

# ANNEX I

## GENERAL

1st

HALF-YEARLY FINANCIAL REPORT FOR FINANCIAL YEAR

2018

REPORTING DATE

30/06/2018

### 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)**

#### **Amendment to comparative information**

##### Geographical and business segment reporting

As provided in IFRS 8: "Operation segments", comparative information from the previous period has been revised for the following reasons:

- Following the acquisition of NEOENERGIA, the IBERDROLA Group has changed the way it reports its activities in Brazil based on the different businesses to which they belong.
- On 1 January 2018, hydropower assets have been transferred from the Liberalised business to the Renewables business.
- In 2017, the gas business in the United States and Canada was included under the Liberalised-Rest of the World segment. After having sold the whole gas business in the United States, the remaining assets and liabilities of this business in Canada are included under the Other businesses segment.

##### Abandonment of engineering and construction activities

In the second half year of 2017, the activities related to the provision of engineering and construction services were abandoned, meeting the requirements to be considered a discontinued activity. The profit or loss after tax of this discontinued operation is included under the sub-heading "Profit (loss) from discontinued operations (net of tax)" on the consolidated income statement for the period ended on 30 June 2018. Subsequently, comparative information from the previous period has been revised.

##### Earnings per share

Within the context of the Iberdrola flexible dividend scheme, in January 2018 a free capital increase was carried out, while at the time of issue of these financial statements a second free capital increase is in progress. According to IAS 33: "Earning per share" these free capital increases have resulted in the correction of the basic and diluted earnings. The increase in January 2018 has been taken into account in the basic and diluted earning per share calculations for the periods ended on 30 June 2018 and 2017, while in the increase in July 2018 has only taken into account the diluted earnings per share calculation for said periods.

#### **Other explanations**

Due to technical restrictions, when filling out the contents of the semi-annual Financial Report for 2018, the IBERDROLA Group has had to modify the presentation of the following information with respect to the information published in the Interim consolidated financial statements ended on 30 June 2018.

In Form 10. A. Consolidated statement of cash flow (IFRS adopted), the "Profit (loss) from discontinued operations, net of tax" is presented grouped in line 1412 "(+/-) Other net adjustments to profit (loss)" instead of line 1405 "Profit (loss) before tax".

**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
Mr. José Ignacio Sánchez Galán	Chairman & CEO
Mr. Iñigo Víctor de Oriol Ibarra	Director
Ms. Inés Macho Stadler	Director
Ms. Samantha Barber	Director
Ms. María Helena Antolín Raybaud	Director
Mr. Ángel Jesús Acebes Paniagua	Director
Ms. Georgina Kessel Martínez	Director
Ms. Denise Mary Holt	Director
Mr. José Walfredo Fernández	Director
Mr. Manuel Moreu Munaiz	Director
Mr. Xabier Sagredo Ormaza	Director
Mr. Juan Manuel González Serna	Director
Mr. Francisco Martínez Córcoles	Director
Mr. Anthony L. Gardner	Director

**Date this half-yearly financial report was signed by the corresponding governing body: 24/07/2018**

**IV. SELECTED FINANCIAL INFORMATION**

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

Units: Thousand euros

ASSETS		CURRENT P. 30/06/2018	PREVIOUS P. 31/12/2017
<b>A) NON-CURRENT ASSETS</b>	<b>0040</b>	45,505,556	44,744,617
1. Intangible assets:	<b>0030</b>	110,171	95,514
a) Goodwill	<b>0031</b>	0	0
b) Other intangible assets	<b>0032</b>	110,171	95,514
2. Property, plant and equipment	<b>0033</b>	226,621	221,686
3. Investment property	<b>0034</b>	0	0
4. Long-term investments in group companies and associates	<b>0035</b>	43,959,876	43,895,720
5. Long-term financial investments	<b>0036</b>	154,575	133,135
6. Deferred tax assets	<b>0037</b>	388,116	389,799
7. Other non-current assets	<b>0038</b>	666,197	8,763
<b>B) CURRENT ASSETS</b>	<b>0085</b>	1,259,129	1,690,006
1. Non-current assets held for sale	<b>0050</b>	0	0
2. Inventories	<b>0055</b>	0	0
3. Trade and other receivables:	<b>0060</b>	289,828	605,877
a) Trade receivables	<b>0061</b>	162,115	98,142
b) Other receivables	<b>0062</b>	18,968	67,497
c) Current tax assets	<b>0063</b>	108,745	440,238
4. Short-term investments in group companies and associates	<b>0064</b>	819,168	856,814
5. Short-term financial investments	<b>0070</b>	145,779	226,124
6. Prepayments for current assets	<b>0071</b>	4,354	1,191
7. Cash and cash equivalents	<b>0072</b>	0	0
<b>TOTAL ASSETS (A + B)</b>	<b>0100</b>	46,764,685	46,434,623

**IV. SELECTED FINANCIAL INFORMATION**

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

Units: Thousand euros

EQUITY AND LIABILITIES	CURRENT P. 30/06/2018	PREVIOUS P. 31/12/2017
<b>A) EQUITY (A.1 + A.2 + A.3)</b>	<b>0195</b>	32,335,519
<b>A.1) CAPITAL AND RESERVES</b>	<b>0180</b>	33,287,122
1. Capital:	<b>0171</b>	4,738,136
a) Registered capital	<b>0161</b>	4,738,136
b) <i>Less: Uncalled capital</i>	<b>0162</b>	0
2. Share premium	<b>0172</b>	14,667,679
3. Reserves	<b>0173</b>	6,234,009
4. <i>Own shares and equity holdings</i>	<b>0174</b>	(110,925)
5. Prior periods' profit and loss	<b>0178</b>	8,204,700
6. Other shareholder contributions	<b>0179</b>	0
7. Profit (loss) for the period	<b>0175</b>	1,598,871
8. <i>Less: Interim dividend</i>	<b>0176</b>	0
9. Other equity instruments	<b>0177</b>	23,757
<b>A.2) VALUATION ADJUSTMENTS</b>	<b>0188</b>	(70,881)
1. Available-for-sale financial assets	<b>0181</b>	0
2. Hedging transactions	<b>0182</b>	(70,881)
3. Other	<b>0183</b>	0
<b>A.3) GRANTS, DONATIONS AND BEQUESTS RECEIVED</b>	<b>0194</b>	0
<b>B) NON-CURRENT LIABILITIES</b>	<b>0120</b>	5,819,415
1. Long-term provisions	<b>0115</b>	499,438
2. Long-term debts:	<b>0116</b>	1,211,477
a) Debt with financial institutions and bonds and other marketable securities	<b>0131</b>	1,053,785
b) Other financial liabilities	<b>0132</b>	157,692
3. Long-term payables to group companies and associates	<b>0117</b>	3,381,868
4. Deferred tax liabilities	<b>0118</b>	726,632
5. Other non-current liabilities	<b>0135</b>	0
6. Long-term accrual accounts	<b>0119</b>	0
<b>C) CURRENT LIABILITIES</b>	<b>0130</b>	7,398,967
1. Liabilities associated with non-current assets held for sale	<b>0121</b>	0
2. Short-term provisions	<b>0122</b>	0
3. Short-term debts:	<b>0123</b>	515,796
a) Bank borrowings and bonds and other negotiable securities	<b>0133</b>	377,327
b) Other financial liabilities	<b>0134</b>	138,469
4. Short-term payables to group companies and associates	<b>0129</b>	6,730,990
5. Trade and other payables:	<b>0124</b>	152,149
a) Suppliers	<b>0125</b>	16,223
b) Other payables	<b>0126</b>	135,926
c) Current tax liabilities	<b>0127</b>	0
6. Other current liabilities	<b>0136</b>	0
7. Current accrual accounts	<b>0128</b>	32
<b>TOTAL EQUITY AND LIABILITIES (A + B + C)</b>	<b>0200</b>	46,434,623

<b>IV. SELECTED FINANCIAL INFORMATION</b>
<b>2. INDIVIDUAL PROFIT AND LOSS ACCOUNT</b>
<b>(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)</b>

Units: Thousand euros

		PRESENT CURR. PERIOD (2nd HALF YEAR)		PREVIOUS CURR. PERIOD (2nd HALF YEAR)		CURRENT CUMULATIVE 30/06/2018		PREVIOUS CUMULATIVE 30/06/2017	
		Amount	%	Amount	%	Amount	%	Amount	%
(+) Revenue	<b>0205</b>					530,846	100,00	770,039	100,00
(+/-) Change in inventories of finished products and work in progress	<b>0206</b>					0	0,00	0	0,00
(+) Own work capitalised	<b>0207</b>					1,532	0,29	1,359	0,18
(-) Supplies	<b>0208</b>					(218,405)	(41,14)	(182,246)	(23,67)
(+) Other operating revenue	<b>0209</b>					82	0,02	115	0,01
(-) Personnel expenses	<b>0217</b>					(67,363)	(12,69)	(76,345)	(9,91)
(-) Other operating expenses	<b>0210</b>					(101,455)	(19,11)	(103,761)	(13,47)
(-) Depreciation and amortisation charge	<b>0211</b>					(30,085)	(5,67)	(28,632)	(3,72)
(+) Allocation of grants for non-financial assets and other grants	<b>0212</b>					0	0,00	0	0,00
(+) Reversal of provisions	<b>0213</b>					0	0,00	0	0,00
(+/-) Impairment and gain (loss) on disposal of fixed assets	<b>0214</b>					(650)	(0,12)	(272)	(0,04)
(+/-) Other profit (loss)	<b>0215</b>					(12,432)	(2,34)	12,119	1,57
<b>= OPERATING PROFIT (LOSS)</b>	<b>0245</b>					102,070	19,23	392,376	50,96
(+) Finance income	<b>0250</b>					222	0,04	7,192	0,93
(-) Finance costs	<b>0251</b>					(132,539)	(24,97)	(145,520)	(18,90)
(+/-) Changes in fair value of financial instruments	<b>0252</b>					(1,608)	(0,30)	67,708	8,79
(+/-) Exchange differences	<b>0254</b>					(7,178)	(1,35)	5,133	0,67
(+/-) Impairment and gain (loss) on disposal of financial instruments	<b>0255</b>					0	0,00	0	0,00
<b>= NET FINANCE INCOME (COSTS)</b>	<b>0256</b>					(141,103)	(26,58)	(65,487)	(8,50)
<b>= PROFIT (LOSS) BEFORE TAX</b>	<b>0265</b>					(39,033)	(7,35)	326,889	42,45
(+/-) Income tax expense	<b>0270</b>					28,437	5,36	8,230	1,07
<b>= PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING ACTIVITIES</b>	<b>0280</b>					(10,596)	(2,00)	335,119	43,52
(+/-) Profit (loss) from discontinued operations. net of tax	<b>0285</b>					0	0,00	0	0,00
<b>= PROFIT (LOSS) FOR THE PERIOD</b>	<b>0300</b>					(10,596)	(2,00)	335,119	43,52

EARNINGS PER SHARE		Amount (X.XX euros)	Amount (X.XX euros)	Amount (X.XX euros)	Amount (X.XX euros)
Basic	<b>0290</b>				
Diluted	<b>0295</b>				

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.

<b>IV. SELECTED FINANCIAL INFORMATION</b>
<b>3. INDIVIDUAL STATEMENT OF CHANGES IN EQUITY</b>
<b>INDIVIDUAL STATEMENT OF RECOGNISED INCOME AND EXPENSE (PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)</b>

Units: Thousand euros

		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 30/06/2017
<b>A)</b>	<b>PROFIT (LOSS) FOR THE PERIOD (from the profit and loss account)</b>	<b>0305</b>	(10,596)
<b>B)</b>	<b>INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY</b>	<b>0310</b>	1,596
<b>1.</b>	<b>From measurement of financial instruments:</b>	<b>0320</b>	0
	a) Available-for-sale financial assets	<b>0321</b>	0
	b) Other income/(expenses)	<b>0323</b>	0
<b>2.</b>	<b>From cash flow hedges</b>	<b>0330</b>	2,128
<b>3.</b>	<b>Grants, donations and bequests received</b>	<b>0340</b>	0
<b>4.</b>	<b>From actuarial gains and losses and other adjustments</b>	<b>0344</b>	0
<b>5.</b>	<b>Other income and expense recognised directly in equity</b>	<b>0343</b>	0
<b>6.</b>	<b>Tax effect</b>	<b>0345</b>	(532)
<b>C)</b>	<b>TRANSFERS TO PROFIT OR LOSS</b>	<b>0350</b>	8,482
<b>1.</b>	<b>From measurement of financial instruments:</b>	<b>0355</b>	0
	a) Available-for-sale financial assets	<b>0356</b>	0
	b) Other income/(expenses)	<b>0358</b>	0
<b>2.</b>	<b>From cash flow hedges</b>	<b>0360</b>	11,309
<b>3.</b>	<b>Grants, donations and bequests received</b>	<b>0366</b>	0
<b>4.</b>	<b>Other income and expense recognised directly in equity</b>	<b>0365</b>	0
<b>5.</b>	<b>Tax effect</b>	<b>0370</b>	(2,827)
<b>TOTAL RECOGNISED INCOME/(EXPENSE) (A + B + C)</b>		<b>0400</b>	(518)

<b>IV. SELECTED FINANCIAL INFORMATION</b>
<b>4. INDIVIDUAL STATEMENT OF CHANGES IN EQUITY (1/2)</b>
<b>INDIVIDUAL STATEMENT OF TOTAL CHANGES IN EQUITY (PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)</b>

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			
<b>Closing balance at 01/01/2018</b>	<b>3010</b>	4,738,136	27,515,738	(589,380)	1,598,871	23,757	(70,881)	0	33,216,241
Adjustments for changes in accounting policy	<b>3011</b>	0	0	0	0	0	0	0	0
Adjustment for errors	<b>3012</b>	0	0	0	0	0	0	0	0
<b>Adjusted opening balance</b>	<b>3015</b>	4,738,136	27,515,738	(589,380)	1,598,871	23,757	(70,881)	0	33,216,241
<b>I. Total recognised income/(expense)</b>	<b>3020</b>	0	0	0	(10,596)	0	10,078	0	(518)
<b>II. Transactions with shareholders or owners</b>	<b>3025</b>	(58,136)	302,837	478,455	(1,598,871)	0	0	0	(875,715)
1. Capital increases/ (reductions)	<b>3026</b>	(58,136)	(1,187,708)	1,245,421	0	0	0	0	(423)
2. Conversion of financial liabilities into equity	<b>3027</b>	0	0	0	0	0	0	0	0
3. Distribution of dividends	<b>3028</b>	0	1,590,650	0	(1,598,871)	0	0	0	(8,221)
4. Net trading with treasury stock	<b>3029</b>	0	(2,205)	(766,966)	0	0	0	0	(769,171)
5. Increases/ (reductions) for business combinations	<b>3030</b>	0	0	0	0	0	0	0	0
6. Other transactions with shareholders or owners	<b>3032</b>	0	(97,900)	0	0	0	0	0	(97,900)
<b>III. Other changes in equity</b>	<b>3035</b>	0	0	0	0	(4,489)	0	0	(4,489)
1. Equity-settled share-based payment	<b>3036</b>	0	0	0	0	(4,489)	0	0	(4,489)
2. Transfers between equity accounts	<b>3037</b>	0	0	0	0	0	0	0	0
3. Other changes	<b>3038</b>	0	0	0	0	0	0	0	0
<b>Closing balance at 30/06/2018</b>	<b>3040</b>	4,680,000	27,818,575	(110,925)	(10,596)	19,268	(60,803)	0	32,335,519

(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			
<b>Closing balance at 01/01/2017 (comparative period)</b>	<b>3050</b>	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	3051	0	0	0	0	0	0	0	0
Adjustment for errors	3052	0	0	0	0	0	0	0	0
<b>Adjusted opening balance (comparative period)</b>	<b>3055</b>	4,771,559	28,144,691	(1,073,787)	1,410,966	20,971	(93,107)	0	33,181,293
<b>I. Total recognised income/(expense)</b>	<b>3060</b>	0	0	0	335,119	0	12,955	0	348,074
<b>II. Transactions with shareholders or owners</b>	<b>3065</b>	(91,559)	(227,011)	565,172	(1,410,966)	0	0	0	(1,164,364)
1. Capital increases/ (reductions)	3066	(91,559)	(1,189,058)	1,280,176	0	0	0	0	(441)
2. Conversion of financial liabilities into equity	3067	0	0	0	0	0	0	0	0
3. Distribution of dividends	3068	0	1,223,765	0	(1,410,966)	0	0	0	(187,201)
4. Net trading with treasury stock	3069	0	2,353	(715,004)	0	0	0	0	(712,651)
5. Increases/ (reductions) for business combinations	3070	0	0	0	0	0	0	0	0
6. Other transactions with shareholders or owners	3072	0	(264,071)	0	0	0	0	0	(264,071)
<b>III. Other changes in equity</b>	<b>3075</b>	0	0	0	0	(4,119)	0	0	(4,119)
1. Equity-settled share-based payment	3076	0	0	0	0	(4,119)	0	0	(4,119)
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
<b>Closing balance at 30/06/2017 (comparative period)</b>	<b>3080</b>	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.*



<b>IV. SELECTED FINANCIAL INFORMATION</b>
<b>5. INDIVIDUAL STATEMENT OF CASH FLOWS</b>
<b>(PREPARED USING PREVAILING NATIONAL ACCOUNTING STANDARDS)</b>

Units: Thousand euros

		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 30/06/2017
<b>A) CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2 + 3 + 4)</b>	<b>0435</b>	270,914	(99,392)
<b>1. Profit (loss) before tax</b>	<b>0405</b>	(39,033)	326,889
<b>2. Adjustments to profit (loss):</b>	<b>0410</b>	17,569	(360,877)
(+) Depreciation and amortisation charge	<b>0411</b>	30,085	28,632
(+/-) Other net adjustments to profit (loss)	<b>0412</b>	(12,516)	(389,509)
<b>3. Changes in working capital</b>	<b>0415</b>	(33,709)	(64,631)
<b>4. Other cash flows from operating activities:</b>	<b>0420</b>	326,087	(773)
(-) Interest paid	<b>0421</b>	(149,326)	(176,191)
(+) Dividends received	<b>0422</b>	175,192	223,707
(+) Interest received	<b>0423</b>	4,069	12,397
(+/-) Income tax recovered/(paid)	<b>0430</b>	335,347	(8,768)
(+/-) Other sums received/(paid) from operating activities	<b>0425</b>	(39,195)	(51,918)
<b>B) CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2)</b>	<b>0460</b>	(635,992)	(332,342)
<b>1. Payments for investments:</b>	<b>0440</b>	(1,032,756)	(1,167,933)
(-) Group companies, associates and business units	<b>0441</b>	(324,172)	(1,138,426)
(-) Property, plant and equipment, intangible assets and investment property	<b>0442</b>	(50,587)	(28,977)
(-) Other financial assets	<b>0443</b>	(657,997)	(530)
(-) Other assets	<b>0444</b>	0	0
<b>2. Proceeds from sale of investments</b>	<b>0450</b>	396,764	835,591
(+) Group companies, associates and business units	<b>0451</b>	388,627	827,560
(+) Property, plant and equipment, intangible assets and investment property	<b>0452</b>	146	75
(+) Other financial assets	<b>0453</b>	7,991	7,956
(+) Other assets	<b>0454</b>	0	0
<b>C) CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2 + 3)</b>	<b>0490</b>	365,078	434,609
<b>1. Sums received/(paid) in respect of equity instruments</b>	<b>0470</b>	(742,035)	(429,447)
(+) Issuance	<b>0471</b>	(417)	(404)
(-) Redemption	<b>0472</b>	(6)	(37)
(-) Acquisition	<b>0473</b>	(782,508)	(468,449)
(+) Disposal	<b>0474</b>	40,896	39,443
(+) Grants, donations and bequests received	<b>0475</b>	0	0
<b>2. Sums received/(paid) in respect of financial liability instruments:</b>	<b>0480</b>	1,213,834	1,128,127
(+) Issuance	<b>0481</b>	2,588,170	5,501,839
(-) Repayment and redemption	<b>0482</b>	(1,374,336)	(4,373,712)
<b>3. Payment of dividends and remuneration on other equity instruments</b>	<b>0485</b>	(106,721)	(264,071)
<b>D) EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>0492</b>	0	0
<b>E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)</b>	<b>0495</b>	0	2,875
<b>F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>0499</b>	0	0
<b>G) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (E + F)</b>	<b>0500</b>	0	2,875
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>CURRENT PERIOD 30/06/2018</b>	<b>PREVIOUS PERIOD 30/06/2017</b>
(+) Cash on hand and at banks	<b>0550</b>	0	2,875
(+) Other financial assets	<b>0552</b>	0	0
(-) <i>Less: Bank overdrafts repayable on demand</i>	<b>0553</b>	0	0
<b>TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>0600</b>	0	2,875

**IV. SELECTED FINANCIAL INFORMATION**

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

Units: Thousand euros

ASSETS		CURRENT P. 30/06/2018	PREVIOUS P. 31/12/2017
<b>A) NON-CURRENT ASSETS</b>	<b>1040</b>	99,114,433	96,889,002
1. Intangible assets:	<b>1030</b>	21,205,573	21,148,027
a) Goodwill	<b>1031</b>	8,022,443	7,932,404
b) Other intangible assets	<b>1032</b>	13,183,130	13,215,623
2. Property, plant and equipment	<b>1033</b>	65,816,897	64,082,379
3. Investment property	<b>1034</b>	426,713	424,029
4. Investments accounted for using the equity method	<b>1035</b>	1,767,334	1,790,896
5. Non-current financial assets	<b>1036</b>	3,320,719	3,222,608
6. Deferred tax assets	<b>1037</b>	5,173,632	5,382,373
7. Other non-current assets	<b>1038</b>	1,403,565	838,690
<b>B) CURRENT ASSETS</b>	<b>1085</b>	13,534,261	13,799,557
1. Non-current assets held for sale	<b>1050</b>	35,756	355,731
2. Inventories	<b>1055</b>	2,392,452	2,202,004
3. Trade and other receivables:	<b>1060</b>	6,710,324	6,721,258
a) Trade receivables	<b>1061</b>	5,099,246	5,094,667
b) Other receivables	<b>1062</b>	1,144,907	1,080,287
c) Current tax assets	<b>1063</b>	466,171	546,304
4. Other current financial assets	<b>1070</b>	1,411,884	1,323,224
5. Other current assets	<b>1075</b>	0	0
6. Cash and cash equivalents	<b>1072</b>	2,983,845	3,197,340
<b>TOTAL ASSETS (A + B)</b>	<b>1100</b>	112,648,694	110,688,559

**IV. SELECTED FINANCIAL INFORMATION**

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

Units: Thousand euros

EQUITY AND LIABILITIES		CURRENT P. 30/06/2018	PREVIOUS P. 31/12/2017
<b>A) EQUITY (A.1 + A.2 + A.3)</b>	<b>1195</b>	43,785,894	42,733,186
<b>A.1) CAPITAL AND RESERVES</b>	<b>1180</b>	38,953,263	38,379,984
1. Capital	1171	4,680,000	4,738,136
a) Registered capital	1161	4,680,000	4,738,136
b) <i>Less: Uncalled capital</i>	1162	0	0
2. Share premium	1172	14,667,676	14,667,676
3. Reserves	1173	9,945,388	9,814,874
4. <i>Own shares and equity holdings</i>	1174	(119,167)	(597,797)
5. Prior periods' profit and loss	1178	8,368,880	6,953,101
6. Other shareholder contributions	1179	0	0
7. Profit (loss) for the period attributable to the parent company	1175	1,410,486	2,803,994
8. <i>Less: Interim dividend</i>	1176	0	0
9. Other equity instruments	1177	0	0
<b>A.2) ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	<b>1188</b>	(2,536,195)	(2,870,724)
1. Items that are not reclassified to profit or loss	1186	20,646	21,296
2. Items that may subsequently be reclassified to profit or loss	1187	(2,556,841)	(2,892,020)
a) Available-for-sale financial assets	1181	0	442
b) Hedging transactions	1182	100,596	(77,409)
c) Translation differences	1184	(2,674,369)	(2,828,470)
d) Other	1183	16,932	13,417
<b>EQUITY ATTRIBUTABLE TO THE PARENT COMPANY (A.1 + A.2)</b>	<b>1189</b>	36,417,068	35,509,260
<b>A.3) NON-CONTROLLING INTERESTS</b>	<b>1193</b>	7,368,826	7,223,926
<b>B) NON-CURRENT LIABILITIES</b>	<b>1120</b>	53,171,373	51,229,603
1. Grants	1117	1,481,078	1,481,111
2. Long-term provisions	1115	5,433,900	5,486,820
3. Long-term financial liabilities:	1116	32,119,538	29,799,467
a) Debt with financial institutions and bonds and other marketable securities	1131	31,563,877	29,465,739
b) Other financial liabilities	1132	555,661	333,728
4. Deferred tax liabilities	1118	8,573,408	8,558,419
5. Other non-current liabilities	1135	5,563,449	5,903,786
<b>C) CURRENT LIABILITIES</b>	<b>1130</b>	15,691,427	16,725,770
1. Liabilities associated with non-current assets held for sale	1121	328	134,544
2. Short-term provisions	1122	809,399	626,841
3. Short-term financial liabilities:	1123	6,357,255	7,542,328
a) Debt with financial institutions and bonds and other marketable securities	1133	5,912,563	7,224,759
b) Other financial liabilities	1134	444,692	317,569
4. Trade and other payables:	1124	8,524,445	8,422,057
a) Suppliers	1125	4,619,539	5,307,551
b) Other payables	1126	3,239,719	2,854,873
c) Current tax liabilities	1127	665,187	259,633
5. Other current liabilities	1136	0	0
<b>TOTAL EQUITY AND LIABILITIES (A + B + C)</b>	<b>1200</b>	112,648,694	110,688,559

**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 30/06/2018		PREVIOUS CUMULATIVE 30/06/2017	
		Amount	%	Amount	%	Amount	%	Amount	%
(+) Revenue	1205					17,586,623	100,00	14,965,876	100,00
(+/-) Change in inventories of finished products and work in progress	1206					0	0,00	0	0,00
(+) Own work capitalised	1207					315,231	1,79	277,808	1,86
(-) Supplies	1208					(9,918,192)	(56,40)	(8,133,245)	(54,35)
(+) Other operating revenue	1209					314,809	1,79	258,652	1,73
(-) Personnel expenses	1217					(1,359,147)	(7,73)	(1,248,789)	(8,34)
(-) Other operating expenses	1210					(2,503,437)	(14,23)	(2,333,081)	(15,59)
(-) Depreciation and amortisation charge	1211					(1,757,239)	(9,99)	(1,528,888)	(10,22)
(+) 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					(22,810)	(0,13)	(6,411)	(0,04)
(+/-) Other profit (loss)	1215					(128,575)	(0,73)	(99,066)	(0,66)
<b>= OPERATING PROFIT (LOSS)</b>	<b>1245</b>					<b>2,527,263</b>	<b>14,37</b>	<b>2,152,856</b>	<b>14,39</b>
(+) Finance income	1250					206,723	1,18	161,738	1,08
(-) Finance costs	1251					(747,317)	(4,25)	(563,341)	(3,76)
(+/-) Changes in fair value of financial instruments	1252					(17,338)	(0,10)	(10,190)	(0,07)
(+/-) Exchange differences	1254					(5,192)	(0,03)	5,001	0,03
(+/-) Impairment and gain (loss) on disposal of financial instruments	1255					22,005	0,13	241,056	1,61
<b>= NET FINANCE INCOME (COSTS)</b>	<b>1256</b>					<b>(541,119)</b>	<b>(3,08)</b>	<b>(165,736)</b>	<b>(1,11)</b>
(+/-) Profit (loss) of equity-accounted investees	1253					24,503	0,14	45,428	0,30
<b>= PROFIT (LOSS) BEFORE TAX</b>	<b>1265</b>					<b>2,010,647</b>	<b>11,43</b>	<b>2,032,548</b>	<b>13,58</b>
(+/-) Income tax expense	1270					(412,268)	(2,34)	(424,709)	(2,84)
<b>= PROFIT (LOSS) FOR THE PERIOD FROM CONTINUING ACTIVITIES</b>	<b>1280</b>					<b>1,598,379</b>	<b>9,09</b>	<b>1,607,839</b>	<b>10,74</b>
(+/-) Profit (loss) from discontinued operations, net of tax	1285					(32,265)	(0,18)	(34,300)	(0,23)
<b>= CONSOLIDATED PROFIT (LOSS) FOR THE PERIOD</b>	<b>1288</b>					<b>1,566,114</b>	<b>8,91</b>	<b>1,573,539</b>	<b>10,51</b>
A) Profit (loss) for the period attributable to the parent company	1300					1,410,486	8,02	1,518,415	10,15
B) Profit (loss) attributable to non-controlling interests	1289					155,628	0,88	55,124	0,37
<b>EARNINGS PER SHARE</b>		<b>Amount (X.XX euros)</b>		<b>Amount (X.XX euros)</b>		<b>Amount (X.XX euros)</b>		<b>Amount (X.XX euros)</b>	
Basic	1290					0,23		0,24	
Diluted	1295					0,22		0,23	

