,899
Put sold	2,586,693	17,400	-	-
Accumulators (shares realised)	297,826	1,999	1,624,221	9,283
Accumulators (potential shares)	70,075,424	469,097	31,870,828	183,669
Total	**77,180,915**	**517,715**	**187,962,160**	**1,083,367**

Derivatives with physical settlement

The IBERDROLA Group recognises these transactions with a charge to own shares in equity, and a liability for the obligation to purchase the shares, which is classified as financial debt - loans and other under current and non-current liabilities in the consolidated statement of financial position.

- Total return swaps

At 31 December 2016, the IBERDROLA Group had a total return swap with the following characteristics: over the life of the contract it pays the financial entity 3-month Euribor plus a spread on the notional in return for the dividends corresponding to the shares that the financial entity receives. Upon maturity, the shares are bought at the price agreed in the contract.

The characteristics of these contracts at 31 December 2016 were as follows:

	No. of shares at 31.12.2016	Strike price	Maturity	Interest rate	2016 Thousands of Euros
Total Return Swap	1,867,929	6.370	18/04/2017	3-month Euribor + 0.55%	11,899
Total	**1,867,929**				**11,899**

- Put sale

These are contracts involving the sale of an option to sell a specified amount of shares at a specified date in the future, and at a price agreed beforehand.

The characteristics of these contracts at 30 June 2017 are as follows:

30.06.2017	Number of shares	Average strike price	Maturity	Thousands of Euros
Put sold	2,586,693	6.73	12/07/2017 – 17/07/2017	17,400

- Accumulators on own shares

The IBERDROLA Group has various own share forward accumulators.

These accumulators are obligations to buy in the future, with a zero notional at the trade day, in which the number of shares to be accumulated depends on the share's listed price on a series of observation dates (in this case daily) over the life of the obligations. A strike price is set, along with a threshold or barrier above which the structure is 'knocked out', meaning shares stop accumulating.

The accumulation mechanism is as follows:

- when the share price is below the structure's strike price, two units of the underlying security are accumulated;

- when the share price is between the strike price and the knock out price, only one unit of the underlying security is accumulated; and

- when the share price is above the knock out price, no units are accumulated.

The characteristics of these contracts at 30 June 2017 and 31 December 2016 were as follows:

30.06.2017	Number of shares	Average strike price	Maturity	Thousands of Euros
Realised	297,826	6.7142	27/12/2017 - 29/12/2017	1,999
Maximum potential (1)	70,075,424	6.6942	27/12/2017 - 29/12/2017	469,097

31.12.2016	Number of shares	Average strike price	Maturity	Thousands of Euros
Realised	1,624,221	5.7154	26/01/17 - 10/02/2017	9,283
Maximum potential (1)	31,870,828	5.7629	26/01/17 - 10/02/2017	183,669

(1) Maximum number of additional shares that could be accumulated under the mechanism described until the structure matures (assuming the spot price during the remainder of the structure is always lower than the strike price).

Share-based payment plans

2011-2013 Strategic Bonus

As 93.20% of targets were met, and at the request of the Appointments and Remuneration Committee, on 24 June 2014 the board of directors agreed to settle the 2011-2013 Strategic Bonus, approved by shareholders at their annual general meeting held on 27 May 2011. By virtue of the above, the third and last of the three annual settlements was made in the first half of 2016 through the delivery of 2,872,129 shares. These shares include those delivered to executive board members (note 17) and to senior executives (note 18).

Personnel expenses in the consolidated income statement for the six month period ended 30 June 2017 does not include any amount in this regard.

2014-2016 Strategic Bonus

During the seventh item on the agenda of the annual general meeting held on 28 March 2014, the shareholders of IBERDROLA approved a performance-linked Strategic Bonus aimed at executive directors and other management personnel (350 beneficiaries) of the IBERDROLA Group, for the period 2014 to 2016.

The maximum number of shares to be delivered to beneficiaries of the 2014-2016 Strategic Bonus is 19,000,000, equivalent to 0.3% of share capital at the agreement date, with shares corresponding to executive directors limited to 2,200,000.

Settlement of this Strategic Bonus will take place in 2017, 2018 and 2019.

As 93.20% of targets were met, and at the request of the Remuneration Committee, on 25 April 2017 the board of directors agreed to settle the 2014-2016 Strategic Bonus. By virtue of the above, the first of the three annual settlements was made in the first half of 2017 through the delivery of 2,908,151 shares. These shares include those delivered to executive board members (note 17) and to senior executives (note 18).

Personnel expenses in the consolidated income statements for the six-month periods ended 30 June 2017 and 2016 include a charge of Euros 15,618 thousand and Euros 13,712 thousand, respectively, which correspond to the amount accrued for these incentive plans, which have been recognised in retained earnings under other reserves and other provisions under provisions in the consolidated statement of financial position.

As a result of the integration of UIL, the 2014-2016 Strategic Bonus aimed at executives of companies belonging to AVANGRID is settled in cash at the amount accrued for 2014 and 2015, and was replaced in 2016 by a new bonus linked to AVANGRID shares. The accumulated amount at 30 June 2017, amounting to Euros 10,531 thousand, is classified under other non-current payables, As planned, the first settlement was made in the first six months of 2017 while the second and last settlement will take place in the first quarter of 2018.

2017-2019 Strategic Bonus

During the fifteenth item on the agenda of the annual general meeting held on 31 March 2017, the shareholders of IBERDROLA approved a performance-linked Strategic Bonus aimed at executive directors and other management personnel (300 beneficiaries) of the IBERDROLA Group, for the period 2017 to 2019, based on the following parameters:

a) Accumulated average annual growth in net profit during the period 2017-2019, in excess of 5%, calculated based on the 2016 close of accounts. This target will be deemed to have been missed if growth does not improve upon the results for 2016.

b) Total shareholder returns for the period 2017-2019 exceed total shareholder returns on the EUROSTOXX UTILITIES INDEX. This target will be deemed to have been missed if total shareholder returns are 5 percentage points lower than the return on the EUROSTOXX UTILITIES INDEX. It will be deemed to have been met in full if it is 5 percentage points higher.

c) Maintenance of financial soundness based on the FFO/Net Debt ratio. This target will be deemed to have been missed if said ratio falls below the closing figure for 2016.

d) Reduction in the average intensity of CO_2 emissions, in line with United Nations targets 7 and 13 (SDG's). This target will be deemed to have been met if a reduction of 5% in the average intensity of emissions is achieved in the period 2017-2019 compared to the average for the period 2014-2016. This target will be deemed to have been missed if average intensity is not reduced.

The specific weighting of each of these parameters in the global performance evaluation for the period 2017-2019 will be 30% for the first and second and 20% for the third and fourth.

The maximum number of shares to be delivered to beneficiaries of the 2017-2019 Strategic Bonus will be 14,000,000, equivalent to 0.22% of share capital at the agreement date, with shares corresponding to executive directors limited to 2,500,000.

Delivery of the shares will be deferred over the three-year settlement period, from 2020 to 2022.

At the date these interim financial statements were issued, shares had not yet been allocated to the beneficiaries, so the consolidated income statement for the six-month period ended 30 June 2017 does not reflect any amount in this regard.

AVANGRID share-based bonus

During the fifth item on the agenda of the annual general meeting held on 16 June 2016, the shareholders of AVANGRID approved a performance-linked Strategic Bonus aimed at executive directors and other management personnel (80 beneficiaries) of the AVANGRID Group, for the period 2016 to 2019, based on the following parameters:

a) The trend in consolidated net profit. The target is for average annual growth for the period 2014-2019, based on the 2014 close of accounts, of 10% for excellent compliance, 8% for good compliance and target missed if growth fails to reach 6%.

b) Improvement in the financial soundness of AVANGRID, measured based on the Net Debt/EBITDA ratio (net debt/Operating income-EBITDA), with 2.6 for excellent compliance, 2.7 for good compliance and target missed if growth exceeds 2.8.

c) The relative position of share value with respect to a group comprising AVANGRID, Nextera, ConEd, Eversource and the S&P 500 Utilities Index (source: Bloomberg), with excellent compliance if the relative position is first, good compliance if it is second and target missed if it is below third.

Each indicator weighs a third of the total.

The maximum number of gross shares to be delivered to the beneficiaries of the Bonus will be 2,500,000 shares, of which 1,523,980 have been awarded.

Delivery of the shares will be deferred over the three-year settlement period, from 2020 to 2022. If each of the three performance targets are achieved at a good level at 31 December 2018, an advance bonus payment may be made to each participant in 2019.

Personnel expenses in the consolidated income statement for the six-month period ended 30 June 2017 include a charge of Euros 2,380 thousand corresponding to the amount accrued for these incentive plans, which have been recognised in retained earnings under other reserves.

SCOTTISH POWER share-based employee bonus

Lastly, SCOTTISH POWER has share-based plans for its employees. There are two types of plans:

- *Sharesave Schemes:* savings plans in which employees decide on the amount they wish to contribute to the plan (between GBP 5 and GBP 250 per month), which is deducted monthly from their salaries. At the end of a three or five-year saving period, depending on each plan, employees may decide to either use the money saved to buy shares in IBERDROLA at an option price with a discount established at the beginning of the plan, or receive the amount saved in cash.

  The fair value of the employee's share purchase options is determined at the beginning of the plan, and is taken to the income statement over the plan's vesting period (three or five years). Personnel expenses in the consolidated income statement for the six-month periods ended 30 June 2017 and 2016 include Euros 545 thousand and Euros 772 thousand, respectively, in this regard.

  Details of movement in the number of share options are as follows:

	No. of accounts	Number of options
Balance at 01.01.2016	**2,878**	**6,039,443**
Exercised	(60)	(58,211)
Cancelled	(202)	(449,551)
Balance at 31.12.2016	**2,616**	**5,531,681**
Exercised	(27)	(32,225)
Cancelled	(60)	(124,120)
Balance at 30.06.2017	**2,529**	**5,375,336**

- *Share Incentive Plan:* this plan allows shares to be purchased with tax incentives and a contribution from the company. The employee decides on the amount they wish to contribute, which is deducted monthly from their salary (the maximum contribution permitted by law in the United Kingdom is GBP 125 per month). The shares purchased with this contribution are called partnership shares. In addition, SCOTTISH POWER supplements the employee contribution up to a maximum of GBP 50 per month. The shares purchased with the company contribution are called matching shares.

  Both company and employee contributions are put into a trust, which is how the shares are purchased, and are held in this trust until they are withdrawn by the employees. All shares are purchased at market prices on the purchase date of each month.

  Partnership shares are owned by the employees that purchase them with their own money, however, shares acquired with the company contribution, matching shares, do not vest until three years after the purchase date. Matching shares acquired by the trust at 30 June 2017 and 2016 totalled 1,326,848 and 1,515,914 shares, respectively.

  The company's contributions are made monthly in cash and are charged to the income statement for the three years the employee must remain in the company in order to be entitled to them.

  Personnel expenses in the consolidated income statement for the period ended 30 June 2017 amounted to Euros 1,178 thousand (Euros 1,354 thousand at 30 June 2016) in this regard.

11. LITIGATION PAYMENTS

During the six-month periods ended 30 June 2017 and 2016, litigation settlements paid amounted to Euros 24,937 thousand and Euros 355,104 thousand, respectively. These settlements had no equity effect on the consolidated income statement of the IBERDROLA Group for the six-month periods ended 30 June 2017 and 2016, as provision had already been made for the litigation in prior years' financial statements.

In March 2014 the Spanish taxation authorities embarked upon a general inspection of the IBERDROLA Group, specifically for the period 2008 to 2011, both inclusive. IBERDROLA accepted the tax assessments in relation to income tax for 2008, 2009, 2010 and 2011 and Value Added Tax for 2010 and 2011, settling Euros 344 million in the first half of 2016.

12. FINANCIAL DEBT - LOANS AND OTHER

Details of outstanding financial debt at 30 June 2017 and 31 December 2016 are as follows:

Thousands of Euros	30.06.2017	31.12.2016
In Euros		
Finance leases	63,515	64,403
Loans, promissory notes and other transactions	22,840,700	21,390,991
Accrued interest payable	198,189	274,405
	23,102,404	**21,729,799**
In foreign currency		
US Dollars	5,393,626	5,431,403
Pounds Sterling	2,667,352	2,984,923
Brazilian Reals	817,092	879,500
Other	51,146	51,088
Accrued interest payable	133,565	143,969
	9,062,781	**9,490,883**
Total	**32,165,185**	**31,220,682**

Details of financing operations carried out by the IBERDROLA Group for the six-month period ended 30 June 2017 are as follows:

<u>Issues on the capital markets</u>

- On 20 February 2017 the IBERDROLA Group, through its subsidiary Iberdrola Finanzas, S.A.U., and with the guarantee of IBERDROLA, closed a private bond issue under the EMTN programme, and in 'Green Bond' format, for Euros 100 million. The bonds mature on 20 February 2024 and pay a coupon of 3-month Euribor + 0.67%. The funds obtained will be used to refinance wind farms in Spain. This issue was increased on 22 June by an additional Euros 150 million. The funds obtained in the increase will be used to refinance the wind farm in Puertollano.

- On 20 February 2017 the IBERDROLA Group, through its subsidiary Iberdrola Finanzas, S.A.U., and with the guarantee of IBERDROLA, closed a private bond issue under the EMTN programme for Euros 50 million. The bonds mature on 20 February 2029 and pay a coupon of 1.667%. This issue was increased on 6 April by an additional Euros 50 million.

- On 7 March 2017 the IBERDROLA Group, through its subsidiary Iberdrola Finanzas, S.A.U., and with the guarantee of IBERDROLA, closed a public bond issue, in 'Green Bond' format, under the EMTN programme for Euros 1,000 million. The bonds mature on 7 March 2025 and pay a coupon of 1.0%. The funds obtained will be used to finance and refinance the marine wind farm in Wikinger, Germany, and wind farms in Spain. The operation corresponds to the Company's fifth public 'Green Bond' issue.

- On 10 May 2017 the IBERDROLA Group, through its subsidiary Iberdrola Finanzas, S.A.U., and with the guarantee of IBERDROLA, closed a private bond issue under the EMTN programme for Euros 60 million. The bonds mature on 30 October 2030 and pay a coupon of 1.782%.

- On 18 May 2017 the IBERDROLA Group, through its subsidiary Iberdrola Finanzas, S.A.U., and with the guarantee of IBERDROLA, closed a private bond issue under the EMTN programme for NOK 1,000 million. The bonds mature on 18 May 2027 with a cost equivalent in euros of 1.405%.

- On 24 May 2017 the IBERDROLA Group, through RG&E, a distribution company belonging to the subsidiary Avangrid in the United States, closed a private bond issue for USD 300 million. The bonds mature on 1 June 2027 and pay a coupon of 3.10%.

<u>Bank market:</u>

- On 13 February 2017 IBERDROLA extended, for the second time, the term of two syndicated loans signed in February 2015 for Euros 4,400 million which matured in 2021. This extension affects a total of Euros 4,188 million, with maturity extended to February 2022.

- On 16 February 2017 the IBERDROLA Group, through its subsidiary Iberdrola Financiación, S.A.U., and with the guarantee of IBERDROLA, signed a bilateral green loan of Euros 500 million which accrues interest pegged to 1-month Euribor + 0.30%, matures in August 2018, and has an option to extend maturity by 6+6 months at the election of IBERDROLA.

- On 20 March 2017, the IBERDROLA Group, through its subsidiary Iberdrola Financiación, S.A.U., extended the term of a syndicated loan of Euros 900 million and a bilateral loan of Euros 75 million, both of which were signed in March 2015 and matured in 2019. Maturity was extended a further year to March 2020.