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

		<b>CURRENT PERIOD 30/06/2018</b>	<b>PREVIOUS PERIOD 30/06/2017</b>
<b>A) CONSOLIDATED PROFIT (LOSS) FOR THE PERIOD (from the profit and loss account)</b>	<b>1305</b>	1,566,114	1,573,539
<b>B) OTHER COMPREHENSIVE INCOME – ITEMS THAT ARE NOT RECLASSIFIED TO PROFIT OR LOSS:</b>	<b>1310</b>	(652)	(10,984)
1. From revaluation/(reversal of revaluation) of property, plant and equipment and intangible assets	1311	(739)	(13,941)
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	87	2,957
<b>C) OTHER COMPREHENSIVE INCOME – ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS:</b>	<b>1350</b>	168,166	(1,434,385)
<b>1. Available-for-sale financial assets:</b>	<b>1355</b>	0	9
a) Valuation gains/(losses) taken to equity	1356	0	0
b) Amounts transferred to profit or loss	1357	0	0
c) Other reclassifications	1358	0	9
<b>2. Cash flow hedges:</b>	<b>1360</b>	235,989	45,490
a) Valuation gains/(losses) taken to equity	1361	264,203	(16,588)
b) Amounts transferred to profit or loss	1362	(28,214)	62,078
c) Amounts transferred at initial carrying amount of hedged items	1363	0	0
d) Other reclassifications	1364	0	0
<b>3. Foreign currency translation:</b>	<b>1365</b>	13,430	(1,518,733)
a) Valuation gains/(losses)	1366	13,430	(1,518,733)
b) Amounts transferred to profit or loss	1367	0	0
c) Other reclassifications	1368	0	0
<b>4. Share in other comprehensive income of investments in joint ventures and associates:</b>	<b>1370</b>	(3)	3,288
a) Valuation gains/(losses) taken to equity	1371	(9)	3,283
b) Amounts transferred to profit or loss	1372	6	5
c) Other reclassifications	1373	0	0
<b>5. Other income and expenses that may subsequently be reclassified to profit or loss</b>	<b>1375</b>	2,634	0
a) Valuation gains/(losses) taken to equity	1376	(61,566)	0
b) Amounts transferred to profit or loss	1377	64,200	0
c) Other reclassifications	1378	0	0
<b>6. Tax effect</b>	<b>1380</b>	(83,884)	35,561
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD (A + B + C)</b>	<b>1400</b>	1,733,628	128,170
a) Attributable to the parent company	1398	1,743,905	296,264
b) Attributable to non-controlling interests	1399	(10,277)	(168,094)

**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			
<b>Closing balance at 01/01/2018</b>	<b>3110</b>	4,738,136	31,435,651	(597,797)	2,803,994	0	(2,870,724)	7,223,926	42,733,186
Adjustments for changes in accounting policy	<b>3111</b>	0	54,712	0	0	0	1,110	(7,273)	48,549
Adjustment for errors	<b>3112</b>	0	0	0	0	0	0	0	0
<b>Adjusted opening balance</b>	<b>3115</b>	4,738,136	31,490,363	(597,797)	2,803,994	0	(2,869,614)	7,216,653	42,781,735
<b>I. Total comprehensive income/(expense) for the period</b>	<b>3120</b>	0	0	0	1,410,486	0	333,419	(10,277)	1,733,628
<b>II. Transactions with shareholders or owners</b>	<b>3125</b>	(58,136)	1,507,962	478,630	(2,803,994)	0	0	(100,838)	(976,376)
1. Capital increases/ (reductions)	<b>3126</b>	(58,136)	(1,187,707)	1,245,420	0	0	0	0	(423)
2. Conversion of financial liabilities into equity	<b>3127</b>	0	0	0	0	0	0	0	0
3. Distribution of dividends	<b>3128</b>	0	2,795,774	0	(2,803,994)	0	0	(100,838)	(109,058)
4. Purchase / sale of treasury stock	<b>3129</b>	0	(2,205)	(766,790)	0	0	0	0	(768,995)
5. Equity increase/ (decrease) resulting from business combinations	<b>3130</b>	0	0	0	0	0	0	0	0
6. Other transactions with shareholders or owners	<b>3132</b>	0	(97,900)	0	0	0	0	0	(97,900)
<b>III. Other changes in equity</b>	<b>3135</b>	0	(16,381)	0	0	0	0	263,288	246,907
1. Equity-settled share-based payment	<b>3136</b>	0	(15,518)	0	0	0	0	(699)	(16,217)
2. Transfers among components of equity	<b>3137</b>	0	0	0	0	0	0	0	0
3. Other changes	<b>3138</b>	0	(863)	0	0	0	0	263,987	263,124
<b>Closing balance at 30/06/2018</b>	<b>3140</b>	4,680,000	32,981,944	(119,167)	1,410,486	0	(2,536,195)	7,368,826	43,785,894

(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**

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

Units: Thousand euros

PREVIOUS PERIOD		Equity attributable to the parent company					Valuation adjustments	Non-controlling interests	Total equity
		Capital and reserves							
		Capital	Share premium and Reserves (1)	Treasury stock	Profit (loss) for the period attributable to the parent company	Other equity instruments			
<b>Closing balance at 01/01/2017 (comparative period)</b>	<b>3150</b>	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	<b>3151</b>	0	0	0	0	0	0	0	0
Adjustment for errors	<b>3152</b>	0	0	0	0	0	0	0	0
<b>Adjusted opening balance (comparative period)</b>	<b>3155</b>	4,771,559	31,506,301	(1,083,367)	2,704,983	0	(1,208,511)	3,996,424	40,687,389
<b>I. Total comprehensive income/(expense) for the period</b>	<b>3160</b>	0	0	0	1,518,415	0	(1,222,151)	(168,094)	128,170
<b>II. Transactions with shareholders or owners</b>	<b>3165</b>	(91,559)	1,067,007	565,652	(2,704,983)	0	0	(47,762)	(1,211,645)
1. Capital increases/ (reductions)	<b>3166</b>	(91,559)	(1,189,058)	1,280,176	0	0	0	0	(441)
2. Conversion of financial liabilities into equity	<b>3167</b>	0	0	0	0	0	0	0	0
3. Distribution of dividends	<b>3168</b>	0	2,517,783	0	(2,704,983)	0	0	(47,762)	(234,962)
4. Purchase / sale of treasury stock	<b>3169</b>	0	2,353	(714,524)	0	0	0	0	(712,171)
5. Equity increase/ (decrease) resulting from business combinations	<b>3170</b>	0	0	0	0	0	0	0	0
6. Other transactions with shareholders or owners	<b>3172</b>	0	(264,071)	0	0	0	0	0	(264,071)
<b>III. Other changes in equity</b>	<b>3175</b>	0	1,602	0	0	0	0	(99,333)	(97,731)
1. Equity-settled share-based payment	<b>3176</b>	0	(8,222)	0	0	0	0	0	(8,222)
2. Transfers among components of equity	<b>3177</b>	0	0	0	0	0	0	0	0
3. Other changes	<b>3178</b>	0	9,824	0	0	0	0	(99,333)	(89,509)
<b>Closing balance at 30/06/2017 (comparative period)</b>	<b>3180</b>	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			
10.A. CONSOLIDATED STATEMENT OF CASH FLOWS (INDIRECT METHOD) (ADOPTED IFRS)			
Units: Thousand euros		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 30/06/2017
<b>A) CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2 + 3 + 4)</b>	<b>1435</b>	3,312,358	2,566,541
<b>1. Profit (loss) before tax</b>	<b>1405</b>	2,010,647	2,032,548
<b>2. Adjustments to profit (loss):</b>	<b>1410</b>	2,333,900	1,667,544
(+) Depreciation and amortisation charge	1411	1,757,239	1,528,888
(+/-) Other net adjustments to profit (loss)	1412	576,661	138,656
<b>3. Changes in working capital</b>	<b>1415</b>	(941,012)	(742,791)
<b>4. Other cash flows from operating activities:</b>	<b>1420</b>	(91,177)	(390,760)
(-) Interest paid	1421	0	0
(-) Payment of dividends and remuneration on other equity instruments	1430	0	0
(+) Dividends received	1422	5,746	52,634
(+) Interest received	1423	0	0
(+/-) Income tax recovered/(paid)	1424	235,342	(143,801)
(+/-) Other sums received/(paid) from operating activities	1425	(332,265)	(299,593)
<b>B) CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2 + 3)</b>	<b>1460</b>	(3,366,989)	(2,318,342)
<b>1. Payments for investments:</b>	<b>1440</b>	(3,753,134)	(2,963,177)
(-) Group companies, associates and business units	1441	(37,670)	(32,515)
(-) Property, plant and equipment, intangible assets and investment property	1442	(3,014,196)	(2,930,662)
(-) Other financial assets	1443	(701,268)	0
(-) Other assets	1444	0	0
<b>2. Proceeds from sale of investments</b>	<b>1450</b>	208,347	441,831
(+) Group companies, associates and business units	1451	200,791	313,009
(+) Property, plant and equipment, intangible assets and investment property	1452	5,811	912
(+) Other financial assets	1453	1,745	127,910
(+) Other assets	1454	0	0
<b>3. Other cash flows from investing activities</b>	<b>1455</b>	177,798	203,004
(+) Dividends received	1456	0	0
(+) Interest received	1457	111,697	109,616
(+/-) Other sums received/(paid) from investing activities	1458	66,101	93,388
<b>C) CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2 + 3 + 4)</b>	<b>1490</b>	(58,266)	120,309
<b>1. Sums received/(paid) in respect of equity instruments</b>	<b>1470</b>	(741,859)	(428,967)
(+) Issuance	1471	(417)	(404)
(-) Redemption	1472	(6)	(37)
(-) Acquisition	1473	(782,508)	(468,449)
(+) Disposal	1474	41,072	39,923
<b>2. Sums received/(paid) in respect of financial liability instruments:</b>	<b>1480</b>	1,144,780	1,495,705
(+) Issuance	1481	8,007,301	7,033,258
(-) Repayment and redemption	1482	(6,862,521)	(5,537,553)
<b>3. Payment of dividends and remuneration on other equity instruments</b>	<b>1485</b>	(206,171)	(310,909)
<b>4. Other cash flows from financing activities</b>	<b>1486</b>	(255,016)	(635,520)
(-) Interest paid	1487	(506,248)	(537,829)
(+/-) Other sums received/(paid) from financing activities	1488	251,232	(97,691)
<b>D) EFFECT OF FOREIGN EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS HELD</b>	<b>1492</b>	(100,598)	(52,520)
<b>E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)</b>	<b>1495</b>	(213,495)	315,988
<b>F) CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>1499</b>	3,197,340	1,432,686
<b>G) CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (E + F)</b>	<b>1500</b>	2,983,845	1,748,674
<b>COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>		<b>CURRENT PERIOD 30/06/2018</b>	<b>PREVIOUS PERIOD 30/06/2017</b>
(+) Cash on hand and at banks	1550	282,436	226,765
(+) Other financial assets	1552	2,701,409	1,521,909
(-) <i>Less: Bank overdrafts repayable on demand</i>	1553	0	0
<b>TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>1600</b>	2,983,845	1,748,674

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 30/06/2018	PREVIOUS PERIOD 30/06/2017
<b>A)</b>	<b>CASH FLOWS FROM OPERATING ACTIVITIES (1 + 2 + 3 + 4)</b>	<b>8435</b>	
(+)	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>B)</b>	<b>CASH FLOWS FROM INVESTING ACTIVITIES (1 + 2 + 3)</b>	<b>8460</b>	
<b>1.</b>	<b>Payments for investments:</b>	<b>8440</b>	
(-)	Group companies, associates and business units	8441	
(-)	Property, plant and equipment, intangible assets and investment property	8442	
(-)	Other financial assets	8443	
(-)	Other assets	8444	
<b>2.</b>	<b>Proceeds from sales of investments</b>	<b>8450</b>	
(+)	Group companies, associates and business units	8451	
(+)	Property, plant and equipment, intangible assets and investment property	8452	
(+)	Other financial assets	8453	
(+)	Other assets	8454	
<b>3.</b>	<b>Other cash flows from investing activities</b>	<b>8455</b>	
(+)	Dividends received	8456	
(+)	Interest received	8457	
(+/-)	Other flows from investing activities	8458	
<b>C)</b>	<b>CASH FLOWS FROM FINANCING ACTIVITIES (1 + 2 + 3 + 4)</b>	<b>8490</b>	
<b>1.</b>	<b>Sums received/(paid) in respect of equity instruments</b>	<b>8470</b>	
(+)	Issuance	8471	
(-)	Redemption	8472	
(-)	Acquisition	8473	
(+)	Disposal	8474	
<b>2.</b>	<b>Sums received/(paid) in respect of financial liability instruments:</b>	<b>8480</b>	
(+)	Issuance	8481	
(-)	Repayment and redemption	8482	
<b>3.</b>	<b>Payment of dividends and remuneration on other equity instruments</b>	<b>8485</b>	
<b>4.</b>	<b>Other cash flows from financing activities</b>	<b>8486</b>	
(-)	Interest paid	8487	
(+/-)	Other sums received/(paid) from financing activities	8488	
<b>D)</b>	<b>EFFECT OF FOREIGN EXCHANGE RATE FLUCTUATIONS ON CASH AND CASH EQUIVALENTS HELD</b>	<b>8492</b>	
<b>E)</b>	<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)</b>	<b>8495</b>	
<b>F)</b>	<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>8499</b>	
<b>G)</b>	<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (E + F)</b>	<b>8500</b>	

**COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD**

		CURRENT PERIOD 30/06/2018	PREVIOUS PERIOD 30/06/2017
(+)	Cash on hand and at banks	8550	
(+)	Other financial assets	8552	
(-)	<i>Less: Bank overdrafts repayable on demand</i>	8553	
	<b>TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>8600</b>	

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:**

<b>BUSINESS COMBINATIONS AND OTHER ACQUISITIONS OR INCREASES IN HOLDINGS IN SUBSIDIARIES. JOINT VENTURES AND/OR INVESTMENTS IN ASSOCIATES (CURRENT PERIOD).</b>						
Name of company (or business line) acquired or merged	Category	Effective date of transaction (dd/mm/yy)	(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)		
SCOTTISHPOWER RENEWABLES (UK Assets), LTD	SUBSIDIARY	05-02-2018	0	0	100,00	100,00
IBERDROLA ROW, S,L,	SUBSIDIARY	15-06-2018	4	0	100,00	100,00
KARANKAWA WIND, LLC	SUBSIDIARY	27-02-2018	0	0	81,50	81,50
LA JOYA WIND, LLC	SUBSIDIARY	27-02-2018	0	0	81,50	81,50
SCOTTISHPOWER GENERATION (Assets), LTD	SUBSIDIARY	15-03-2018	0	0	100,00	100,00
COMPANHIA DE ELETRICIDADE DO ESTADO DO BAHIA, S,A,	SUBSIDIARY	20-03-2018	1,479	0	0,18	50,62
PROYECTO NUÑEZ DE BALBOA, S,L,	SUBSIDIARY	29-03-2018	11,000	0	100,00	100,00
EKTT 1-A SERVIÇOS DE TRANSMISSAO DE ENERGIA ELÉTRICA SPE S/A	SUBSIDIARY	07-04-2018	0	0	52,45	52,45
EKTT 2-A SERVIÇOS DE TRANSMISSAO DE ENERGIA ELÉTRICA SPE S/A	SUBSIDIARY	07-04-2018	0	0	52,45	52,45
IBERDROLA IRELAND LTD	SUBSIDIARY	11-05-2018	0	0	100,00	100,00

**Table 2:**

<b>REDUCTION IN HOLDINGS IN SUBSIDIARIES. JOINT VENTURES AND/OR INVESTMENTS IN ASSOCIATES OR OTHER TRANSACTIONS OF A SIMILAR NATURE (CURRENT PERIOD)</b>					
Name of company (or business line) sold, spun off or retired	Category	Effective date of transaction (dd/mm/yy)	% of voting rights sold or retired	% of total voting rights in the company after disposal	Profit/(Loss) generated (thousand euros)
DEMON INTERNET, LTD	Dependiente	12-01-2018	100,00	0,00	0
SUBGRUPO TIRME	Asociada	19-06-2018	20,00	0,00	30,928
MANWEB SHARE SCHEME TRUSTEES, Ltd,	Dependiente	15-06-2018	100,00	0,00	0
MANWEB NOMINEES, LTD	Dependiente	21-01-2018	100,00	0,00	0
PROMOTORA LA CASTELLANA DE BURGOS, S,A,	Dependiente	08-02-2018	100,00	0,00	0
SCOTTISH POWER UK HOLDINGS, LTD	Dependiente	22-02-2018	100,00	0,00	0
ENSTOR ENERGY SERVICES, LLC	Dependiente	01-03-2018	81,50	0,00	9,573
MANWEB ENERGY CONSULTANTS, LTD	Dependiente	04-04-2018	100,00	0,00	0
STREATOR DEER RUN WIND FARM, LLC	Dependiente	01-05-2018	81,50	0,00	0
SUBGRUPO ENSTOR GAS	Dependiente	01-05-2018	81,50	0,00	(21,628)
URBANIZADORA MARINA DE COPE, S,L,	Dependiente	10-05-2018	80,00	0,00	0

**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	<b>2158</b>	19,00	0,14	8,220	0,00	0,00	0
Other shares (non-voting shares, redeemable shares, etc.)	<b>2159</b>	0,00	0,00	0	0,00	0,00	0
<b>Total dividends paid</b>	<b>2160</b>	19,00	0,14	8,220	0,00	0,00	0
a) Dividends charged to profit and loss	<b>2155</b>	19,00	0,14	8,220	0,00	0,00	0
b) Dividends charged to reserves or share premium	<b>2156</b>	0,00	0,00	0	0,00	0,00	0
c) Dividends in kind	<b>2157</b>	0,00	0,00	0	0,00	0,00	0

IV. SELECTED FINANCIAL INFORMATION

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

Units: Thousand euros		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
FINANCIAL ASSETS: NATURE/CATEGORY							
Equity instruments	2061						
Debt securities	2062						
Derivatives	2063						
Other financial assets	2064						
<b>Long-term/non-current</b>	2065						
Equity instruments	2066						
Debt securities	2067						
Derivatives	2068						
Other financial assets	2069						
<b>Short-term/current</b>	2070						
<b>INDIVIDUAL TOTAL</b>	2075						
Equity instruments	2161						
Debt securities	2162						
Derivatives	2163						
Other financial assets	2164						
<b>Long-term/non-current</b>	2165						
Equity instruments	2166						
Debt securities	2167						
Derivatives	2168						
Other financial assets	2169						
<b>Short-term/current</b>	2170						
<b>CONSOLIDATED TOTAL</b>	2175						

FINANCIAL LIABILITIES: NATURE/CATEGORY		CURRENT PERIOD			
		Financial liabilities held for trading	Other financial liabilities at FVTPL	Debts and payables	Hedging derivatives
Bank borrowings	2076				
Bonds and other negotiable securities	2077				
Derivatives	2078				
Other financial liabilities	2079				
<b>Long-term debts/Non-current financial liabilities</b>	2080				
Bank borrowings	2081				
Bonds and other marketable securities	2082				
Derivatives	2083				
Other financial liabilities	2084				
<b>Short-term debts/Current financial liabilities</b>	2085				
<b>INDIVIDUAL TOTAL</b>	2090				
Bank borrowings	2176				
Bonds and other negotiable securities	2177				
Derivatives	2178				
Other financial liabilities	2179				
<b>Long-term debts/Non-current financial liabilities</b>	2180				
Bank borrowings	2181				
Bonds and other negotiable securities	2182				
Derivatives	2183				
Other financial liabilities	2184				
<b>Short-term debts/Current financial liabilities</b>	2185				
<b>CONSOLIDATED TOTAL</b>	2190				

(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 NATURE/CATEGORY		PREVIOUS 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	5061						
Debt securities	5062						
Derivatives	5063						
Other financial assets	5064						
<b>Long-term/non-current</b>	<b>5065</b>						
Equity instruments	5066						
Debt securities	5067						
Derivatives	5068						
Other financial assets	5069						
<b>Short-term/current</b>	<b>5070</b>						
<b>INDIVIDUAL TOTAL</b>	<b>5075</b>						
Equity instruments	5161						
Debt securities	5162						
Derivatives	5163						
Other financial assets	5164						
<b>Long-term/non-current</b>	<b>5165</b>						
Equity instruments	5166						
Debt securities	5167						
Derivatives	5168						
Other financial assets	5169						
<b>Short-term/current</b>	<b>5170</b>						
<b>CONSOLIDATED TOTAL</b>	<b>5175</b>						

FINANCIAL LIABILITIES: NATURE/CATEGORY		PREVIOUS PERIOD			
		Financial liabilities held for trading	Other financial liabilities at FVTPL	Debts and payables	Hedging derivatives
Bank borrowings	5076				
Bonds and other negotiable securities	5077				
Derivatives	5078				
Other financial liabilities	5079				
<b>Long-term debts/Non-current financial liabilities</b>	<b>5080</b>				
Bank borrowings	5081				
Bonds and other negotiable securities	5082				
Derivatives	5083				
Other financial liabilities	5084				
<b>Short-term debts/Current financial liabilities</b>	<b>5085</b>				
<b>INDIVIDUAL TOTAL</b>	<b>5090</b>				
Bank borrowings	5176				
Bonds and other negotiable securities	5177				
Derivatives	5178				
Other financial liabilities	5179				
<b>Long-term debts/Non-current financial liabilities</b>	<b>5180</b>				
Bank borrowings	5181				
Bonds and other negotiable securities	5182				
Derivatives	5183				
Other financial liabilities	5184				
<b>Short-term debts/Current financial liabilities</b>	<b>5185</b>				
<b>L CONSOLIDATED</b>	<b>5190</b>				

(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	247,297	491,219	6,860,060	7,035,499
Exports:	2215	283,549	278,820	10,726,563	7,930,377
a) European Union	2216	49,277	27,232	3,921,782	3,406,856
b) OECD countries	2217	228,204	224,020	3,839,170	3,649,544
c) Other countries	2218	6,068	27,568	2,965,611	873,977
<b>TOTAL</b>	<b>2220</b>	<b>530,846</b>	<b>770,039</b>	<b>17,586,623</b>	<b>14,965,876</b>

Table 2:

SEGMENTS		Ordinary revenue					
		CONSOLIDATED					
		Ordinary revenue from foreign customers		Ordinary revenue between segments		Total ordinary revenue	
CURRENT PERIOD	PREVIOUS PERIOD	CURRENT PERIOD	PREVIOUS PERIOD	CURRENT PERIOD	PREVIOUS PERIOD		
Generation and supply	2221	10,180,915	9,664,100	222,305	(28,917)	10,403,220	9,635,183
Renewable	2222	927,387	689,360	1,129,824	990,568	2,057,211	1,679,928
Networks	2223	6,381,758	4,450,471	151,807	159,153	6,533,565	4,609,624
Other businesses, Corporation and adjustments	2224	96,563	161,945	8,717	56,732	105,280	218,677
	2225						
	2226						
	2227						
	2228						
	2229						
	2230						
(-) Adjustments and elimination of ordinary revenue between segments	2231			(1,512,653)	(1,177,536)	(1,512,653)	(1,177,536)
<b>TOTAL</b>	<b>2235</b>	<b>17,586,623</b>	<b>14,965,876</b>	<b>0</b>	<b>0</b>	<b>17,586,623</b>	<b>14,965,876</b>

Table 3:

SEGMENTS		Profit (loss)	
		CONSOLIDATED	
CURRENT PERIOD	PREVIOUS PERIOD		
Generation and supply	2250	446,687	494,585
Renewable	2251	646,690	463,176
Networks	2252	1,485,205	1,244,486
Other businesses	2253	0	0
Corporation and adjustments	2254	(51,319)	(49,391)
	2255		
	2256		
	2257		
	2258		
	2259		
<b>Total profit (loss) of segments reported</b>	<b>2260</b>	<b>2,527,263</b>	<b>2,152,856</b>
(+/-) Unallocated profit (loss)	2261	(516,616)	(120,308)
(+/-) Elimination of internal profit (loss) (between segments)	2262	0	0
(+/-) Other profit (loss)	2263	0	0
(+/-) Income tax and/or profit (loss) from discontinued activities	2264	0	0
<b>PROFIT (LOSS) BEFORE TAX</b>	<b>2270</b>	<b>2,010,647</b>	<b>2,032,548</b>

IV. SELECTED FINANCIAL INFORMATION					
15. AVERAGE WORKFORCE					
		INDIVIDUAL		CONSOLIDATED	
		CURRENT PERIOD	PREVIOUS PERIOD	CURRENT PERIOD	PREVIOUS PERIOD
<b>AVERAGE WORKFORCE</b>	<b>2295</b>	717	651	33,248	26,212
Men	<b>2296</b>	390	362	25,527	20,094
Women	<b>2297</b>	327	289	7,721	6,118

IV. SELECTED FINANCIAL INFORMATION					
16. REMUNERATION RECEIVED BY DIRECTORS AND MANAGING DIRECTORS					

<b>DIRECTORS:</b>		Amount (thousand euros)	
		CURRENT PERIOD	PREVIOUS PERIOD
<b>Type of remuneration:</b>			
Fixed remuneration	<b>2310</b>	1,625	1,375
Variable remuneration	<b>2311</b>	3,798	3,185
Attendance fees	<b>2312</b>	382	370
Directors' fees	<b>2313</b>	2,267	2,281
Options on shares and/or other financial instruments	<b>2314</b>	0	0
Other	<b>2315</b>	4,610	5,017
<b>TOTAL</b>	<b>2320</b>	12,682	12,228

<b>Other benefits:</b>			
Advances	<b>2326</b>	0	0
Loans granted	<b>2327</b>	0	0
Pension funds and plans: Contributions	<b>2328</b>	0	0
Pension funds and plans: Contracted obligations	<b>2329</b>	0	0
Life insurance premiums	<b>2330</b>	0	0
Guarantees granted to directors	<b>2331</b>	78	116

<b>MANAGING DIRECTORS:</b>		Amount (thousand euros)	
		CURRENT PERIOD	PREVIOUS PERIOD
Total remuneration paid to managing directors	<b>2325</b>	5,686	10,918

**IV. SELECTED FINANCIAL INFORMATION**

**17. RELATED-PARTY TRANSACTIONS (1/2)**

Units: Thousand euros

**RELATED-PARTY TRANSACTIONS**

EXPENSES AND REVENUE		CURRENT PERIOD				
		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	1,038	6,401	7,439
6) Purchase of goods (finished or in progress)	2345	0	0	7,654	754	8,408
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
<b>EXPENSES (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9)</b>	<b>2350</b>	<b>0</b>	<b>0</b>	<b>8,699</b>	<b>7,155</b>	<b>15,854</b>
10) Finance income	2351	91	0	33	3	127
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	1,613	0	1,613
16) Sale of goods (finished or in progress)	2357	0	0	13,151	427	13,578
17) Gains on retirement or disposal of assets	2358	0	0	0	0	0
18) Other revenue	2359	0	0	0	0	0
<b>REVENUE (10 + 11 + 12 + 13 + 14 + 15 + 16 + 17 + 18)</b>	<b>2360</b>	<b>91</b>	<b>0</b>	<b>14,797</b>	<b>430</b>	<b>15,318</b>

OTHER TRANSACTIONS:		CURRENT PERIOD				
		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	27,904	54,997	82,901
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	2,766	275	0	0	3,041
Other transactions	2385	45,365	0	0	0	45,365



**IV. SELECTED FINANCIAL INFORMATION**

**17. RELATED-PARTY TRANSACTIONS (2/2)**

Units: Thousand euros

**RELATED-PARTY TRANSACTIONS**

EXPENSES AND REVENUE		PREVIOUS PERIOD				
		Significant shareholders	Directors and managing directors	Group employees, companies and entities	Other related parties	Total
1) Finance costs	6340	0	0	7	0	7
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	0	0	0
5) Receipt of services	6344	0	0	4,291	24,417	28,708
6) Purchase of goods (finished or in progress)	6345	0	0	29,609	776	30,385
7) Allowance for bad and doubtful debts	6346	0	0	0	0	0
8) Losses on retirement or disposal of assets	6347	0	0	0	0	0
9) Other expenses	6348	0	0	0	0	0
<b>EXPENSES (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9)</b>	<b>6350</b>	<b>0</b>	<b>0</b>	<b>33,907</b>	<b>25,193</b>	<b>59,100</b>
10) Finance income	6351	0	0	14,242	0	14,242
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	0	0	0
15) Provision of services	6356	0	0	6,425	0	6,425
16) Sale of goods (finished or in progress)	6357	0	0	7,586	915	8,501
17) Gains on retirement or disposal of assets	6358	0	0	0	0	0
18) Other revenue	6359	0	0	0	0	0
<b>REVENUE (10 + 11 + 12 + 13 + 14 + 15 + 16 + 17 + 18)</b>	<b>6360</b>	<b>0</b>	<b>0</b>	<b>28,253</b>	<b>915</b>	<b>29,168</b>

OTHER TRANSACTIONS:		PREVIOUS PERIOD				
		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	133,404	133,404
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	19,172	263	0	0	19,435
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

Annex  
  
Condensed annual  
financial statements <sup>(2)</sup>

The Annex contains:

- Selected Condensed Individual Interim Financial Information Management Report for the six-month period ending on 30 June 2018 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 2018 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



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

# Iberdrola, S.A.

Condensed Individual Interim Financial Statements  
30 June 2018

Individual Interim Directors' Report  
30 June 2018

(Together with the limited review report thereon)

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



KPMG Auditores, S.L.  
Torre Iberdrola  
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

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

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

#### **Scope of Review**

---

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 2018 have not been prepared, in all material respects, in accordance with the accounting principles and minimum content set out in articles 12 and 13 of Royal Decree 1362/2007 and with Circular 3/2018.