- On 26 May 2017 the IBERDROLA Group, through the electricity distribution company ELEKTRO, which belongs to the IBERDROLA's subsidiary in Brazil, signed a bank loan under Law 4131 for USD 50 million with a cost in Brazilian Reals of 104.9% over the interbank deposit rate (CDI) and matures in three years.

- On 21 June 2017 IBERDROLA extended the term of the syndicated loan signed in 2016 for Euros 500 million and maturing in 2021 to June 2022.

European Investment Bank (EIB) loans

- On 20 June 2017 the IBERDROLA Group, through its subsidiary Iberdrola Financiación, S.A.U., and with the guarantee of IBERDROLA, signed a loan of Euros 500 million with the European Investment Bank to finance the modernisation of its electricity distribution networks and the digitalisation of meters in Spain. The term and interest rate will be specified when the order to release the loan is given.

At the date these financial statements were issued, neither IBERDROLA nor any of its relevant subsidiaries are in breach of their financial commitments or any kind of obligation that could trigger demands for early repayment. IBERDROLA considers that these clauses will have no effect on the classification of borrowings between current and non-current in the attached consolidated statements of financial position.

The general risk policy of the IBERDROLA Group described in its consolidated annual accounts for the year ended 31 December 2016 remains in force at the date these financial statements were issued. Accordingly, instruments and classes of hedges have the same characteristics as those described in the consolidated annual accounts.

13. INCOME TAX EXPENSE

The table below shows the calculation of the income tax expense accrued for the six-month periods ended 30 June 2017 and 2016:

Thousands of Euros	30.06.2017	30.06.2016
Consolidated profit before income tax	**1,989,740**	**1,971,037**
Non-deductible expenses and non-computable income (*)	(243,662)	(15,711)
Net profit of equity-accounted investees	(45,823)	(31,696)
Adjusted accounting profit	**1,700,255**	**1,923,630**
Gross tax calculated at the tax rate in force in each country	**483,686**	**518,212**
Deductions for reinvestment of extraordinary profits and other tax credits	(19,735)	(18,316)
Adjustment of prior years' income tax expense	(15,871)	(74,407)
Net change in provisions for litigation, indemnities and similar costs and other provisions	-	9,234
Adjustment of deferred tax assets and liabilities	(38,130)	32,963
Other	6,251	(1,284)
Accrued income tax expense	**416,201**	**466,402**
Effective tax rate	**20.92%**	**23.66%**

(*) This amount essentially reflects non-computable income resulting from the merger between Gamesa and Siemens (note 5).

Generally speaking, the companies of the IBERDROLA Group in Spain have their main taxes open to inspection for 2012 and onwards. However, this period may be different for Group companies that are subject to other tax legislation.

On 11 March 2014, the state taxation authorities initiated a general tax inspection of the 2/86 Tax Group. The years and taxes inspected were income tax for 2008 to 2011; Value Added Tax for 2010 and 2011; withholdings on personal income taxes from May 2009 to December 2011, and withholdings on capital gains tax and non-residents tax for 2010 and 2011.

In December 2015, a mixture of accepted and contested tax assessments were raised on income tax for 2008 to 2011 (specific assessments on transfer pricing), while accepted assessments (zero tax due) were raised on withholdings on personal income tax, capital gains tax and non-residents tax.

In the first half of 2016, the accepted and contested tax assessments in connection with income tax for 2008 to 2011 and Value Added Tax for 2010 and 2011 were signed, and the confirmatory settlement agreements of the contested assessments were received.

The most relevant adjustments in the accepted tax assessments concerned the inclusion of IBERDROLA DISTRIBUCIÓN in Tax Group 2/86 for income tax for 2008 and 2009, following the Supreme Court rulings of November 2014.

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

- Quantification of the financial goodwill liable for fiscal amortisation due to the acquisition of SCOTTISH POWER.

- Alleged incompatibility of the dividend exemption of SCOTTISH POWER with the deductibility of a negative portfolio value adjustment due to hedges of a net investment.

- Discrepancies in tax consolidation criteria.

Additionally, in July 2016 the Advisory Committee observed a debtor-swap operation in a number of bond issues under the circumstances provided for in article 15.1 of Spain's General Tax Law, which in September resulted in new tax assessments being raised for 2009, 2010 and 2011 which were contested.

Agreed and accepted assessments were settled during the first six months of 2016, and had no material equity effect on the consolidated income statement, as provision had already been made for the liabilities in prior years' financial statements.

Concerning the contested tax assessments and their settlement agreements, the IBERDROLA Group considers that it acted in line with reasonable interpretations of applicable legislation, and it thus filed economic-administrative claims in due time and format with the Central Economic Administrative Court, having been notified at the beginning of June that it had one month to make submissions, to be presented the first week of July. As the necessary bank guarantees had been extended, execution of the settlement agreements is automatically stayed.

Finally, in January 2017 the Inspection's own Technical Bureau declared the penalties proposed by the Inspection in its disciplinary proceedings instigated in September 2016 in relation to the discrepancies over financial goodwill arising on the acquisition of SCOTTISH POWER, to be unjustified, as it considered that IBERDROLA had acted based on a reasonable interpretation of the law. There are no other disciplinary proceedings in relation to this general inspection.

The directors of the IBERDROLA Group and its tax advisors believe that the Group will not incur any significant liabilities in addition to those already recognised at 31 December 2016, arising from the confirmatory settlement agreements in the contested tax assessments.

In addition to the above, other inspections have been carried out at different times by the same and other taxation authorities, leading to tax assessments being raised against a number of Group companies, some of which were signed on a contested basis and have been appealed. The directors of the IBERDROLA Group and its tax advisors believe that the amounts arising from these inspections or appeals will not result in any significant liabilities in addition to those already recognised.

14. ASSET IMPAIRMENT CHARGES AND REVERSALS

The IBERDROLA Group assesses, at least at each year end, the value of its non-current assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of any impairment loss. If the assets do not generate any cash inflows that are largely independent of those from other assets, the IBERDROLA Group estimates the recoverable amount of the cash-generating unit to which the assets belong.

In the case of goodwill and other intangible assets which are not in use or which have an indefinite useful life, the IBERDROLA Group systematically assesses their recoverable value on an annual basis, unless there are indications of impairment at other times, in which case the recoverable value is assessed at that time.

For the purposes of this recoverability analysis, goodwill is allocated to the cash-generating units in which it is controlled for internal management purposes.

Recoverable amount is the higher of the fair value less costs to sell and value in use, which is understood to be the present value of the estimated future cash flows.

Amortisation, depreciation and provisions in the consolidated income statement for the six-month periods ended 30 June 2017 and 2016 include impairment reversals and charges, respectively, of Euros 3,473 thousand and Euros 22,796 thousand, respectively.

15. BUSINESS COMBINATIONS

The IBERDROLA Group did not carry out any significant business combinations during the six-month periods ended 30 June 2017 and 2016.

16. CONTINGENT ASSETS AND LIABILITIES

The IBERDROLA Group companies are involved in legal proceedings and out-of-court disputes arising in the ordinary course of their business (disputes with suppliers, clients, administrative or tax authorities, individuals, environmental activists or employees).

The IBERDROLA Group's legal advisors consider that the outcome of these disputes will not have a material impact on its equity-financial position

The main legal proceedings in which IBERDROLA or Group companies in Spain are involved at the date these financial statements were issued are as follows:

<u>Contingent liabilities</u>

a) Ordinary proceedings 62/2016 being conducted at Madrid Court of First Instance no. 77 seeking a declaration of ownership in favour of IBERDROLA of plot number 1 located in calle Gallur in Carabanchel, which is currently subject to the Expropriation Proceedings instigated by Madrid City Council. IBERDROLA is seeking a declaration acknowledging its ownership of the land to end the dispute with those claiming title to the same property, and to obtain fair compensation under the compulsory purchase proceedings, which has been set aside pending the outcome of the dispute over ownership. The claim was filed on 30 December 2015 and the proceedings are currently at the stage of service and defence of the claim. The defendants are 18 co-owners: 16 members of the Esquerdo family, with a total stake of 45.62% of the property, Prados del Este, S.L. with 50% and Comunidades Santa Ana, S.L., with 4.375%. At the date of issue of these financial statements, the proceedings are in the summons and defence of the claim stage. The quantum of the claim is Euros 6,708 thousand.

b) Lorca Town Council notified IBERDROLA DISTRIBUCIÓN of a provisional settlement for the tax for carrying out the administrative activities for the granting of the activity permit for the Carril transformer substation. The settlement amounts to Euros 10.8 million. The amount of the settlement is excessive and disproportionate as it exceeds the limit set on the basis of the actual or foreseeable cost of the local council's service or activity or, alternatively, the value of the services received. On 12 March 2013 an appeal for reconsideration was filed. On 12 April 2013 a resolution was issued that partially upheld the appeal for reconsideration and issued a new settlement amounting to Euros 4 million plus Euros 748 thousand in late-payment interest. An appeal for judicial review was filed against this resolution with Murcia Judicial Review Court no. 6. An application was filed for a stay of enforcement of the administrative decision and on 20 November 2013 the court issued an order granting the stay of enforcement of the contested decision subject to posting of a guarantee for the amount of the settlement in favour of the defendant (the local authority). On 20 December 2013 a bank guarantee was presented to Lorca Town Council as security in respect of the stay of enforcement of the contested tax debt. Lorca Town Council returned the bank guarantee to CaixaBank for cancellation On 25 February 2014 CaixaBank informed the Company that it had cancelled the guarantee in light of the order issued by the Town Council to stay enforcement of the settlement without the need for a guarantee. The Court ordered the joinder of the proceedings. The Court has yet to deliver its judgment at first instance.

c) On 16 June 2014 the CNMC initiated penalty proceedings against IBERDROLA GENERACIÓN ESPAÑA for purported fraudulent manipulation aimed at altering energy prices at the hydroelectric generation plants of the Duero, Tagus and Sil in December 2013. On 30 November 2015 the Company was notified of the Euros 25 million penalty. IBERDROLA GENERACIÓN ESPAÑA lodged an appeal for a judicial review with the Judicial Review Chamber of the National High Court, was given leave to proceed, and enforcement of the penalty was stayed. The claim has yet to be filed. The IBERDROLA Group believes its action was proper and lawful, and has therefore recorded no provision in this regard during the year.

d) Claim brought by Banco Mare Nostrum (BMN) against IBERDROLA INMOBILIARIA at Madrid Court of First Instance no. 14. Ordinary Proceedings no. 496/2014, to which two other legal proceedings being conducted at Courts in Madrid and Murcia, respectively, have been joined. The above proceedings concern a monetary claim seeking the annulment of a deed recording the sale of 20% of the indeterminate share of land lots located at Cape Cope, termination of the deed for want of subject matter or impossible performance, refund of the price, return of the promissory notes delivered by BMN and damages, for a total amount of Euros 18,447 thousand.

Contingent assets

a) On 9 May 2016, IBERDROLA filed a claim against BANKIA S.A. for the damage suffered as a result of the purchase of shares as part of the Initial Public Offering launched by the financial institution in 2011. IBERDROLA'S decision to subscribe shares was adopted on the basis of information contained in the prospectus published for the purpose by BANKIA S.A. The financial information contained in such prospectus has been found to be grossly inaccurate, misleading and false, with serious omissions that resulted in IBERDROLA incurring in a manifest and excusable error in issuing the orders to subscribe shares, and such orders were deemed invalid.

   The judgment dismissing the claim was received on 23 March 2017. On 24 April 2017 IBERDROLA filed an appeal for reconsideration, to be heard by the Provincial Court of Madrid and, on 31 May 2017, BANKIA, S.A. filed a statement of opposition to the appeal challenging the judgment.

   The amount claimed by IBERDROLA for the losses suffered as a result of its investment is Euros 12,400 thousand.

The regulatory appeals lodged by the IBERDROLA Group challenge general provisions for indeterminate sums that affect the regulatory and remunerative framework for its companies. They therefore relate to regulatory provisions in force at the date of the challenge in question.

There is no equity risk for the IBERDROLA Group with respect to the appeals lodged against general energy provisions as the financial effects of the provisions challenged have been applicable since their entry into force. The upholding of the appeals lodged by third parties would have a limited financial impact as it would call for the amendment of the regulatory framework and, as the case may be, a refund of money.

As regards the appeals lodged by the IBERDROLA Group against various regulatory provisions, the following are noteworthy:

Contingent assets

a) Ministerial orders TC/2844/2011, and IET/2599/2012 regulating transfers of funds for 2011 and 2012 to the Institute for Energy Saving and Diversification, are currently being appealed by Iberdrola Generación, S.A.U. (IBERDROLA GENERACIÓN) and Tarragona Power, S.L. before the National High Court. The Judicial Review Chamber of the National High Court raised an exception of unconstitutionality in respect of the Savings Plan in light of a possible infringement of the right to equal treatment. The Constitutional Court delivered its decision dismissing the exception of unconstitutionality on 6 October 2016, and the proceedings must therefore be referred back to the National High Court, which will have the task of deciding on the merits of the case. In the case of the appeal against Order ITC/2844/2011, having granted the mandatory period for the filing of submissions, the National High Court lifted the stay in an order of 24 November 2016, and the proceedings have yet to be set down for voting and judgment.

   IBERDROLA considers that there is a contingent asset for the periods subject to appeal and awaiting judgment. The consolidated income statement for the six-month period ended 30 June 2017 includes no income for this period, whereas such income should amount to Euros 213,690 thousand.

b) Elsewhere, on 29 January 2014, IBERDROLA GENERACIÓN and Tarragona Power, S.L. lodged an appeal for judicial review against Order IET/75/2014 of 27 January 2014 regulating transfers of funds charged to electricity production companies, from the specific CNMC account to the Institute for Energy Saving and Diversification, in 2013, for the implementation of the 2011-2020 Energy Saving and Diversification Action Plan, for the enforcement of the Energy Efficiency and Savings Action Plan for 2011-2020, and the criteria for implementation of the measures set out in such plan. As in the preceding case, the Constitutional Court delivered its judgment dismissing the exception of unconstitutionality on 6 October 2016, and the proceedings have therefore been referred back to the National High Court, which has the task of deciding on the merits of the case.

   IBERDROLA considers that there is a contingent asset for the periods subject to appeal and awaiting judgment. The consolidated income statement for the six-month period ended 30 June 2017 includes no income for this period, whereas such income should amount to Euros 57,299 thousand.

c) IBERDROLA RENOVABLES ENERGÍA lodged an appeal for judicial review before the Supreme Court against Royal Decree 413/2014 of 6 June 2014, regulating electricity production from renewable energy resources, cogeneration and waste, and against the Ministerial Order IET/1045/2014 of 16 June 2014, approving the remuneration parameters for standard facilities applicable to certain facilities for electricity production from renewable energy sources, cogeneration and waste. The appeals against the two provisions have been joined into a single appeal as the Remuneration Parameters Order was approved in enforcement of Royal Decree 413/2014 and the two regulations together constitute the new regulatory framework governing facilities for electricity production from renewable energy sources. On 1 July 2016, the Supreme Court delivered its judgment rejecting the appeals with three separate opinions. It took the view that the new remuneration framework did not constitute a case of prohibited retroactivity, as it took into account the reasonable profitability obtained by the facility throughout its useful life, even where this entails reviewing past remuneration. Neither did it consider that the principles of legal certainty and legitimate expectations had been breached, as it could in no way be claimed that the former remuneration framework was unamendable.

Following the filing of an appeal for the protection of constitutional rights before the Constitutional Court, a plea for annulment was lodged before the Supreme Court on 2 September 2016. On 26 October 2016, notice was served of the order dismissing the plea for annulment of the proceedings brought by IRE. Appeals for the protection of constitutional rights were lodged on behalf of Energyworks Carballo and Energyworks Cartagena, on 29 November and 2 December 2016, respectively. On 5 December 2016, the appeal for the protection of constitutional rights was lodged on IRE's behalf. On 15 March 2017, notice was served of the denial of leave to appeal for protection of constitutional rights lodged by IRE, on the grounds that it was not deemed a matter of particular constitutional relevance. The possibility of filing an appeal with the European Court of Human Rights in Strasbourg is being considered.

d) Appeal for judicial review lodged by IBERDROLA with the Supreme Court against Order IET/1491/2013 of 1 August 2013 of the Ministry of Industry, Energy and Tourism, reviewing electricity access fees for application as of August 2013 and for which certain tariffs and premiums are reviewed in relation to special-regime plants in the second quarter of 2013. The judgment upholding the appeal was rendered on 22 September 2016, and is pending enforcement.

e) Appeal for judicial review lodged with the Supreme Court by IBERDROLA SPAIN against Order IET/2444/2014 of 19 December 2014, of the Ministry of Industry, Energy and Tourism determining electricity access fees for 2015. On 28 October 2016, the case was pending a date to be set for voting and judgment. A date having been set for voting and judgment on 14 March 2017, this was cancelled, and the parties were notified of their right to file submissions in respect of a communication by the CNMC made as a final formality. Following the filing of submissions, the proceedings have been referred to the Judge in charge of drafting the opinion for judgment.

f) Appeal for judicial review filed by IBERDROLA DISTRIBUCIÓN with the National High Court, against the Resolution of the State Secretary for Energy of 2 June 2015 approving certain operating procedures for processing the data obtained from category 5 metering equipment for energy billing and payment purposes. Following ratification of the expert witness report and having filed and concluded the proceedings, at 31 March 2017 they were pending a date to be set for voting and judgment, when the time comes according to the case assignment system.

g) Appeal for judicial review lodged by IBERDROLA DISTRIBUCIÓN with the Supreme Court against the final settlement for regulated activities in the electricity sector for 2011, approved on 5 November 2015 by the CNMC and notified to IBERDROLA DISTRIBUCIÓN on the 11th day of the same month and against the dismissal by administrative silence of both the extraordinary appeal for review and the request for an ex officio review of article 5 of Order IEET/107/2014 of the Ministry of Industry, Energy and Tourism. On 23 November 2016, IBERDROLA DISTRIBUCIÓN applied to extend the appeal to the express dismissal of the extraordinary appeal for review. At 30 May 2017, the proceedings were pending a date to be set for voting and judgment.

h) Appeal for judicial review lodged by IBERDROLA ESPAÑA with the National High Court against the final settlement for regulated activities in the electricity sector for 2014, approved on 24 November 2015 by the CNMC. The claim was deemed filed on 5 October 2016 and the case file was served on the Government Lawyer for answering. On 5 May 2017, a decision was yet to be rendered as to the application for a stay submitted by the Government Lawyer.

i) Appeal for judicial review lodged with the Supreme Court by IBERDROLA ESPAÑA against Order IET/2735/2015 of 17 December 2015, establishing electricity access fees for 2016, and approving certain standard facilities and remuneration parameters for facilities producing electricity from renewable energy sources, cogeneration and waste. The claim was deemed filed on 9 January 2016 and the case file was served on the Government Lawyer for answering. The expert witness report was ratified on 27 April 2017.

j) Appeal for cassation lodged by IBERDROLA with the Supreme Court against the judgment of the National High Court in appeal no 143/2014, (formerly appeal no 1156/2013 lodged with the Madrid High Court) lodged against the Resolution of 17 May 2013 of the Inter-ministerial Commission for the supervision of the process to securitize the deficit of the Electricity System, denying leave for the appeal lodged by IBERDROLA against the resolution of the same Commission of 26 November 2012, declaring the existence of exceptional conditions in the markets for the purposes of article 5.2 of Royal Decree 437/2010 of 9 April 2010. The Government Lawyer objected to IBERDROLA's cassation appeal on 24 November 2016.

k) Appeal for judicial review no. 41/2017, lodged by IBERDROLA DISTRIBUCIÓN with the National High Court against the Resolution of 24 November 2016 of the Regulatory Oversight Board of the CNMC approving the final settlement of the regulated activities of the electricity sector for 2015. The administrative case file was requested on 10 February 2017.

l) Appeal for judicial review no 356/2017 lodged by Iberdrola Renovables Energía, S.A. with the National High Court against Order ETU/130/2017, of 17 February 2017, updating the remuneration parameters for standard facilities in the regulatory semi-period beginning on 1 January 2017, applicable to certain facilities that produce electricity through renewable energy sources, cogeneration and waste. The administrative case file was requested on 27 April 2017.

No appeals worthy of note in terms of their importance can be found among the regulatory litigation instituted by third parties that could have a bearing on the remuneration framework and net worth of the IBERDROLA Group.

The most significant tax-related legal proceedings are as follows:

a) In terms of state taxes and above all as regards the new electricity taxes set in place under Law 15/2012 of 27 December 2012, on tax measures for energy sustainability, challenges have been filed against the (central government, Basque Country and Navarre) orders approving the self-assessment forms for the tax on the value of electricity output and the taxes on the generation and storage of spent nuclear fuel and radioactive waste. The Supreme Court issued orders approving an exception of unconstitutionality. The Constitutional Court refused to grant leave to proceed with the exception of unconstitutionality, and a decision on the proceedings is pending. The Supreme Court rendered ineffective the deadline for rendering a decision and granted the parties a deadline by which to make submissions on the need to refer the matter to the CJEU for a preliminary ruling. Submissions have been filed on the need to refer the matter to the CJEU for a preliminary ruling

b) An appeal has been lodged against Royal Decree 198/2015 of 23 March 2015, implementing article 112 bis of the Revised Water Law and regulating the fee for the use of continental waters for electricity generation in inter-regional areas, published in Official State Gazette no. 72 of 25 March 2015. The Supreme Court has handed down a ruling approving its competence to hear the proceedings, pending a date for a ruling.

c) With respect to the Extremadura "green tax", appeals were filed against the assessments for the period 2006-2016 under Extremadura Assembly Law 8/2005 on the Tax on Facilities affecting the Environment in the Autonomous Community of Extremadura. The Constitutional Court upheld the exception of unconstitutionality raised by the Supreme Court in a ruling handed down on 16 February 2015. Final judgments were issued for FY 2006, 2007, 2008 and 2009 at IBERDROLA GENERACIÓN. The Extremadura High Court has agreed to raise a new exception of unconstitutionality with the Constitutional Court in the proceedings instituted against the assessment in respect of 2012 by IBERDROLA GENERACIÓN NUCLEAR. The Extremadura High Court has issued orders to maintain the stay of such proceedings, as from 2010, until the Constitutional Court has ruled on the matter.

   Following the judgments finding in its favour, IBERDROLA considers that a contingent asset exists with respect to the periods under appeal and awaiting judgment. The consolidated income statement for the six-month period ended 30 June 2017 does not include any income for this period, and such income would amount to Euros 387 million, including the late-payment interest accruing between the relevant payments and June 2017.

d) Appeals have been filed against the self-assessments issued as a result of the various wind power charges levied by the Autonomous Regions of Castilla La Mancha, Galicia and Castilla y León, the Tax on facilities affecting the environment in Murcia and Valencia, the Tax on the visual impact caused by electricity equipment and supply and fixed communications equipment in La Rioja, and the Tax on elimination of waste in landfills in Castilla y León. An appeal has also been filed against the implementing provisions of the tax on nuclear-based electricity generation in Catalonia.

   With respect to the wind power charge in the Autonomous Region of Castilla La Mancha, the High Court filed a request for a preliminary ruling from the Court of Justice of the European Union and an exception of unconstitutionality with the Constitutional Court. The Constitutional Court issued orders refusing to grant leave to proceed with the exception of unconstitutionality. The proceedings have been stayed pending a decision from the Court of Justice of the European Union on the request for a preliminary ruling also submitted. The Conclusions of Advocate General Juliane Kokott, somewhat detrimental to our interests, were forwarded to us on 1 June 2017. The proceedings have been stayed pending a decision from the Court of Justice of the European Union on the request for a preliminary ruling.

The main litigation proceedings in which IBERDROLA or the foreign companies in its Group are involved on the date of issue of these condensed consolidated interim financial statements are as follows:

Contingent liabilities

a) Various labour, civil and tax claims are ongoing against ELEKTRO and other companies of the NEOENERGIA Group in Brazil. The IBERDROLA Group considers that the risk of potential losses at such companies has been assessed in line with the opinions of the authorities and the external tax advisers, and the relevant provisions have been made based on the likelihood of loss as per the available evidence, the legal system and the most recent case law precedent.

b) Arbitration proceedings before the International Chamber of Commerce instituted by the consortium (headed by EDF) purchasing 30 wind farms belonging to Iberdrola Renovables Energía, S.A. in France, via its French subsidiary. The sale was formalised in May 2013, and the claim is based on the purported breach by Iberdrola of the representations and warranties set forth in the agreement, with respect to complying with the maximum noise levels permitted under French law. In January 2016 the purchasing consortium filed a request for arbitration and in June 2016 the parties agreed on the arbitration terms of reference and calendar of events (four months in which to file the request for arbitration, four months in which to submit an answer, three months in which to file a counterclaim and three months in which to reply to the counterclaim). The request for arbitration has now been received, setting the amount claimed at Euros 52 million, subject to review (as opposed to the initial claim of Euros 78.4 million), maintaining the line of argument set forth since the outset, basing the claim on IBERDROLA's failure to abide by the representations and warranties under the agreement, as well as the failure to observe the maximum noise levels permitted under French law. On 1 March 2017, Iberdrola submitted its answer to the request for arbitration. On 17 May, the Arbitral Tribunal dismissed the motion for bifurcation filed by the claimants. On 1 June, the counterclaim was submitted and is being analysed internally.

c) The US Environmental Protection Agency has filed claims against various subsidiaries of AVANGRID for failing to comply with environmental regulations. The IBERDROLA Group considers that the possibility of losing these claims is remote, and that the amounts involved are not significant. Elsewhere, AVANGRID instituted legal proceedings against the former owners of certain sites in order to recover the costs of environmental restoration work it was forced to pay. The IBERDROLA Group did not recognise a receivable for this item, as it did not qualify for recognition.

d) Standard procedure when constructing facilities for third parties includes project completion, a negotiation phase and an amicable closure in which a range of aspects are discussed, and may give rise to claims for and against the IBERDROLA Group. In 2015, the consortium including Iberdrola Ingeniería y Construcción, S.A.U. (IBERDROLA INGENIERÍA) for the construction of a combined cycle project in Algeria and the client that owned the project had various cross-claims underway concerning significant amounts deriving from the delay and the extra costs incurred in executing the project. On 28 September 2016, the consortium and the client reached a preliminary agreement in order to settle the reciprocal claims, whereby the consortium undertook to pay the client financial compensation. Following several months of negotiation on the final details of the agreement, in May 2017 the parties entered into an agreement to terminate the contract (*bilan provisoire*), thus bringing a formal end to the dispute between the consortium and the client.

e) On 19 June 2017, the mechanical BOP contractor on the Salem Harbor project filed a request for arbitration with the International Center for Dispute Resolution (ICDR) of the American Arbitration Association (AAA), claiming USD 38.2 million in respect of purported changes of scope and delays occasioned by IBERDROLA INGENIERÍA, although the contractor has yet to submit any documentation or evidence supporting its claim.

f) The subsidiary of IBERDROLA INGENIERÍA in Canada (IEPC) has instituted arbitration proceedings in line with the British Columbia Arbitration Law before a tribunal made up of three arbitrators, based in Vancouver (BC), against the client on two biomass projects in Canada, due to claims deriving from the construction of the projects. IEPC has filed its statement of claim, seeking damages in the amount of CAD 70 million, although this represents a preliminary estimate of the impact, to be specified in the proceedings based on the valuation of independent experts. The client has also filed its defence, claiming approximately CAD 50 million from IBERDROLA INGENIERÍA for delays in the handover of the plants. The arbitration hearing is due to be held in June 2018.

g) ELEKTRO Redes is party to debt recovery action deriving from state motorway concession-holders and other parties involved with a view to preventing the Company from acting freely on the installation of energy distribution infrastructure in intermediate and side strips of the motorways, free of any charge. Against this backdrop, the company took legal action against the São Paulo Department of Motorways and Traffic (DER) and its respective concession-holders. With respect to the actions concerning the issue in dispute, decisions finding in favour and against have been rendered by courts at various instances. Thus, up to September 2016, the company had arranged a provision for this process. In view of the case law emerging on the matter, above all proceedings ADIn nº 2.418 conducted by the STF, the judgment on which was published in October 2016, and the trials finding in favour of the merits of the case by the São Paulo Court of Justice, in December 2016, on appeals recognising the unlawful nature of the charge, as well as in view of the potential prospects of success as determined by the legal advisers on the case, in 2016 the company reversed the provision arranged for such purpose. No new events arose in 2017 that could alter the course of the proceedings. Thus, at 30 June 2017, the lawyers in charge of the case classed the probability of success as possible.

h) In December 2016, ELEKTRO was notified of an infringement order of BRL 1,205 million, issued by the federal court (*Receita Federal do Brasil*) for the collection of the tax on capital gains originating from the acquisition of ELEKTRO by IBERDROLA in 2011. ELEKTRO filed its administrative defence and the federal tax authority accepted the Company's submissions, rendering the infringement order issued at administrative first instance null and void. The process is currently awaiting a judgment on an ex oficio appeal by the Administrative Board of Tax Appeals (CARF), which is mandatory given the substantial amount in litigation. The probabilities of success, according to the lawyers in charge of the process, remain possible.

i) With respect to the Civil Public Action instituted by the Ministry of Labour against ELEKTRO Redes, seeking a prohibition on the subcontracting of the company's core activities, which would have to be performed by employees contracted directly by the distributor, a decision was rendered finding against ELEKTRO Redes at first and second instance, as well as on appeal before the High Labour Court. An appeal was subsequently lodged with the Federal Supreme Court, on which a ruling is pending. The lawyers in charge of the process consider that there is a case to be made for overturning the decision.

j) Claim by the California Public Utilities Commission: In 2002, just after the energy crisis in the state of California, the California Public Utilities Commission and the California Electricity Oversight Board ("CPUC" and "CEOB" respectively) submitted a claim to the Federal Energy Regulatory Commission (FERC) against a number of electricity producers, alleging that these companies had manipulated the market and that the prices set in energy purchase contracts were "unfair and unreasonable", and demanded modifications to the contracts.

   The FERC dismissed the claim and, following a review by the Californian courts, the Supreme Court ordered the FERC to review the case, which had remained dormant since 2008.

   In 2014, the FERC reopened the case at the behest of the California Public Utilities Commission and appointed an investigating judge, who in April 2016 issued an initial ruling that dismissed any market manipulation by the IBERDROLA Group, but considered that the prices in its energy purchase contract were excessive and to the detriment of end consumers. Damages were set at USD 259 million plus interest. This recommendation is not binding for the FERC.

   AVANGRID submitted its written plea at the end of May, and its written conclusions on 27 June 2016. The opinion of the FERC's technical unit was favourable, and recommended the proceedings be dismissed without sanctions. Following these proceedings, the FERC is expected to issue a final ruling in the coming months, and its decision may be appealed in the courts

   The IBERDROLA Group expects that the proceedings will eventually be shelved without any sanction.