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

---

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

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

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

KPMG Auditores, S.L.

*(Signed on original in Spanish)*

Enrique Asla García

27 July 2018

## CONTENTS

	<u>Page</u>
<b>Balance sheet at 30 June 2018</b>	<b>3</b>
<b>Income statement for the six-month period ended 30 June 2018</b>	<b>5</b>
<b>Statement of changes in equity for the six-month period ended 30 June 2018</b>	<b>6</b>
<b>Statement of cash flows for the six-month period ended 30 June 2018</b>	<b>8</b>
<b>Notes to the Condensed individual interim financial statements</b>	
1 Activity of the Company	9
2 Basis of presentation of Condensed individual interim financial statements	10
3 Seasonal variation	11
4 Use of estimates and sources of uncertainty	12
5 Financial assets and liabilities by category	13
6 Equity	14
7 Loans and borrowings and financial lease payables	15
8 Taxation	15
9 Income and expenses	16
10 Remuneration received by the Board of Directors and senior management	17
11 Transactions with related parties	18
12 Events subsequent to 30 June 2018	19
13 Explanation added for translation to English	19
<b>Directors' report</b>	<b>20</b>

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

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

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

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

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

## IBERDROLA, S.A.

### Balance sheet at 30 June 2018

(Thousands of Euros)

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

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

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

## IBERDROLA, S.A.

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

(Thousands of Euros)

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

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

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

**IBERDROLA, S.A.**

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

(Thousands of Euros)

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

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

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

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

## IBERDROLA, S.A.

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

(Thousands of Euros)

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

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

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

## IBERDROLA, S.A.

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

(Thousands of Euros)

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

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



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

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

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

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

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

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

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

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

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

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

### 2.1. Accounting legislation applied

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

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

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

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

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

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

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

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

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

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

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

## **2.4. Comparative information**

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

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

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

## **3. SEASONAL VARIATION**

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

## 4. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

### 4.1 Accounting estimates

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

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

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

### 4.2 Sources of uncertainty

The main uncertainties are as follows:

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

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

## 5. FINANCIAL ASSETS AND LIABILITIES BY CATEGORY

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

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

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

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

(1) Includes derivatives with group companies and associates.

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

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

(1) Includes derivatives with group companies and associates.

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

## 6. EQUITY

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

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

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

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

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

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

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

## 7. LOANS AND BORROWINGS AND FINANCIAL LEASE PAYABLES

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

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

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

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

(2) Does not involve entry of funds.

## 8. TAXATION

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

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

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

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

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

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

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

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

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

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

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

## 9. INCOME AND EXPENSES

### 9.1 Net revenue

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

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

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



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

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

## 9.2 PERSONNEL

IBERDROLA's personnel is structured as follows:

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

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

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

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

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

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

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

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

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

## 11. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

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

## 12. EVENTS SUBSEQUENT TO 30 JUNE 2018

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

### Iberdrola flexible remuneration

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

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

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

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

## 13. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

## DIRECTORS' REPORT

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

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

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

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

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

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

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

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

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

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

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

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

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

## **2.2 Balance sheet**

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

## **2.3 Significant transactions**

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

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

The main sources of uncertainty are described in Note 4.

## **4. SUBSEQUENT EVENTS**

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

**IBERDROLA, S.A. AND SUBSIDIARIES**

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

# Iberdrola, S.A.

Condensed Consolidated Interim Financial  
Statements

30 June 2018

Consolidated Interim Directors' Report

30 June 2018

(Together with the limited review report thereon)

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





KPMG Auditores, S.L.  
Torre Iberdrola  
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 2018, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows 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 2018 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 2017. This matter does not modify our conclusion.

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

The accompanying consolidated interim directors' report for the six-month period ended 30 June 2018 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 15 of Royal Decree 1362/2007. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2018. Our work is limited to the verification of the consolidated 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. 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-monthly 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

27 July 2018a

## CONTENTS

	<b><u>Page</u></b>
<b>Condensed consolidated interim financial statements</b>	
Consolidated statement of financial position	3
Consolidated income statement	5
Consolidated statement of comprehensive income	6
Consolidated statement of changes in equity	7
Consolidated statement of cash flows	9
<b>Notes to the condensed consolidated interim financial statements</b>	
1 Group activities	10
2 Basis of presentation of Condensed consolidated interim financial statements	10
3 Seasonal variation	19
4 Use of estimates and sources of uncertainty	19
5 Changes to the scope of consolidation	20
6 Segment information	21
7 Property, plant and equipment	25
8 Disclosure of financial assets and financial liabilities	26
9 Cash and cash equivalents	29
10 Equity	29
11 Share-based compensation plans	33
12 Litigation payments	35
13 Financial liabilities – loans and other	36
14 Revenue	38
15 Income tax	39
16 Impairment charges and reversals of assets	40
17 Contingent assets and liabilities	41
18 Remuneration of the Board of Directors	45
19 Remuneration of senior management	48
20 Related party transactions and balances	50
21 Subsequent events after 30 June 2018	51
22 Explanation added for translation to English	52
Annex	53
<b>Directors' report</b>	
Consolidated interim directors' report	64

Translation of Condensed consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES

### Consolidated statement of financial position as at 30 June 2018

Thousands of Euros			
ASSETS	Note	30.06.2018 (Unaudited)	31.12.2017 (*) (Audited)
<b>Intangible assets</b>		<b>21,205,573</b>	<b>21,148,027</b>
Goodwill		8,022,443	7,932,404
Other intangible assets		13,183,130	13,215,623
<b>Real estate investments</b>		<b>426,713</b>	<b>424,029</b>
<b>Property, plant and equipment</b>	<b>7</b>	<b>65,816,897</b>	<b>64,082,379</b>
Property, plant and equipment in use		58,518,219	57,301,296
Property, plant and equipment in progress		7,298,678	6,781,083
<b>Non-current financial investments</b>		<b>5,088,053</b>	<b>5,013,504</b>
Companies accounted for using the equity method		1,767,334	1,790,896
Non-current securities portfolio	8	65,192	65,342
Other non-current investments	8	2,511,930	2,612,565
Derivatives	8	743,597	544,701
<b>Trade and other receivables – non-current</b>		<b>1,403,565</b>	<b>838,690</b>
<b>Deferred tax assets</b>		<b>5,173,632</b>	<b>5,382,373</b>
<b>NON-CURRENT ASSETS</b>		<b>99,114,433</b>	<b>96,889,002</b>
<b>Assets held for sale</b>	<b>5</b>	<b>35,756</b>	<b>355,731</b>
<b>Nuclear fuel</b>		<b>302,819</b>	<b>331,883</b>
<b>Inventories</b>		<b>2,089,633</b>	<b>1,870,121</b>
<b>Trade and other receivables – current</b>		<b>6,710,324</b>	<b>6,721,258</b>
Current tax assets		466,171	546,304
Public entities, other		581,923	318,582
Trade and other receivables – current		5,662,230	5,856,372
<b>Current financial investments</b>	<b>8</b>	<b>1,411,884</b>	<b>1,323,224</b>
Current securities portfolio		-	1,744
Other current investments		658,616	598,883
Derivatives		753,268	722,597
<b>Cash and cash equivalents</b>	<b>9</b>	<b>2,983,845</b>	<b>3,197,340</b>
<b>CURRENT ASSETS</b>		<b>13,534,261</b>	<b>13,799,557</b>
<b>TOTAL ASSETS</b>		<b>112,648,694</b>	<b>110,688,559</b>

(\*) The consolidated statement of financial position at 31 December 2017 is presented for comparison purposes only.

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

Translation of Condensed consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES

### Consolidated statement of financial position as at 30 June 2018

Thousands of Euros

	Note	30.06.2018 (Unaudited)	31.12.2017 (*) (Audited)
<b>EQUITY AND LIABILITIES</b>			
<b>Parent company</b>		<b>36,417,068</b>	<b>35,509,260</b>
Share capital		4,680,000	4,738,136
Valuation adjustments		138,174	(42,254)
Other reserves		32,981,944	31,435,651
Treasury shares		(119,167)	(597,797)
Translation differences		(2,674,369)	(2,828,470)
Net profit for the year		1,410,486	2,803,994
<b>Non-controlling interests</b>		<b>5,661,912</b>	<b>5,671,380</b>
<b>Subordinated perpetual obligations</b>		<b>1,706,914</b>	<b>1,552,546</b>
<b>EQUITY</b>	<b>10</b>	<b>43,785,894</b>	<b>42,733,186</b>
<b>NON-CURRENT EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY</b>	<b>8</b>	<b>199,222</b>	<b>14,762</b>
<b>Deferred income</b>		<b>6,404,865</b>	<b>6,379,102</b>
Capital grants		1,481,078	1,481,111
Installations transferred and financed by third parties		4,788,898	4,763,148
Other deferred income		134,889	134,843
<b>Provisions</b>		<b>5,433,900</b>	<b>5,486,820</b>
Provision for pensions and similar obligations		2,435,351	2,533,465
Other provisions		2,998,549	2,953,355
<b>Financial debt</b>	<b>8</b>	<b>31,920,316</b>	<b>29,784,705</b>
Loans and borrowings and other financial liabilities	13	31,563,877	29,465,739
Derivative financial instruments		356,439	318,966
<b>Other non-current payables</b>		<b>639,662</b>	<b>1,005,795</b>
<b>Deferred tax liabilities</b>		<b>8,573,408</b>	<b>8,558,419</b>
<b>NON-CURRENT LIABILITIES</b>		<b>52,972,151</b>	<b>51,214,841</b>
<b>NON-CURRENT EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY</b>	<b>8</b>	<b>19,402</b>	<b>32,519</b>
<b>Liabilities linked to assets held for sale</b>	<b>5</b>	<b>328</b>	<b>134,544</b>
<b>Provisions</b>		<b>809,399</b>	<b>626,841</b>
Provision for pensions and similar obligations		17,426	40,604
Other provisions		791,973	586,237
<b>Financial debt</b>	<b>8</b>	<b>6,337,853</b>	<b>7,509,809</b>
Loans and borrowings and other financial liabilities	13	5,912,563	7,224,759
Derivatives		425,290	285,050
<b>Trade and other payables</b>		<b>8,524,445</b>	<b>8,422,057</b>
Trade payables		4,619,539	5,307,551
Current tax liabilities		665,187	259,633
Public entities, other		1,445,094	988,926
Other current liabilities		1,794,625	1,865,947
<b>Current liabilities</b>		<b>15,672,025</b>	<b>16,693,251</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>112,648,694</b>	<b>110,688,559</b>

(\*)The consolidated statement of financial position at 31 December 2017 is presented for comparison purposes only.  
The attached notes are an integral part of the condensed consolidated interim financial statements.

Translation of Condensed consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES

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

Thousands of Euros			
	Note	30.06.2018 (Unaudited)	30.06.2017 (*) Restated (Note 2.c) (Unaudited)
Revenue	6, 14	17,586,623	14,965,876
Procurements		(9,918,192)	(8,133,245)
<b>GROSS MARGIN</b>		<b>7,668,431</b>	<b>6,832,631</b>
Personnel expenses		(1,359,147)	(1,248,789)
Capitalised personnel expenses		315,231	277,808
Net personnel expenses		(1,043,916)	(970,981)
External services		(1,382,176)	(1,176,715)
Other operating income		314,809	258,652
Net external services		(1,067,367)	(918,063)
Net operating expenses		(2,111,283)	(1,889,044)
Taxes		(1,121,261)	(1,156,366)
<b>GROSS OPERATING PROFIT / EBITDA</b>		<b>4,435,887</b>	<b>3,787,221</b>
Valuation adjustments of trade and other receivables		(126,534)	(96,264)
Amortisation, depreciation and provisions		(1,782,090)	(1,538,101)
<b>OPERATING PROFIT / EBIT</b>		<b>2,527,263</b>	<b>2,152,856</b>
Profit/(loss) of companies accounted for using the equity method - net of taxes		24,503	45,428
Finance income		421,557	282,827
Finance costs		(984,681)	(689,619)
Net finance income		(563,124)	(406,792)
Gains on sales of non-current assets	5.2.b	36,220	256,657
Losses on sales of non-current assets	5	(14,215)	(15,601)
Profit/(loss) from non-current assets		22,005	241,056
<b>PROFIT BEFORE TAX</b>		<b>2,010,647</b>	<b>2,032,548</b>
Income tax	15	(412,268)	(424,709)
<b>PROFIT FOR THE PERIOD FROM CONTINUING ACTIVITIES</b>		<b>1,598,379</b>	<b>1,607,839</b>
<b>PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS (NET OF TAX)</b>	<b>2.c</b>	<b>(32,265)</b>	<b>(34,300)</b>
Non-controlling interests		(155,628)	(55,124)
<b>NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT</b>		<b>1,410,486</b>	<b>1,518,415</b>
<b>EARNINGS PER SHARE IN EUROS FROM CONTINUING OPERATIONS:</b>			
BASIC EARNINGS PER SHARE IN EUROS		0.231	0.241
DILUTED EARNINGS PER SHARE IN EUROS		0.225	0.235
<b>LOSSES PER SHARE IN EUROS FROM DISCONTINUED OPERATIONS:</b>			
BASIC LOSSES PER SHARE IN EUROS		(0.005)	(0.005)
DILUTED LOSSES PER SHARE IN EUROS		(0.005)	(0.005)

(\*) The consolidated income statement for the period ended 30 June 2017 is presented for comparison purposes only.

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

Translation of Condensed consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES

### Consolidated statement of comprehensive income for the six-month period ended 30 June 2018

Thousands of Euros	30.06.2018 (Unaudited)				30.06.2017 (*) (Unaudited)			
	Of the parent company	Of non- controlling interests	Of subordinated perpetual obligations	Total	Of the parent company	Of non- controlling interests	Of subordinated perpetual obligations	Total
<b>NET PROFIT FOR THE PERIOD</b>	<b>1,410,486</b>	<b>136,697</b>	<b>18,931</b>	<b>1,566,114</b>	<b>1,518,415</b>	<b>43,804</b>	<b>11,320</b>	<b>1,573,539</b>
<b>OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS</b>								
<b>Valuation adjustments</b>	<b>179,973</b>	<b>4,993</b>	<b>-</b>	<b>184,966</b>	<b>28,360</b>	<b>2,193</b>	<b>-</b>	<b>30,553</b>
Change in the value of available-for-sale investments (Note 2.a)	-	-	-	-	9	-	-	9
Change in the value of cash flow hedges	228,216	7,773	-	235,989	41,884	3,606	-	45,490
Changes in hedge costs (Note 2.a.)	2,634	-	-	2,634	-	-	-	-
Tax effect	(50,877)	(2,780)	-	(53,657)	(13,533)	(1,413)	-	(14,946)
<b>Differences in exchange rates</b>	<b>154,101</b>	<b>(170,898)</b>	<b>-</b>	<b>(16,797)</b>	<b>(1,242,815)</b>	<b>(225,411)</b>	<b>-</b>	<b>(1,468,226)</b>
<b>TOTAL</b>	<b>334,074</b>	<b>(165,905)</b>	<b>-</b>	<b>168,169</b>	<b>(1,214,455)</b>	<b>(223,218)</b>	<b>-</b>	<b>(1,437,673)</b>
<b>OTHER COMPREHENSIVE INCOME NOT TO BE RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT IN FUTURE PERIODS</b>								
<b>Valuation adjustments</b>	<b>(652)</b>	<b>-</b>	<b>-</b>	<b>(652)</b>	<b>(10,984)</b>	<b>-</b>	<b>-</b>	<b>(10,984)</b>
Change in the value of cash flow hedges	(739)	-	-	(739)	(13,941)	-	-	(13,941)
Tax effect	87	-	-	87	2,957	-	-	2,957
<b>TOTAL</b>	<b>(652)</b>	<b>-</b>	<b>-</b>	<b>(652)</b>	<b>(10,984)</b>	<b>-</b>	<b>-</b>	<b>(10,984)</b>
<b>OTHER COMPREHENSIVE INCOME OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD (NET OF TAX)</b>								
<b>Valuation adjustments</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>(3)</b>	<b>3,288</b>	<b>-</b>	<b>-</b>	<b>3,288</b>
<b>TOTAL</b>	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>(3)</b>	<b>3,288</b>	<b>-</b>	<b>-</b>	<b>3,288</b>
<b>TOTAL NET PROFIT RECOGNISED DIRECTLY IN EQUITY</b>	<b>333,419</b>	<b>(165,905)</b>	<b>-</b>	<b>167,514</b>	<b>(1,222,151)</b>	<b>(223,218)</b>	<b>-</b>	<b>(1,445,369)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>1,743,905</b>	<b>(29,208)</b>	<b>18,931</b>	<b>1,733,628</b>	<b>296,264</b>	<b>(179,414)</b>	<b>11,320</b>	<b>128,170</b>

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

Translation of Condensed consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES

### Consolidated statement of changes in equity for the six-month period ended 30 June 2018

(Unaudited)	Other reserves												Total
	Share capital	Own shares	Legal reserve	Revaluation reserves	Share premium	Other restricted reserves	Retained earnings	Valuation adjustments	Translation differences	Net profit for the year	Non-controlling interests	Subordinated perpetual obligations	
Thousands of Euros													
<b>Balance at 31.12.2017</b>	<b>4,738,136</b>	<b>(597,797)</b>	<b>968,998</b>	<b>236,866</b>	<b>14,667,676</b>	<b>693,684</b>	<b>14,868,427</b>	<b>(42,254)</b>	<b>(2,828,470)</b>	<b>2,803,994</b>	<b>5,671,380</b>	<b>1,552,546</b>	<b>42,733,186</b>
Adjustments due to IFRS 9 (Note 2.a.)	-	-	-	-	-	-	101,877	1,110	-	-	(7,273)	-	95,714
Adjustments due to IFRS 15 (Note 2.a.)	-	-	-	-	-	-	(47,165)	-	-	-	-	-	(47,165)
<b>Adjusted balance at 01.01.2018</b>	<b>4,738,136</b>	<b>(597,797)</b>	<b>968,998</b>	<b>236,866</b>	<b>14,667,676</b>	<b>693,684</b>	<b>14,923,139</b>	<b>(41,144)</b>	<b>(2,828,470)</b>	<b>2,803,994</b>	<b>5,664,107</b>	<b>1,552,546</b>	<b>42,781,735</b>
<b>Comprehensive income for the period</b>	-	-	-	-	-	-	-	179,318	154,101	1,410,486	(29,208)	18,931	1,733,628
<b>Transactions with shareholders or owners</b>													
Free capital increase (Note 10)	90,644	-	-	(90,644)	-	-	(417)	-	-	-	-	-	(417)
Share capital decrease (Note 10)	(148,780)	1,245,420	-	-	-	148,780	(1,245,426)	-	-	-	-	-	(6)
Acquisition of free-of-charge allocation rights (Note 10)	-	-	-	-	-	-	(97,900)	-	-	-	-	-	(97,900)
Distribution of profit (Note 10)	-	-	-	-	-	-	2,795,774	-	-	(2,803,994)	(100,838)	-	(109,058)
Transactions with treasury shares	-	(766,790)	-	-	-	-	(2,205)	-	-	-	-	-	(768,995)
<b>Other changes in equity</b>													
Equity instruments-based payments (Note 11)	-	-	-	-	-	-	(15,518)	-	-	-	(699)	-	(16,217)
Issuance of subordinated perpetual obligations (Note 10)	-	-	-	-	-	-	(2,538)	-	-	-	-	700,000	697,462
Write-off of subordinated perpetual obligations (Note 10)	-	-	-	-	-	-	-	-	-	-	-	(525,000)	(525,000)
Other variations (Note 10)	-	-	-	-	-	-	(1,675)	-	-	-	128,550	(39,563)	90,662
<b>Balance at 30.06.2018</b>	<b>4,680,000</b>	<b>(119,167)</b>	<b>968,998</b>	<b>146,222</b>	<b>14,667,676</b>	<b>842,464</b>	<b>16,356,584</b>	<b>138,174</b>	<b>(2,674,369)</b>	<b>1,410,486</b>	<b>5,661,912</b>	<b>1,706,914</b>	<b>43,785,894</b>



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

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

Translation of Condensed consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 22). In the event of a discrepancy, the Spanish-language version prevails.

## IBERDROLA, S.A. AND SUBSIDIARIES

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

Thousands of Euros	Note	30.06.2018 (Unaudited)	30.06.2017 (*) (Unaudited)
Profit before tax from continuing activities		2,010,647	2,032,548
Profit before tax from discontinued operations		(43,074)	(42,808)
Adjustments for			
Amortisation, depreciation, provisions and personnel expenses for pensions		1,987,311	1,705,350
Net profit/loss from investments in associates and joint ventures		(25,296)	(45,823)
Grants credited to income		(132,969)	(121,736)
Finance income and finance costs		569,892	413,547
Profit/loss from the sale of non-current assets		(21,964)	(240,986)
Changes in working capital			
Change in trade and other receivables		(426,213)	(52,859)
Change in inventories		(179,763)	(60,604)
Change in trade and other payables		(335,036)	(629,328)
Provisions paid		(332,265)	(299,593)
Income tax		235,342	(143,801)
Dividends received		5,746	52,634
<b>Net cash flows from operating activities</b>		<b>3,312,358</b>	<b>2,566,541</b>
Investments in intangible assets		(490,070)	(87,727)
Investments in associates		(37,670)	(32,515)
Collections from securities portfolio		1,745	210
Collections/(payments) from other investments		(664,461)	12,869
Investments in investment property		(6,224)	(1,810)
Investments in property, plant and equipment		(2,121,786)	(2,470,439)
Capitalised interest		(86,319)	(53,336)
Capitalised personnel expenses		(309,797)	(317,350)
Capital grants		66,101	93,388
Net collection/(payments) for current financial assets		(36,807)	114,831
Interest collected		111,697	109,616
Proceeds from sale of non-financial assets		171,502	912
Proceeds from sale of financial assets		35,100	313,009
<b>Net cash flows from investing activities</b>		<b>(3,366,989)</b>	<b>(2,318,342)</b>
Acquisition of free-of-charge allocation rights	10	(97,900)	(264,071)
Dividends paid	10	(8,220)	-
Dividends paid to non-controlling interests		(100,051)	(46,838)
Issuance of subordinated perpetual obligations	10	700,000	-
Reimbursement of subordinated perpetual obligations	10	(525,000)	-
Payment of interest on subordinated perpetual obligations		(39,563)	(30,188)
Issues and drawdowns from borrowings		8,007,301	7,033,258
Repayment of borrowings		(6,862,521)	(5,537,553)
Interest paid excluding capitalised interest		(506,248)	(537,829)
Transactions with non-controlling interests	10	115,795	(67,503)
Cash outflows due to capital decrease		(6)	(37)
Cash outflows due to capital increase		(417)	(404)
Acquisition of treasury shares		(782,508)	(468,449)
Proceeds from sale of treasury shares		41,072	39,923
<b>Net cash flows from financing activities</b>		<b>(58,266)</b>	<b>120,309</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>(100,598)</b>	<b>(52,520)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(213,495)</b>	<b>315,988</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>3,197,340</b>	<b>1,432,686</b>
<b>Cash and cash equivalents at end of the</b>		<b>2,983,845</b>	<b>1,748,674</b>

(\*) The consolidated statement of cash flows for six-month period ended 30 June 2017 is presented for comparison purposes only. The attached notes are an integral part of the 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 2018

#### 1. GROUP ACTIVITIES

Iberdrola S.A. (hereinafter IBERDROLA), incorporated in Spain and with its registered address at Plaza Euskadi 5, Bilbao, is the parent of a group of companies whose main activities are the following:

- Production of electricity from renewable and conventional sources
- Sale and purchase of electricity and gas in wholesale markets
- Transmission and distribution of electricity
- Retailing of electricity, gas and associated energy-related services
- Other activities, mainly linked to the energy sector

The aforementioned activities are performed in Spain and abroad, and totally or partially either directly by IBERDROLA or through the ownership of shares or other equity investments in other companies, subject in all cases to the legislation applicable at any given time and, in particular, to the applicable legislation in the electricity industry. The IBERDROLA Group carries out its activities mainly in five countries: Spain, United Kingdom (UK), United States of America (USA), Mexico and Brazil.

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

##### a) Accounting standards applied

The Board of Directors of IBERDROLA approved the issue of these Condensed consolidated interim financial statements for the six-month period ended 30 June 2018 (hereinafter the financial statements) on 24 July 2018.

These financial statements have been drafted following IAS 34 "Interim Financial Reporting" and also include information which is additional to that required by this standard, pursuant to article 12 of Royal Decree 1362/2007. Nevertheless, they do not contain all of the information and itemisations required of consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU). Consequently, to be interpreted properly these financial statements must be read in conjunction with the IBERDROLA Group's consolidated annual accounts for the year ended 31 December 2017.

The accounting policies used in these financial statements match those used for the year ended 31 December 2017, except for the application on 1 January 2018 of IFRS 9 “Financial instruments” and IFRS 15 “Revenues from contracts with customers” published by the International Accounting Standards Board (IASB), which have been adopted by the European Union for use in Europe.

The main impacts of applying the aforementioned new standards are as follows:

#### IFRS 15 “Revenues from contracts with customers”

According to the core principle of IFRS 15, an entity recognises revenue from ordinary activities to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The IBERDROLA Group has adopted IFRS 15 retroactively recording the cumulative effect resulting from the application of this standard on 1 January 2018. Thus, the financial statements for 2017 do not include any effects resulting from the application of IFRS 15.

IFRS 15 has had an impact on the following:

- The capitalisation of incremental costs incurred in obtaining contracts with customers, which, prior to application of IFRS 15 were recognised under “External services” in the consolidated income statement.

Incremental costs capitalised by the IBERDROLA Group mainly refer to sales commissions incurred to obtain a contract with a customer which would not otherwise have been incurred if the contract had not been obtained.

Assets are depreciated on a systematic basis according to the average expected life of contracts with customers that are associated with such costs.

- Claims against customers in construction contracts. IFRS 15 establishes that to recognise modifications to contracts with customers as revenue, either because new rights and obligations are generated or because pre-existing ones are changed, these have to be approved in writing, by verbal agreement or implicitly on account of customary business practices. However, under the previous IAS 11 “Contracts under construction”, claims were included under income to the extent that they are probable and can be reliably measured.
- Customer penalties in construction contracts for delays or other reasons. IFRS 15 establishes that the estimated amount of variable consideration is to be included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. However, under the previous IAS 11 “Contracts under construction”, penalties were included under income to the extent that they are probable or the uncertainties related to them were settled.
- The timing of recognition of revenue in certain capacity assignment agreements for technical installations.