<u>Contingent assets</u>

a) SCOTTISH POWER initiated legal proceedings in 2015 against a consortium of high-voltage power cable suppliers (Prysmian, NKT and ABB) in respect of the cartel previously in operation within that market as determined by the European Commission in 2014. Those who purchased HV cables from any of the cartelists during the operation of the cartel may be entitled to claw back any “overcharges” resulting from the operation of the cartel. The amount claimed is GBP 46 million. SCOTTISH POWER is currently involved in the disclosure exercise, in preparation for the next scheduled Case Management Conference in October 2017.

b) In August 2013, Avangrid subsidiary New York State Electric & Gas Corporation (NYSEG) sued two excess insurers, Century Indemnity and OneBeacon, who provided excess liability coverage to NYSEG. NYSEG sought payment for clean-up costs associated with contamination at 22 former gas plants. Based on estimated clean-up costs of USD 282 million, the carriers' allocable share could equal or exceed approximately USD 89 million, excluding pre-judgment interest, although this amount may change substantially depending upon the determination of various factual matters and legal issues during the case. Century Indemnity and One Beacon have answered admitting issuance of the excess policies, but contesting coverage and providing documentation proving they received notice of the claims in the 1990s. On 31 March 2017, the District Court granted motions filed by Century Indemnity and One Beacon dismissing all of NYSEG's claims against both defendants on the grounds of late notice. NYSEG filed a motion with the District Court on 14 April 2017 seeking reconsideration of the Court's decision and is researching grounds for further appeal if the reconsideration motion is denied. Any recovery will be flowed through to NYSEG ratepayers.

c) In September 2016, IBERDROLA INGENIERÍA instigated arbitration proceedings before the London Court of International Arbitration (LCIA), based in London (the United Kingdom), with a view to seeking the damages occasioned by the client's actions on a project to construct networks and substations in Kenya awarded to IBERDROLA INGENIERÍA. In March 2017, IBERDROLA INGENIERÍA filed its statement of claim in the arbitration for the amount of Euros 41.4 million, an amount confirmed in the independent expert report attached to the claim. The client filed its answer to the request on 16 June 2017, including a counterclaim of approximately Euros 46.9 million.

d) The subsidiary of IBERDROLA INGENIERÍA in Canada has instituted two arbitration proceedings before the International Chamber of Commerce (ICC), based in Paris, against the supplier of the boilers for two biomass projects in Canada: 1) Arbitration on grounds of a breach of the supply agreements, seeking damages for a breach of the agreements valued at USD 12 million; and 2) Arbitration seeking the clawback of amounts paid to the supplier over the price under the supply agreements, valued at approximately USD 66 million. Since the supplier has failed to answer the request for arbitration in due time, the ICC must nominate the arbitrator to be designated by the supplier, as well as the Chairman of the Arbitral Tribunal.

There are no claims, lawsuits, court cases or litigation against IBERDROLA or companies forming part of its Group the amounts of which could affect the equity balance or solvency of IBERDROLA or of the Group as a whole. Consequently, the Company has not made any provision in this regard that could be considered sufficiently material

The contingent assets and liabilities at 31 December 2016 are described in the 2016 consolidated annual accounts of the IBERDROLA Group.

17. REMUNERATION OF THE BOARD OF DIRECTORS

17.1 By-law stipulated remuneration for the first six months of 2017

Article 48 of IBERDROLA's by-laws stipulates that the Company shall annually allocate as an expense an amount equal to a maximum of two per cent of consolidated group profits obtained during the preceding financial year for the following purposes:

a) To remunerate the directors, both for their status as such as well as for any executive duties, based on the offices held, and dedication to and attendance at meetings of the corporate decision-making bodies.

b) To endow a fund to meet the obligations of the Company regarding pensions, the payment of life insurance premiums, and the payment of severance compensation in favour of current and former directors.

In particular, in their status as such, the directors shall receive remuneration consisting of a fixed annual amount, attendance fees, and appropriate coverage of risk benefits (death and disability).

The amount, subject to the maximum limit of two per cent, may only accrue if profits for the preceding financial year are sufficient to cover legal and other mandatory reserves and if there has been an issuance to the shareholders of a dividend of at least four per cent of the share capital charged to the results of such financial year.

a) Fixed remuneration

Fixed annual remuneration received by the members of the board of directors and of its committees in 2017 and 2016, based on their position, is as follows:

Thousands of Euros	2017	2016
Chairman of the board	567	567
Committee chairs	440	440
Committee members	253	253
Board members	165	165

Fixed remuneration accrued by members of the board of directors, with a charge to the by-law stipulated remuneration, amounted to Euros 2,281 thousand and Euros 2,301 thousand in the first six months of 2017 and 2016, respectively.

Details of fixed remuneration accrued by the members of the board of directors in the first six months of 2017 and 2016, are as follows:

Thousands of Euros	Fixed remuneration 30.06.2017(*)	Fixed remuneration 30.06.2016
Chairman of the board		
José Ignacio Sánchez Galán	284	284
Committee chairs		
Inés Macho Stadler	220	220
Samantha Barber	220	220
María Helena Antolín Raybaud	220	220
Georgina Yamilet Kessel Martínez	220	220
Committee members		
Iñigo Víctor de Oriol Ibarra	127	127
Braulio Medel Cámara	127	127
Angel Jesús Acebes Paniagua	127	127
Denise Mary Holt	127	127
José Walfredo Fernández	127	127
Manuel Moreu Munaiz	127	127
Xabier Sagredo Ormaza (1)	127	53
Juan Manuel González Serna (2)	63	-
Francisco Martínez Córcoles (3)	41	-
Board members who have left		
Xabier de Irala Estévez (4)	-	68
Santiago Martínez Lage (5)	62	127
José Luis San Pedro Guerenabarrena (6)	62	127
Total	**2,281**	**2,301**

(*) Amounts accrued during the first six months of 2017, which will not be paid until the 2017 annual accounts have been approved at the 2018 General Shareholders' Meeting.

(1) Appointed board member on 8 April 2016. On 26 April 2016, the board of directors also approved his appointment to the Audit and Risk Oversight Committee.

(2) Appointed board member on 31 March 2017. On this same date, the board of directors approved his appointment to the Remuneration Committee.

(3) Appointed business chief operating officer on 31 March 2017.

(4) Left the board on 8 April 2016.

(5) Left the board on 31 March 2017.

(6) Left the board on 31 March 2017.

At 30 June 2017, all the members of the board of directors of IBERDROLA, save Francisco Martínez Córcoles, hold positions on any one of the five board committees.

b) Attendance fees

Attendance fees paid to the directors in 2017 and 2016 for attending the meetings of the board of directors and its committees, based on their position, were as follows:

Thousands of Euros	2017	2016
Chairman of the board and committee chairs	4	4
Committee members and board members	2	2

Attendance fees paid to the directors with a charge to the by-law stipulated remuneration amounted to Euros 370 thousand and Euros 338 thousand in the first six months of 2017 and 2016, respectively.

An individual breakdown of attendance fees received by the members of the board of directors in the first six months of 2017 and 2016, is as follows:

Thousands of Euros	Attendance fee 30.06.2017(*)	Attendance fee 30.06.2016
Chairman of the board		
José Ignacio Sánchez Galán	44	40
Committee chairs		
Inés Macho Stadler	38	32
Samantha Barber	40	34
María Helena Antolín Raybaud	22	22
Georgina Yamilet Kessel Martínez	30	30
Committee members		
Iñigo Víctor de Oriol Ibarra	22	22
Braulio Medel Cámara	20	18
Angel Jesús Acebes Paniagua	28	26
Denise Mary Holt	20	18
José Walfredo Fernández	20	16
Manuel Moreu Munaiz	32	26
Xabier Sagredo Ormaza	20	6
Juan Manuel González Serna	6	-
Francisco Martínez Córcoles	4	-
Board members who have left		
Xabier de Irala Estévez	-	12
Santiago Martínez Lage	12	16
José Luis San Pedro Guerenabarrena	12	20
Total	**370**	**338**

c) Remuneration of executive directors for discharging their executive duties

Details of remuneration earned during the first six months of 2017 and 2016 by the chairman and chief executive officer for the discharge of their executive duties, and which is also recognised with a charge to the by-law stipulated remuneration, are as follows:

Remuneration items of the chairman and chief executive officer:

Thousands of Euros	30.06.2017	30.06.2016
Fixed remuneration	1,125	1,125
Annual variable remuneration (1)	3,185	3,250
Remuneration in kind	31	38

(1) Annual variable remuneration paid in the first six months of 2017 and 2016, based on target achievements and personal performance in 2016 and 2015, respectively.

The board of directors has agreed to maintain the fixed remuneration of the chairman and chief executive officer in 2017 at Euros 2,250 thousand. It also agreed to maintain the limit of annual variable remuneration at Euros 3,250 thousand, which will be paid, if agreed, in 2018.

Remuneration paid in the first half of 2017 to Francisco Martínez Córcoles as business chief operating officer since his appointment on 31 March 2017, amounted to Euros 250 thousand. He also received remuneration in kind of Euros 6 thousand. Remuneration received by Francisco Martínez Córcoles prior to being appointed business chief operating officer is included in note 18 on senior executive remuneration.

The board of directors agreed annual fixed remuneration in 2017 for the business chief operating officer of Euros 1,000 thousand and limited his variable remuneration to Euros 1,000 thousand, which will be paid, if agreed, in 2018.

d) Provisions and guarantees extended by the Company to the directors

This heading includes the following items:

- Premiums paid during the first six months of 2017 and 2016 to cover benefits payable in the event of the death, disability and other insurances of current directors, amounted to Euros 138 thousand and Euros 128 thousand, respectively.

- The premium paid to cover directors' civil liability insurance amounted to Euros 31 thousand and Euros 31 thousand in the first six months of 2017 and 2016, respectively.

- During the first six months of 2017 and 2016, rebates totalling Euros 53 thousand and Euros 287 thousand, respectively, were received in in respect of the annual adjustment to former directors' pension insurance policies.

- The Company has no defined benefit or defined contribution commitments with any board member in respect of retirement or long-term savings plans.

e) Other items

The expenses of the board of directors for external services and other items amounted to Euros 746 thousand and Euros 715 thousand during the first six months of 2017 and 2016, respectively.

At 30 June 2017 and 2016 no loans or advances have been extended by the IBERDROLA Group to the members of the board of directors of IBERDROLA.

17.2 Remuneration through the delivery of Company shares

Article 48, section 4 of the by-laws of IBERDROLA states that independently of the provisions of the preceding sections, and subject always to the approval of the shareholders at a General Shareholders' Meeting, the remuneration of directors may also consist of the delivery of shares or options thereon, as well as a payment based on the value of the Company's shares.

Consequently, remuneration through the delivery of the Company's shares, or any other remuneration related to such shares, is additional to, compatible with and independent of the by-law stipulated remuneration referred to in article 48, section 1 of its by-laws.

a) 2011-2013 Strategic Bonus

During the first half of 2016, the third and last of the three annual settlements was made. The chairman and chief executive officer received 536,359 IBERDROLA shares while the former chief operating officer received 90,640 shares.

b) 2014-2016 Strategic Bonus

As 93.20% of targets were met, and at the request of the Remuneration Committee, on 25 April 2017 the board of directors agreed to settle the 2014-2016 Strategic Bonus, approved by the shareholders at their annual general meeting held on 28 March 2014 and regulated by the 2014-2016 Strategic Bonus Regulations for executive directors of Iberdrola, S.A. and the 2014-2016 Strategic Bonus Regulations for senior executives and other management personnel of Iberdrola, S.A. and its Group. By virtue of the above, the first of the three annual settlements was made in 2017. The chairman and chief executive officer received 510,596 IBERDROLA shares, while Francisco Martínez Córcoles received 120,931 shares for duties performed prior to being appointed business chief operating officer.

c) 2017-2019 Strategic Bonus

On 31 March 2017, the shareholders at their annual general meeting approved the 2017-2019 Strategic Bonus (note 10) aimed at executive directors, senior executives and other management personnel of the Company and its Group. The maximum number of shares to be delivered to the beneficiaries (300) of the 2017-2019 Strategic Bonus will be 14,000,000 shares, equal to 0.22% of the share capital at the adoption of this agreement. A maximum of 2,500,000 shares will be distributed among all the executive directors. This Strategic Bonus is contingent on the degree of achievement of targets, and will be settled in 2020, 2021 and 2022.

17.3 Termination clauses

In the event a non-executive director steps down from the board prior to the end of their tenure, and the reason for such is not a breach on their part or exclusively of their own volition, the Company will pay them a termination benefit providing they undertake not to accept positions on the governing bodies of companies in the energy sector or of other competing companies, and not to participate in any management or advisory role in the same, during the remainder of their mandate (up to a maximum of two years).

Termination benefits shall be equal to 90% of the fixed amount the director would have received over the remainder of their tenure (on the assumption the director is still earning their annual fixed remuneration when they leave the board), up to a maximum of twice 90% of this annual fixed amount.

Since the end of the 90's, executive directors and a group of executives are entitled to receive a termination benefit in the event their contractual relationship with the Company is terminated, providing the reason for such is not a breach on their part or exclusively of their own volition. The amount of compensation for the chairman and chief executive officer is currently set at three years' remuneration. Since 2011, the indemnity limit for new contracts with executive directors has been set at two years' remuneration. This limit is also applicable to the business chief operating officer.

Executive director contracts contain a non-compete clause in respect of companies and activities of a similar nature, applicable throughout their tenure, and for a maximum of between one and two years subsequent to departure. As compensation for this undertaking, they are entitled to an indemnity equivalent to the remuneration for those periods.

17.4 2017 by-law stipulated remuneration

As proposed by the Remuneration Committee, the board of directors unanimously agreed to freeze directors' fixed annual remuneration and meeting attendance fees for 2017, as it has done since 2008.

18. REMUNERATION OF SENIOR EXECUTIVES

Senior executives are considered those who answer directly to the Company's board of directors, chairman or chief executive officer, and in any case, the internal audit director, as well as any other management executive whom the board of directors recognises as such.

At 30 June 2017 and 2016, the Company has 5 and 6 senior executives, respectively.

Senior executive personnel expenses amounted to Euros 8,415 thousand and Euros 7,845 thousand in the first six months of 2017 and 2016, respectively, and are recognised under personnel expenses in the consolidated income statements for the six-month periods ended 30 June 2017 and 2016, respectively.

Details of remuneration and other benefits received by senior executives in the first six-months of 2017 and 2016 are as follows:

Thousands of Euros	30.06.2017(1)	30.06.2016(2)
Monetary remuneration	2,869	3,474
Variable remuneration	2,909	3,193
Remuneration in kind	381	385
Income on account not charged	22	30
Social security	39	42
Pension plan / social welfare insurance contributions	32	31
Supplementary policy accrual	1,871	490
Supplementary policy risk	292	200
Total	**8,415**	**7,845**

	30.06.2017	30.06.2016
Share-based payment plan, Strategic Bonus (number of shares)	261,106	274,173
Taxes and cash settlements related to the Strategic Bonus (thousands of Euros)	2,503	2,317

(1) Includes the proportion of remuneration and other benefits of the general business director until 31 March 2017, who was appointed chief operating officer.

Includes the proportion of remuneration and other benefits, and settlement of the 2014-2016 Strategic Bonus of the internal audit director until his retirement.

Includes the proportion of the internal audit director since his appointment on 21 February 2017.

(2) Includes the proportion of remuneration and other benefits and settlement of the 2011-2013 Strategic Bonus of the general secretary and of the board until 9 January 2016.

Includes the proportion of the director of legal services from 9 January 2016.

In the first half of 2016, 274,173 shares were delivered to senior executives, corresponding to the 2011-2013 Strategic Bonus described in note 10, whereby senior executives received equal amounts of IBERDROLA shares in 2014, 2015 and 2016.

During 2017, 261,106 shares were delivered to senior executives corresponding to the settlement of the first tranche of the 2014-2016 Strategic Bonus described in note 10, whereby senior executives will receive IBERDROLA shares in 2018 and 2019, providing the conditions for paying this remuneration are met. At 30 June 2017, a provision of Euros 3,728 thousand has been recognised to secure these commitments.

For senior executives, including the chief executive officer of the Company or its Group, there are specific clauses providing guarantees or protection against different instances of contract termination. These contracts have been authorised by the board of directors of IBERDROLA and are described in note 17.