The impact from the above items that was recognised by the IBERDROLA Group in implementing IFRS 15 as of 1 January 2018 was:

Thousands of Euros	Cost capitalisation	Claims/penalties	Upon recognition of revenue	Total
Intangible assets	175,001	-	-	175,001
Trade and other receivables, non-current	-	-	(50,579)	(50,579)
Deferred tax assets	-	66,886	15,174	82,060
<b>Non-current assets</b>	<b>175,001</b>	<b>66,886</b>	<b>(35,405)</b>	<b>206,482</b>
Trade and other receivables, current	-	(240,223)	-	(240,223)
<b>CURRENT ASSETS</b>	<b>-</b>	<b>(240,223)</b>	<b>-</b>	<b>(240,223)</b>
<b>TOTAL ASSETS</b>	<b>175,001</b>	<b>(173,337)</b>	<b>(35,405)</b>	<b>(33,741)</b>
Of the parent company	134,751	(199,211)	17,295	(47,165)
<b>EQUITY</b>	<b>134,751</b>	<b>(199,211)</b>	<b>17,295</b>	<b>(47,165)</b>
Other non-current payables	-	-	(75,286)	(75,286)
Deferred tax liabilities	40,250	-	22,586	62,836
<b>NON-CURRENT LIABILITIES</b>	<b>40,250</b>	<b>-</b>	<b>(52,700)</b>	<b>(12,450)</b>
Provisions	-	(1,245)	-	(1,245)
Trade and other payables	-	27,119	-	27,119
<b>Current liabilities</b>	<b>-</b>	<b>25,874</b>	<b>-</b>	<b>25,874</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>175,001</b>	<b>(173,337)</b>	<b>(35,405)</b>	<b>(33,741)</b>

Details are provided below of the amount by which each item in the financial statements has been affected by the implementation of IFRS 15 at 30 June 2018 compared with the previously applied standard:

Thousands of Euros	Based on IFRS 15	Adjustments	Based on previous standard
Intangible assets	21,205,573	(215,342)	20,990,231
Real estate investments	426,713	-	426,713
Property, plant and equipment	65,816,897	-	65,816,897
Non-current financial investments	5,088,053	-	5,088,053
Trade and other receivables, non-current	1,403,565	39,458	1,443,023
Deferred tax assets	5,173,632	(82,780)	5,090,852
<b>Non-current assets</b>	<b>99,114,433</b>	<b>(258,664)</b>	<b>98,855,769</b>
Assets held for sale	35,756	-	35,756
Nuclear fuel	302,819	-	302,819
Inventories	2,089,633	-	2,089,633
Trade and other receivables, current	6,710,324	237,921	6,948,245
Current financial investments	1,411,884	-	1,411,884
Cash and cash equivalents	2,983,845	-	2,983,845
<b>CURRENT ASSETS</b>	<b>13,534,261</b>	<b>237,921</b>	<b>13,772,182</b>
<b>TOTAL ASSETS</b>	<b>112,648,694</b>	<b>(20,743)</b>	<b>112,627,951</b>

Thousands of Euros	Based on IFRS 15	Adjustments	Based on previous standard
<b>Of the parent company</b>	<b>36,417,068</b>	<b>18,408</b>	<b>36,435,476</b>
Share capital	4,680,000	-	4,680,000
Valuation adjustments	138,174	-	138,174
Other reserves	32,981,944	47,165	33,029,109
Treasury shares	(119,167)	-	(119,167)
Translation differences	(2,674,369)	(872)	(2,675,241)
Net profit for the year	1,410,486	(27,885)	1,382,601
<b>Of non-controlling interests</b>	<b>5,661,912</b>	<b>-</b>	<b>5,661,912</b>
<b>Of subordinated perpetual obligations</b>	<b>1,706,914</b>	<b>-</b>	<b>1,706,914</b>
<b>EQUITY</b>	<b>43,785,894</b>	<b>18,408</b>	<b>43,804,302</b>
<b>NON-CURRENT EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY</b>	<b>199,222</b>	<b>-</b>	<b>199,222</b>
Deferred income	6,404,865	1,491	6,406,356
Provisions	5,433,900	-	5,433,900
Financial debt	31,920,316	-	31,920,316
Other non-current payables	639,662	66,584	706,246
Deferred tax liabilities	8,573,408	(72,035)	8,501,373
<b>NON-CURRENT LIABILITIES</b>	<b>52,972,151</b>	<b>(3,960)</b>	<b>52,968,191</b>
<b>CURRENT EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY</b>	<b>19,402</b>	<b>-</b>	<b>19,402</b>
Liabilities linked to assets held for sale	328	-	328
Provisions	809,399	1,250	810,649
Financial debt	6,337,853	-	6,337,853
Trade and other payables	8,524,445	(36,441)	8,488,004
<b>Current liabilities</b>	<b>15,672,025</b>	<b>(35,191)</b>	<b>15,636,834</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>112,648,694</b>	<b>(20,743)</b>	<b>112,627,951</b>

Thousands of Euros	Based on IFRS 15	Adjustments	Based on previous standard
Revenue	17,586,623	(8,435)	17,578,188
Procurements	(9,918,192)	-	(9,918,192)
<b>GROSS MARGIN</b>	<b>7,668,431</b>	<b>(8,435)</b>	<b>7,659,996</b>
Net personnel expenses	(1,043,916)	-	(1,043,916)
Net external services	(1,067,367)	(70,482)	(1,137,849)
Net operating expenses	(2,111,283)	(70,482)	(2,181,765)
Taxes	(1,121,261)	-	(1,121,261)
<b>GROSS OPERATING PROFIT (EBITDA)</b>	<b>4,435,887</b>	<b>(78,917)</b>	<b>4,356,970</b>
Valuation adjustments, trade and other receivables	(126,534)	-	(126,534)
Amortisation, depreciation and provisions	(1,782,090)	36,982	(1,745,108)
<b>OPERATING PROFIT (EBIT)</b>	<b>2,527,263</b>	<b>(41,935)</b>	<b>2,485,328</b>
Profit/loss of companies accounted for using the equity method, net of taxes	24,503	-	24,503
Finance income	421,557	(2,289)	419,268
Financial costs	(984,681)	702	(983,979)
Net finance income/(loss)	(563,124)	(1,587)	(564,711)
Profit/(loss) from non-current assets	22,005	-	22,005
<b>PROFIT BEFORE TAX</b>	<b>2,010,647</b>	<b>(43,522)</b>	<b>1,967,125</b>
Corporate tax	(412,268)	10,284	(401,984)
<b>PROFIT FOR THE PERIOD FROM CONTINUING ACTIVITIES</b>	<b>1,598,379</b>	<b>(33,238)</b>	<b>1,565,141</b>
<b>PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS (NET OF TAX)</b>	<b>(32,265)</b>	<b>5,353</b>	<b>(26,912)</b>
Non-controlling interests	(155,628)	-	(155,628)
<b>NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT</b>	<b>1,410,486</b>	<b>(27,885)</b>	<b>1,382,601</b>

## IFRS 9 “Financial instruments:

IFRS 9 establishes the requirements for recognising and measuring financial assets, financial liabilities and certain contracts to buy and sell non-financial items and replaces the previously applied IAS 39.

### **Classification and measurement of financial assets and liabilities**

IFRS 9 replaces the previous classification of financial assets being these now classified on the basis of the business model within which they are held and their contractual cash flow characteristics. On the other hand, the new standard to a great extent retains the requirements in IAS 39 for classifying and measuring financial liabilities.

The IBERDROLA Group has adopted the classification and measurement requirements retroactively, with initial application on 1 January 2018, thus opting not to restate the figures for comparative periods.

The IBERDROLA Group has classified its financial assets into the following categories (Note 8):

#### **Categories**

<b>Financial assets at amortised cost</b>	Financial assets which: - are held within a business model where the objective is to hold the assets to obtain the contract cash flows, and - on specified dates the asset’s contract terms produce cash flows which are only payments of the principal and interest on the amount of the outstanding principal.
<b>Financial assets at fair value through profit or loss</b>	This category embraces those financial assets which fail to meet the conditions for being classified as “measured at amortised cost”.

The IBERDROLA Group has irrevocably decided that equity instruments existing at the time of the initial application of IFRS 9 should be classified at fair value through profit or loss where the changes in fair value are recognised under “Finance costs” and “Finance income” in the consolidated income statement. Under IAS 39 these investments were classified in the category of available-for-sale assets and changes in their fair value were debited or credited to “Valuation adjustments” in the consolidated statement of financial position up until the time of sale of such investments or their impairment, at which point the cumulative amount for this item was allocated to the consolidated income statement.

The amounts classified under IAS 39 in the following categories have their equivalence in the following new categories under IFRS 9:

<b>Based on IAS 39</b>	<b>Based on IFRS 9</b>
Loans and receivables	Financial assets at amortised cost
Available-for-sale assets	Financial assets at fair value through profit or loss
Assets held for trading	Financial assets at fair value through profit or loss

The classification of the IBERDROLA Group’s financial liabilities has not undergone any changes with respect to the consolidated annual accounts for 2017.

The new classification and measurement criteria do not imply a significant change in the IBERDROLA Group’s equity as at 1 January 2018, since most financial assets will continue being valued at amortised cost with the sole exception of equity instruments and derivative financial instruments, valued at fair value, as was the case under the previously applied IAS 39.

## Impairment of financial assets at amortised cost

Under IFRS 9 it is no longer necessary for there to be an event relating to a financial asset that evidences impairment to recognise credit losses. Instead, expected credit losses are recognised, as are any changes to such expected credit losses, which means bringing forward recognition of credit losses compared to IAS 39.

The IBERDROLA Group has adopted the impairment requirements retroactively, with initial application on 1 January 2018, thus opting not to restate the figures for comparative periods.

The IBERDROLA Group applies the general approach for calculation of expected credit loss on financial assets other than trade and lease receivables, where the simplified approach is applied:

- Under the general approach, the loss allowance is measured at an amount equal to 12-month expected credit losses. However, if the credit risk on that financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime expected credit losses
- Under the simplified approach, the loss allowance is always measured at an amount equal to lifetime expected credit losses. The IBERDROLA Group has adopted the practical expedient whereby it calculates the expected credit loss on trade receivables using a provision matrix based on its historical credit loss experience adjusted for available forecast information.

The impact recognised by the IBERDROLA Group from applying the new expected credit loss model to calculate the loss allowance of financial assets as at 1 January 2018 is as follows:

Thousands of Euros	01.01.2018
Non-current investments	(475)
Trade and other receivables, non-current	(9,090)
Deferred tax assets	2,652
<b>NON-CURRENT ASSETS</b>	<b>(6,913)</b>
Trade and other receivables, current	(7,372)
Current investments	(6,918)
Cash and cash equivalents	(710)
<b>CURRENT ASSETS</b>	<b>(15,000)</b>
<b>TOTAL ASSETS</b>	<b>(21,913)</b>
Of the parent company	(14,640)
Of non-controlling interests	(7,273)
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>(21,913)</b>

The valuation adjustment for impairment related to the headings "Trade and other receivables, non-current" and "Trade other current receivables, current" is presented separately in the consolidated income statement under "Valuation adjustments, trade and other receivables". Consequently, an amount of EUR 96,264 thousand has been reclassified, which in accordance with the previous IAS 39 was recognised under "Amortisation, depreciation and provisions" in the consolidated income statement for the six-month period ended 30 June 2017.



## Hedge accounting

The requirements of IFRS 9 make hedge accounting more closely aligned with risk management, establish a focus that is more based on hedge accounting principles and address the incongruence and weaknesses of the hedge accounting model in IAS 39 that was previously applied.

Among other aspects, IFRS 9 enables hedge accounting to be applied to economic hedges that did not meet hedging requirements under the IAS 39: mainly the hedging of risk components in non-financial contracts and consideration as a hedged item of a combination of a derivative and an item which could meet the characteristics of a hedged item.

Based on IFRS 9, the IBERDROLA Group will record under “Hedge cost” line in the consolidated statement of financial position, as a separate equity item, the time value of option contracts, the forward element of forward contracts and foreign currency basis spreads of financial instruments should they be excluded from hedges. Under IAS 39 these items were recognised in the consolidated income statement.

The transition to IFRS 9 in relation to the recording of hedges has been made prospectively, with the exception of the accounting treatment of the time value of those option contracts for which changes in their intrinsic value were designated as a hedging instrument. In such cases, this has been applied retrospectively. The effect of initial application of IFRS 9 as of 1 January 2018 as regards the above-mentioned time value has meant a charge of EUR 1,552 thousand to “Other reserves” in the consolidated statement of financial position along with a credit to “Valuation adjustments” in the consolidated statement of financial position.

## Changes to financial liabilities

Changes to financial liabilities measured at amortised cost not resulting in the derecognition of a financial liability (for considering this to be a non-material change) imply recording in the consolidated income statement the result on the date of the change of the difference between amortised cost of financial liabilities and the pending cash flows deducted by the original effective tax rate.

Previous to this change, for changes to financial liabilities whose conditions were not substantially different, the amortised cost of the financial liability was determined using the effective interest rate method. The effective interest rate is the rate that matches the carrying amount of the financial liability at the date of modification with the cash flows payable under the new terms.

The result of applying these criteria at 1 January 2018 is as follows:

Thousands of Euros	01.01.2018
Of the parent company	117,627
<b>EQUITY</b>	<b>117,627</b>
Financial debt	(156,434)
Deferred tax liabilities	38,807
<b>NON-CURRENT LIABILITIES</b>	<b>(117,627)</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>-</b>

The consolidated income statement for the six-month period ended 30 June 2018 includes a greater cost of EUR 17,642 thousand recognised under “Finance costs” in the consolidated income statement as a result of the increase in the effective interest rate following the new accounting guideline for financial liabilities that have been not-significantly modified with respect to the rate which was applied for the six-month period ended 30 June 2017.

## Issued standards pending application

At the date these financial statements were authorised for issue, the following standards, amendments and interpretations coming into force after 1 January 2018 have been issued:

Regulation		Mandatory application	
		IASB	European Union
IFRS 16	Leases	01.01.2019	01.01.2019
IFRS 17	Insurance contracts	01.01.2021	(*)
IFRIC 23	Uncertainties over income tax treatment	01.01.2019	(*)
Amendments to IFRS 9	Prepayment features with negative compensation	01.01.2019	01.01.2019
Amendments to IAS 28	Long term interests in associates and joint ventures	01.01.2019	(*)
Amendments to IAS 19	Amendment, curtailment or settlement of defined benefit plans	01.01.2019	(*)
2015-2017 cycle	Annual improvements to IFRS	01.01.2019	(*)

(\*) Pending approval by the European Union

The IBERDROLA Group has not applied in advance of the authorisation for issue of these financial statements any published standard, interpretation or amendment that has not yet come into force.

### IFRS 16 “Leases”

The IBERDROLA Group is quantifying the impact of the first application of the standard based on the different transition alternatives as of the date of its first application. Furthermore, the IBERDROLA Group is currently modifying IT systems to adapt its accounting to the new regulatory requirements.

## b) Comparative information

When comparing information, the following aspects should be taken into consideration:

### Control acquisition of Neoenergia, S.A.

On 24 August 2017, the incorporation of the activity and businesses of Elektro Holding, S.A. (ELEKTRO) in Neoenergia S.A. (NEOENERGIA) was completed, according to the agreement of the NEOENERGIA shareholders (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), notified on 8 June 2017 and once the suspensive conditions to which the operation was subject were met. Through this transaction, IBERDROLA Group took control over NEOENERGIA, which was previously jointly controlled through its prior stake. This transaction thus resulted in an business combination in stages.

After the effectiveness of the transaction, Banco do Brasil and Previ own approximately 9.35% and 38.21%, respectively, of the equity of NEOENERGIA, and IBERDROLA ENERGÍA now holds 52.45%, including the businesses of ELEKTRO as consideration. Previously, Banco do Brasil and Previ were holders of 12% and 49% of the equity of NEOENERGIA, respectively, with the remaining 39% being owned by IBERDROLA ENERGÍA.

The acquisition of NEOENERGÍA should be considered when comparing the figures for the six-month period ended 30 June 2018 included in these consolidated financial statements with the 2017 figures.

### New applicable standards from 1 January 2018

As mentioned in Note 2.a.), on 1 January 2018 IFRS 15 and IFRS 9 were applied for the first time.

### Tax reform in the USA

On 22 December 2017 the *Tax Cuts and Jobs Act of 2017* (Tax Act), referred to as “US Tax reform”, was signed and passed. This has given rise to relevant changes in the USA federal tax structure, the most significant aspect being a reduction in federal tax for legal persons from 35% to 21%. This affected the comparison in the “Income tax” line in the consolidated income statement (Note 15).

### GAMESA-SIEMENS merger

In the first half of 2017, as a result of the conclusion of the decision to merge the wind power businesses of Gamesa Corporación Tecnológica, S.A. (GAMESA) and Siemens AG (SIEMENS), whereby Siemens Wind HoldCo (as disappearing company) was taken over by GAMESA (as surviving company), there was a dilution to the IBERDROLA Group’s percentage holding in GAMESA, which was reduced from 19.69% to 8.07%.

The profit obtained as a result of the aforementioned dilution in the transaction amounted to EUR 250,695 thousand, which was recognised under “Gains on sale of non-current assets” in the consolidated income statement for the six months ended 30 June 2017.

## **c) Amendment to comparative information**

### Geographical and business segment reporting (Note 6)

Pursuant to IFRS 8 “Operating segments”, the comparative information on operating segments from the previous year was restated for the following reasons:

- Following the acquisition of control over NEOENERGIA (Note 2.b.), the IBERDROLA Group has changed the way it reports its activities in Brazil and does so based on the different businesses to which they belong (they were previously included under Networks and the renewables activity was included under Rest of the World).
- On 1 January 2018, hydropower assets were transferred from the Liberalised business to the Renewables business. The purpose of this restructure is to group clean generation assets in a single operating segment. This change in the management of hydropower assets entails corporate restructuring expected to be completed on 1 August 2018, once all administrative authorisations have been obtained.
- In 2017 the gas business in the USA and Canada was included under the Liberalised – Rest of the World segment. In the first half of 2018, after having sold the whole gas business in the USA (Note 5), the remaining assets and liabilities of this business in Canada are included in the “Other businesses” segment.

### Abandonment of engineering and construction activities

In the second half of 2017, the activities related to the provision of engineering and construction services were abandoned, meeting the requirements to be considered a discontinued activity. The profit or loss after tax of this discontinued operation is included under “Net profit/loss from discontinued activities, net of tax” in the consolidated income statement for the periods ended 30 June 2018 and 2017, in accordance with prevailing accounting principles. Subsequently, comparative information from the previous year has been restated.

### Earnings per share

Within the context of the *Iberdrola flexible dividend* scheme, a free share capital increase was carried out in January 2018 (Note 10), and at the date of issue of these financial statements a second free share capital increase is in progress (Note 21). In accordance with IAS 33 “Earning per share” these capital increases have resulted in the correction of the basic and diluted earnings. The increase in January 2018 has been taken into account in the basic and diluted earnings per share calculations for the periods ended 30 June 2018 and 2017, while July 2018 increase has only been taken into account in the diluted earnings per share calculation for said periods.

## 3. SEASONAL VARIATION

On a half-yearly basis, IBERDROLA’s activities show no significant degree of seasonal variation.

## 4. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

### a) Accounting estimates

Certain assumptions and estimates were made by IBERDROLA Group in the preparation of these financial statements. The criteria used for the calculation of the estimates in these financial statements are the same as those used for the 2017 consolidated annual accounts of the IBERDROLA Group.

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

According to IAS 34 “Interim financial statements”, the income tax calculation in the consolidated income statement for the six-month periods ended 30 June 2018 and 2017 are based on the best estimate of the expected tax rate for the corresponding periods.

## b) Sources of uncertainty

There are certain matters that, at the date of issue of these consolidated financial statements, constitute a source of uncertainty concerning their accounting effect:

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

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

- The IBERDROLA Group has stakes in several nuclear plants, all of which are located in Spain. The operating licences in effect for the nuclear plants have a term of 30 to 40 years from their coming into operation. Those plants are governed by Sustainable Economy Law (*Ley de Economía Sostenible*), enacted on 15 February 2011, which provides, with no time limit, that the share of nuclear power in the production mix must be determined in accordance with its production timetable and the licence renewals requested by nuclear plant owners within the framework of prevailing law.

Taking this 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 those plants are 40 years old. Accordingly, for accounting purposes the plants will be depreciated over this period.

- Note 17 to these financial statements describe IBERDROLA's principal contingent assets and liabilities, mostly arising from litigations in progress whose future evolution cannot be determined certainly at the date of authorisation for issue of these financial statements.

The IBERDROLA Group and its legal and tax advisors consider that no losses of assets and no significant liabilities will arise for the IBERDROLA Group as a result of the matters described in the paragraphs above.

## 5. CHANGES TO THE SCOPE OF CONSOLIDATION

Changes in the consolidated IBERDROLA Group during the six-month period ended 30 June 2018 are as follows:

- At the 2017 close, the USA and Canada gas distribution and storage business complied with the requirements set forth in IFRS 15 "Non-current assets held for sale and discontinued operations" for their recognition as such in the consolidated financial statements, as long as i) there was a sale plan at a reasonable price compared to the fair value of assets subject to the transaction and ii) the sale could be expected to be completed in less than one year.

At 31 December 2017 the IBERDROLA Group reported assets and liabilities linked to the gas business in the USA and Canada for sale in the heading “Assets held for sale” and “Liabilities linked to assets held for sale”.

On 1 March 2018, Avangrid Renewables Holdings, Inc., a subsidiary of AVANGRID, formalised the sale of the gas trading business it operated through Enstor Energy Services, LLC to CCI U.S. Asset Holdings LLC, a subsidiary of Castleton Commodities International, LLC. Additionally, on 1 May 2018, Avangrid Renewables Holdings, Inc. formalised the sale of Enstor Gas, LLC, which managed the gas storage business unit, to Amphora Gas Storage USA, LLC, a subsidiary of ArcLight Capital Partners, LLC.

Said transactions resulted in gross losses of EUR 12,055 thousand, recognised under “Losses on disposal of non-current assets” in the consolidated income statement for the six-month period ended 30 June 2018.

- In June 2018 the IBERDROLA Group sold its 20% stake in Tirme, S.A. for an amount of EUR 35,100 thousand, which gave a gross gain of EUR 30,928 thousand, recognised under “Profit on sale of non-current assets” in the consolidated income statement for the six-month period ended 30 June 2018.

## 6. SEGMENT INFORMATION

The IBERDROLA Group combines its segments according to the nature of the business activities in the different geographic areas in which said activities take place. IBERDROLA Group’s operating segments, taking into account the changes indicated in Note 2.c, are as follows:

- Network business: includes all energy transmission and distribution activities, and any other regulated activity, carried out in Spain, the UK, the USA and Brazil.
- Liberalised business: includes the electricity generation and retail businesses carried out by the Group in Spain and Portugal, the UK, Mexico and Brazil.
- Renewable business: activities related to renewable energies (principally wind and hydroelectric) in Spain, the UK, the USA and Brazil.
- Other businesses: retailing and storage of gas up to the time of sale (Note 2.c) and other non-power businesses.

Additionally, Corporation includes the Group’s structural costs (Single Corporation), the administration services of the corporate areas that are subsequently invoiced to the other companies through specific service agreements.

The transactions between the different segments are made in market conditions.

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

## Segmentation for the six-month period ended 30 June 2018

Thousands of Euros	Liberalised					Renewables						Networks					Other businesses, Corporation and adjustments		
	Spain and Portugal	UK	Mexico	Brazil	Total	Spain	UK	USA	Mexico	Brazil	ROW	Total	Spain	UK	USA	Brazil	Total		Total
<b>REVENUE (NOTE 14)</b>																			
External revenues	6,192,571	2,772,959	963,082	252,303	<b>10,180,915</b>	172,374	30,246	543,686	33,548	31,334	116,199	<b>927,387</b>	1,043,764	555,248	2,101,128	2,681,618	<b>6,381,758</b>	96,563	<b>17,586,623</b>
Intersegment revenue	89,475	18,955	(6,936)	120,811	<b>222,305</b>	741,380	299,753	-	(2,097)	78,641	12,147	<b>1,129,824</b>	66,820	84,523	-	464	<b>151,807</b>	8,717	<b>1,512,653</b>
Eliminations					<b>(34,325)</b>							-					-	(1,478,328)	<b>(1,512,653)</b>
Total revenue					<b>10,368,895</b>							<b>2,057,211</b>					<b>6,533,565</b>	(1,373,048)	<b>17,586,623</b>
<b>RESULTS</b>																			
Segment operating profit (EBIT)	138,792	75,397	198,700	33,798	<b>446,687</b>	327,135	154,093	74,808	4,720	36,688	49,246	<b>646,690</b>	632,624	303,068	303,657	245,856	<b>1,485,205</b>	(51,319)	<b>2,527,263</b>
Result of companies accounted for using the equity method - net of taxes	3,195	-	-	-	<b>3,195</b>	1,646	(898)	(2,259)	-	14,493	(2)	<b>12,980</b>	1,398	-	4,389	-	<b>5,787</b>	2,541	<b>24,503</b>
<b>ASSETS</b>																			
Segment assets	7,013,173	7,398,952	4,202,650	517,367	<b>19,132,142</b>	8,613,039	5,483,810	11,827,019	1,081,682	1,564,594	2,350,047	<b>30,920,191</b>	12,048,445	12,184,793	20,422,634	5,172,054	<b>49,827,926</b>	3,248,897	<b>103,129,156</b>
Companies accounted for using the equity method	22,854	-	-	-	<b>22,854</b>	66,768	5,634	182,452	-	682,282	-	<b>937,136</b>	28,378	-	125,959	-	<b>154,337</b>	653,007	<b>1,767,334</b>
<b>LIABILITIES</b>																			
Segment liabilities	2,363,248	1,505,088	909,186	144,772	<b>4,922,294</b>	1,177,983	1,030,899	3,864,521	242,854	274,917	428,304	<b>7,019,478</b>	5,781,982	2,484,653	6,709,489	1,650,542	<b>16,626,666</b>	1,817,241	<b>30,385,679</b>
<b>OTHER INFORMATION:</b>																			
Total cost incurred during the period in the acquisition of property, plant and equipment and non-current intangible assets <sup>(1)</sup>	114,983	90,226	305,783	8,525	<b>519,517</b>	115,350	336,207	140,989	98,423	21,534	127,502	<b>840,005</b>	132,602	199,069	341,792	340,345	<b>1,013,808</b>	68,150	<b>2,441,480</b>
Valuation adjustments, trade and other receivables (expense/income)	26,122	30,035	-	(66)	<b>56,091</b>	(184)	-	8	-	(10)	-	<b>(186)</b>	404	339	35,363	34,092	<b>70,198</b>	431	<b>126,534</b>
Amortisation, depreciation and provision expenses	232,124	83,252	48,491	10,921	<b>374,788</b>	163,805	79,336	200,909	12,041	24,811	56,715	<b>537,617</b>	260,596	151,654	245,085	175,111	<b>832,446</b>	37,239	<b>1,782,090</b>
Expenses for the period other than depreciation and amortisation not resulting in cash outflows	5,639	13,056	(2,121)	27	<b>16,601</b>	3,358	2,476	3,887	125	248	62	<b>10,156</b>	7,815	22,773	32,548	5,473	<b>68,609</b>	25,136	<b>120,502</b>

(1) It does not include the amount related to interest and personnel expenses capitalized during the six-month period ended June 30 2018.

## Segmentation for the six-month period ended 30 June 2017

Restated (Note 2.c)	Liberalised					Renewables						Networks					Other businesses, Corporation and adjustments		
	Thousands of Euros	Spain and Portugal	UK	Mexico	Brazil	Total	Spain	UK	USA	Mexico	Brazil	ROW	Total	Spain	UK	USA	Brazil	Total	Total
<b>REVENUE (NOTE 14)</b>																			
External revenues	6,239,317	2,466,171	919,874	38,738	<b>9,664,100</b>	7,172	35,085	524,918	36,089	24,954	61,142	<b>689,360</b>	931,427	528,406	2,180,353	810,285	<b>4,450,471</b>	161,945	<b>14,965,876</b>
Intersegment revenue	(68,561)	29,800	9,844	-	<b>(28,917)</b>	740,131	250,506	(52)	(500)	-	483	<b>990,568</b>	65,547	93,606	-	-	<b>159,153</b>	56,732	<b>1,177,536</b>
Eliminations					<b>(103,582)</b>							-					-	(1,073,954)	<b>(1,177,536)</b>
Total revenue					<b>9,531,601</b>							<b>1,679,928</b>					<b>4,609,624</b>	(855,277)	<b>14,965,876</b>
<b>RESULTS</b>																			
Segment operating profit (EBIT)	344,258	(67,889)	218,090	126	<b>494,585</b>	214,055	114,082	82,763	11,158	11,856	29,262	<b>463,176</b>	514,831	313,083	349,945	66,627	<b>1,244,486</b>	(49,391)	<b>2,152,856</b>
Result of companies accounted for using the equity method - net of taxes	(3,884)	(76)	-	11,131	<b>7,171</b>	2,678	(556)	(5,543)	-	13,420	(2)	<b>9,997</b>	1,443	-	5,633	17,030	<b>24,106</b>	4,154	<b>45,428</b>
<b>ASSETS</b>																			
Segment assets	7,126,068	7,067,028	3,520,819	15,677	<b>17,729,592</b>	8,624,166	4,854,384	12,665,463	840,822	181,725	2,009,440	<b>29,176,000</b>	11,786,766	11,812,340	20,651,361	1,607,858	<b>45,858,325</b>	5,808,215	<b>98,572,132</b>
Companies accounted for using the equity method	19,003	1,712	-	-	<b>20,715</b>	61,902	7,193	129,543	-	516,937	-	<b>715,575</b>	49,787	90	134,309	605,996	<b>790,182</b>	664,195	<b>2,190,667</b>
<b>LIABILITIES</b>																			
Segment liabilities	2,091,422	1,402,211	1,004,207	13,232	<b>4,511,072</b>	1,000,091	798,554	5,061,465	295,571	13,791	479,819	<b>7,649,291</b>	5,836,331	2,556,356	8,497,030	577,605	<b>17,467,322</b>	3,104,784	<b>32,732,469</b>
<b>OTHER INFORMATION:</b>																			
Total cost incurred during the period in the acquisition of property, plant and equipment and non-current intangible assets <sup>(1)</sup>	53,456	81,036	284,237	-	<b>418,729</b>	74,929	140,349	446,553	159,513	11,967	382,319	<b>1,215,630</b>	137,116	297,782	324,839	33,252	<b>792,989</b>	(2,376)	<b>2,424,972</b>
Valuation adjustments, trade and other receivables (expense/income)	24,369	39,226	-	-	<b>63,595</b>	-	(10)	5	-	-	(208)	<b>(213)</b>	(2,361)	639	25,755	8,874	<b>32,907</b>	(25)	<b>96,264</b>
Depreciation and amortisation expenses	179,331	76,095	49,506	51	<b>304,983</b>	157,870	75,881	212,276	13,694	4,879	15,745	<b>480,345</b>	258,661	137,564	253,781	50,917	<b>700,923</b>	51,850	<b>1,538,101</b>
Expenses for the period other than depreciation and amortisation not resulting in cash outflows	6,420	13,910	1,649	-	<b>21,979</b>	1,000	1,417	3,699	162	-	70	<b>6,348</b>	8,159	22,695	31,469	2,080	<b>64,403</b>	27,825	<b>120,555</b>

(1) It does not include the amount related to interest and personnel expenses capitalized during the six-month period ended June 30 2017.



Additionally, the net amount of the turnover and the non-current assets are broken down according to their geographical location:

Thousands of Euros	30.06.2018	30.06.2017 Restated (Note 2.c)
<b>Revenue</b>		
Spain	6,860,061	7,035,498
UK	3,358,559	3,029,662
North America	3,839,171	3,649,544
Brazil	2,965,491	873,977
ROW	563,341	377,195
<b>Total</b>	<b>17,586,623</b>	<b>14,965,876</b>

Thousands of Euros	30.06.2018	30.06.2017
<b>Non-current assets(*)</b>		
Spain	22,878,109	23,287,047
UK	23,261,507	21,804,936
North America	33,304,287	34,017,549
Brazil	5,757,375	1,292,391
ROW	2,247,905	1,888,143
<b>Total</b>	<b>87,449,183</b>	<b>82,290,066</b>

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

In addition, the reconciliation between segment assets and liabilities and the total assets and liabilities in the consolidated statement of financial position is as follows:

Thousands of Euros	30.06.2018	30.06.2017
<b>Segment assets</b>	<b>103,129,156</b>	<b>98,572,132</b>
Non-current financial investments	5,088,053	3,544,574
Assets held for sale	35,756	-
Current financial investments	1,411,884	1,253,944
Cash and cash equivalents	2,983,845	1,748,674
<b>Total assets</b>	<b>112,648,694</b>	<b>105,119,324</b>

Thousands of Euros	30.06.2018	30.06.2017
<b>Segment liabilities</b>	<b>30,385,679</b>	<b>32,732,469</b>
Equity	43,785,894	39,506,183
Non-current equity instruments having the substance of a financial liability	199,222	24,505
Non-current financial debt	31,920,316	27,032,557
Current equity instruments having the substance of a financial liability	19,402	68,837
Liabilities linked to assets held for sale	328	-
Current financial debt	6,337,853	5,754,773
<b>Total liabilities and equity</b>	<b>112,648,694</b>	<b>105,119,324</b>

## 7. PROPERTY, PLANT AND EQUIPMENT

The total cost incurred in purchasing property, plant and equipment, as well as the depreciation and impairment charges for the six-month periods ended 30 June 2018 and 2017, are itemised in the table below for each of the IBERDROLA Group's operating segments:

Thousands of Euros	30.06.2018		30.06.2017 Restated (Note 2.c)	
	Costs incurred for property, plant and equipment <sup>(1)</sup>	Depreciation charge and provisions for impairment	Costs incurred for property, plant and equipment <sup>(1)</sup>	Depreciation charge and provisions for impairment
<b>Liberalised Business</b>	<b>433,290</b>	<b>301,137</b>	<b>411,545</b>	<b>257,621</b>
Spain and Portugal	64,690	206,710	52,884	177,184
UK	54,292	41,753	74,687	31,943
Mexico	305,783	48,045	283,974	48,445
Brazil	8,525	4,629	-	49
<b>Renewables Business</b>	<b>840,005</b>	<b>529,706</b>	<b>1,201,870</b>	<b>473,519</b>
Spain	115,350	163,343	74,922	152,832
UK	336,207	79,152	140,263	75,335
USA	140,989	198,384	444,851	210,997
Mexico	98,423	12,015	159,513	13,328
Brazil	21,534	20,022	2	4,873
ROW	127,502	56,790	382,319	16,154
<b>Networks Business</b>	<b>657,582</b>	<b>565,019</b>	<b>738,135</b>	<b>537,625</b>
Spain	132,602	255,002	133,385	248,851
UK	197,084	146,936	292,155	134,895
USA	327,896	162,495	312,595	150,605
Brazil	-	586	-	3,274
<b>Other businesses, Corporation and adjustments</b>	<b>18,101</b>	<b>18,435</b>	<b>(26,542)</b>	<b>30,341</b>
<b>Total</b>	<b>1,948,978</b>	<b>1,414,297</b>	<b>2,325,008</b>	<b>1,299,106</b>

(1) It does not include the amount related to interest and personnel expenses capitalized during the six-month periods ended June 30 2018 and 2017, respectively.

Investment commitments at 30 June 2018 and 2017 amount to EUR 4,010,829 thousand and 6,051,080 thousand, respectively.

In the six-month periods ended 30 June 2018 and 2017 the IBERDROLA Group has carried out no significant sales of property, plant and equipment in relation to these financial statements.

## 8. DISCLOSURE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amount of each category of financial asset and liability, except for those included in trade and other receivables, trade and other payables, and other non-current payables, is shown below.

As mentioned in Note 2.a., the classification at 30 June 2018 is based on IFRS 9, whereas at 31 December 2017 it was based on IAS 39.

Thousands of Euros	Non-current financial assets									
	Equity instruments		Debt securities		Other financial assets		Derivatives		Total	
	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17
<b>Categories</b>										
Assets at fair value with changes in the consolidated income statement	65,192	-	-	-	1,876,251	-	94,449	102,058	2,035,892	102,058
Available-for-sale assets	-	65,342	-	-	-	2,084,988	-	-	-	2,150,330
Assets at amortised cost	-	-	5,251	4,116	630,428	523,461	-	-	635,679	527,577
Hedge derivatives	-	-	-	-	-	-	649,148	442,643	649,148	442,643
<b>Total</b>	<b>65,192</b>	<b>65,342</b>	<b>5,251</b>	<b>4,116</b>	<b>2,506,679</b>	<b>2,608,449</b>	<b>743,597</b>	<b>544,701</b>	<b>3,320,719</b>	<b>3,222,608</b>

Thousands of Euros	Current financial assets									
	Equity instruments		Debt securities		Other financial assets		Derivatives		Total	
	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17
<b>Categories</b>										
Assets at fair value with changes in the consolidated income statement	-	1,744	-	-	-	-	96,459	120,349	96,459	122,093
Available-for-sale assets	-	-	-	-	-	17,167	-	-	-	17,167
Assets at amortised cost	-	-	-	-	658,616	581,716	-	-	658,616	581,716
Hedge derivatives	-	-	-	-	-	-	656,809	602,248	656,809	602,248
<b>Total</b>	<b>-</b>	<b>1,744</b>	<b>-</b>	<b>-</b>	<b>658,616</b>	<b>598,883</b>	<b>753,268</b>	<b>722,597</b>	<b>1,411,884</b>	<b>1,323,224</b>

Non-current financial liabilities										
Thousands of Euros	Loans and borrowings		Bonds and other marketable securities		Other financial liabilities		Derivatives		Total	
Categories	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17
Liabilities at fair value with changes in the consolidated income statement	-	-	-	-	-	-	29,169	24,906	29,169	24,906
Liabilities at amortised cost	8,195,822	7,459,791	23,368,055	22,005,948	199,222	14,762	-	-	31,763,099	29,480,501
Hedge derivatives	-	-	-	-	-	-	327,270	294,060	327,270	294,060
<b>Total</b>	<b>8,195,822</b>	<b>7,459,791</b>	<b>23,368,055</b>	<b>22,005,948</b>	<b>199,222</b>	<b>14,762</b>	<b>356,439</b>	<b>318,966</b>	<b>32,119,538</b>	<b>29,799,467</b>

Current financial liabilities										
Thousands of Euros	Loans and borrowings		Bonds and other marketable securities		Other financial liabilities		Derivatives		Total	
Categories	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17
Liabilities at fair value with changes in the consolidated income statement	-	-	-	-	-	-	163,057	114,012	163,057	114,012
Liabilities at amortised cost	1,970,300	2,577,442	3,942,263	4,647,317	19,402	32,519	-	-	5,931,965	7,257,278
Hedge derivatives	-	-	-	-	-	-	262,233	171,038	262,233	171,038
<b>Total</b>	<b>1,970,300</b>	<b>2,577,442</b>	<b>3,942,263</b>	<b>4,647,317</b>	<b>19,402</b>	<b>32,519</b>	<b>425,290</b>	<b>285,050</b>	<b>6,357,255</b>	<b>7,542,328</b>

The estimated fair value of financial debt taking into account the effect of hedges at 30 June 2018 has not changed significantly with respect to the estimated fair value of financial debt at 31 December 2017 that was included in the annual accounts for that year. This is as a consequence of the fact that the debt benchmark rates and structure have not experienced any substantial change in the six-month period ended 30 June 2018.

The IBERDROLA Group measures certain available-for-sale assets and derivative financial instruments at fair value, provided they can be reliably measured, classifying them into three levels:

- Level 1: assets and liabilities quoted in liquid markets.
- Level 2: assets and liabilities whose fair value is determined using valuation techniques that use observable market assumptions.
- Level 3: assets and liabilities whose fair value is determined using valuation techniques that do not use observable market assumptions.

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

Thousands of Euros	Value at 30.06.2018	Level 1	Level 2	Level 3
Other financial investments – Brazil receivables	1,876,251	-	1,876,251	-
Derivatives (financial assets)	1,496,865	(2,322)	1,389,421	109,766
Derivatives (financial liabilities)	(781,729)	(4,145)	(655,571)	(122,013)
<b>Total</b>	<b>2,591,387</b>	<b>(6,467)</b>	<b>2,610,101</b>	<b>(12,247)</b>

Thousands of Euros	Value at 31.12.2017	Level 1	Level 2	Level 3
Other financial investments – Brazil receivables	2,102,155	-	2,102,155	-
Derivatives (financial assets)	1,267,298	10,952	1,159,198	97,148
Derivatives financial liabilities)	(604,016)	(87,528)	(501,210)	(15,278)
<b>Total</b>	<b>2,765,437</b>	<b>(76,576)</b>	<b>2,760,143</b>	<b>81,870</b>

The reconciliation between initial and final balances for financial instruments classified as Level 3 of the fair-value hierarchy is as follows:

Thousands of Euros	2018	2017
<b>Balance at 1 January</b>	<b>81,870</b>	<b>30,534</b>
Income and expense recognised in consolidated income statement	(2,555)	5,823
Income and expense recognised in equity	(6,496)	(4,829)
Purchases	(3,537)	1,294
Sales and settlements	(3,218)	(5,456)
Translation differences	(1,851)	(1,615)
Transfers within Level 3	(76,460)	-
Transfers outside Level 3	-	(5,878)
<b>Balance at 30 June</b>	<b>(12,247)</b>	<b>19,873</b>

The fair value of Level 3-classified financial instruments has been determined using the discounted cash flow method. Projections of these cash flows are based on assumptions not observable in the market, and mainly correspond to purchase and sale price estimates that the Group normally uses, based on its experience in the markets.

None of the possible foreseeable scenarios of the indicated assumptions 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 cash and cash equivalents in the consolidated statements of financial position are as follows:

Thousands of Euros	30.06.2018	31.12.2017
Cash	282,436	188,165
Short-term deposits	2,701,409	3,009,175
<b>Total</b>	<b>2,983,845</b>	<b>3,197,340</b>

As a general rule, cash and cash equivalents earn an interest rate that is comparable to the market rate for overnight deposits. Short-term deposits mature within a period of less than three months and earn market interest rates. There are no restrictions on cash withdrawals for significant amounts.

## 10. EQUITY

### Share capital

Movement in IBERDROLA's share capital during the six-month period ended 30 June 2017 is as follows:

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

On 25 January 2018 the period for negotiating free allocation rights for the second free capital increase approved at IBERDROLA's General Shareholders' Meeting on 31 March 2017 under item thirteen on the agenda, through which the *Iberdrola flexible dividend* scheme was implemented, finished.

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

Additionally, the holders of 58,717,340 shares opted to receive the interim dividend payment (EUR 0.14 gross per share) amounting to a gross total of EUR 8,220 thousand in interim dividend distributed. As a result, these shareholders have expressly forgone 58,717,340 free allotment rights and therefore 1,276,464 new shares.

On 21 June 2018 it was agreed to carry out the share capital decrease approved at the General Shareholders' Meeting held on 13 April 2018 under item 9 of the agenda by means of the redemption of treasury shares.

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

## Valuation adjustments

Movement in this reserve during the six-month periods ended 30 June 2018 and 2017 is as follows:

Thousands of Euros	01.01.2018	First application of IFRS 9 (Note 2.a.)	Change in fair value and other	Allocation to the values of hedged assets	Amounts taken to income	30.06.2018
<b>Valuation adjustments for companies accounted for using the equity method (net of tax):</b>	<b>13,417</b>	-	<b>(9)</b>	-	<b>6</b>	<b>13,414</b>
<b>Available-for-sale assets</b>	<b>615</b>	<b>(615)</b>	-	-	-	-
<b>Cash flow hedges:</b>						
Interest rate swaps	(358,894)	-	22,226	-	25,821	(310,847)
Collars	(4,252)	-	(750)	-	-	(5,002)
Derivatives on commodities	236,718	-	209,774	-	(56,930)	389,562
Currency forwards	48,193	-	21,241	3,200	2,895	75,529
	<b>(78,235)</b>	-	<b>252,491</b>	<b>3,200</b>	<b>(28,214)</b>	<b>149,242</b>
<b>Hedge costs</b>	-	<b>2,072</b>	<b>(61,566)</b>	-	<b>64,200</b>	<b>4,706</b>
<b>Tax effect</b>	<b>21,949</b>	<b>(347)</b>	<b>(38,888)</b>	<b>(639)</b>	<b>(11,263)</b>	<b>(29,188)</b>
<b>Total</b>	<b>(42,254)</b>	<b>1,110</b>	<b>152,028</b>	<b>2,561</b>	<b>24,729</b>	<b>138,174</b>

Thousands of Euros	01.01.2017	Change in fair value and other	Allocation to the values of hedged assets	Amounts taken to income	30.06.2017
<b>Valuation adjustments for companies accounted for using the equity method (net of tax):</b>	<b>2,959</b>	<b>3,288</b>	-	-	<b>6,247</b>
<b>Available-for-sale assets</b>	<b>38</b>	<b>9</b>	-	-	<b>47</b>
<b>Cash flow hedges:</b>					
Interest rate swaps	(461,611)	49,183	-	23,692	(388,736)
Collars	(4,250)	(130)	-	128	(4,252)
Derivatives on commodities	117,606	(38,131)	-	49,070	128,545
Currency forwards	133,550	(19,826)	(25,230)	(10,812)	77,682
	<b>(214,705)</b>	<b>(8,904)</b>	<b>(25,230)</b>	<b>62,078</b>	<b>(186,761)</b>
<b>Tax effect</b>	<b>62,314</b>	<b>4,047</b>	<b>4,818</b>	<b>(19,441)</b>	<b>51,738</b>
<b>Total</b>	<b>(149,394)</b>	<b>(1,560)</b>	<b>(20,412)</b>	<b>42,637</b>	<b>(128,729)</b>

## Non-controlling interests

In March 2018 the subsidiary Neoenergia, S.A. increased share capital by BRL 999,999,963, subscribed by its shareholders in accordance with their percentage ownership, resulting in a credit of EUR 115,795 thousand recognised under "Equity of non-controlling interests" in the consolidated statement of financial position.

## Subordinated perpetual obligations

On 19 March 2018 the IBERDROLA Group's perpetual subordinated bonds issuance was completed and disbursed, in the amount of EUR 700 million. The issue price was set at 100% of the face value, with a fixed annual coupon of 2.625% as from the issue date to 26 March 2024. From the first repricing date on, the coupon will be equal to the applicable five-year swap rate plus a 2.061% annual spread during the following five years, a 2.311% annual spread during each of the five-year repricing periods beginning on 26 March 2029, 2034 and 2039, and a 3.061% annual spread during the following five-year repricing periods.

The interest accruing on these bonds will not be callable but rather cumulative. However, the IBERDROLA Group will be obligated to settle the interest accrued in the event it distributes dividends. Although these bonds do not have a contractual maturity date, the IBERDROLA Group has the option of redeeming them beforehand during the three months prior to (and including) 26 March 2024, and from that date on, every five years.

After analysing the issue conditions, the IBERDROLA Group recognised the cash received with a credit to "Subordinated perpetual obligations" under equity in the consolidated statement of financial position, as it considers that it does not meet the criteria for classification as a financial liability, given that the IBERDROLA Group does not have a commitment to deliver cash, as the circumstances that would require it to do so - namely distribution of dividends and exercising of its right to redeem the bonds - are fully under its control.

Furthermore, on 27 February 2018 the IBERDROLA Group exercised its early redemption option on a series of subordinated bonds that it had issued for EUR 525 million. Redemption was at par, as laid down in the terms and conditions attaching to the bonds.

## Treasury shares

The IBERDROLA Group buys and sells treasury shares in accordance with the prevailing law and the resolutions adopted at the General Shareholders' Meeting. Such transactions include purchases and sales of company shares and of derivative instruments having company shares as the underlying asset.

At 30 June 2018 and 31 December 2017 the balances of the various instruments were as follows:

	30.06.2018		31.12.2017	
	No. of shares	Thousands of Euros	No. of shares	Thousands of Euros
Treasury shares held by IBERDROLA	184,941	1,161	75,710,149	507,175
Treasury shares held by SCOTTISH POWER	1,149,547	8,242	1,156,863	8,417
Swaps of treasury shares	6,000,000	41,646	6,000,000	41,646
Accumulators (exercised shares)	6,120,763	37,441	1,835,379	11,561
Accumulators (potential shares)	5,393,368	30,677	4,592,392	28,998
<b>Total</b>	<b>18,848,619</b>	<b>119,167</b>	<b>89,294,783</b>	<b>597,797</b>

## Physically settled derivatives

The IBERDROLA Group recognises the transaction directly in equity under "Treasury shares" and records the obligation to buy back the shares under "Loans and borrowings and other financial liabilities" in the consolidated statement of financial position (Note 13).



- Total return swaps

The IBERDROLA Group has arranged four swaps on treasury shares with the following features: during the life of the contract it will pay the financial institution 3-month Euribor plus a spread on the notional and will receive the dividends corresponding to the shares paid out to the financial institution. On the expiration date IBERDROLA will buy the shares at the strike price set out in the contract.

At 30 June 2018 and 31 December 2017 the balances of the various instruments were as follows:

	No. of shares	Strike price	Maturity date	Interest rate	Thousands of Euros
Total return swap	6,000,000	6.941	24/07/2018	Euribor 3 months + 0.45%	41,646

- Treasury share accumulators

The IBERDROLA Group holds several purchase accumulators on treasury shares. These accumulators are obligations to buy in the future, with a notional amount of zero on the start date. The number of shares to be accumulated depends on the market price quoted on a range of observation dates throughout the life of the options – in this case, on a daily basis. A strike price is set, and a knockout level above which the structured product is “knocked out” and shares are no longer accumulated.

The accumulation mechanism is as follows:

- when the spot price is below the strike price, two units of the underlying security are accumulated;
- when the spot price is between the strike price and the knockout level, only one unit of the underlying security is accumulated; and
- when the spot price is above the knockout level, no shares are accumulated.

At 30 June 2018 and 31 December 2017 the balances of the various instruments were as follows:

30.06.2018	No. of shares	Average price for the period	Maturity date	Thousands of Euros
Exercised shares	6,120,763	6.1172	18/07/2018 - 27/12/2018	37,441
Potential maximum <sup>(1)</sup>	5,393,368	5.6878	18/07/2018 - 27/12/2018	30,677

31.12.2017	No. of shares	Average price for the period	Maturity date	Thousands of Euros
Exercised shares	1,835,379	6.2990	18/07/2018	11,561
Potential maximum <sup>(1)</sup>	4,592,392	6.3144	10/01/18-18/07/2018	28,998

(1) Maximum number of additional shares that could be accumulated according to the described mechanism until the maturity of the structures (assuming that the cash price during the remaining life of the structure is always below the strike price).

## 11. SHARE-BASED COMPENSATION PLANS

### 2014-2016 Strategic Bonus Programme

On 25 April 2017 the Board of Directors, on the recommendation of the Appointments and Remuneration Committee, decided to pay the *2014-2016 Strategic Bonus* on determining that 93.20% of the objectives had been met. Given this situation, and the bases underlying the handover of the shares in the first tranche of the payment having been confirmed as validated, in the first half of 2018 the second of the three annual payments was carried out via the handover of 2,497,353 shares. These shares included those delivered to executive directors (Note 18) and to senior management (Note 19).

As a result of UIL's integration, the *2014-2016 Strategic Bonus* for AVANGRID's executives was paid in cash for the accrued amount for 2015 and 2014, and was replaced in 2016 by a new one, which was referenced to AVANGRID's shares. The second and last payment of this bond took place in the first quarter of 2018.

### 2017-2019 Strategic Bonus Programme

The General Shareholders Meeting of 31 March 2017 approved under item fifteen on the agenda on the establishment of a Strategic Bonus for the executive directors, senior executives and other executive personnel of IBERDROLA and its subsidiaries (up to a maximum of 300 beneficiaries), tied to the IBERDROLA Group's performance in relation to certain metrics throughout the assessment period, from 2017 to 2019:

The payment period for the scheme will run from 2020 to 2022. Payments will be made in the form of shares on a deferred basis in those three years.

The maximum number of shares to be delivered to the beneficiaries of the *2017-2019 Strategic Bonus* will be 14,000,000 shares, equal to 0.22% of the share capital at the time this resolution is adopted. A maximum of 2,500,000 shares will be delivered to the executive directors in compliance with the terms and conditions of the scheme. At 30 June 2018 the number of shares granted is 12,158,582 shares, and the transaction was as follows:

	No. of shares
<b>Balance at 31.12.2016</b>	–
Additions	12,535,000
<b>Balance at 31.12.2017</b>	<b>12,535,000</b>
Additions	400,000
Cancelled	(776,418)
<b>Balance at 30.06.2018</b>	<b>12,158,582</b>

The consolidated income statement for the six-month period ended 30 June 2017 did not include any amount in relation to this item, given that, as of the date of drawing up the interim financial statements for the six months ended 30 June 2017, the shares still had not been allocated to their beneficiaries.

### AVANGRID share bonus

At their General Shareholders Meeting held on 16 June 2016 AVANGRID's shareholders approved, under item five on the agenda, the establishment of a strategic bonus for the executive directors and other executive personnel (80 beneficiaries), tied to the AVANGRID Group's performance in relation to certain metrics throughout the assessment period from 2016 to 2019.

The maximum number of gross shares to be delivered to the beneficiaries of the bonus will be 2,500,000 shares, of which 1,252,893 shares were distributed at 31 December 2017.

The payment period for the scheme will run from 2020 to 2022. Payments will be made in the form of shares on a deferred basis in those three years. If each of the three performance targets is reached at a good level on 31 December 2018, an advanced payment of the bonus could be made for each participant in 2019.

In relation to this bonus whose payment has been done in IBERDROLA shares, the transaction under "Other reserves" is as follows in the consolidated statement of financial position:

Thousands of Euros	Strategic bonus 14-16	Strategic bonus 17-19	AVANGRID 16-19 Strategic Bonus	Total
<b>Balance at 31.12.2016</b>	<b>43,239</b>	-	<b>2,291</b>	<b>45,530</b>
Charge	22,430	11,884	4,569	38,883
Payment in shares	(29,385)	-	-	(29,385)
Payments in cash for derecognition	(2,220)	-	-	(2,220)
<b>Balance at 31.12.2017</b>	<b>34,064</b>	<b>11,884</b>	<b>6,860</b>	<b>52,808</b>
Charge	3,505	12,920	(3,774)	12,651
Payment in shares	(21,478)	-	-	(21,478)
Payments in cash for derecognition	(3,875)	(1,289)	-	(5,164)
<b>Balance at 30.06.2018</b>	<b>(12,216)</b>	<b>23,515</b>	<b>3,086</b>	<b>38,817</b>

### SCOTTISH POWER share-based incentive plan

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

- *Sharesave Schemes*: savings plans in which employees decide the amount they want to contribute to the plan (between GBP 5 and GBP 250 on a monthly basis) and this is deducted monthly from their salary. At the end of a three or five year saving period, as applicable to each plan, employees may use the money saved to buy IBERDROLA shares at a discounted option price set at the beginning of the plan or to receive the amount saved in cash.

The fair value of the employee's share purchase options is determined at the start of the plan, and is registered in the income statement over the plan's consolidation period (three or five years) with a credit to equity. The heading "Personnel expenses" of the consolidated income statement for the period ended 30 June 2018 and 2017 amounted to EUR 458 and 545 thousand for this item, recorded with a charge to "Other reserves" in the consolidated statement of financial position.

Additionally, in the first half of 2018 payments for options have been made in the amount of EUR 2,584 thousand.

The number of transactions of stock options are as follows:

	Number of accounts	Number of shares
<b>Balance at 01.01.2017</b>	<b>2,616</b>	<b>5,531,681</b>
Exercised	(90)	(125,025)
Cancelled	(117)	(279,308)
<b>Balance at 31.12.2017</b>	<b>2,409</b>	<b>5,127,348</b>
Exercised	(977)	(1,246,382)
Cancelled	(18)	(30,852)
<b>Balance at 30.06.2018</b>	<b>1,414</b>	<b>3,850,114</b>

- *Share Incentive Plan*: this plan has an option for purchasing shares with tax incentives plus a contribution from the company. The employees decide on the amount they wish to contribute, which is deducted from their monthly salary (the maximum contribution allowed by the law in the United Kingdom is GBP 125 on a monthly basis). The shares purchased with this contribution are called partnership shares. Additionally, SCOTTISH POWER complements the employee's contribution to a maximum of GBP 50 monthly. The shares purchased with the company's contribution are called matching shares.

The contributions, both from the company and the employees, are contributed to a trust which buys the shares, and they are held in this trust until withdrawn by the employees. All shares are purchased in the market at the monthly market price.

Partnership shares are owned by the employees who purchased them with their own money, however, the shares acquired with the contribution from the company (matching shares) are not consolidated until three years after the date of purchase. The matching shares acquired by the trust at 30 June 2018 and 2017 amount to 1,149,547 and 1,326,848, respectively.

The contributions of the Company are made in cash on a monthly basis and are charged to the income statement during the three years the employee must remain in the company in order to be entitled to these shares.

"Personnel expenses" in the consolidated income statement for the period ended 30 June 2018 included an amount of EUR 1,118 thousand in this regard (EUR 1,178 thousand at 30 June 2017), recorded with a charge to "Other reserves" in the consolidated statement of financial position.

Additionally, during the first half of 2018 there have been payments for exercised options amounting to Euros 1,218 thousand.

## 12. LITIGATION PAYMENTS

In the six-month periods ended 30 June 2018 and 2017 the amounts paid for the settlement of court proceedings amounted to EUR 36,236 thousand and 24,937 thousand, respectively.