The amount of termination benefits is based on length of service and the reasons for leaving, and are limited to five year's salary. Since 2011, new contracts with senior executives are limited to two year's salary.

All senior executive contracts contain a remunerated non-compete clause in respect of companies and activities of a similar nature to those of the Company and of the Group, for a minimum period of one year following termination.

In the first six months of 2017 and 2016 there have been no transactions with executives other than those carried out in the ordinary course of the business.

19. BALANCES AND TRANSACTIONS WITH OTHER RELATED PARTIES

The transactions detailed below refer to ordinary business activity and were carried out on an arm's-length basis.

The most noteworthy transactions carried out by the IBERDROLA Group during the six-month periods ended 30 June 2017 and 2016 are as follows:

	Six-month period ended 30.06.2017				
Thousands of Euros	Significant shareholders [1]	Directors and executives [2]	Group employees, companies or entities	Other related parties [5]	Total
Income and expense					
Finance costs	-	-	7	-	7
Leases	-	-	-	-	-
Services received	-	-	4,291	24,417	28,708
Goods purchased	-	-	29,609	776	30,385
Total expenses	-	-	**33,907**	**25,193**	**59,100**
Finance income			14,242	-	14,242
Leases	-	-	-	-	-
Services rendered	-	-	6,425	-	6,425
Sale of goods	-	-	7,586	915	8,501
Total income	-	-	**28,253**	**915**	**29,168**
Other transactions					
Purchase of property, plant and equipment, intangible assets or other assets	-	-	-	133,404	133,404
Dividends and other benefits distributed [3]	19,172	263	-	-	19,435

Thousands of Euros	Significant shareholders (1)	Directors and executives (2)	Group employees, companies or entities	Other related parties (5)	Total
	Six-month period ended 30.06.2016				
Income and expense					
Finance costs	-	-	-	-	-
Leases	-	-	109	-	109
Services received	-	534(4)	20,953	29,368	50,855
Goods purchased			45,726	-	45,726
Losses on disposal of assets	-	-	215	-	215
Total expenses	**-**	**534**	**67,003**	**29,368**	**96,905**
Finance income	-	-	-	-	-
Leases	-	-	2	-	2
Services rendered	-	-	12,563	552	13,115
Sale of goods	-	-	-	-	-
Total income	**-**	**-**	**12,565**	**552**	**13,117**
Other transactions					
Purchase of property, plant and equipment, intangible assets or other assets	-	-	-	197,883	197,883
Dividends and other benefits distributed (3)	3,082	245	-	-	3,327

(1) Related party transactions are deemed those carried out by shareholders who exercise significant influence on the financial and operational decisions of the entity. Significant influence is defined as having at least one director on the board.

This also applies to shareholders whose interest in the Company enables them to engage in proportional representation.

At the date these financial statements were issued, only Qatar Investment Authority meets this condition, so the amounts related to the six-month periods ended 30 June 2017 and 2016 refer to transactions with this shareholder.

(2) Refers to transactions other than those described in notes 17 and 18.

(3) The amounts considered as dividends and other benefits distributed in the first six months of 2017 and 2016 correspond to the flexible dividend and to fees for attending the annual general meeting received by the related party, if applicable.

(4) The contracts linked to this amount in the six-month period ended 30 June 2016 were awarded under the terms of the Procedure for conflicts of interest and related party transactions with directors, significant shareholders and senior executives, and reflect the amount billed by Soil Tratamiento de Aguas Industriales, S.L., in respect of the director Mr. Victor Iñigo de Oriol Ibarra, amounting to USD 595 thousand (approximately Euros 534 thousand).

(5) Transactions carried out with the Gamesa group are presented as transactions with other related parties.

20. FINANCIAL POSITION AND EVENTS AFTER 30 JUNE 2017

For the second half of 2017, the IBERDROLA Group expects to fund its ordinary investment programme with cash flows from operating activities and access to the bank and capital markets, although the Group has sufficient cash, loans and credit facilities to cover these investments.

Additionally, at 30 June 2017 the IBERDROLA Group has undrawn loans and credit facilities of around Euros 6,976,156 thousand.

As indicated in note 9, at 30 June 2017, the IBERDROLA Group had cash totalling Euros 226,765 thousand and current deposits of Euros 1,521,909 thousand.

The IBERDROLA Group's liquidity position is Euros 8,725 million, which is equivalent to 24 months of the Group's financing requirements.

Thousands of Euros	Available for drawdown
Maturity	
2017	256,435
2018	103,804
2019 onwards	6,615,917
Total	**6,976,156**
Cash and cash equivalents	1,748,674
Total adjusted liquidity	**8,724,830**

The following significant event took place between 30 June 2017 and the date these financial statements were issued:

Iberdrola flexible dividend

On 3 July 2017, the facts in relation to the implementation of the first scrip issue (Iberdrola flexible dividend) approved by the shareholders of IBERDROLA during the twelfth item on the agenda of the annual general meeting held on 31 March 2017, were determined and were as follows:

- The maximum number of new shares to be issued under the scrip issue is 132,765,957.
- The number of free allocation rights required to receive one new share is 47.
- The maximum nominal amount of the scrip issue is Euros 99,574,467.75.
- The acquisition price of each free allocation right under the purchase commitment assumed by IBERDROLA is Euros 0.147.

Additionally, on 8 July 2017, a cash dividend of Euros 0.03 per share, approved by the shareholders at the annual general meeting held on 31 March 2017, was paid. The total sum paid amounted to Euros 187,090 thousand.

1. SIGNIFICANT EVENTS IN THE FIRST HALF OF 2017

During the first half of 2017, the sound performance delivered by the Networks business in the United States and Brazil, as well as the Generation and Retail business in Mexico and the extraordinary impact of the Gamesa-Siemens merger, which generated income of Euros 255 million, were offset by the adverse impact of meteorological conditions in Spain (with low rainfall reducing hydroelectric output by more than 7 TWh in the six-month period in addition to a 13% decline in wind output) and by the contribution from the United Kingdom, where the complex operating environment of the Generation and Retail business has been compounded by a year-on-year decline in contributions as a result of the closure of the Longannet coal plant.

The average performance of IBERDROLA's main reference currencies vis-à-vis the Euro during the first half of 2017, compared with the same period in the prior year, was as follows: the Pound Sterling has depreciated by 11.4% whereas the Brazilian Real and US Dollar have appreciated by 17.2% and 2.8%, respectively, compared with last year.

Other significant events during the first half of 2017 are as follows:

- In Spain, the period was characterised by a sharp 52% drop in hydroelectric output compared to the same period in 2016 and a 3% decrease in generation from other renewable technologies as a result of weather conditions. This shortfall in renewable output was covered by coal and gas power plants, where production rose by 99% and 33%, respectively. Electricity demand was slightly up on the first half of 2016 (+1.1%) although, if adjusted for the effects of working patterns and temperatures, it rose by 1.5%.

- In the United Kingdom, electricity demand slipped by 2.2% compared to 2016, whilst gas demand (excluding gas used in generation) dropped by 4.7%.

- AVANGRID's area of influence on the East coast of the United States saw electricity demand decrease slightly by 1.4% whilst gas demand remained practically stable, rising by 0.3% on the first half of 2016 due to colder temperatures vis-à-vis the prior year.

- In Brazil, demand in IBERDROLA's area of influence grew by 1.6% compared with the same period in the prior year, with ELEKTRO and NEOENERGIA reporting demand increases of 2.3% and 1.4%, respectively.

1.1. Key operating indicators

- **Installed capacity**

At the end of the first half of 2017, IBERDROLA has an installed capacity of 44,013 MW, a net increase of 737 MW on the 2016 close.

Installed capacity by technology and geographical area at the end of the first half of the year is as follows:

Installed capacity (MW)	30.06.2017	31.12.2016	Variation
Hydroelectricity	10,391	10,391	-
Nuclear	3,166	3,166	-
Coal-fired thermal power	874	874	-
Gas combined cycle	14,114	13,779	335
Co-generation	299	299	-
Wind power and mini hydroelectric power	15,169	14,767	402
Total	**44,013**	**43,276**	**737**

Installed capacity (MW)	30.06.2017	31.12.2016	Variation
Spain	25,604	25,604	-
United Kingdom	4,616	4,522	94
United States	6,645	6,502	143
Mexico	6,175	5,840	335
Brazil	187	187	-
Rest of the world	786	621	165
Total	**44,013**	**43,276**	**737**

- The increase in power at combined cycle plants is attributable to Mexico, where Baja California III (301 MW) entered into operation and improvements were made to the capacity of Altamira V (10MW) and the three units of Monterrey (24 MW).

- In the wind power sector, the first 165 MW at the Wikinger offshore facility in Germany was connected. In the United Kingdom, an additional 94 MW was connected following the extensions at the Blacklaw and Harehill wind farms and the connections of the Ewe Hill, Kilgallioch, Dersalloch and Glen App facilities. In June 2017 an initial 143 MW was installed at El Cabo in the United States.

- **Production**

In the first half of 2017, the total production of the IBERDROLA Group decreased by 10% to 62,455 GWh (69,646 GWh in the first half of 2016).

Production by technology is as follows:

Net production (GWh)	1H 2017	1H 2016	% variation
Hydroelectricity	5,640	13,057	(56.8)
Nuclear	12,554	11,975	4.8
Coal-fired thermal power	1,118	1,939	(42.3)
Gas combined cycle	24,582	24,076	2.1
Co-generation	1,073	910	17.9
Wind power and mini hydroelectric power	17,488	17,689	(1.1)
Total	**62,455**	**69,646**	**(10.3)**

Production by country is as follows:

Net production (GWh)	1H 2017	1H 2016	% variation
Spain	26,954	33,615	(19.8)
United Kingdom	5,467	7,315	(25.3)
United States	8,991	9,130	(1.5)
Mexico	20,106	18,636	7.9
Brazil	272	268	1.5
Rest of the world	665	682	(2.5)
Total	**62,455**	**69,646**	**(10.3)**

- **Supply**

Details of gas and electricity supply are as follows:

Electricity supply (GWh)	1H 2017	1H 2016	% variation
Spain	27,364	25,179	8.7
United Kingdom	11,102	10,287	7.9
United States	17,757	18,017	(1.4)
Brazil	5,538	6,002	(7.7)
Rest of the world	3,817	3,701	3.1
Total	**65,578**	**63,186**	**3.8**

Gas supply (GWh)	1H 2017	1H 2016	% variation
Spain	4,642	5,234	(11.3)
United Kingdom	17,413	19,003	(8.4)
United States	31,745	31,138	1.9
Rest of the world	91	127	(28.3)
Total	**53,891**	**55,502**	**(2.9)**

- **Distribution**

Electricity and gas distribution totalled 89,721 GWh and 31,745 GWh, respectively, in the first half of 2017 (89,671 GWh of electricity and 31,138 GWh of gas in the first half of 2016). The breakdown by geographical area is as follows:

Electricity distribution (GWh)	1H 2017	1H 2016	% variation
Spain	47,135	46,587	1.2
United Kingdom	16,535	17,135	(3.5)
United States	17,757	18,017	(1.4)
Brazil	8,294	7,932	4.6
Total	**89,721**	**89,671**	**0.1**

Gas distribution (GWh)	1H 2017	1H 2016	% variation
United States	31,745	31,138	1.9

1.2. Key consolidated income statement indicators

The Group's results for the period were impacted by a number of factors:

- The weak performance of the Generation and Retail business in the United Kingdom, which will gradually recover throughout the year (due to the closure of Longannet at the end of the first quarter in 2016, which has above all impacted comparisons with the six-month period, and tariff increases from 1 April 2017 onwards);

- Spain was affected by meteorological conditions, which reduced hydroelectric generation and wind power by 41% and 17%, respectively, and a rise in taxes levied on Generation and Retail activities as a result of higher market prices;

- The net finance cost was affected by the positive impact of the exchange rate hedges in the first quarter of 2016 (Euros 47 million).

- Conversely, positive impacts included the sound business performance of the Networks area in the United States, as well as in Mexico and Brazil, and the extraordinary impact of the Gamesa operation, which contributed Euros 255 million to the Group's results.

1.2.1. Gross margin

The gross margin, understood as the difference between revenues and expenses incurred in supplies, stands at Euros 6,851 million, up 1.1% on the Euros 6,776 million achieved in the same period in 2016. The gross margin was reduced by Euros 35 million as a result of exchange rate fluctuations.

Millions of Euros	1H 2017	1H 2016	% variation
Spain	995	1,003	(0.8)
United Kingdom	598	684	(12.6)
United States	1,482	1,255	18.1
Brazil	201	153	31.4
Networks Business	**3,276**	**3,095**	**5.8**
Spain and Portugal	1,557	1,516	2.7
United Kingdom	399	667	(40.2)
Mexico	329	263	25.1
Brazil	4	3	33.3
United States and Canada	22	15	46.7
Eliminations	-	2	(100.0)
Liberalised Business	**2,311**	**2,466**	**(6.3)**
Spain	407	468	(13.0)
United Kingdom	240	201	19.4
United States	449	412	9.0
Brazil	23	17	35.3
Mexico	35	33	6.1
Rest of the world	61	62	(1.6)
Renewables Business	**1,215**	**1,193**	**1.8**
Other Business	**138**	**91**	**51.6**
Corporation and adjustments	**(89)**	**(69)**	**29.0**
Total	**6,851**	**6,776**	**1.1**

- The gross margin of the Networks business rose by 5.8% on 2016 to stand at Euros 3,276 million, derived mainly from the improved performance of the United States. The main highlights in this period were as follows:

    - In Spain the gross margin totalled Euros 995 million (down 0.8%), in line with the prior period.

    - In the United Kingdom, the gross margin amounted to Euros 598 million (down 12.6%). The impact of the depreciation of the Pound Sterling totalled approximately Euros 68 million. The remaining Euros 18 million decline is attributable to the decrease in distribution, of which Euros 4 million derives from the effects of the new regulatory framework for RIIO-ED1 distribution and transmission, which includes adjustments to revenues from prior years.

- The United States contributed Euros 1,482 million in the period, an increase of Euros 227 million (18.1%), mainly as a result of the latest tariff reviews (*rate cases*). The impact derived from the revaluation of the US Dollar totalled Euros 42 million.

- The gross margin in Brazil (ELEKTRO) totalled Euros 201 million (31.4%). The revaluation of the Brazilian Real had an impact of Euros 35 million. The remaining increase is attributable to greater energy distribution and the positive annual tariff review (+9.1%) from August 2016 onwards.

- The gross margin of the Liberalised business fell by 6.3%, or Euros 155 million, to stand at Euros 2,311 million.

  - In Spain it rose by 2.7% to Euros 1,557 million thanks to the greater volume of energy sold to customers, despite the decline in the margin derived from the shift in the production mix towards thermal power at the expense of hydroelectric power. The contributions from the Generation and Last Resort Supply businesses fell by Euros 171 million and Euros 2 million, respectively, whilst those of Supplies on the Free Market and Wholesale Gas Operations rose by Euros 46 million and Euros 168 million, respectively.

  - The UK gross margin amounts to Euros 399 million, down Euros 268 million on the same period in 2016, due to the negative impact of the depreciation of the Pound Sterling (Euros 45 million), a drop in output, higher regulatory costs and falling electricity and gas sales.

  - Turning to the Americas, Mexico contributed Euros 329 million to the gross margin, a rise of 25%, as a result of the increase in capacity following the entry into operation of new power plants for CFE and private customers (Baja California 301 MW in January 2017 and plants that were not in operation in the first half of 2016 such as the 300 MW module V at Monterrey, 50 MW in co-generation at Ramos and repowerings totalling 73 MW).

    The contribution from gas activities in the United States and Canada totalled Euros 22 million, up on the Euros 15 million in the first half of 2016, due to improvements in the trading and contracted gas storage areas.