### 13. FINANCIAL LIABILITIES: LOANS AND OTHER

Details of outstanding financial liabilities at 30 June 2018 and 31 December 2017 are as follows:

Thousands of Euros	30.06.2018	31.12.2017
<b>Euros</b>		
Finance leases	61,696	62,613
Future own shares buy back obligation (Note 10)	109,764	82,205
Loans, promissory notes and other transactions	23,738,336	23,117,919
Unpaid accrued interest	194,469	264,594
	<b>24,104,265</b>	<b>23,527,331</b>
<b>Foreign currency</b>		
US dollars	5,725,027	5,744,380
Pounds sterling	2,634,469	2,613,166
Brazilian reals	4,827,132	4,617,130
Other	40,670	43,925
Unpaid accrued interest	144,877	144,566
	<b>13,372,175</b>	<b>13,163,167</b>
<b>Total</b>	<b>37,476,440</b>	<b>36,690,498</b>

Below is a description of the financial transactions carried out by IBERDROLA Group in the six-month period ended 30 June 2018:

Lender	Operation	Millions of Euros	Currency	Interest rate	Extension	Maturity
<b>Main new financing transactions</b>						
CELPE	Loan 4131	46	USD <sup>(1)</sup>	Libor3m +1.50%	-	jan-21
	Borrowings	500	BRL	119.6% CDI	-	feb-23
	Loan 4131	80	EUR <sup>(1)</sup>	1.679%	-	jul-22
Iberdrola Finanzas, S.A.U.	Increase private issuance	200	EUR	1.621%	-	nov-29
	Private issuance	200	EUR	Euribor3m +0.35%	-	feb-20
Iberdrola, S.A. <sup>(2)</sup>	Sustainable Syndicated loan	2,979	EUR	-	option 1+1	feb-23
	Sustainable Syndicated loan	2,321	EUR	-	option 1+1	feb-23
Iberdrola International BV	Hybrid Green bonds	700	EUR	2.625%	-	Perpetual
Iberdrola Finanzas, S.A.U.	Private issuance	800	NOK <sup>(1)</sup>	3.010%	-	may-28
	Private issuance	30	EUR	1.128%	-	june-25
	Green bonds	750	EUR	1.250%	-	oct-26
COELBA	476 Obligations	1,200	BRL	117.05% CDI <sup>(4)</sup>	-	oct-22/apr-23
ELEKTRO	476 Obligations	1,300	BRL	113.0% CDI <sup>(4)</sup>	-	may-21/may-23/may-25
	Loan 4131	100	USD <sup>(1)</sup>	3.6937%	-	may-22
New York State Electric & Gas Corp.	Tax exempt bonds	174	USD	3.000%	-	jun-23/oct-29
Rochester Gas & Electric Corp.	Tax exempt bonds	152	USD	3.000%	-	june-25
Iberdrola México S.A. de CV	Syndicated green loan	400	USD	-	option 1+1	may-23
El Cabo Wind LLC	Tax equity investment	213	USD	-	-	-
Avangrid Inc. <sup>(3)</sup>	Sustainable Syndicated loan	2,500	USD	-	option 1+1	june-23

<b>Main transaction for extending existing financing</b>						
Iberdrola S.A.	Syndicated loan	500	EUR	-	1 year	june-23
	Bilateral loan	350	EUR	-	1 year	jul-22
Iberdrola Financiación, S.A.U.	Bilateral green loan	500	EUR	-	6 months	aug-19
	Syndicated loan	900	EUR	-	1 year	mar-21
	Bilateral loan	75	EUR	-	1 year	mar-21

- (1) Currency swap contracts to the company's functional currency  
(2) Reconfiguration of EUR 4.4 billion, already existing, and new EUR 900 million, totalling EUR 5.3 billion, with the option of extension for 1+1 years.  
(3) Reconfiguration of USD 1.5 billion, already existing, and new USD1 billion, totalling USD 2.5 billion, with the option of extension for 1+1 years.  
(4) Average cost of different obligations stated in reference to the CDI as of the date of the issuance.

At the date of authorisation for issue of these financial statements, neither IBERDROLA nor any of its material subsidiaries were in breach of their financial commitments or any kind of obligation that could trigger the early redemption of their financial undertakings. IBERDROLA considers that the covenant clauses will have no effect on the classification of borrowings as current or non-current in the Balance sheet.

On the other hand, the IBERDROLA Group's general risk policy described in its consolidated annual accounts for the year ended 31 December 2017 remains effective as of the date of issue of these financial statements. In this context the hedging instruments and classes have the same characteristics as those described in the aforementioned consolidated annual accounts.

For the second half of 2018 the IBERDROLA Group is expected to face the ordinary investment program established with the cash flow generated from its operations and access to bank financing markets, capital markets and supranational lenders (such as the European Investment Bank-EIB), although the Group avails of sufficient treasury and loans to cover these investments.

At 30 June 2018 the IBERDROLA Group has loans and credit facilities that it can still draw down against and which have been granted to it with an approximate value of EUR 9,017,510 thousand. The liquidity position of the IBERDROLA Group exceeds EUR 12,001 million, of which EUR 1,759 million correspond to NEOENERGIA and EUR 10.242 million to the rest of the IBERDROLA Group.

The breakdown is shown below by maturities of the liquidity position at 30 June 2018, considering the balance of the sub-heading "Cash and cash equivalents" in the consolidated financial statements.

<b>Thousands of Euros</b>	<b>Available</b>
<b>Maturity</b>	
2018	683,356
2019	124,223
2020 onwards	8,209,931
<b>Total</b>	<b>9,017,510</b>
Cash and cash equivalents	<b>2,983,845</b>
<b>Total adjusted liquidity</b>	<b>12,001,355</b>

## 14. REVENUE

Details of this item from the consolidated income statement for the six-month periods ended 30 June 2018 and 2017 by category and segment (Note 6):

Thousands of Euros	Liberalised						Renewables						Networks				Other business, Corporation and adjustments			
30 June 2018	Spain and Portugal	UK	Mexico	Brazil	Eliminations	Total	Spain	UK	USA	Mexico	Brazil	ROW	Total	Spain	UK	USA	Brazil	Total		Total
<b>Supplies in regulated markets</b>	706,550	-	694,322	-	-	1,400,872	380,956	-	-	-	-	-	380,956	1,090,068	630,902	2,093,154	2,682,082	6,496,206	(163,089)	8,114,945
Electricity	706,550	-	694,322	-	-	1,400,872	380,956	-	-	-	-	-	380,956	1,090,068	630,902	1,399,092	2,682,082	5,802,144	(163,089)	7,420,883
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	694,062	-	694,062	-	694,062
<b>Supplies and other income in non-regulated markets</b>	5,531,806	2,790,505	268,390	373,063	(37,484)	8,926,280	532,798	329,999	553,349	32,704	109,958	128,346	1,687,154	20,264	8,869	7,974	-	37,107	(1,225,456)	9,425,085
Electricity	4,506,826	1,841,131	268,390	373,063	(14,101)	6,975,309	532,798	163,357	499,485	32,704	109,958	128,346	1,466,648	-	-	7,796	-	7,796	(1,074,574)	7,375,179
Gas	798,439	940,374	-	-	(23,383)	1,715,430	-	-	-	-	-	-	-	-	-	-	-	-	29,206	1,744,636
Others	226,541	9,000	-	-	-	235,541	-	166,642	53,864	-	-	-	220,506	20,264	8,869	178	-	29,311	(180,088)	305,270
<b>Income for lease agreements</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	252	-	-	-	252	13,428	13,680
<b>Derivatives on commodities</b>	43,690	1,409	(6,566)	51	3,159	41,743	-	-	(9,663)	(1,253)	17	-	(10,899)	-	-	-	-	-	2,069	32,913
<b>Total</b>	<b>6,282,046</b>	<b>2,791,914</b>	<b>956,146</b>	<b>373,114</b>	<b>(34,325)</b>	<b>10,368,895</b>	<b>913,754</b>	<b>329,999</b>	<b>543,686</b>	<b>31,451</b>	<b>109,975</b>	<b>128,346</b>	<b>2,057,211</b>	<b>1,110,584</b>	<b>639,771</b>	<b>2,101,128</b>	<b>2,682,082</b>	<b>6,533,565</b>	<b>(1,373,048)</b>	<b>17,586,623</b>

Thousands of Euros	Liberalised						Renewables						Networks				Other business, Corporation and adjustments			
30 June 2017	Spain and Portugal	UK	Mexico	Brazil	Eliminations	Total	Spain	UK	USA	Mexico	Brazil	ROW	Total	Spain	UK	USA	Brazil	Total		Total
<b>Supplies in regulated markets</b>	804,524	-	632,830	-	-	1,437,354	341,761	-	-	-	-	-	341,761	978,290	611,251	2,173,251	810,285	4,573,077	(267,269)	6,084,923
Electricity	804,524	-	632,830	-	-	1,437,354	341,761	-	-	-	-	-	341,761	978,290	611,251	1,466,860	810,285	3,866,686	(267,269)	5,378,532
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	706,391	-	706,391	-	706,391
<b>Supplies and other income in non-regulated markets</b>	5,321,054	2,494,279	291,492	38,738	(89,259)	8,056,304	405,542	285,591	517,350	36,106	24,954	61,625	1,331,168	18,410	10,761	7,102	-	36,273	(609,318)	8,814,427
Electricity	4,413,212	1,547,209	291,492	38,738	(33,740)	6,256,911	405,542	153,428	473,761	36,106	24,954	61,625	1,155,416	-	-	6,556	-	6,556	(584,452)	6,834,431
Gas	690,128	940,388	-	-	(55,348)	1,575,168	-	-	-	-	-	-	-	-	-	-	-	-	13,851	1,589,019
Others	217,714	6,682	-	-	(171)	224,225	-	132,163	43,589	-	-	-	175,752	18,410	10,761	546	-	29,717	(38,717)	390,977
<b>Income for lease agreements</b>	-	-	-	-	-	-	-	-	-	-	-	-	-	274	-	-	-	274	13,363	13,637
<b>Derivatives on commodities</b>	45,178	1,692	5,396	-	(14,323)	37,943	-	-	7,516	(517)	-	-	6,999	-	-	-	-	-	7,947	52,889
<b>Total</b>	<b>6,170,756</b>	<b>2,495,971</b>	<b>929,718</b>	<b>38,738</b>	<b>(103,582)</b>	<b>9,531,601</b>	<b>747,303</b>	<b>285,591</b>	<b>524,866</b>	<b>35,589</b>	<b>24,954</b>	<b>61,625</b>	<b>1,679,928</b>	<b>996,974</b>	<b>622,012</b>	<b>2,180,353</b>	<b>810,285</b>	<b>4,609,624</b>	<b>(855,277)</b>	<b>14,965,876</b>

## 15. INCOME TAX

Income Tax expense breakdown for the six-month periods ended 30 June 2018 and 2017 is calculated as follows:

Thousands of Euros	30.06.2018	30.06.2017
<b>Profit for the year from continuing activities before tax</b>	<b>2,010,647</b>	<b>2,032,548</b>
<b>Profit for the year from discontinued activities before tax</b>	<b>(43,074)</b>	<b>(42,808)</b>
<b>Consolidated profit before tax</b>	<b>1,967,573</b>	<b>1,989,740</b>
Non-deductible expenses and non-computable income	(88,875)	(243,662)
Profit of companies accounted for using the equity method	(25,296)	(45,823)
<b>Adjusted accounting result (a)</b>	<b>1,853,402</b>	<b>1,700,255</b>
<b>Gross tax calculated at the tax rate in force in each country (b)</b>	<b>469,258</b>	<b>483,686</b>
Tax credits deductions due to reinvestment of extraordinary profits and other tax credits (c)	(29,227)	(19,735)
Adjustment of prior years' income tax expense	(236)	(15,871)
Adjustment of deferred tax assets and liabilities	(36,455)	(38,130)
Others	(1,881)	6,251
<b>Accrued Income tax (Income) / Expense</b>	<b>401,459</b>	<b>416,201</b>
<b>Accrued Income tax from continuing operations (Income) / Expense</b>	<b>412,268</b>	<b>424,709</b>
<b>Accrued Income tax from discontinued operations (Income) / Expense</b>	<b>(10,809)</b>	<b>(8,508)</b>
<b>Effective tax rate (b+c)/a <sup>(1)</sup></b>	<b>23.74%</b>	<b>27.29%</b>

<sup>(1)</sup> The effective tax rate decrease in the six-month period ended 30 June 2018 compared to the same period in 2017 is a result from the Tax Reform in the United States on 22 December 2017, which implied a reduction of federal tax rate to 21% from 2018.

In general terms, the IBERDROLA companies in Spain keep 2014 and subsequent fiscal years open to fiscal inspection in relation to the principal taxes in which they are subject to, with the exception to the Income Tax which is open for 2012 and subsequent fiscal years. Nevertheless, the aforementioned period may vary for those entities of the Group subject to other tax legislations.

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

The main adjustments in the settlement agreements arising from the disagreement minutes signed in the first half of 2016 are as follows:

- Measurement of the financial goodwill liable for fiscal amortisation due to the acquisition of SCOTTISH POWER.
- Elimination of the dividend exemption of SCOTTISH POWER as the inspectors understood this is incompatible with an adjustment in the value of the portfolio due to hedging of a net investment.
- Discrepancies in tax consolidation criteria.
- Observation of circumstances established in Article 15.1 of Spain's General Tax Law in a debtor-swap operation in a number of bond issuances.



With respect to the minutes of disagreement signed, and its settlement agreements, the IBERDROLA Group considers that its actions concerning these issues are in accordance with reasonable interpretations of the regulations applicable, and has thus submitted economic-administrative claims in due time and format to the Central Economic Administrative Court against the settlement agreements confirming the minutes of disagreement, and has obtained automatic suspension of the execution of the settlements through the furnishing of the necessary bank guarantees.

On the date these consolidated financial statements were drawn up, all claims are pending a decision by the Central Administrative Economic Court, as the Company has lodged before said Court the corresponding pleadings of the principle claims.

The IBERDROLA Group's directors and their tax advisors consider that the current inspection process will not give rise to additional liabilities of significance derived from the settlement agreements of the disagreement minutes with respect to those already recorded at 31 December 2017.

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

## 16. IMPAIRMENT CHARGES AND REVERSALS

At least at the closing of every accounting year, the IBERDROLA Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if necessary. For this purpose, in the case of assets that do not generate cash flows independent from other assets, the IBERDROLA Group estimates the recoverable amount of the cash-generating unit to which belongs.

In the case of goodwill and other intangible assets which have not come into use or which have an indefinite useful life, the IBERDROLA Group performs the recoverability analysis systematically every year, except when there are indications of impairment in another moment, in which case recoverability analysis is performed at the same time.

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

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use, measured as the present value of its estimated future cash flows.

"Amortisation, depreciation and provisions" in the consolidated income statement for the six-month period ended 30 June 2018 and 2017 includes impairment provision allowances and reversals respectively of EUR 15,654 thousand and 3,473 thousand.

## 17. CONTINGENT ASSETS AND LIABILITIES

The IBERDROLA Group companies are part of some legal and out-of-court disputes arising as part of their ordinary course of business (ranging from conflicts with suppliers, clients, administrative or tax authorities, individuals, environmental activists and employees). The IBERDROLA Group's legal advisors believe that these proceedings will not have a material impact on its financial and equity position.

The main litigation proceeding in which the IBERDROLA Group is involved at the date of authorisation for issue of these Consolidated financial statements is as follows:

- On 16 June 2014, the National Commission on Markets and Competition (CNMC) began sanction proceedings against IBERDROLA GENERACIÓN ESPAÑA for alleged fraudulent procedures to alter the price of energy at the Duero, Tajo and Sil hydroelectric power generation units in December 2013. The fine was announced on 30 November 2015 in the amount of EUR 25 million. IBERDROLA GENERACIÓN ESPAÑA submitted an appeal to the National Court's Contentious-Administrative Section and this was admitted to proceedings, being also granted the suspension of the execution of the sanction. The procedure is currently suspended due to prejudication issues.

The IBERDROLA Group's appeals on regulatory issues were submitted in opposition to general dispositions of an indefinite amount, affecting the regulatory and remuneration framework of the companies. Therefore, they concern regulatory dispositions that were in force at the time of appeal.

IBERDROLA Group's net assets are not at risk with respect to the appeals submitted against general energy stipulations because the economic effects of the stipulations challenged apply when they come into force. An estimate of the appeals submitted by third parties has a limited economic scope, as this would force amendments to the regulatory framework and possible refunds.

Among the regulatory litigation brought by third parties that may affect the remuneration and equity of the IBERDROLA Group there are no outstanding resources for its importance.

Regarding judicial proceedings dealing with tax matters the most significant litigation is as follows:

- Concerning the Extremadura "green tax", applications for judicial review have been submitted in respect of the settlements for the period 2006-2016 under the "*Ley de la Asamblea de Extremadura 8/2005*" of the Tax on Facilities Affecting the Environment in the Autonomous Community of Extremadura. The Constitutional Court upheld the unconstitutionality declared by the Supreme Court in a ruling handed down on 16 February 2015. Final judgements were issued in respect of IBERDROLA GENERACIÓN's company years 2006, 2007, 2008 and 2009. The Extremadura High Court agreed to submit a new issue of unconstitutionality to the Constitutional Court in the proceedings instigated against the settlement in respect of 2012 by IBERDROLA GENERACIÓN NUCLEAR. The High Court from Extremadura is issuing rulings to maintain suspension of processes as of 2010, until the Constitutional Court issues its own ruling.

Following these favourable rulings, IBERDROLA Group considers there is a contingent asset for the periods challenged that are pending a ruling. The Consolidated income statement for the six-month period ending 30 June 2018 does not include any income for these periods. This income would amount to EUR 456 million, including delay interest.

Regarding construction contracts, the most significant arbitration proceedings in which IBERDROLA Group is a party are:

- a) Iberdrola Energy Projects (IEP), subsidiary of IBERDROLA INGENIERÍA, is directly or indirectly party in several arbitration proceedings before the ICDR of the American Arbitration Association related to the execution of a project in the USA (proceedings as claimant and as defendant). The main purpose of those proceedings is to claim damages for the undue termination of a contract and to claim overcosts, interferences and/or delays.
- b) Request for arbitration filed in Costa Rica before the International Chamber of Commerce with headquarters in New York issuing a complaint against IBERDROLA INGENIERÍA and its partner in a project for the damages allegedly incurred from the delay in the delivery of the works. On the other hand, the consortium in which IBERDROLA INGENIERÍA participates is issuing a complaint against the client for excusable delays and additional costs incurred from causes attributable to the client. The arbitration panel has recently been appointed.
- c) Iberdrola Energy Projects Corporation (IEPC), subsidiary of IBERDROLA INGENIERÍA in Canada, has started an arbitration according to the Act on Arbitration of British Columbia in Vancouver (BC) against the client of two biomass projects in Canada for claims derived from the construction of the projects. The client also presented a claim against the IEPC for delivery delays of the plants. The trial will be held in July 2018.
- d) In September 2016, IBERDROLA INGENIERÍA initiated arbitration proceedings in the London Court of International Arbitration (LCIA) based in London to recover damages caused by the client's actions in a network and substation construction project in Kenya awarded to IBERDROLA INGENIERÍA. The client also filed a claim against the IEPC claiming several damages supposedly caused by the termination of the agreement between the parties. The settlement is expected for the first quarter of 2019.
- e) The subsidiary of IBERDROLA INGENIERÍA in Canada initiated two arbitrations before the International Chamber of Commerce, at its headquarters in Paris, against the boiler supplier of the two biomass projects in Canada: (i) One arbitration is or non-compliance with the supply contracts, issuing a complaint for damages; and (ii) the other to issue a claim against the return of amounts paid to the supplier on the price of the supply contracts. The arbitrations are currently suspended given that the supplier is involved in insolvency proceedings in the United States.
- f) IBERDROLA INGENIERÍA initiated an arbitration before the International Chamber of Commerce, at its headquarters in Paris, in which it issued a complaint against the client of a project being executed in Germany for damages incurred by the decision of the client to restrict the work hours at the site. The result is expected to be release in the first half of 2019.

The most important proceedings in which IBERDROLA or group companies abroad are involved at the date of formulation of these consolidated financial statements are described below:

## Contingent liabilities

- b) Arbitration proceedings in the International Chamber of Commerce instigated by the consortium (led by EDF) which purchased 30 wind farms owned by Iberdrola Renovables Energía, S.A. in France through its French subsidiary. The sale was concluded in May 2013. The claim is based on a purported breach by IBERDROLA RENOVABLES IBERDROLA of the representations and warranties set out in the contract as to compliance with maximum noise levels permitted by French law. The final amount of the claim is EUR 42.2 million. Recently, the conclusions and quantification of expenses incurred in during the arbitration proceeding have been filed. The award is expected by the last quarter of 2018.
- c) There are several labour, civil and tax complaints filed in Brazil against several NEOENERGIA Group companies. The IBERDROLA Group considers that the risk assessment of the possible losses is made by the companies, based on the opinions of the administration and external legal advisors, making the corresponding provisions based on the likelihood of loss depending on the available evidence, legal hierarchy and most recent case-law.

Among these, the following infractions in place are due to:

- The lack of inclusion of the amortisation expense of the surplus in the calculation basis of the IRPJ and the CSLL for its controlled companies Celpe, Coelba, Cosern, Itapebi and Termopernambuco.
- Lack of withholding income tax in payments on equity, and
- Infraction order against Elektro filed by the *Receita Federal do Brasil* in relation to income tax for capital gains resulting from the acquisition of Elektro Redes.

Additionally, Coelba has an estimated amount of BR 176,080 thousand in regulatory matters of different kinds. Included in this amount is procedure number 0030544-34.2013.4.01.3400 regarding the annulment of ANEEL's Regulation Resolution 387 dated 15/12/2009 and clearance SFF/ANEEL nº 2.517 de 26/08/2010 regarding the procedure for receiving individual and collective service continuity indicators, the relevant financial compensations and the recovery of global indicators. Worth highlighting is procedure number 0067683-83.2014.4.01.3400 questioning the legality of ANEEL's administrative actions in infraction order 118/2012-SFE/ANEEL.

- d) Claim by the California Public Utilities Commission: In 2002, 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.

FERC dismissed the claim and, following a review by the Californian courts, the Supreme Court ordered FERC to review the case, which had remained dormant since 2008. In April 2016, following the reopening of the 2014 case, an initial ruling was issued that dismissed any market manipulation by Avangrid Renewables, 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.

FERC recommended filing the case without sanction. Following these proceedings, FERC is expected to issue a final ruling in the last quarter of 2018 and its decision may be appealed in the courts. The IBERDROLA Group expects that the proceedings will eventually be suspended without any sanction.

#### Contingent assets

- a) AVANGRID instigated legal proceedings against the former owners of certain sites in order to recover the costs of environmental restoration work it was forced to pay.
- b) In August 2013, the subsidiary of AVANGRID, New York State Electric & Gas Corporation (NYSEG), sued two insurance companies, Century Indemnity and One Beacon, that granted NYSEG an excess coverage of liabilities. NYSEG claimed the payments of cleaning costs associated with the pollution of 22 old gas plants (USD 282 million the part corresponding to the carriers shall be equal to or greater than approximately 89 million US dollars, excluding interest pending trial, although this amount may significantly vary based on evidence and legal circumstances determined during the case). On 31 March 2017, the District Court granted motions dismissing all the claims of NYSEG against both defendants claiming past-due notification. NYSEG completed a request with the District Court on 14 April 2017, requesting that it reconsider the verdict of the Court. Such request was dismissed by an order dated 27 March 2018. NYSEG filed an appeal against the dismissing order by the District Court. Any recovery will be flowed through to NYSEG ratepayers.
- c) Two of AVANGRID RENEWABLES subsidiary companies, Barton Windpower LLC and Buffalo Ridge I LLC, are in litigation against Northern Indiana Public Service Company (NIPSCO) due to the interpretation of two power purchase agreements executed in November 2017. The complaints against NIPSCO were filed on 24 July 2013 before the Federal District Court in the north district of Illinois. On 18 June 2018 the Court amended its previous order dismissing the request for a summary trial and granted AVANGRID RENEWABLES motion to initiate a summary trial, dismissing in turn the trial requested by NIPSCO in their favour. A trial has been set for 21 August.
- d) Two of AVANGRID RENEWABLES subsidiary companies, Blue Creek Wind Farm LLC and Casselman Windpower LLC have damage claims (USD 57.3 million and USD 32 million, respectively) as a result of the termination of two long-term power purchase in connection with the bankruptcy filing of First Energy Solutions in March 2018. Said amounts will be reduced to USD 10 million (USD 3.5 and 6.5 million, respectively, for Blue Creek and Casselman) as result of the application of collateral held by AVANGRID RENEWABLES). Recovery of any portion of the claims through the bankruptcy estate will be subject to approval of a final bankruptcy plan for First Energy Solutions by the bankruptcy court.

## 18. REMUNERATION OF THE BOARD OF DIRECTORS

### 18.1 By-law stipulated remuneration for the first six months of 2018

Article 48 of IBERDROLA's by-laws provides that the Company shall assign, as an expense, an amount equal to a maximum of 2% of the profit obtained in the year by the consolidated group for the following purposes:

- a) To remunerate directors, in accordance to both, the positions they have held and their executive functions, considering their dedication and attendance at meetings of corporate bodies.
- b) To set up a fund to meet the Company's obligations in pensions, life insurance premiums and payment of indemnities to current and former directors.

In particular, the board of directors will receive a remuneration which consists of an annual fixed assignment, assistance fees and appropriate hedge risk benefits (death or permanent disability).

Assignment of up to 2% may be accrued only if the previous year profit is sufficient to cover assignments to the legal reserves and any other obligatory charges, and if shareholders have been allotted a dividend equal to at least 4% of the share capital.

The General Shareholders, meeting held on April 13, 2018 approved the Directors' Remuneration Policy. This policy is available on the website ([www.iberdrola.com](http://www.iberdrola.com)).

#### a) Fixed remuneration and attendance premium

The fixed annual remuneration and attendance premium received by board and committee members depends on the duties assigned to them in the Board of Directors and its commissions in 2018 and 2017. The detail of which is as follows:

Thousands of Euros	Fixed remuneration		Attendance premium	
	2018	2017	2018	2017
Chairman of the Board	567	567	4	4
Vice-chair of the Board and committee chairs	440	440	4	4
Committee members	253	253	2	2
Board members	165	165	2	2

The fixed remuneration accrued by members of the Board of Directors with a charge to the by-law stipulated remuneration amounted to EUR 2,267 thousand and EUR 2,281 thousand in 2018 and 2017.

#### b) Members' remunerations paid and accrued

Details of remuneration received and accrued individually by the members of the Board of Directors in the first half of 2018 and 2017 are as follows:

Thousands of Euros	Salaries	Fixed remuneration <sup>(1)</sup>	Remuneration for belonging to Committees <sup>(1)</sup>	Attendance premium	Short-term variable remuneration <sup>(9)</sup>	Retribution in kind	Total 30.06.2018	Total 30.06.2017
<b>Chairman of the Board</b>								
Mr José Ignacio Sánchez Galán	1,125	284	–	48	3,088	39	4,584	4,669
<b>Vice-chair of the Board and committee chairs</b>								
Inés Macho Stadler <sup>(2)</sup>	–	83	137	36	–	1	257	259
Samantha Barber	–	83	137	44	–	1	265	261
María Helena Antolín Raybaud	–	83	137	22	–	3	245	244
Georgina Kessel Martínez	–	83	137	34	–	1	255	251
Juan Manuel González Serna <sup>(3)</sup>	–	83	49	16	–	1	149	70
<b>Committee members</b>								
Iñigo Víctor de Oriol Ibarra	–	83	44	22	–	4	153	152
Angel Jesús Acebes Paniagua	–	83	44	30	–	1	158	156
Denise Mary Holt	–	83	44	22	–	-	149	147
José Walfredo Fernández	–	83	44	22	–	1	150	147
Manuel Moreu Munaiz	–	83	44	34	–	1	162	160
Xabier Sagredo Ormaza	–	83	44	22	–	1	150	147
Francisco Martínez Córcoles <sup>(4)</sup>	500	83	–	10	710	9	1,312	301
Anthony Luzzatto Gardner <sup>(5)</sup>	–	35	19	6	–	-	60	-
<b>Former members</b>								
Santiago Martínez Lage <sup>(6)</sup>	–	–	–	–	–	–	–	75
José Luis San Pedro Guerenabarrena <sup>(7)</sup>	–	–	–	–	–	–	–	75
Braulio Medel Cámara <sup>(8)</sup>	–	47	25	14	–	2	88	148
<b>Total</b>	<b>1,625</b>	<b>1,362</b>	<b>905</b>	<b>382</b>	<b>3,798</b>	<b>65</b>	<b>8,137</b>	<b>7,262</b>

(1) Amounts accrued in the first half of 2018, not satisfied until the approval of 2018 Annual Accounts by the 2019 General Shareholders Meeting.

(2) Appointed Vice-chairperson of the Board of Directors on 21 June 2018.

(3) Appointed member on 31 March 2017. On 21 June 2018 the Board of Directors approved the appointment as chairperson of the Remuneration Committee.

(4) Appointed member-Business CEO on 31 March 2017.

(5) Appointed member on 13 April 2018. On that same date the Board of Directors approved the appointment as a member of the Corporate Social Responsibility Committee.

(6) Ceased as member of the board on 31 March 2017.

(7) Ceased as member of the board on 31 March 2017.

(8) Ceased as member of the board on 13 April 2018.

(9) Amount related to variable remuneration received in first half of 2018, based on attainment of targets and personal performance in 2017.

Currently, all members of the Board of Directors, except Francisco Martínez Córcoles, assume responsibility for any of the five committees of the Board.

The Board of Directors has resolved to maintain the fixed remuneration for the chairman and chief executive officer in 2018 at EUR 2,250 thousand. It also decided to maintain the limit of variable annual remuneration, which may not exceed EUR 3,250 thousand and which will be paid as far as been agreed in 2019.

The Board of Directors decided on a fix remuneration in 2018 of EUR 1,000 thousand for the member of the Board and Business CEO and set a limit of variable annual remuneration of EUR 1,000, to be paid, as may be agreed, in 2019.

### **c) Civil liability insurance**

The premium paid to cover directors' civil liability insurance amounts to EUR 34 and 31 thousand during the first six months of 2018 and 2017, respectively.

### **d) Other**

The expenses of the Board of Directors related to external services and other items during amounted to EUR 903 and 869 thousand during the first six months of 2018 and 2017, respectively.