  - The Liberalised business in Brazil contributed Euros 4 million to the gross margin.

- The contribution of the Renewables Business to the gross margin increased by 1.8% to Euros 1,215 million. The main factors behind this performance are as follows:

  - In Spain the gross margin totalled Euros 407 million as a result of the 17.3% reduction in wind energy output as a result of the exceptionally strong first quarter in 2016 which was normalised over the rest of the year; the decline in the provision for pool prices due to high market prices; and the greater return on investment with respect to 2016 derived from the regulator's downward revision of the pool prices for the 2017-2019 regulatory semi-period.

- The UK gross margin rose by 19.4% to stand at Euros 240 million, despite the depreciation of the Pound Sterling, thanks to greater wind power and the rise in average operating power (18.3%).

- The US contribution of Euros 449 million (9.0%) is attributable to the greater output as a result of the increase in average capacity (3.8%), offsetting the decline in average prices and greater losses from the "mark to market" valuation of derivative contracts arranged to cover wind generation in the long term.

- The combined contribution from Mexico and Brazil rose to Euros 58 million. Mexico's Euros 35 million contribution was founded on higher prices whilst Brazil's contribution of Euros 23 million was slightly up as a result of the greater installed capacity and further boosted by the revaluation of the Brazilian Real.

- The Euros 61 million contributed by the rest of the world was down 1.6% due to the 2.4% decrease in production.

- The contribution from Other Business amounted to Euros 138 million, up Euros 47 million on the first half of 2016, essentially as a result of the divestment of the 100% investment in Hotel Hilton in Barcelona, which generated Euros 42 million.

1.2.2. EBITDA

EBITDA in the first half of 2017 fell by Euros 140 million, or 3.6%, to Euros 3,752 million (Euros 3,892 million in the first half of 2016). The exchange rate effect totalled Euros 19 million. If the exchange rate effect were excluded, EBITDA would have fallen by Euros 121 million, or 3.1%.

The contribution by business is as follows:

Millions of Euros	1H 2017	1H 2016	% variation
Spain	771	784	(1.7)
United Kingdom	451	524	(13.9)
United States	629	493	27.6
Brazil	126	93	35.5
Networks Business	**1,977**	**1,894**	**4.4**
Spain and Portugal	662	756	(12.4)
United Kingdom	57	267	(78.7)
Mexico	268	211	27.0
Brazil	-	(2)	(100.0)
United States and Canada	(3)	(6)	(50.0)
Liberalised Business	**984**	**1,226**	**(19.7)**
Spain	257	320	(19.7)
United Kingdom	179	151	18.5
United States	295	279	5.7
Brazil	17	13	30.8
Mexico	25	24	4.2
Rest of the world	47	50	(6.0)
Renewables Business	**820**	**837**	**(2.0)**
Other Business	**26**	**(15)**	**(273.3)**
Corporation and adjustments	**(55)**	**(50)**	**10.0**
Total	**3,752**	**3,892**	**(3.6)**

Further to the gross margin explained above, net operating expenses amounted to Euros 1,942 million, up 4.4% on the Euros 1,861 million incurred in the same period in the prior year. The exchange rate effect totalled Euros 12 million. Consequently, net operating expenses rose by Euros 93 million (5.0%) overall, albeit including a negative amount of Euros 70 million due to the impact of storms in the United States.

Millions of Euros	1H 2017	1H 2016	% variation
Net personnel expenses	(1,003)	(976)	2.8
Net external services	(939)	(885)	6.1
Total net operating expenses	**(1,942)**	**(1,861)**	**4.4**
Exchange rate effect	(12)		
Total operating expenses adjusted for exchange rate	**(1,954)**	**(1,861)**	**5.0**

Taxes rose by Euros 134 million (13.1%) to stand at Euros 1,157 million compared with the Euros 1,023 million recorded in the same period in 2016 as a result of:

- Favourable court decisions recognised in 2016 of Euros 80 million in respect of the Catalonia "green tax" and the regional supplement,

- Rise of Euros 21 million in taxes levied on the Regulated Business in the United States,

- The taxes introduced by the Sustainability Law rose by Euros 8 million as a result of higher market prices, whilst an additional Euros 4 million was incurred in respect of spent nuclear fuel due to greater production,

- Rise of Euros 16 million in the United Kingdom due to the *Warm Home Discount* (a discount scheme for qualifying low-income households), as this charge was not incurred from April to August 2016 pending definition of the terms and conditions of the scheme's renewal, and

- The exchange rate effect and other minor items totalling Euros 5 million.

1.2.3. EBIT

EBIT stood at Euros 2,116 million, down 6.1% on the Euros 2,254 million recorded in the first half of 2016.

Amortisation, depreciation and provisions fell by Euros 4 million to Euros 1,635 million (Euros 1,639 million in 2016):

- Amortisation and depreciation rose by Euros 14 million to Euros 1,529 million (Euros 1,515 million in 2016).

  The positive exchange rate effect (Euros 10 million) and the extensions to the useful lives of combined cycles (from 35 to 40 years) and electromechanical equipment at hydroelectric plants (from 35 to 50 years, subject to the concession date for each plant) totalling Euros 34 million have been offset by the additional Euros 58 million in depreciation charges for new facilities that have entered into operation.

- Provisions totalled Euros 106 million, down Euros 18 million on the Euros 124 million in the same period in 2016. This net reduction comprised charges of Euros 12 million and reversals totalling Euros 30 million.

1.2.4. Net finance cost

The net finance cost totalled Euros 414 million, an increase of Euros 53 million compared to the same period in the prior year, due to the following reasons:

- A decline of Euros 32 million due to the reduced finance cost (40 b.p.). However, given the rise in the average balance of borrowings, finance costs have risen by Euros 5 million.

- The hedges arranged to cover net profit generated gains derived from the fluctuation in the US Dollar and Pound Sterling vis-à-vis the Euro in 2016.

- Other items which reduced net finance cost by Euros 16 million.

Millions of Euros	1H 2017	1H 2016	Variation
Debt finance cost	(464)	(491)	27
Derivatives and exchange differences	(10)	86	(96)
Other	60	44	16
Net finance cost	**(414)**	**(361)**	**(53)**

1.2.5. Share of profit of equity-accounted investees

The profit of equity-accounted investees amounted to Euros 46 million (Euros 32 million in the same period in 2016).

1.2.6. Gains on disposal of non-current assets

Gains on the disposal of non-current assets amounted to Euros 241 million, compared to the Euros 47 million generated in the same period in the prior year.

Significant transactions in the first half of 2017 included the Gamesa operation, which generated Euros 255 million, and the sale of Amara, which incurred a loss of Euros 15 million, whilst 2016 saw the sale of Iriquois (non-controlling interest in a local gas network) in the United States and the disposal of the interest held in Oceanic Center, which generated gross gains of Euros 29 million and Euros 17 million, respectively.

1.2.7. Profit before income tax

Profit before income tax totalled Euros 1,990 million, a rise of Euros 19 million on the Euros 1,971 million posted in the first six months of 2016.

1.2.8. Taxes

The income tax expense fell by Euros 50 million.

The effective tax rate for the six-month period ended 30 June 2017 was 20.92% (23.66% in the six-month period ended 30 June 2016). The effective tax rate decreased essentially because the income corresponding to the dilution resulting from the merger of Gamesa and Siemens is non-computable.

1.2.9. Net profit

Net profit stood at Euros 1,574 million, up 4.6% on the Euros 1,505 million reported in the first half of 2016.

1.3. Key consolidated statement of financial position indicators

The statement of financial position of IBERDROLA at 30 June 2017 presents total assets of Euros 105,119 million, highlighting the ongoing strength of the Group's balance sheet.

- **Investments**

Total net investments in the period from January to June 2017 amounted to Euros 2,512 million. The breakdown is as follows:

1H 2017	Millions of Euros	% of total invested
Spain	137	
United Kingdom	298	
United States	325	
Brazil	33	
Networks Business	**793**	**31.57%**
Spain	137	
United Kingdom	83	
United States and Canada	2	
Mexico	284	
Liberalised Business	**506**	**20.14%**
Spain	12	
United Kingdom	521	
United States	447	
Mexico	160	
Brazil	12	
Rest of the world	67	
Renewables Business	**1,219**	**48.53%**
Corporation and adjustments	**(6)**	**(0.24%)**
TOTAL	**2,512**	**100.00%**

Investments in the period were focused on the Renewables and Networks businesses, which jointly accounted for over 80% of the total amount invested in the period.

Investments in Renewables during the period amounted to Euros 1,219 million (48.5% of the total amount invested), of which Euros 521 million was invested in the United Kingdom, mostly in offshore projects.

A total of Euros 298 million was invested by SCOTTISH POWER in the Networks Business in the United Kingdom, whilst a further Euros 325 million was invested in the Networks Business in the United States during the period.

Details of investments in the period, by geographical area, are as follows:

1H 2017	Millions of Euros	% of total invested
Spain	286	11.39%
United Kingdom	902	35.91%
United States	774	30.81%
Mexico	444	17.68%
Brazil	45	1.79%
Rest of the world	61	2.43%
TOTAL	**2,512**	**100.00%**

- **Capital**

Following the scrip issue on 25 January 2017 under the *Iberdrola Flexible Dividend* scheme, the share capital of the Company comprised 6,459,990,000 bearer shares of Euros 0.75 par value each.

In line with the commitment announced in Outlook 2016-2020 to keep the number of shares stable at 6,240 million, the shareholders at the general meeting approved a share capital reduction through the redemption of 219,990,000 own shares representing 3.41% of the Company's share capital. This share capital reduction was carried out on 24 May 2017.

At 30 June 2017 the Company's share capital comprises 6,240,000,000 bearer shares of Euros 0.75 par value each.

- **Financial debt**

Details of the financial gearing ratio are as follows:

Millions of Euros	30.06.2017	31.12.2016
Equity	**39,506**	**40,687**
Gross debt	32,683	32,026
Treasury assets	(2,742)	(2,612)
Net debt	**29,941**	**29,414**
Net gearing	**43.11%**	**41.96%**

(*) Including tax equity investor (TEI), derivative liabilities and accrued interest

Net financial debt amounted to Euros 29,941 million at 30 June 2017, having risen by Euros 527 million from Euros 29,414 million at 31 December 2016.

The financial gearing ratio had worsened to stand at 43.11% compared to 41.96% in December 2016.

In accordance with the Group's policy of minimising its financial risks, currency risk has continued to be mitigated through the financing of international businesses in local currencies (Pound Sterling, Brazilian Real, US Dollar, etc.) or in functional currency (US Dollar, in the case of Mexico).

- **Liquidity**

At the close of the first half of 2017, IBERDROLA presents a strong liquidity position that exceeds Euros 8,725 million, which is equivalent to more than 24 months of the Group's financing requirements.

IBERDROLA has a sound debt maturity profile, with the average life of its debt exceeding six years, as a result, inter alia, of the active management of liabilities carried out in recent years.

- **Rating**

The rating breakdown is as follows:

Credit rating of IBERDROLA's senior debt (*)			
Agency	Rating	Outlook	Date
Moody's	Baa1	Positive	26 April 2016
Fitch IBCA	BBB+	Stable	8 July 2017
Standard & Poor's	BBB+	Stable	22 April 2016

(*) These ratings may be revised, suspended or withdrawn by the rating agency at any time.

2. MAIN RISKS AND UNCERTAINTIES IN THE FIRST HALF OF 2017

The IBERDROLA Group's activities are subject to a range of business risks such as changes in demand, water and wind availability, and other weather conditions, as well as a number of market risks such as the price of fuel used to generate electricity, the price of CO_2 emission allowances and prices on the wholesale electricity market.

In both the Spanish market, where IBERDROLA conducts its principal activities, and in the United Kingdom market, its second-biggest market since the acquisition of SCOTTISH POWER, the current generation mix provides a substantial natural hedge between the different generation technologies, which mitigates the business and market risks associated with the generation and sale-purchase of electricity.

As stated in note 3 to the financial statements, the Group's activities are not particularly seasonal from a half-year perspective. The main sources of uncertainty are described in note 4.b.

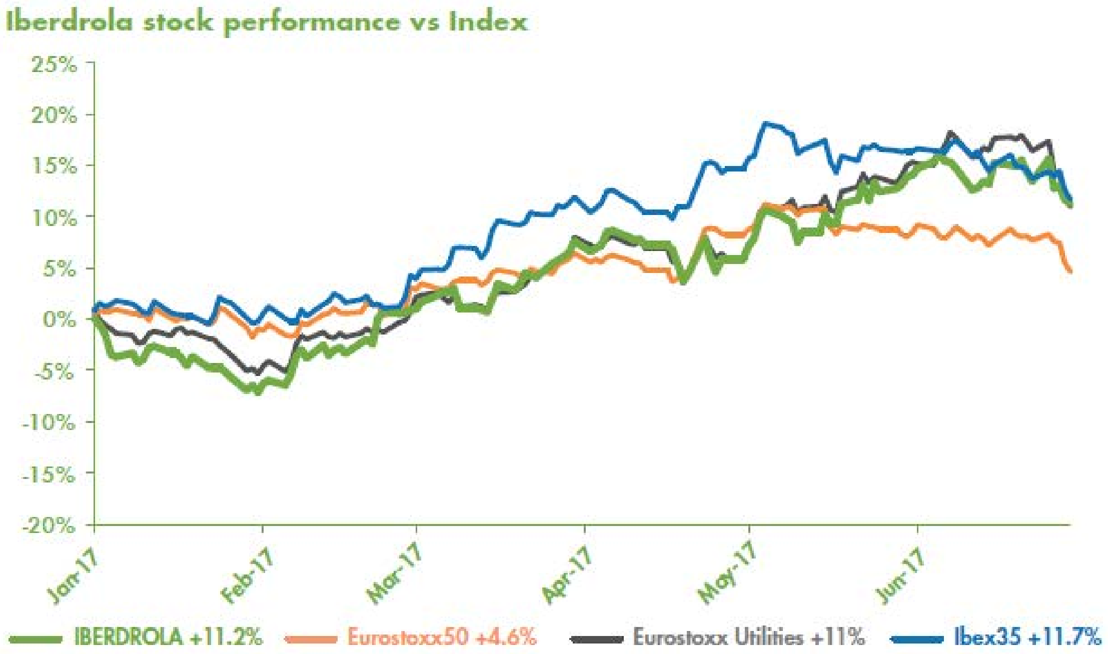
3. STOCK MARKET DATA - IBERDROLA SHARES

- **Stock market data:**

		1H 2017
Market capitalisation	Millions of Euros	43,262
Basic earnings per share	Euros	0.243
P.E.R. (closing quoted price/earnings per share last four quarters)	Ratio	15.9
Price / Book value (quoted price/equity of the Parent at period end)	Ratio	1.1

- **IBERDROLA shares:**

Stock market performance of IBERDROLA shares compared with indexes:



		1H 2016
Number of outstanding shares	Number	6,240,000,000
Price at the end of the period	Euros	6.933
Dividends paid	Euros	0.317
Gross interim dividend (23/01/2017) (1)	Euros	0.135
Gross complementary dividend (08/07/2017) (2)	Euros	0.030
Gross complementary dividend scheduled for 21/07/2017 (1)	Euros	0.147
AGM attendance fees	Euros	0.005
Dividend yield (3)		4.57%

(1) Rights acquisition price guaranteed by IBERDROLA.
(2) Cash dividend.
(3) Dividends paid in the last 12 months and AGM attendance fees/price at the end of period.

4. ALTERNATIVE PERFORMANCE MEASURES

As a complement to the consolidated financial statements presented in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU), IBERDROLA has opted to present Alternative Performance Measures (APM). In accordance with IFRS-EU, these measures are used in addition to financial indicators in order to draw up budgets and targets and manage the business, assess its operating and financial performance and compare performance with prior periods and competitors. Presentation of these measures is considered to be useful because they can be used to analyse and compare profitability between companies and industries, as they eliminate the impact of financial structures and accounting factors other than cash flows.

Non-financial measures are presented as, together with other similar measures, they are broadly used by investors, stock market analysts and other agents as complementary performance measures.

The consolidated income statement of the IBERDROLA Group includes the items and subtotals that it considers are relevant for the purposes of reporting its position and financial performance, and includes subtotals such as “gross margin”, “net operating expense”, “gross operating profit/EBITDA”, “operating profit/EBIT”, “net finance cost”, and “gains on disposal of non-current assets”.

In general, these APMs are those used in the directors' report and are directly traceable to the consolidated income statement, with no reconciliation required. The only difference is that these figures are presented in millions of Euros in the directors' report, whereas they are presented in thousands of Euros in the consolidated income statement.

Details of the calculation of the APMs used that are not directly traceable are as follows:

	No. shares in circulation	Price at the end of the period	Millions of Euros
Market capitalisation	6,240,000,000	6.933	43,262
Equity			39,506
Price / Book value (1)	**Ratio**		**1.10**

(1) Capitalisation /equity of the Parent at period end

Net profit attributable to the Parent	**Millions of Euros**	**No. shares in circulation**	**Earnings per share**
Third quarter of 2016	584.9	6,362,079,000	0.092
Fourth quarter of 2016	663.3	6,362,079,000	0.104
First quarter of 2017	827.6	6,459,990,000	0.128
Second quarter of 2017	690.8	6,240,000,000	0.111
Total			**0.435**
Share price at period end			**6.933**
P.E.R. (2)	**Ratio**		**15.94**

(2) Share price at period end/Earnings per share in last four quarters

Millions of Euros	30.06.2017	31.12.2016
Equity (I)	**39,506**	**40,687**
Non-current equity instruments of a financial liability nature	25	44
Financial debt - loans and other	26,660	26,509
Current equity instruments of a financial liability nature	69	93
Financial debt - loans and other	5,505	4,712
Non-current derivative liabilities (debt-financing)	289	315
Current derivative liabilities (debt-financing)	135	353
Gross debt (II)	**32,683**	**32,026**
Cash and cash equivalents	1,749	1,433
Non-current derivative assets (debt-financing)	518	747
Current derivative assets (debt-financing)	415	372
Receivables in respect of TEI and security and other deposits	60	60
Treasury assets (III)	**2,742**	**2,612**
Net debt (IV=II- III)	**29,941**	**29,414**
Net gearing ratio (IV/(I+IV))	**43.11%**	**41.96%**

Millions of Euros	30.06.2017	31.12.2016
Non-current derivative assets (debt-financing)	518	747
Non-current derivative assets (raw materials and securities)	122	162
Derivative financial instruments (non-current)	**640**	**909**
Current derivative assets (debt-financing)	415	372
Current derivative assets (raw materials and securities)	156	322
Derivative financial instruments (current)	**571**	**694**

Millions of Euros	30.06.2017	30.12.2016
Non-current derivative liabilities (debt-financing)	289	315
Non-current derivative liabilities (raw materials and securities)	84	103
Derivative financial instruments (non-current)	**373**	**418**
Current derivative liabilities (debt-financing)	135	353
Current derivative liabilities (raw materials and securities)	115	339
Derivative financial instruments (current)	**250**	**692**

5. INDUSTRY REGULATION AND THE SPANISH ELECTRICITY SYSTEM

During the first half of 2017, a number of provisions were approved that affect the energy industry sector. The most significant developments are as follows:

European Union

Network codes: Commission Regulation (EU) 2017/459 and Commission Regulation (EU) 2017/460 were published in March 2017. The former establishes a network code on capacity allocation mechanisms in gas transmission systems (setting up the capacity allocation mechanisms in transmission systems for existing and incremental capacity) and also sets out how adjacent transmission system operators should cooperate in order to facilitate capacity sales.

The latter, Commission Regulation (EU) 2017/460, establishes a network code on harmonised transmission tariff structures for gas and sets out the rules on harmonised transmission tariff structures for gas, including the application of a reference price methodology, the consultation and publication requirements as well as the calculation of reserve prices for standard capacity products.

Submissions on strategic reserves: The period for submissions for the investigation of the Directorate-General for Competition on strategic reserves in Germany has opened. On 23 January 2017 Germany announced draft legislation on capacity reserves, together with an assessment of the need for the measure. Following its assessment, the Commission provisionally concluded that the measure comprises state aid. Stakeholders may submit their observations within a period of one month from the date of publication (19 May 2017).

Brexit: Council Decision 2017/900 established an *ad hoc* Working Party on Article 50 of the Treaty on European Union (TEU), chaired by the General Secretariat of the Council, to assist the Committee of Permanent Representatives (Coreper) and the Council in all matters pertaining to the withdrawal of the United Kingdom from the European Union. This Working Party will cease to exist when its mandate has been fulfilled.

Spain

Spanish electricity sector

Regulated revenues and costs in the electricity sector: the Order establishing the electricity access tolls for 2017 was published in late December 2016. This Order upheld the existing tolls, capacity payments and compensation for non-mainland systems as well as the contribution of 50% of this cost from the General State Budgets. Remuneration for distribution activities will provisionally be settled using the 2016 values, pending publication of a Ministerial Order with the values for 2017.

Review of remuneration for renewables: the Order updating the remuneration for renewable energies, co-generation and waste for 2017-2019 was published in February 2017. The Order reviews the regulated remuneration for investment and operations received by such facilities in addition to their market revenues:

- Remuneration for investment has been adjusted for changes in energy market prices: the actual prices obtained in the prior two-year period (2014-2016) have been updated, OMIP futures (Iberian energy derivatives exchange) will be used as reference for the following three-year period 2017-2019 (around Euros 42-43/MWh), and a price of Euros 52/MWh will be maintained from 2020 onwards.

- In turn, remuneration for operations for the first half of 2017 has been adjusted in line with the latest fuel costs.

Regulated remuneration for the sector has risen by approximately Euros 600 million compared with 2016.

<u>Social tariff</u>: Royal Decree-Law 7/2016, regulating the financing mechanism for the cost of the social tariff and other measures to protect vulnerable electricity consumers, was published on 24 December 2016. The Royal Decree-Law, which entered into force on 25 December 2016, came in response to the Supreme Court rulings on the appeals against the financing of the social tariff and establishes a new mechanism for financing the social tariff with a charge to supply activities. As a transitional measure, IBERDROLA will finance 35.5% of these costs (compared with the previous 38%) until this legislation has been implemented. The Royal Decree-Law urges the government to develop a new social protection mechanism that is defined by reference to income-based criteria. It also defines a second group of “extremely vulnerable consumers”, whose supply may not be disconnected and whose bills will be co-funded by the competent authorities and the parties that finance the social tariff.

The Royal Decree-Law was ratified on 31 January 2017, triggering the three-month timeframe for its implementation.

A draft royal decree governing vulnerable electricity consumers, the social tariff and the conditions for supply disconnections for consumers with a contracted capacity of 10 kW or less was received for comment in May 2017.

The royal decree proposes a review of the criteria and procedure in order to qualify for the social tariff, taking into account income-based criteria, the number of minors at the residence and other conditions, covering consumption up to a specified limit in each bill. The social tariff must be requested from the benchmark supplier and renewed annually. The royal decree also proposes a review of the supply disconnection processes by increasing consumer information obligations, bringing terms on the free market into line with those applicable in the regulated market and classifying consumers who receive help from social services as "essential" (including a minimum payment of 50% of their bill).

<u>Regional supplements:</u> The Ministerial Order establishing the regional supplements for Catalonia, La Rioja, Castilla La Mancha and Valencia and the corresponding rebilling procedure for consumers in those autonomous regions was published in January 2017.

This order derives from the Supreme Court rulings ordering supplements to be established for the tolls applied to consumers in each autonomous region so as to recover the regional taxes levied on different electricity activities in 2013.

Under the enacted Order, this charge will be passed on to consumers in the four autonomous regions where the government has completed the process. The process for the other autonomous regions has yet to be completed.

Spanish National Energy Efficiency Fund: The Order setting out the contributions to be made to the Spanish National Energy Efficiency Fund for 2017 was published in March. This fund must be financed by electricity and gas suppliers and operators of petroleum products in proportion to their sales in 2015 (year n-2). The weight of these sectors is approximately: 25% electricity, 25% gas and 50% petroleum products.

The annual appropriation was established at Euros 205.2 million, similar to that approved in prior years. Total sales of these sectors are equivalent to 777 TWh, reflecting an amount of approximately Euros 0.26/MWh of electricity, gas or petroleum products. The calculations are based on the final energy sales declared by each company, plus corrections from prior years. As final energy is considered, gas consumption in generation and co-generation is excluded.

An allocated portion of 7.2% has been calculated for IBERDROLA which, based on sales of 56.3 TWh, results in a payment obligation of approximately Euros 14.9 million, compared with Euros 15.1 million in the prior year.

New RES capacity auctions: The Royal Decree setting out the legal groundwork for the first renewables auction in 2017 was approved on 31 March. The Ministerial Order and resolutions governing the auction procedure and remuneration parameters were subsequently published.

A maximum of 3,000 MW in renewable power in the mainland, excluding co-generation, was expected to be traded in the auction, which is open to new facilities, but not to repowered existing facilities or projects that have already been authorised or registered. All technologies compete with each other, with no quotas established. A guarantee of Euros 60/kW is required, linked to compliance with interim milestones. Breach of the first milestone will entail the loss of the total amount of the guarantee.

The auction was held on 17 May, with 2,980 MW assigned to wind power, 1 MW to photovoltaic facilities, and 19 MW assigned to other technologies. As the maximum discount was applied, the winning bidders will not receive feed-in tariffs, except the reviews carried out in subsequent regulatory periods should the market price fall below a certain threshold.

A Royal Decree announcing the second RES auction for 2017 was published on 17 June 2017. The auction considers output of 3,000 MW from mainland wind or photovoltaic facilities. Moreover, projects with the same maximum discount as the winning bidder will also be awarded, provided a classified amount is not exceeded.

Ruling of the Constitutional Court, repealing various articles of Law 13/2015 of Galicia: Articles governing various matters relating to billing of electricity customers were repealed due to conflict of competence with the State.

Billing using new remote meters has had a significant effect , such as the repeal of the prohibition against charging rentals for meters that are not fully integrated within the system and of that against billing on the basis of estimated readings for these meters, when actual consumption data cannot be obtained electronically. The exemption available to acquirers of developed land from payment of power extension charges that have already been defrayed by the developer of the industrial park, irrespective of the time elapsed since then, has also been repealed. State legislation stipulates that this exemption will expire after three (low voltage) or five years (high voltage).

Decision of the Supreme Court on the 2013 deficit: The decision of the Supreme Court on the appeal filed by UNESA (the Spanish Electricity Industry Association) against the Ministerial Order on tolls for 2015 was published in the Official State Gazette ("BOE") in April 2017. As regards the deficit for 2013, the decision acknowledged the interest owed to the UNESA companies as of the date of the contribution (rather than 1 January 2014). The CNMC (Spanish National Markets and Competition Commission) must establish a calculation methodology.

Removal of CO_2 allowances for 2006: Through a ruling enforcing a judgement announced on 4 May, the Supreme Court acknowledged the interest of approximately Euros 31 million owed to IBERDROLA for the removal of emission allowances in 2006, following the resolution of the ancillary proceeding for enforcement of a judgement filed. The interest relates to the amounts unduly removed from facilities that were not assigned CO_2 emission allowances under the first National Allocation Plan.

In a separate decision, the Supreme Court also acknowledged the payment of Euros 1 million to IBERDROLA in respect of the interest for the removal of emission allowances for 2007.

The acknowledgement of the late payment interest in respect of the removal of emission allowances has been recognised in the consolidated income statement for the six-month period ended 30 June 2017.

Supreme Court decision on Royal Decree 900/2015 on self-generation: Article 4.3 on the possibility of connecting generators to communal facilities used by various consumers, which the Court understands to refer to connection facilities, has been repealed, as have various articles on the obligation to register at state level.

Deadline for renewal applications of nuclear plants: In June, two Ministerial Orders were published that extended the deadline for submitting licence renewal applications for the Almaraz and Vandellós nuclear power plants. The renewal will be requested within two months of the government's approval of the Comprehensive Energy and Climate Plan or, failing that, two months prior to the expiry of the existing licence. This plan forms part of the developments required under the *Clean Energy Package*.

Levy on hydroelectric production: A Royal Decree-Law containing measures to reduce the drought in certain basins, including an increase in the levy for hydroelectric production, was published in June 2017. The charge has risen from 22% to 25.5% and is levied on the revenues obtained from hydroelectric production. The measure entered into force, with no time limit, on the date of publication of the Royal Decree-Law.

Spanish gas sector

Gas tolls for 2017: Ministry of Energy, Industry and the Digital Agenda Order ETU/1977/2016, setting out the tolls and charges for third-party access to gas facilities and the remuneration for regulated activities for 2017, was published on 31 December 2016. The Order maintains the existing tolls, with the exception of the rates applicable to contracts for access for a period of less than one year.

Last resort tariff for gas in the first quarter of 2017: The Resolution of 29 December issued by the Directorate-General for Energy Policy and Mining published the last resort tariff for natural gas applicable from 1 January 2017 onwards. Prices rose on average by 3% with respect to the prior quarter. The increase was attributable to the rise in the cost of this raw material, in both the component pegged to Brent and that pegged to NBP. Nevertheless, prices continue to be 8% below the peak reached in January 2015.

United Kingdom

Brexit: The UK announced the triggering of article 50 of the TEU on 29 March 2017. Following a short delay due to the general elections, negotiations began on 19 June 2017.

Capacity market: On 20 June 2017, Ofgem (the *Office of Gas and Electricity Markets*) announced its final decision on industry proposals CMP264 and CMP265, which favour the *WACM4* option, which would substantially phase out the benefits (with respect to transmission charges) for embedded generators over a period of three years, beginning in April 2018. Furthermore, on 22 March 2017 the Department for Business, Energy and Industrial Strategy (BEIS) announced its decision to recover the cost of capacity payments on the basis of "gross" demand from 2018 onwards, thereby eliminating the current hidden form of subsidy for embedded generators.

On 15 June 2017, *National Grid* published its operational plan on the capacity market for 2017/2018, which states that the T-1 auction (delivery in 2018/19) will begin on 30 January 2018 and the T-4 auction (delivery in 2021/22) will start on 6 February 2018. The start date of the T-4 auction is somewhat later than usual (previous auctions have been held in December) so as to allow for more time to address the necessary capacity market reforms.

Renewables auction: The *Contract for Difference* (CfD) auction for renewable energy projects, including offshore wind, and other technologies opened on 3 April 2017, with an allocated budget of Pounds Sterling 290 million. Applicants will be invited to submit sealed bids in August 2017 and the outcome is expected to be known on 11 September 2017.

United States

Paris Climate Agreement: On 1 June 2017 President Trump announced that the United States *"will withdraw from the Paris Climate Accord"*. The President added that the United States *"(will) begin negotiations to reenter either the Paris Accord or a really entirely new transaction on terms that are fair to the United States"*. The United States' target under the Paris Agreement was to reduce carbon dioxide emissions by 26%-28% below 2005 levels. Although formal withdrawal may not be effective until November 2020, the President has announced that the United States will cease all implementation of the Paris Agreement, including the *Nationally Determined Contribution* and the financing of the Green Climate Fund. Various world leaders have responded to Trump's call for renegotiation by saying that the agreement cannot be reversed. In response to the announcement, the governors of a number of states, including California, Washington and New York, formed the United States Climate Alliance to meet the country's climate targets. Furthermore, more than 1,000 leaders from states, cities, business and universities, including California, New York, Microsoft, Google, Apple and Facebook, signed an open letter declaring their commitment to meeting the targets of the Paris Agreement. The UN Special Envoy for Cities and Climate Change, former mayor of the City of New York Michael Bloomberg, submitted a "We Are Still In" declaration to the UNFCC (*United Nations Framework Convention on Climate Change*) and will present a "Naturally Determined Contribution" that reflects the efforts made by cities, states, business and other areas.