In the first half of 2018 and 2017 rebates were received amounting to EUR 106 and 53 thousand, respectively, with respect to the adjustment of the pension insurance policies relating to former members of the Board of Directors.

The Company does not have any commitment, neither contribution or defined benefit, to any retirement scheme or long term savings for any director.

At 30 June 2018 and 2017 there are no loans or advance payments granted by the IBERDROLA Group to the members of the Board of Directors of IBERDROLA.

## **18.2 Remuneration through the delivery of Company shares**

Section 4 of Article 48 of IBERDROLA's by-laws stipulates that, subject always to the approval of the General Shareholders' Meeting, the compensation of directors may also consist, independently of the provisions of the foregoing paragraph, of the delivery of shares or options thereon, as well as a payment which takes as its reference the value of the Company's shares.

Consequently, the remuneration through the delivery of Company's shares, or any other remuneration related to such shares is additional, compatible and independent of profit sharing, which is established in Section 1 article 48 of the by-laws of IBERDROLA.

The General Shareholders' Meeting held on 28 March 2014 approved the 2014-2016 Strategic Bonus as a long-term incentive tied to the performance of the Company in accordance to certain parameters.

On 25 April 2017 the Board of Directors, on the recommendation of the Remuneration Committee, decided in relation to the 2014 and -2016 Strategic Bonus that the objectives had been met in a 93.20%. In the first half of 2018 the second of the three annual payments was made. The Chairman and CEO received 510,596 IBERDROLA shares. The shares thus granted to Francisco Martínez Córcoles, 120,931 shares, correspond to his performance prior to his appointment as member-Business CEO.

Moreover, the General Shareholders' Meeting held on 31 March 2017 approved the 2017-2019 Strategic Bonus as a long-term incentive tied to the performance of the Company in accordance to certain parameters.



### **18.3 Termination benefits**

In the event of termination of a non-executive director prior to the end of the period for which he was appointed not due to non-compliance attributable to such director and not due exclusively to his own will, the Company will pay such director a termination benefit subject to the director's obligation during the remaining period of his term (with a maximum of two years) not to accept positions on the governing bodies of companies in the energy sector or competing companies and not to participate in the management or advisory of the same in any other form.

Termination benefits are equal to 90% of the fixed amount the director would have received for serving his or her remaining term as officer (maintaining any annual fixed amount receivable upon leaving the Board), that could not exceed an amount that is twice 90% of that annual fixed amount.

Since the end of the 90s, executive directors, as well as a group of managers, have the right to receive a termination benefit in the event of termination of the contractual relationship with the Company not due to non-compliance attributable to such director and not due exclusively to his own will. The amount of compensation for the chairman and chief executive officer is currently set at three annuities. Since 2011, the limit shall be two annuities for new contracts with executive directors and senior executives, as is the case of the member-Business CEO.

In addition, executive director contracts contain a non-compete clause in respect of companies and activities of a similar nature, applicable throughout the director's relationship with the Company and for a period of one or two years subsequent to departure. As compensation for this commitment, the executive directors are entitled to receive a payment equal to the remuneration that would correspond to these periods.

### **18.4 By-law stipulated remuneration in 2018**

At the proposal of the Remuneration Committee, the Board of Directors unanimously resolved to freeze, for the 2018 fiscal year, directors' compensation in the form of fixed annual remuneration based on position and meeting attendance fees, as it has done since 2008.

## **19. REMUNERATION OF SENIOR EXECUTIVES**

Senior executives are considered those executives who answer directly to the Company's Board of Directors, chairman and chief executive officer and, in all cases, the internal audit director, as well as to any other executive manager whom the Board of Directors recognises such condition.

At 30 June 2018 and 2017 the Company has 5 senior executives.

The staff costs relating to senior executives amounting to EUR 4,480 and 8,415 thousand in the first half of 2018 and 2017, respectively, are recognised under the "Personnel expenses" heading in the Income statement for the six-month periods ended 30 June 2018 and 2017, respectively.

The remuneration and other compensation received by senior executives in the first six-month periods of 2018 and 2017 are detailed below:

Thousands of Euros	30.06.2018	30.06.2017 <sup>(1)</sup>
Retribution in cash	1,607	2,869
Variable remuneration	2,214	2,909
Retribution in kind	38	381
Payments on account not charged	12	22
Social Security	34	39
Promoter contribution pension plan	22	32
Complementary policy accrual	307	1,871
Complementary policy risk	246	292
<b>Total</b>	<b>4,480</b>	<b>8,415</b>

	30.06.2018	30.06.2017
Share-based payment plan, strategic bonus (Number of shares)	261,106	261,106
Charged taxes and payments in cash Strategic Bonus (thousand euros)	1,206	2,503

(1) Includes the proportional part of remuneration and other payments the Business CEO until 31 March 2017, then appointed member-Business CEO.

Includes the proportional part of remuneration and other payments, as well as the settlement of the strategic bonus 2014-2016 for the Director of Internal Audit, until the date of retirement.

Includes the proportional part of the Internal Audit Officer from the date of appointment, on 21 February 2017.

In the first half of 2018 the second of three annual payments corresponding to the Strategic bonus 2014-2016 has been made (Note 11), once it has been confirmed the remuneration basics have been met. Senior executives have received 261,106 shares in the second payment. At 30 June 2018, EUR 3,010 thousand have been accrued to guarantee the third and last payment.

A maximum of 1,000,000 shares in aggregate are to be delivered to senior executives under the 2017-2019 Strategic Bonus (Note 11), tied to their success in achievement of objectives. At 30 June 2018, EUR 3,321 thousand have been accrued for these commitments.

For senior executives, including executive directors, there are clauses providing guarantees or protection against different cases of contract termination. These contracts have been approved by the Board of Directors of IBERDROLA.

The amount of termination benefits is based on the length of service at the Company and the causes of cease, with a maximum payment of five annuities. Since 2011, for contracts with senior executives, the maximum will be two annuities.

The contracts for senior executives set in any case an obligation not to compete in relation to companies and activities similar in nature to those of IBERDROLA and the Group for a period not less than one year after its termination.

On the other hand, during the first half of 2018 and 2017 there were no other transactions with the executives outside the normal course of the business.

## 20. RELATED PARTY TRANSACTIONS AND BALANCES

The transactions detailed below are specific to the ordinary business activity and have been carried out on an arm's-length basis.

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

Six-month period ended 30.06.2018					
Thousands of Euros	Major Shareholders <sup>(1)</sup>	Directors and executives <sup>(2)</sup>	Group persons, companies and entities	Other related parties <sup>(4)</sup>	Total
<b>Expenses and income</b>					
Finance costs	-	-	7	-	7
Services received	-	-	1,038	6,401	7,439
Purchases	-	-	7,654	754	8,408
<b>Total expenses</b>	-	-	<b>8,699</b>	<b>7,155</b>	<b>15,854</b>
Financial revenue	91 <sup>(5)</sup>	-	33	3	127
Services rendered	-	-	1,613	-	1,613
Sales	-	-	13,151	427	13,578
<b>Total income</b>	<b>91</b>	-	<b>14,797</b>	<b>430</b>	<b>15,318</b>
<b>Other transactions</b>					
Purchase of tangible, intangible and other assets	-	-	27,904	54,997	82,901
Dividends and other distributed profit <sup>(3)</sup>	2,766	275	-	-	3,041
Other transactions	45,365 <sup>(5)</sup>	-	-	-	45,365
Six-month period ended on 30.06.2017					
Thousands of Euros	Major Shareholders <sup>(1)</sup>	Directors and executives <sup>(2)</sup>	Group persons, companies and entities	Other related parties <sup>(4)</sup>	Total
<b>Expenses and income</b>					
Finance costs	-	-	7	-	7
Services received	-	-	4,291	24,417	28,708
Purchases	-	-	29,609	776	30,385
<b>Total expenses</b>	-	-	<b>33,907</b>	<b>25,193</b>	<b>59,100</b>
Financial revenue	-	-	14,242	-	14,242
Services rendered	-	-	6,425	-	6,425
Sales	-	-	7,586	915	8,501
<b>Total income</b>	-	-	<b>28,253</b>	<b>915</b>	<b>29,168</b>
<b>Other transactions</b>					
Purchase of tangible, intangible and other assets	-	-	-	133,404	133,404
Dividends and other distributed profit <sup>(3)</sup>	19,172	263	-	-	19,435

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

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

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

(2) Refers to transactions other than those in Notes 18 and 19.

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

(4) Transactions with other related parties include party transactions carried out with Gamesa Group.

(5) It corresponds to income for cash placings in Qatar National Bank by Scottish Power, Ltd. At 30 June there was a balance of £40 million placed. This placing took place on 29 June and matured on 5 July.

## 21. SUBSEQUENT EVENTS AFTER 30 JUNE 2018

After 30 June 2018 and up until these financial statements were authorised for issue, the following subsequent events have taken place:

### Iberdrola Flexible Retribution

On 5 July 2018, the facts in relation to the implementation of the first paid-up capital increase (*Iberdrola flexible retribution*) approved at the IBERDROLA General Shareholders' Meeting on 13 April 2018, under item 6 of the agenda, were determined and were as follows:

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

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

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

### Financing transactions

On 23 July 2018, the IBERDROLA Group, through its subsidiary Iberdrola Financiación, S.A.U., has signed Tranche A of a new direct loan with the BEI amounting to EUR 500 million maturing in 15 years. The final price and term conditions will be determined at the time of use. The loan will be directed to financing the Tamega Project IBERDROLA Group is developing in Portugal, totalling to EUR 1,485 million approximately.

## 22. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These Condensed consolidated interim financial statements are presented on the basis of IFRS, as adopted by the European Union. Certain accounting practices applied by the Group that conform to IFRS may not conform to other generally accepted accounting principles in other countries.

## ANNEX 1

## INDUSTRY REGULATION AND FUNCTIONING OF THE ELECTRICITY AND GAS SYSTEM

In 2018 a set of rules affecting the energy sector were passed. This section lists the most significant changes.

### European Union

Directive regulating emissions trading until 2030 in Europe: on 14 March, Directive 410/2018 was published in the Official Journal of the European Union, *which amends Directive 2003/87/EC in effectively enhancing the emissions reductions in relation to the costs and facilitating investments in low-carbon technologies*. The reform's most relevant features are:

- The reduction factor from 2021 onward will be 2.2% (in reference to the year-on-year reduction rate of the emission rights ceiling, previously 1.74%, and is normally associated with the "ambition" concept of the EU Emissions Trading System (EU ETS).
- Increase of the share of withdrawal of rights of the Market Stability Reserve (MSR) to 24% from 2019 to 2023 (the rate of withdrawal of rights is double the previous 12% between 2019-23 for the purpose of accelerating the reduction of oversupply of rights).
- Annual cancellation of the rights within the MSR from 2023 onward (guaranteeing the non-return of rights withdrawn from the market).
- Allow member states to cancel voluntarily rights to be auctioned to compensate climate policies (renewables, energy efficiency) that reduce the demand for rights on the ETS market.
- Procedures and deadlines for revision are introduced for allocation to carbon-leakage risk sectors.
- Support for modernizing the electric sector in countries with lower GDP is provided but cannot target coal.

Directive 844/2018 on energy efficiency of buildings: The directive requires member states to establish long-term strategies for renovation of buildings focusing investment in the renovation of buildings that are highly energy-efficient and decarbonised before 2050. Moreover, it establishes minimum requirements for implementing recharge points for electric vehicles in buildings with more than 10 parking spaces.

Regulation 841/2018 on the inclusion of emissions and removals of greenhouse gases resulting from the use of the land, the change of land use and forestry (LULUCF sector): Establishes accounting rules to measure carbon emissions and extractions of croplands, pastures, managed forests and wetlands in 2021-2030. The quantity of carbon absorbed in the LULUCF sector must be, at least, equivalent to what is emitted.

Regulation 842/2018 on effort-sharing: Regulates the annual reductions binding on greenhouse gas emissions on the part of member states between 2021 and 2030 contributing to climate action, for the purpose to fulfilling the commitments made within the framework of the Paris Accord. Establishes measures so that, in 2030, non-ETS sectors will reduce their emissions by 30% in comparison with 2005 through state objectives linked to the GDP per capita, an emissions reduction path for the member states and a security reserve (105 bn tons of CO<sub>2</sub>) to help less-advantaged member states encountering difficulties in meeting the 2030 targets.

Delegated Regulation 2018/540 on the commission on projects of common interest: (EU) Regulation no. 347/2013 establishes a framework for determining, planning and executing projects of common interest necessary for completing the nine priority geographical corridors for strategic energy identified in the fields of electricity, gas and oil, and the three priority areas of energy infrastructure at the scale of union of smart grids, electric motorways and networks for carbon-dioxide transport.

## Spain

### Spanish electricity sector

Territorial Supplements: In January, a ministerial order that established the fees and surcharges for the purpose of setting the Territorial Supplements for 2013 was published.

The Territorial Supplements are surcharges that ought to have been included (and were not included) in the tolls for 2013, to recover taxes and duties established by the individual Autonomous Communities on activities in the electric sector, for the purpose of compensate the payers of same. The electric companies called for rebilling of the 2013 tolls with the inclusion of these supplements and the subsequent settlement of the amounts paid as taxes, which has been upheld by the Supreme Court (TS - Tribunal Supremo) in various judgements.

In January 2017, a ministerial order approved the rebilling of the Territorial Supplements of four Autonomous Communities, however the TS, in a clarification order, deemed the enforcement of the judgements incomplete and required the Spanish Ministry of Energy, Tourism and Digital Strategy (MINETAD) to rebill all Territorial Supplements not included in the above order, and that they would affect almost all Autonomous Communities.

In order to comply with the order of the TS, the ministerial order establishes the fees and surcharges to be considered for the purposes of setting the Territorial Supplements, and imposes on the passive subjects the obligation to provide certificates issued by the Autonomous Communities with the taxes incurred in 2013.

Of the 65 million euros paid IBERDROLA for Autonomous Community taxes in 2013, 8 million euros are in the process of being recovered through this measure.

Law on emergency measures against drought: The law, published in March, validates the increase of the hydrological tax (25.5%), approved by Royal Decree-Law. It also opens up the possibility that the irrigation farmers can contract for two different powers within a year, subject to regulatory development. On the other hand, the tolls and fees on auto-consumption for energy-intensive sectors is subject to seasonality (irrigated land), also subject to regulatory development. Moreover, the Spanish Government may adopt measures for promoting irrigation efficiency by substituting conventional sources with renewables, including auto-consumption installations.

National Energy Efficiency Fund: The order establishing the financial contributions to the National Energy Efficiency Fund for 2018 was published.

Electricity and gas retailers and oil product operators must finance this fund in proportion to their 2016 turnover figures (year n-2). The annual contribution is set at 204.9 million euros, similar to that of previous years, for sales of 793.7 TWh, which means an amount of around €0.26/MWh of electricity, gas or oil product.



The quota calculated for IBERDROLA is 7.4%, on sales of 58.5 TWh and the payment obligation is worth around 15.2 million euros, which means an increase of 0.4 million euros in respect of the previous year, for a higher growth in our energy sales in relation the overall system.

Slurry remuneration: The writ of execution of the TS was published, cancelling part of the revision of the revised parameters for slurry contained in the ministerial order on remuneration published in July 2017. The TS considers that its useful life should be maintained at 25 years and creates an obligation for the calculation of equivalent hours consistent with the production anticipated.

Law on energy efficiency and electric energy of Galicia: The law establishes measures for promoting energy efficiency and reducing the energy dependency of Galicia, and adapts the local regulations on protecting customers vulnerable to current State legislation.

Social tariff: Order ETU/361/2018 was published modifying the procedure for applying for the discount rate. The six-month transition period is extended for previous beneficiaries of the discount rate to provide evidence of their vulnerable circumstances in order to renew the right to receive the new social discount (until October 2018), and the application forms have been modified.

Interruptibility mechanism: Order ETU/362/2018 has been published to revise the interruptibility mechanism. The interruptibility service was revised in October of last year, restricting its application to the first five months of 2018. In the published order, the period of application is extended until 31 December, and the 90 MW interruptible product is substituted with one of 40 MW, with a requirement not to have any outstanding debts in relation to the provision of the interruptible service.

Distribution compensation: The judgement of the TS was published recognising the entitlement of Endesa to a compensation revised by the coefficient  $\lambda$  in the distribution compensation for 2016.

The calculation methodology for the current compensation from 2016 includes a coefficient ( $\lambda_{base}$ ) which represents the percentage of installations that form part of the assets of each company and which have been self-financed, discounting those granted by third parties and the volume of public funds received.

Endesa filed an appeal against the form of calculation of this coefficient in the consideration that it does not properly reflect the volume of investment borne. In October, the TS found in favour of Endesa, obliging MINETAD to publish a new calculation methodology from 2017 for all companies (of which one has already been proposed). Endesa also appealed the compensation of 2016, and now the TS recognises its right to a compensation for revision of the coefficient  $\lambda$  for that year.

Rules of the daily and intraday market: The resolution was published approving the rules of operation of the daily and intraday markets in order to comply with the obligation to transpose European rules on the integration of intraday markets ((EU) Regulation 2015/1222), which requires adapting the previous intraday markets to a continuous market. The order was also published enabling the presentation of portfolio offers in the continuous European intraday market. In this process, on 12 June the continuous intraday markets came into operation.

## **Spanish gas sector**

Castor: In January Spanish Constitutional Court (TC - Tribunal Constitucional) published its Ruling depriving the indemnification for Castor's underground gas storage of legal coverage.

Given the impossibility of activating the underground storage, the Royal Decree-Law 13/2014 regulated the dormant state of Castor, the termination of the concession and the transfer of management to Enagás, as well as the payment of the compensation to ACS. The compensation was established at 1,350 million euros, an amount that was securitised among three banks, to be collected through annuities at gas tolls. By the time of the ruling, 240 million euros has been collected.

The TC annulled the articles of the royal decree-law referring to the compensation for the end of the concession, and its recovery through being charged at the gas tolls, depriving the indemnification of legal coverage. It considers that the compensation be duly calculated and processed, together with its form of recovery by a law (not through a royal decree-law).

The National Commission of Market and Competition (CNMC - Comisión Nacional de Mercado y Competencia) has ceased paying the compensation to holders of the debt.

Tariff of Last Resort (TUR) for gas for the second quarter of 2018: The current TUR for natural gas has been published for 1 April 2018 onward. Prices decrease by an average of 3%, in relation to the previous quarter. The increase is due to the reduction of the cost of the raw material (-9%).

Miscellaneous gas: Royal Decree 335/2018 on various gas topics was published.

On the one hand, it includes matters of infrastructure. It establishes a legal basis for Enagás to be able to apply for the commissioning of Musel, currently dormant, if the CNMC issues a favourable report on its not affecting the financial sustainability of the system. The Directorate General for Energy Policy and Mines (DGPEyM) may commence as a matter of course the commissioning procedure in case of exceptional circumstances affecting the security of the supply.

Also regulated is the possibility of deregistering from the compensation system the installations which have concluded their useful life and are not necessary for meeting demand at the discretion of MINETAD. The operator may request its definitive closure, leave it temporarily closed pro bono or continue operating it pro bono.

On the other hand, it modifies the structure of the tolls. The 85-105% flexibility of us in regasification and transport is done away with. Also modified is the calculation of the tax for underground storage, of liquid natural gas (LNG) and loading LNG on ships, and new tolls are defined for entry to the virtual balance point (PVB), for use of storage at the PVB, and exit from the PVB to LNG tank.

Lastly, the procedures against fraudulent marketers are streamlined.

Gas system interruptibility: The resolution was published regulating interruptibility in the gas system for the period between 1 October 2018 and 30 September 2019. It maintains the same volumes of interruptibility as the previous year, to apply to the Catalan pre-coastal network of Montmeló (2 GWh/day) and the network of Pamplona (3 GWh/day). Users can request the interruptible toll until 1 September.

## **United Kingdom**

Brexit: On 23 March 2018, the European Council of 27 adopted directives for the negotiation of the future relationship between the United Kingdom and the European Union, for the purposes of securing the closest possible association in the future, compatible with the desire of the United Kingdom to leave the single market and the Customs Union. Meanwhile, a transition period has been agreed in principle until the end of 2020, during which time the status quo will largely remain in place.

Retail: The UK Government introduced a Tariff Cap draft bill in parliament. The objective of the UK Government is to enact the draft bill before the summer recess of parliament (24 July) to have the Tariff Cap in place before the end of the year. The project progressed swiftly through the Commons (without changes) and is currently in the Lords. At the same time, on 25 May 2018, the Office of Gas and Electricity Markets (OFGEM) published a consultation on the design options for the *cap* and a provisional implementation schedule towards late 2018. It is possible that the amplification of the so-called “safeguard rate” (already applying to certain groups of vulnerable customers) extending to a broader customer grouping, with a target implementation date for autumn 2018, will be shelved due to the progress with general legislation for the Tariff Cap.

RIIO-2: OFGEM has launched an initial consultation on the RIIO-2 regulatory framework. OFGEM has also consulted about a competitive model for a new land transport project (Hinkley-Seabank line), where OFGEM would establish a capital cost for National Grid.

Vulnerable customers: Towards the end of March, the Department for Business, Energy and Industrial Strategy (BEIS) published its consultations on the next stage of the programme Energy Company Obligation (ECO3, 2018-22) and the extension to the Warm Home Discount (WHD, 2018-19). As expected, it proposes that ECO3 focuses entirely on low-income and vulnerable households and that the WHD continues with minor changes. In June, the Government confirmed that it will extend the WHD for a year and will scale up the exemption of small providers, with providers with less than 150,000 customers (instead of the current 250,000) becoming exempt in 2020/21.

Offshore wind power: Preparations are continuing for the next round of offshore wind power auctions of Contracts for Differences (CfD), probably beginning in 2019.

## **United States**

Budgets: On 23 March, US President Trump signed the omnibus draft bill on expenses for 1.3 trillion US dollars that will finance the government until 30 September 2018. The highlights of the package are:

- 700 billion US dollars for defence funding, the greatest increase in 15 years (~ 61 billion US dollars).
- 591 billion US dollars for domestic programmes, including 21 billion US dollars for planned infrastructure, repairs and development.
- 1.6 billion US dollars for border security.
- 3.64 billion US dollars for the Low-Income Home Energy Assistance Program (LIHEAP), an increase of 250 million US dollars on last year.
- 367.6 million US dollars for the Federal Energy Regulatory Commission (FERC).
- The Department of Energy received 248 million US dollars for research and investments to protect the infrastructure of the electricity network from cyber and other attacks.

### Tariffs and trade:

- On 22 January, President Trump approved recommendations to place tariffs of 30% on imports of solar panels and cells for three years.
- On 31 May, the White House announced that the US will be applying tariffs of 25% and 10% on imported products of steel and aluminium, respectively, and doing away with the exemption previously issued for Canada, Mexico and the European Union.
- On 15 June, President Trump also announced tariffs of 25% on 50 billion US dollars in Chinese goods starting from 6 July. The tariffs will affect more than 1,100 products. In response, the Chinese government announced tariffs of 25% on 545 US products, including oil, coal and liquid natural gas, starting from 6 July.

Clean Power Plan: The Environmental Protection Agency (EPA) is carrying out a procedure for changing the Clean Power Plan. The EPA is also reviewing the options on replacing the programme, which will establish a smoother regulatory impact.

State legislation: Various states have considered increases to their Renewable Portfolio Standard (RPS) in 2018. Connecticut and New Jersey have already defined the increases, with Connecticut reaching 40% by 2030, while New Jersey set a standard of 50% for 2030.

Transport: The return on equity (ROE) review of the FERC for the transport installations in New England continues. The Court of Appeals issued a ruling ordering the FERC to reconsider its order on the 2011 claim (first claim), in which the initial ROE decreased from 11.14% to 10.57%. The final determination of the ROE is still unresolved. As a provisional measure, on 27 March, a judge of the FERC issued an initial decision to on finding that the plaintiffs did not prove that the current ROE of 10.57% is unfair and unreasonable.

## **Mexico**

Tender for transmission lines: The tender process aimed at connected the peninsula of Baja California with the National Interconnected System (SIN) is currently in the stage of registering pre-qualified candidates that will conclude on 20 July; the ruling will be issued on 28 September. In regard to the tender issued by the Federal Electricity Commission (CFE – *Comisión Federal de la Energía*) and which will unite the region of Ixtepec (Oaxaca) with the Valley of Mexico, the submission of technical offers will take place on 19 July and the economic offers on 27 July, with the successful bidder being announced on 3 August.

Long-term auctions (LTA): on 15 March a new call for tenders was published for a new LTA that awards long-term contracts for energy (15 years), power (15 years) and clean energy certificates (20 years), the result of which will be announced on 14 November 2018. The National Centre for Energy Control (CENACE - *Centro Nacional de Control de Energía*) published on 1 June the bidding rules for the auction and its annexes, thus getting the process under way. There are no relevant changes in relation to the bidding rules for the LTA which took place in 2017, although minor adjustments are introduced in the process for presenting sales offers, in the presentation of the guarantees and the mechanism for evaluating the offers. The following relevant milestones will be the pre-qualification of the power generation projects until 6 September, the publication of the purchase offers (from 12 July until 2 August) and the presentation of economic offers in October.

Industrial electricity rates for basic supply: for industrial clients, continues the ongoing application of the new electricity rate based on the methodology presented in November 2017 by Energy Regulatory Commission (CRE - *Comisión Reguladora de Energía*), although for now it remains incomplete due to inaccuracies in the calculations during the first half of 2018. As a result, it remains in the transition period between rate methodologies which is expected to conclude in the course 2018 until the full application of the additive rate deriving from the Law on the Electricity Industry is achieved. Over the second quarter of 2018, additional regulations was published intended for the gradual elimination of that uncertainty in the rate calculations and resolving rate inaccuracies in the early months of 2018. For their part, domestic customers continue to remain subject to the methodology prior to the electricity reform (integrated tariff); it is not known when this customer profile will migrate to the new tariff scheme.

2018-2032 Programme for the development of the national electrical system (PRODESEN): on 1 June the PRODESEN programme was published, presenting indicative planning for the new national electricity system in terms of new investments in electricity generation and infrastructures. This analysis estimates an annual growth in demand of 3.1% for the 2018-2032 period. What's more, an estimated additional capacity of 67 GW for the same period, from which can be drawn significant increases in combined cycle plants (+28.1 GW), wind generation plants (+14.8 GW) and photovoltaic solar plants (+11.4 GW). The document anticipates for the electricity sector an estimated investment of 2 trillion Mexican pesos over the next 15 years, of which, 1.7 trillion Mexican pesos will be earmarked for new generating capacity.

Medium-term auctions (MTA): on 23 January, the result of the first MTA was calculated, which awarded contracts of between one and three years for energy and power. In general, these proved disappointing in terms of what was expected for this mechanism: only 3.98% of the total power purchasing offer was awarded and 0% of the total energy purchasing offer; with 50 MW/year of power in the National Interconnected System (SIN) for 2018, at a price of 746 pesos/kW year. In total, 41 offers were received for the purchase of energy and 10 for the purchase of power, albeit with only 3 offers for energy sales and another 3 for the sale of power.

Power balance market: on 28 February the market for the balance of power was executed, putting a price on the capacity available for 2017. This availability is recognised for the 100 critical hours of the system. The resulting price was 37.7 USD/kW year (709.6 pesos/kW year) for the SIN; 31.4 USD/kW year for the Baja California system; and 146.3 USD/kW year for the Baja California Sur system.

## **Brazil**

Result of Public Consultation no. 32/2017 with the principles for the reorganisation of the electricity sector: on 13 March the Ministry of Mines and Energy approved the Portaria no. 86/GM with the "Principles for the Reorganisation of the Brazilian Electricity Sector". This consists of the 10 principles based on efficiency, equality and sustainability of the actions of the regulator. The principles are as follows: respect for the right to property, respect for contracts and minimum intervention; economy, cost efficiency and social and environmental responsibility; transparency and participation of the stakeholders; equality, prioritising market solutions over centralised decision models; capacity for adapting and flexibility; consistency; simplicity; predictability and clear definition of competences and respect for the role of the institutions.

Technical note on the public consultation MME no. 33/2017: draft bill for improvements to the legal framework of the electricity sector. The main points considered are the deregulation of the electricity market until 2026 and the separation of power (ballast) and energy from 2021 onward. On the other hand, the draft bill eliminates certain proposals initially included in the public consultation such as the standardisation of prices of the distributors and the anticipation of the standardisation of sectoral charges (CDE) between the different regions or the rethinking of the mechanisms for energy reallocation (MRE). Lastly, the draft bill includes proposals made during the public consultation such as a the limitation of the penalties imposed on

the distributors, the possibility of drawing up bilateral agreements between distributors or the elimination of the restrictions for acquiring agricultural land on the part of foreign companies.

Results of auction A-4 2018: on 4 April, an auction took place in Brazil for new power generation plants for delivery of energy by January 2022. Contracts for 1,024.56 MW have been signed for 39 projects, out of which 29 are solar projects representing almost 80% of the total energy sold (806.66 MW); 4 projects were hydropower (41.7 MW), with 2 biomass projects (61.8 MW) and 4 windfarm projects (114.4 MW). These projects will represent an investment of 6,748 million Brazilian reals. The average sale price was set at R\$124.75/MWh, which represents an average discount of 59.07% compared against the starting price ceilings, setting record low prices in Brazil for wind and solar energy.