Environmental Protection Agency: On 8 June 2017 the *Environmental Protection Agency* (EPA) submitted to the *Office of Management and Budget* (OMB) its proposed review to roll back the *Clean Power Plan* (CPP) on the grounds that the Obama administration overreached in setting carbon emission reduction targets by considering the energy system as a whole, rather than individual facilities. The EPA is also in the process of performing an economic analysis of the CPP. Furthermore, the Supreme Court granted a stay on the CPP-related litigation. The D.C. Circuit decided to hold the case in abeyance until late June, whilst the administration decides how to manage the regulation.

NARUC manual: The National Association of Regulatory Utility Commissioners (NARUC) published its manual on Distributed Energy Compensation in November 2016. The manual provides regulators and other stakeholders with information on how to benefit from the opportunities of distributed energy resources (DER) whilst at the same time maintaining affordable, reliable, safe and secure electricity. The manual covers rate design and compensation, the availability and use of new technologies and lays out an explanation of what DER is and describes a set of certain types of DER. NARUC is in the process of working with stakeholders from both the public and private sector to implement the manual.

PTC/ITC: In December 2015 the US Congress approved legislation to extend and phase out the tax credits for renewable output (*Production Tax Credit*, PTC) and those for solar investment (*Investment Tax Credit*, ITC). Developers that start construction on a wind project before 2017 will qualify for the full credit, while those starting construction between 2017 and 2019 will qualify for a lower credit. Developers that start construction on a solar project before 2020 will qualify for a 30% ITC. Projects for which construction begins after 2019 are eligible for a lower ITC. The Department of Treasury issued guidelines with the application procedures for PTCs. Wind developers will have at least four years from the start of construction, or up to 31 December 2018, to complete a project under the “safe-harbor” qualifying standards. Certain members of the Trump administration and Congress have defended maintaining the current status of PTCs, thereby reducing the probability of changes in PTCs and ITCs.

Department of Energy (DOE) study: On 14 April 2017 the Department of Energy Secretary, Rick Perry, announced a 60-day review of the impacts of policies on the availability of "base-load" generation. The DOE has indicated that the report will focus on geographical or regional matters in which wind, in a particular region, could contribute to the existing or future grid problems; market rules in certain regions that undermine conventional sources of electricity and, therefore, favour renewable energies; and excessive regulatory charges on coal and nuclear. The DOE has made assurances that the report will not undermine PTCs. This study is expected to be published at the end of July 2017.

Renewable energy: Nevada has approved a rise in the Renewable Portfolio Standard to 40% by 2030, which has yet to be signed off by governor Sandoval. The California Senate has approved a bill to accelerate and increase the state's *Renewable Portfolio Standard*.

Net Energy Metering in New York: On 9 March 2017 the *New York Public Service Commission* (NYPSC) issued an Order on Net Energy Metering (NEM) with regard to the Value of Distributed Energy Resources (VDER). The Order provides for the immediate transition of the NEM to a new distributed energy resources tariff, albeit retaining the rights of existing facilities. As such, all existing facilities will continue to receive NEM compensation over their useful life, whilst projects that interconnect between 10 March 2017 and 1 January 2020 will be grandfathered for 20 years (protectionist measure) or until the capacity limit specific to each utility is exceeded, whereupon the Commission must take the pertinent measures.

Net Energy Billing in Maine: On 1 March 2017 the *Maine Public Utilities Commission* (MPUC) issued an order for the phase-out of net energy billing, whilst allowing existing net metered customers to be grandfathered for a period of 15 years (protectionist measure). New facilities will be required to install meters within the generation facility from January 2018 onwards. The remuneration model for these facilities will be on a gross basis, i.e. such customers buying their total consumption from the grid at retail rates and receiving remuneration for their entire output fed into the grid at market prices and REC certification.

Transmission: In April 2017 the US Court of Appeals issued a ruling ordering the *Federal Energy Regulatory Commission* (FERC) to reconsider its order on the 2011 complaint (*Complaint I*) relating to the return on equity (ROE) 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 as it had not established that the 11.14% rate was “unreasonable” prior to setting a new ROE. The Court also declared that the FERC did not put forward a reasoned decision in setting the new ROE at 10.57%. The procedure has been referred back to the FERC for consideration. The Court's opinion was also raised in the ongoing FERC administrative hearing on the complaint filed in April 2016 on the ROE (*Complaint IV*). The transmission owners argued that the hearing should be suspended until the FERC responded to the Court's findings on Complaint I. The FERC Administrative Law Judge denied the request of the transmission owners, stating that the Court's opinion would not affect the matters addressed in the hearing.

Brazil

Tariff review: Through Resolution 2.214 issued on 28 March, the Brazilian National Electricity Agency (ANEEL) ordered an (energy cost) review of tariffs of all distributors, suspending collection of the operating costs of the Angra III nuclear power plant included in the 2016 tariffs (specifically within “Energy Reserve”). The review was prompted by the fact that this power plant was not in operation during 2016 and the associated costs should therefore not be included in the tariffs.

Although the difference between the costs included in the tariff and the actual costs is adjusted in the annual tariff review for each distributor, in light of the media focus on these events, ANEEL decided to make an exceptional adjustment in April. Besides eliminating this cost from the tariffs, the amounts already collected in prior months will be refunded. These adjustments have not affected the results of distributors.

Transfer of sub-transmission assets to distributors: These sub-transmission assets operating below 138 kV are currently owned by transmission companies (*Demais Instalações de Transmissão: DITs*). On 7 February 2017 ANEEL approved the conditions for their transfer to distributors (in accordance with Public Hearing 041/2015). ELEKTRO has been assigned 17km of lines and two substations.

The assets will be transferred as part of the tariff review for 2019 and distributors will be required to compensate the electricity transmission companies for the assets received. An amount of Brazilian Reals 2,900 million has been estimated for all distributors in Brazil, although the definitive amount will be calculated during the tariff review for 2018.

New tariff band values in 2017: On 20 February, ANEEL published a resolution with the unit variable costs used to trigger the different tariff bands in 2017. The additional cost for each band was also set:

- *Yellow bands* are triggered in months in which the unit variable cost (UVC) of the last plant to be dispatched is between Brazilian Reals 211.28/MWh and Brazilian Reals 422.56/MWh. In this scenario, the tariff would rise by Brazilian Reals 20/MWh (Brazilian Reals 15/MWh in 2016).

- *Red band 1* is triggered in months in which the UVC of the last plant to be dispatched is between Brazilian Reals 422.57 610/MWh and Brazilian Reals 610/MWh. In this scenario, the tariff would rise by Brazilian Reals 30/MWh (same rise as in 2016).

- *Red band 2* is triggered in months in which the UVC exceeds Brazilian Reals 610/MWh. In this scenario, the tariff would rise by Brazilian Reals 35/MWh (Brazilian Reals 45/MWh in 2016).

The tariff band was green in January and February 2017. The yellow band was triggered in March as a result of the poor rain forecasts, leading to the dispatch of more thermal power plants so as to maintain the reservoir storage levels. The red band 1 was triggered in April and May and downgraded to green in June as a result of greater precipitation.

Conta de Desenvolvimento Energético (CDE): ANEEL established the annual CDE share allocable to each distributor for 2017; an amount of Brazilian Reals 941 million was assigned to ELEKTRO, down 8.2% on the amount for 2016. This reduction has had no impact on profit and loss as the charge is directly included in the tariff of end consumers.

Subsequently on 25 April 2017 ANEEL decided to reduce the monthly CDE charge (due to a reduction in the drawdowns on the loans arranged in 2014 to cover the extraordinary cost of energy purchases in the drought season). This has resulted in a decrease of approximately Brazilian Reals 6 million in the monthly account for ELEKTRO. This value has been updated in the tariff adjustment, with no financial impact for distributors.

Excess contracting of distributors: Measures continue to be developed to reduce the excess contracting of distributors. Throughout the first half of 2017, rounds of centralised trading agreements were held between distributors with excess energy contracted and generators that wish to reduce the volume of contracted energy (Mechanism for Compensation of Surpluses and Deficits of New Energy - MCSD). In 2017 ELEKTRO participated in all the rounds held; the first round took place in January (for the January-December 2017 contract period); a second in April (April-December contract period), and a special round was also held to reduce contracts for January 2018 to December 2021. Two further sessions under this mechanism are expected to be held during 2017.

Mexico

Long-term auctions: the preliminary specifications of the 2017 long-term auction, together with the location marginal prices (LMP), time-adjustment factors (TAF) and expected differences (ED) for each region, were published on 8 May. The document contains the same structure and contents as for prior auctions, but for the first time allows for the entry of new potential buyers (Load-Serving Entities) other than the Federal Electricity Commission (CFE). A schedule similar to that for the auction announced on 28 April 2017 has also been published with the following key dates:

- 27 June 2017: publication of the final specifications (following a question and answer process).
- 25 July 2017: submission of the CFE purchase bid.
- 8 August 2017: submission of purchase bids from other potential buyers (Load-Serving Entities other than CFE).
- 12 to 20 September 2017: submission of requests for pre-qualification of sale offers.
- 23 October 2017: presentation of bid bonds.
- 8 November 2017: receipt of first stage of economic bids for sale offers.
- 13 November 2017: receipt of second stage of economic bids for sale offers.
- 15 November 2017: assessment of economic bids for sale offers (execution of mixed-integer modelling).
- 16 November 2017: potential additional iterations of economic bids for sale offers.
- 22 November 2017: publication of auction ruling and allocation of contracts.

Medium-term auctions: The manual for medium-term auctions (SMP) was published in the Official Gazette of the Federation (DOF) on 12 June 2017. These annual auctions are aimed at enabling market participants to enter into electricity coverage contracts of up to three years, so as to allow Basic Services Suppliers to fulfil the requirements set out by the Energy Regulatory Commission (CRE) and meet the capacity and energy requirements within a maximum three-year period in order to reduce exposure to short-term prices. The auction is expected to be announced in late June 2017.

Natural gas open season On 8 May 2017 a total of 2.3 million GJ/d throughout different sections of the system was awarded under the first open season for SISTRANGAS (National Comprehensive Natural Gas Storage and Transport System), through which as of 1 July CENAGAS (the National Natural Gas Control Centre) will prepare the tender of the uninterruptible transmission service for 6.3 million GJ/d in the system, which represents 97% of the total available capacity published. The excess price paid by customers that receive capacity allocation will be 0 in all cases.

Clearing House for long-term auctions: The Secretary for Energy (SENER) published in the COFEMER the draft Clearing House operating guide for contracts assigned under long-term auctions. The definitive operating guide, which is expected to be published in the Official Gazette in June, will open up the purchase bids in the long-term auction to participation from Load-Serving Entities (ERC) other than the basic service supplier. The main objective is to enable these ERC to cover their Clean Energy Certificate (CEL) requirements through this process. The Clearing House will act simultaneously as counterparty to buyers and sellers; consequently, the appendices to the specifications of the long-term auction underway include both contracts. The draft opens up the possibility for the Clearing House to absorb the contracts arranged under the first two long-term auctions, announced in 2015 and 2016, when the only buyer counterparty was CFE as basic service supplier.

Energy transition: The *Regulation on the Energy Transition Law*, published in the Official Gazette of the Federation on 4 May 2017, is aimed at establishing the mechanisms and procedures to enable the different agents responsible for observation of and compliance with the *Energy Transition Law* to draw up and update the Transition Strategy to Promote the User of Clean Technologies and Fuels; the *National Programme for Sustainable Energy Use (*PRONASE*)*; the assessment of planning instruments; the preparation and/or update of the calculation methodology for gas emissions as well as the procedure to be followed by parties interested in obtaining the Recognition of Excellence in Energy Efficiency.

Definition of Clean Energy Certificate (CEL) targets for 2020, 2021 and 2022: On 31 March 2017, the SENER published *the Alert to announce the requirements for the acquisition of Clean Energy Certificates in 2020, 2021 and 2022* in the Official Gazette of the Federation. According to the Alert, the CEL requirements will be 7.4% for the 2020 obligation period; 10.9% for the 2021 obligation period and 13.9% for the 2022 obligation period. The targets for 2021 and 2022 may (only) be revised upwards in subsequent target announcements, which are published each year on the same date (end of the first quarter).

Regulation for distributed generation: On 7 March 2017 the CRE published its *Resolution issuing the General Administrative Provisions, contract templates, consideration calculation methodology and general technical specifications applicable to distributed generation and distributed clean generation power plants* in the Official Gazette of the Federation. This Resolution, together with the *Interconnection Manual for Power Plants with a capacity of less than 0.5 MW* published in December 2016, describe the operating and remuneration criteria applicable to small- and medium-scale distributed generation. Furthermore, on 22 March the SENER published *the First Analysis of the Benefits of Distributed Clean Generation and Energy Efficiency in Mexico*, as provided for by transitional article 18 of the Energy Transition Law (LTE).

Update to Short-Term Total Cost (CTCP): On 2 March 2017 the CRE published *the Resolution updating the methodology for calculating the Short-Term Total Cost (CTCP)* (RES/143/2017) in the Official Gazette of the Federation. This Resolution establishes that the CTCP values (used as reference for revenues prior to the reform) will be the same as the location marginal prices (PML) derived from application of the wholesale electricity market models. Furthermore in the area of revenues, on 3 March the CRE scrapped the draft *Agreement setting the cap on payments by the intermediary generator to holders of Legacy Interconnection Contracts (CIL) in respect of economic energy*. As a result, the risk that limited the payments for "self-supply" surpluses to 20% has been eliminated.

IBERDROLA

FINANCIAL REPORT FOR THE FIRST HALF OF 2016
STATEMENT OF RESPONSIBILITY

The members of the Board of Directors of IBERDROLA, S.A. state that, to the best of their knowledge, the selected financial information of IBERDROLA, S.A., as well as the consolidated annual accounts of IBERDROLA, S.A. and its subsidiaries, for the first half of fiscal year 2016, issued by the Board of Directors at its meeting of July 19, 2016, and prepared in accordance with applicable accounting standards, present a fair view of the assets, financial condition and results of operations of IBERDROLA, S.A. as well as of the subsidiaries included within its scope of consolidation, taken as a whole, and that the interim management report contains a fair assessment of the required information.

Bilbao, July 19, 2016

Mr. José Ignacio Sánchez Galán
Chairman & Chief Executive Officer

Mr. Iñigo Víctor de Oriol Ibarra *Director*	Ms. Inés Macho Stadler *Director*	Mr. Braulio Medel Cámara *Director*
Ms. Samantha Barber *Director*	Ms. Maria Helena Antolín Raybaud *Director*	Mr. Santiago Martínez Lage *Director*
Mr. José Luis San Pedro Guerenabarrena *Director*	Mr. Ángel Jesús Acebes Paniagua *Director*	Ms. Georgina Yamilet Kessel Martínez *Director*
Ms. Denise Mary Holt *Director*	Mr. José Walfredo Fernández *Director*	Mr. Manuel Moreu Munaiz *Director*
Mr. Xabier Sagredo Ormaza *Director*		

This note is drafted by the secretary of the Board of Directors to put on record that the director Mr Braulio Medel Cámara has not signed this document executed in his absence due to reasons of force majeure, having being signed in his stead by the non-executive director Ms. Inés Macho Stadler on the basis of the express proxy granted for such purpose by Mr Braulio Medel Cámara.

Julián Martínez-Simancas Sánchez