The WACC for the remuneration of the distribution investments: ANEEL has approved maintaining the current WACC (8.09%) until 31 December 2019 to use it in the calculation of the return on distributors' investments. This WACC will apply in the next tariff revisions of Coelba and Cosern (April 2018) and Elektro (August 2019). In addition, the methodological revision for calculating the WACC in 2019 is expected, and which will take effect from 1 January 2020.

Fourth tariff cycle of COELBA and COSERN (in force from 22 April): The tariff review (every 5 years for such distributors) is a process during which the tariff parameters directly related with the distribution activity (Parcel B), which are principally the WACC, the asset base, operating and maintenance costs, the volume of non-technical losses recognised and the targets for quality and efficiency of the distributor. In addition, the cost of purchasing energy is also updated, as well as transmission network costs, sectoral expenditure and taxes (Parcel A). These costs cannot be managed by the distributor and are transferred in full to the final tariff.

Advance payment of the sectoral quota (CDE) during the current month: on 14 February, Resolution no. 2.368/2018 was published to permit that advance payment of the CDE in the current month. At the request of ABRADÉE (Distributors' Association), ANEEL proposed the following CDE payment schedule: the quota for January 2018 must be recognised by 10 March 2018; the quota for February quota will be split into two payments (the first was made on 16 February 2018 and the second on 22 February) and the monthly quotes for March to December 2018 must be paid on the 10<sup>th</sup> of each month.

Annual values for distributed power generation Portaria no. 65/2018 of the Ministry of Mines and Energy: current legislation allows distributors to buy a limited quantity of energy from generators located in their concession area, by means of public auction. From 2015, these generators are allowed to sell their energy at a price that covers all costs of generation which the distributors would subsequently reflect in their end client tariff, restricting the annual specific reference value (VRES). For 2018, the VRES or maximum tariff-transferable costs are: biogas R\$390/MWh; residual biomass R\$349/MWh; cogeneration R\$451/MWh; wind R\$296/MWh; small hydropower plants R\$360/MWh; and solar photovoltaic R\$446/MWh.

Regulation no. 806/2018 updating the historic regulatory operating costs: the updating of those costs represents an interim stage between the methodology reviews. Moreover, for the purpose of reflecting the most recent performance of the distributors, the parameters associated with calculating the efficiency of the operating costs of the distributors have also been updated.

Joint processing of the draft bill 1.917/2015 and of the CP 033/2017: At the moment the draft bill on the deregulation of the electricity market begun in 2015 (PL 1.917/2015) and the draft bill on the modernisation of the electricity sector and deregulation of the electrical energy market (initiated with the public consultation 033 of July 2017) are being jointly processed. For this joint processing, on 23 April a Special Committee was formed with members from the Congress and the Senate.

The objective of the joint processing is to speed up the deregulation and the application of measures that mitigate the risk of this process on distributors. During the processing, amendments have been incorporated that are intended to dejudicialise the current situation of hydrological risk and the removal of the restrictions on acquiring agricultural land by foreign companies.

Draft Bill no 9.463/2018 on the privatisation of the Eletrobras holding: The privatisation will be completed through the increase of share capital of Eletrobras and of its subsidiary companies to involve private capital, thus diluting the participation of the state, while however preventing any private shareholder from owning more than 10% of shares with voting rights. At the present time, the draft bill is being processed in the National Congress. At the same time, in April 2018 Decree 9.351/2018 was published, which includes the state agency in the National Programme for Destatisation to initiate the procedures for contracting studies to carry out the operation.

In May, the draft bill was presenting for voting, but no consensus was achieved. On the other hand, and given the current political scenario, it is expected that the vote on the draft bill will not be cast this year.

Draft Law no. 10.332/2018 on the sale of the distributors of Eletrobras: This is under parliamentary process and the associations are attempting to include an amendment to eliminate from the calculation of the hydrological risk factors which are not related with the hydrological situation of the country.

On the other hand, on 15 June an order was published setting the date of 26 July 2018 for the auction of the six distributors of Eletrobras (Eletroacre, Ceron, Cepisa, Ceal, Boa Vista and Amazonas Distribuidora).

Delayed implementation of the hourly price until January 2020: Initially tabled for January 2019, however the Permanent Committee for the Analysis of Computational Methodologies and Programmes of the Electricity Sector (body linked to the Ministry of Mines and Energy) and the subgroup for operations and price demonstrated the complexity of implementing the hourly price in relation to technical, operational, procedural and regulatory aspects and recommended postponing the implementation until 2020. Now the subgroups for operations and price must prepare a detailed schedule for the actions and mapping for the critical points and risks to fulfil the new schedule for implementation. For their part, the permanent committee will maintain the working groups formed and the date of implementation of the shadow operation.

Portaria 121/2018 on auction A-6 of new energy: The auction will take place on 31 August 2018. The contracts executed under this framework will be regulated contracts (CCEARs) by quantity (with a commitment on energy delivery) with the following deadlines: 30 years for hydrological projects, 20 years for wind projects and 25 years for power generation projects from biomass, coal and natural gas. As a minimum, 30% of this energy must be allocated for contracting on the free market.

Decree no. 9.357/2018 – extension of the Electricity for Everyone Programme (*Programa Luz para Todos*) until December 2022: The Electricity for Everyone Programme was created in 2003 with the objective of electrifying rural, isolated and economically disadvantaged areas. The programme is coordinated by the Ministry of Energy and Mines, run by Eletrobrás and executed by concession-holders and rural electrification cooperatives.

Generally speaking, this programme is jointly financed by 1) sectoral funds such as *Conta de Desenvolvimento Energético* (CDE) and *Reversão Global Reserve* (RGR); 2) the governments of those states; and 3) the electricity distribution companies (the distributors will subsequently recover the investments in the tariff reviews carried out every 5 years).

ANEEL approves the regulations for recharging electrical vehicles: On 19 June, ANEEL decided that recharging electrical vehicles is a free-market activity and does not come under any of the current activities

for generation, transport and distribution. While this resolution has been approved by the regulator, it has yet to be officially published.

ANEEL allows the distributor to install recharging infrastructure taking into consideration the following aspects:

- The CAPEX of the recharging installations is not included in the assets and remuneration base.
- As happens with other additional activities, the distributor must allocate a percentage of their income from this activity to a sectoral account with the aim of reducing the overall tariffs.
- The cost applied to recharging will be freely agreed between the distributor and the customer (the price is not conditional on the distributor charging for the recharging service).
- The costs and revenue from the activities must be treated separately.
- There will be no redress for economic losses from the recharging activity.
- The energy used in recharging will not be considered own consumption, and will instead be subject to its specific valuation.



**CONSOLIDATED INTERIM DIRECTORS' REPORT FOR THE SIX-MONTH PERIOD  
ENDED ON 30 JUNE 2018**

## 1. SIGNIFICANT EVENTS OF THE FIRST HALF OF 2018

The results of the first six-month period of 2018 show a strong growth respect to the same period of the previous year, with growth of 17% of the EBITDA due to the good performance of all the business.

The average performance of IBERDROLA's main reference currencies vis-à-vis the Euro during the first half of 2018 was as follows: the Pound Sterling has depreciated by 2.2%, the US dollar 11.7% whereas the Brazilian Real 19.5%, compared with last year.

Regarding the evolution of the demand and the electrical production of the period in the principal zones of activity of the company:

- In Spain, the first six-month period ended 30 June 2018 was characterised by a sharp increase in hydroelectric output (+68%) compared to the same period of the previous year. The increase of the rainfall registered in 2018 has had effect in the increase of the hydraulic reservations to levels of 64.6 %, opposite to levels of 40.5 % to closing of June, 2017.

The production of the coal-fired power stations has diminished 31% with regard to the first semester of 2017 and that of combined cycle power stations 8.5%. The rest of production proceeding from renewable sources has closed the semester increasing 5% with regard to the same period of last year, motivated principally by the major wind production registered in March (+63% with regard to the same month of 2017).

The demand has increased 1.2% with regard to the first semester of 2017, whereas in exact terms for labour and temperature has grown +1.1%.

- In the United Kingdom, the electrical demand has increased 1.0% with regard to the first semester of 2017. As well, the clients' gas demand (excluding the consumption of generation) has increased in 10.6%.
- In the area of Avangrid's influence on the east coast of the United States, the electrical and gas demand has increased 2.2% and 8.4%, respectively, with regard to 2017.
- The demand in the zone of Neoenergia's influence in Brazil has grown 1.1%.

### 1.1. Operating main figures

#### • Installed capacity

At the end of the first half of 2018, IBERDROLA Group has installed 46,470 MW, 395 MW more than at the end of the year 2017.

The installed capacity per technology and geographical area at the end of the first half of the year is as follows:

Installed capacity (MW)	30.06.2018	31.12.2017	Change
Hydroelectric	10,984	10,984	-
Nuclear	3,166	3,166	-
Coal	874	874	-
Gas combined cycles	14,820	14,670	150
Cogeneration	299	299	-
Wind power, mini-hydraulic and other renewables	16,327	16,082	245
<b>Total</b>	<b>46,470</b>	<b>46,075</b>	<b>395</b>

Installed capacity (MW)	30.06.2018	31.12.2017	Change
Spain	25,607	25,607	-
United Kingdom	4,616	4,616	-
United States	7,016	7,009	7
Mexico	6,630	6,242	388
Brazil	1,640	1,640	-
Rest of the world	961	961	-
<b>Total</b>	<b>46,470</b>	<b>46,075</b>	<b>395</b>

- In Mexico, in the first quarter of 2018, leads the entry into commercial operation of Altamira's industrial cogeneration plant in January (57 MW) and of Bajío in February (50 MW), as well as the increases of power of Baja California (23 MW) and Monterrey IV (20 MW). Additionally, there has taken place the gradual entry of photovoltaic power (227 MW) and wind power (11 MW).
- In the United States they have put into operation 9 MW of 10 MW that will have the photovoltaic plant Wy'East (Oregon) and 2 MW have been withdrawn in the wind farm of Peñascal II.

#### • Production

In the first half of 2018, IBERDROLA Group's total production increased 11.1% to 69,408 GWh (62,455 GWh in the first half of 2017).

The evolution by technologies is as follows:

Net Production (GWh)	30.06.2018	30.06.2017	% Change
Hydroelectric	9,019	5,640	59.9
Nuclear	10,959	12,554	(12.7)
Coal	576	1,118	(48.5)
Gas combines cycles	27,371	24,581	11.4
Cogeneration	1,048	1,074	(2.4)
Wind power, mini-hydraulic and other renewables	20,435	17,488	16.9
<b>Total</b>	<b>69,408</b>	<b>62,455</b>	<b>11.1</b>

The evolution by geographical area is as follows:

Net Production (GWh)	30.06.2018	30.06.2017	% Change
Spain	28,876	26,954	7.1
United Kingdom	6,218	5,467	13.7
United States	9,954	8,991	10.7
Mexico	19,830	20,106	(1.4)
Brazil	3,531	272	1,198.2
Rest of the world	999	665	50.2
<b>Total</b>	<b>69,408</b>	<b>62,455</b>	<b>11.1</b>

- **Retail**

The evolution of gas and electricity retail is broken down as follows:

<b>Electricity retail (GWh)</b>	<b>30.06.2018</b>	<b>30.06.2017</b>	<b>% Change</b>
Spain	27,614	27,364	0.9
United Kingdom	10,669	11,102	(3.9)
United States	18,028	17,757	1.5
Brazil	21,404	5,538	286.5
Rest of the world	4,449	3,817	16.6
<b>Total</b>	<b>82,164</b>	<b>65,578</b>	<b>25.3</b>

<b>Gas Retail (GWh)</b>	<b>30.06.2018</b>	<b>30.06.2017</b>	<b>% Change</b>
Spain	6,351	4,642	36.8
United Kingdom	16,667	17,413	(4.3)
United States	35,521	31,745	11.9
Rest of the world	57	91	(37.4)
<b>Total</b>	<b>58,596</b>	<b>53,891</b>	<b>8.7</b>

- **Distribution**

Electricity distributed in the first half of 2018 reached 110,281 GWh and gas 35,520 (89,721 GWh and 31,745 GWh respectively in the first half of 2017), broken down geographically as follows:

<b>Electricity distributed (GWh)</b>	<b>30.06.2018</b>	<b>30.06.2017</b>	<b>% Change</b>
Spain	47,427	47,135	0.6
United Kingdom	16,682	16,535	0.9
United States	18,028	17,757	1.5
Brazil	28,144	8,294	239.3
<b>Total</b>	<b>110,281</b>	<b>89,721</b>	<b>22.9</b>

<b>Gas Distribution (GWh)</b>	<b>30.06.2018</b>	<b>30.06.2017</b>	<b>% Change</b>
United States	35,520	31,745	11.9

## 1.2. Main figures of the Consolidated income statement

The most remarkable amounts of the first semester of 2018 are the following ones:

<b>Millions of euros</b>	<b>30.06.2018</b>	<b>30.06.2017</b>	<b>% Change</b>
Gross margin	7,668	6,833	12.2
Gross operating profit - EBITDA	4,436	3,787	17.1
Net operating profit - EBIT	2,527	2,153	17.4
Net profit attributable to the parent	1,410	1,518	(7.1)

The results of the period have been affected by the following issues:

- The results of the first semester of the year show a strong growth with regard to the same period of the previous year. The EBITDA has grown 17.1% thanks to the performance of all the business.

- NEOENERGIA's global consolidation from August 24, 2017, before the integration between this company and ELEKTRO, brings 428 millions of euros to the EBITDA in the first semester. IBERDROLA Group has a 52% sharing of the new group.
- From an operative point of view:
  - o Networks business benefits from the positive rate adjustments in the United States and in Brazil.
  - o Renewable improves his results due to a major wind onshore production in all the countries, with major power average installed and increase of the wind power, as well as the contribution of Wikinger's offshore wind farm that is in operation in full after the entry into operation during the first quarter, and the major hydroelectric production in Spain.
  - o Generation and Supply business has a major commercial activity in Spain and in the United Kingdom operative conditions are normalised.

### 1.2.1. Gross Margin

Gross margin, understood as the different between Revenue and Procurements, is EUR 7,668 million, 12.2% higher than in the same period in 2017 (EUR 6,833 million). The impact of average exchange rates decreases in EUR 464 million.

Millions of euros	30.06.2018	30.06.2017	% Change
Spain	1,100	995	10.6
United Kingdom	614	598	2.7
United States	1,395	1,482	(5.9)
Brazil	764	201	280.1
<b>Network Business</b>	<b>3,873</b>	<b>3,276</b>	<b>18.2</b>
Spain and Portugal	1,100	1,282	(14.2)
United Kingdom	488	378	29.1
Mexico	298	329	(9.4)
Brazil	65	4	1,525.0
<b>Liberalised Business</b>	<b>1,951</b>	<b>1,993</b>	<b>(2.1)</b>
Spain	849	684	24.1
United Kingdom	303	261	16.1
United States	427	448	(4.7)
Mexico	30	34	(11.8)
Brazil	88	23	282.6
Rest of the world	127	61	108.2
<b>Renewable Business</b>	<b>1,824</b>	<b>1,511</b>	<b>20.7</b>
<b>Other businesses</b>	<b>41</b>	<b>74</b>	<b>(44.6)</b>
<b>Corporation and adjustments</b>	<b>(21)</b>	<b>(21)</b>	<b>-</b>
<b>Total</b>	<b>7,668</b>	<b>6,833</b>	<b>12.2</b>

- The Network Business increases its Gross margin in 18.2% compared to 2017 reaching EUR 3,873 million. As noteworthy events in the period we can highlight:
  - o Spain reaches EUR 1,100 million (+10.6%) affected by the major regulatory income, by repayments of previous exercises and an increase in remuneration due to the favorable court decision in relation to the facilities received of third parties.

- United Kingdom adds up to EUR 614 million (+2.7%) due to the increase of income in transport and distribution, in spite of being negatively affected by the devaluation of the Pound.
  - United States contribution is at EUR 1,395 million (-5.9%) due to the devaluation of the American dollar.
  - Brazil's Gross margin amounts to EUR 764 million (+280.1%) influenced by Neoenergia's integration (EUR 598 million). Additionally, this business is negatively affected by the devaluation of the Brazilian reals.
- The Liberalised business decreases its Gross margin in 2.1% to EUR 1,951 million.
- In Spain it goes down 14.2% to EUR 1,100 million in consequence of the accounting in the second quarter of 2017 of a positive impact derived from the extraordinary review of prices of the gas contracts.
  - United Kingdom's Gross margin is at EUR 488 million, increasing 29.1% compared to the same period in 2017, explained by the normalization of the margins and the operative conditions, the progress in the installation of the smart meters and the contribution of the payments for capacity.
  - Mexico contributes EUR 298 million to Gross margin, decreasing 9.4% due to the devaluation of the American dollar, since without this effect the business grows 1.3% for the operative improvement of the fleet of generation and the improvement of the prices with regard to the first quarter of the year.
  - Brazil contributes EUR 65 million to Gross margin to Liberalised business in comparison with EUR 4 million of 2017 period, due to the integration of Neoenergia.
- The Renewable business increases its contribution to Gross margin in 20.7% to EUR 1,824 million. The main causes of this progress are:
- Spain reaches EUR 849 million as a result of the major wind production (12.1 %) and hydroelectric production (+48.5%).
  - In the United Kingdom, it increases 16.1% to EUR 303 million due to a major production in onshore (+19.8 %) that is driving by an increase of the average of capacity power (+194.9 MW; +11.5 %), the load factor (+1.7 p.p.) and the major prices.
  - US's contribution of EUR 427 million (-4.7%) is a result of the devaluation of the American dollar and minor prices compensated by the improvement of the production (+11.3 %) and the major average capacity power (+11.5%, +195 MW) and mayor eolicity (+0.9 p.p.).
  - Mexico contributes EUR 30 million (-11.8%) to the Gross margin affected by the devaluation of the American dollar and the minor prices in spite of the major production (+14.8%).
  - Brazil rises to EUR 88 million (+282.6%) due to the company reorganization commented.
  - Rest of the world contributes EUR 127 million (+108.2%) due to the major production for the progressive entry in operation of Wikinger during the first quarter, being already commissioned at June 30, 2018 (350 MW).

- The contribution of other business is placed at EUR 41 million decreasing in EUR 33 million compared to the same period of 2017.

### 1.2.2. Gross Operating profit – EBITDA

EBITDA for the first half of 2018 rises in EUR 649 million (17.1%) reaching EUR 4,436 million (EUR 3,787 million in the same period of 2017). The negative impact of exchange rate is EUR 259 million. Disregarding the impact of exchange rates, EBITDA variation would increase in EUR 908 million (24%).

The contribution by business is as follows:

Millions of euros	30.06.2018	30.06.2017	% Change
Spain	894	772	15.8
United Kingdom	455	451	0.9
United States	584	629	(7.2)
Brazil	455	126	261.1
<b>Network Business</b>	<b>2,388</b>	<b>1,978</b>	<b>20.7</b>
Spain and Portugal	397	548	(27.6)
United Kingdom	189	47	302.1
Mexico	247	268	(7.8)
Brazil	45	-	-
<b>Liberalised Business</b>	<b>878</b>	<b>863</b>	<b>1.7</b>
Spain	491	372	32.0
United Kingdom	233	188	23.9
United States	276	294	(6.1)
Mexico	17	25	(32.0)
Brazil	61	17	258.8
Rest of the world	106	47	125.5
<b>Renewable Business</b>	<b>1,184</b>	<b>943</b>	<b>25.6</b>
<b>Other businesses</b>	<b>20</b>	<b>42</b>	<b>(52.4)</b>
<b>Corporation and adjustments</b>	<b>(34)</b>	<b>(39)</b>	<b>12.8</b>
<b>Total</b>	<b>4,436</b>	<b>3,787</b>	<b>17.1</b>

To the aforementioned Gross margin evolution already explained, Net operating expenses amounting to EUR 2,111 million must be added, compared to the EUR 1,889 thousand in the same period of 2017 (increase of 11.1%). Without considering the effects of the exchange rate, EUR 98 million, and the incorporation of Neoenergia, EUR 311 million, the increase in Net operating expenses would be only EUR 9 million (+0.5%).

“Taxes” item decreased EUR 36 million (-3.1%), to 1,121 million euros compared to EUR 1,157 million in the same period of 2017, due to the exchange rate (EUR 45 million) and lower taxes in Networks in the United States (10 million euros) that compensate the increase in generation taxes in Spain derived from higher production.

### 1.2.3. Net Operating profit – EBIT

Net operating profit - EBIT is EUR 2,527 million, rising 17.4% compared to the first half of 2017 (EUR 2,153).

“Valuation adjustment of trade and other receivables” item increases EUR 30 million and the “Amortisation, depreciation and provisions” item increases EUR 244 million to reach EUR 1,782 million ( EUR 1,538 million in the same period of 2017):

- The Amortisation and depreciation item recorded an increase of EUR 228 million to reach 1,757 million euros (1,529 million euros in 2017).
- The Provisions item reaches EUR 25 million, increasing EUR 16 million respect to those recorded in the same period of 2017 (EUR 9 million) derived from the integration of Neoenergia.

#### 1.2.4. Financial result

The Net finance income is negative in EUR 563 million, increasing EUR 156 million compared to the same period in the prior year, due to the following reasons:

- The gross interest expense increased EUR 118 million due to the higher average balance of the debt as well as the increase in the financial cost, both effects greatly influenced by the integration of Neoenergia, which represents approximately EUR 115 million of this increase. The net effect derived from the costs of formalization and valuation differences as well as the income from loans increase the negative financial result by another EUR 11 million.
- The contribution of other financial results, which have been positive in both periods, decreased by EUR 27 million with respect to the previous period.

Millions of euros	30.06.2018	30.06.2017	Change
Financial result associated with the debt	(593)	(464)	(129)
Other	30	57	(27)
<b>Financial result</b>	<b>(563)</b>	<b>(407)</b>	<b>(156)</b>

#### 1.2.5. Profit of companies accounted for using the equity method

Profit of companies accounted for using the equity method reaches EUR 25 million (EUR 46 million in the same period in 2017).

#### 1.2.6. Profit/(loss) from non-current asset

Results from the sale of non-current assets are positive, amounting to EUR 22 million compared to EUR 241 million in the same period last year.

In the first half of 2017, the transaction of Gamesa is worthy of mention, since it contributed gains of EUR 255 million, whereas the sale of Amara contributed losses of EUR 15 million.

#### 1.2.7. Profit before tax

Profit before tax reaches EUR 2,011 million, compared to EUR 2,033 million in the first half of 2017, thus decreasing in EUR 22 million.



### 1.2.8. Income tax

Company tax expense drops by EUR 13 million.

Effective tax rate of the six-month period ended on 30 June 2018 rises to 23.74% (27.29% in the six-month period ended on 30 June 2017), mainly due to the reductions in the nominal rates in the United States and companies under *Vizcaya Foral* tax regulations in Spain and the highest contribution of results in the United Kingdom, which having a nominal rate lower than the average, reduces the effective average rate of the Group.

### 1.2.9. Net profit

Lastly, Net profit from continuing activities comes to EUR 1,598 million, decreasing 0.6% compared to that obtained in the first half of 2017 (EUR 1,608 million).

## 1.3. Main figures of the consolidated statement of financial position

The statement of financial position of IBERDROLA Group at 30 June 2018 presents total assets of EUR 112,649 million, highlighting the ongoing strength of the Group's balance sheet.

### - Investments in Property, Plant and Equipment

Total net investments in Property, plant and equipment in the period from January to June 2018 amounted to EUR 1,949 million. The breakdown is as follows:

30.06.2018	Millions of euros	% Total invested
<b>Liberalised Business</b>	<b>433</b>	<b>22.2</b>
Spain and Portugal	65	
United Kingdom	54	
United States	306	
Brazil	8	
<b>Renewable Business</b>	<b>840</b>	<b>43.1</b>
Spain	115	
United Kingdom	336	
United States	141	
Mexico	98	
Brazil	22	
Rest of the world	128	
<b>Network Business</b>	<b>658</b>	<b>33.8</b>
Spain	133	
United Kingdom	197	
United States	328	
Brazil	-	
<b>Other businesses, corporation and adjustments</b>	<b>18</b>	<b>0.9</b>
<b>TOTAL</b>	<b>1,949</b>	<b>100.0</b>

Investments in the period were focused on the Renewables and Networks businesses, which jointly accounted for over 76.9% of the total amount invested in the period.

In reference to Renewable activities, the investments of the period reach a total of EUR 840 million, which suppose 43.1% of the total of the investments, emphasizing EUR 336 million invested in the United Kingdom principally in East Anglia's One wind offshore project.

By geographical areas, the investment of the period is distributed according to the following detail:

<b>30.06.2018</b>	<b>Millions of euros</b>	<b>% s/Total invested</b>
Spain	324	16.6
United Kingdom	593	30.4
United States	470	24.1
Mexico	404	20.7
Brazil	30	1.6
Rest of the world	128	6.6
<b>TOTAL</b>	<b>1,949</b>	<b>100.0</b>

#### - Capital

Following the free capital increase on 29 January 2018 as a result of the Iberdrola Flexible Dividend scheme, the company's share capital amounted to 6,438,374,000 bearer shares of EUR 0.75 per value each.

In line with the commitment announced on the Outlook 2016-2020 presentation of maintaining a stable number of 6,240 million shares, the General Shareholder's Meeting approved a share capital decrease by writing off 198,374,000 treasury shares representing 3.08% of the company's share capital. The capital decrease was undertaken on 28 June 2018.

As of 30 June 2018 the company's share capital amounts to 6,240,000,000 bearer shares of EUR 0.75 of per value each.

#### - Financial debt

The evolution of financial leverage has been as follows:

<b>Millions of euros</b>	<b>30.06.2018</b>	<b>31.12.2017</b>
<b>Equity (a)</b>	<b>43,786</b>	<b>42,733</b>
<b>Gross debt</b>	<b>38,180</b>	<b>37,115</b>
Cash and cash equivalents	2,984	3,197
Derivative assets and other	1,128	1,034
<b>Net debt (b)</b>	<b>34,068</b>	<b>32,884</b>
<b>Net leverage (b/(a+b))</b>	<b>43.76%</b>	<b>43.49%</b>

As of 30 June 2018, financial debt rises EUR 1,184 million to EUR 34,068 million compared to EUR 32,884 million as of 31 December 2017.

Financial leverage gets worse to 43.76% compared to 43.49% as of 31 December 2017.

In accordance with the policy of minimizing the financial risks of the Group, foreign currency risk has continued to be mitigated through the financing of international businesses in local currencies (Sterling Pound, Brazilian Real, US Dollar, etc.) or in their functional currencies (US dollar, in the case of Mexico).

#### - Liquidity

The liquidity position of the IBERDROLA Group is adequate at the end of the first half of 2018 and reached EUR 12,001 million, of which EUR 1,759 million correspond to NEOENERGIA and EUR 10,242 million to the rest of the IBERDROLA Group.

The IBERDROLA Group has a smooth debt maturity profile with more than six years of average maturity, as a result, among other factors, of the active management of liabilities carried out during the last financial years.

#### - Rating

The rating breakdown is as follows:

Credit rating of IBERDROLA senior debt (*)			
Agency	Qualification	Outlook	Date
Moody's	Baa1	Stable	14 March 2018
Fitch IBCA	BBB+	Stable	8 July 2016
Standard & Poor's	BBB+	Stable	22 April 2016

(\*) The above ratings may be revised, suspended or withdrawn by the rating agency at any time.

## 2. MAIN RISKS AND UNCERTAINTIES OF THE FIRST HALF OF 2018

The activities of the IBERDROLA Group are subject to various (i) market risks such as exposure to price variations and other market variables, such as the exchange rate, interest rate, prices of commodities (electricity, gas, CO<sub>2</sub> emission rights, other fuels, etc.), prices of financial assets and others; (ii) business risks such as the uncertainty regarding the behaviour of the key variables intrinsic to the different activities of the Group, through its businesses, such as the characteristics of demand, meteorological conditions or the strategies of the different agents; (iii) regulatory risks stemming from regulatory changes established by the different regulators, such as changes in the remuneration of the regulated activities or the required supply conditions, or in the environmental or fiscal regulations.

Both in the case of the Spanish market, where the IBERDROLA Group carries out its main activity, and in the United Kingdom market, the second most important market since the acquisition of SCOTTISH POWER, the current mix of the generation assets provides an important natural hedge between the different production technologies that mitigate the business and market risks associated with the production and purchase-sale of energy.

Regarding the regulatory risk for those regulatory aspects that are known to date and that, because they are not completely closed or developed, can introduce an element of uncertainty, no risks are identified that could have a significant impact.

As stated in Note 3 to the Consolidated financial statements, the Group's activities do not show a significant degree of seasonality on a semi-annual basis and the main sources of uncertainty are described in Note 4.b.

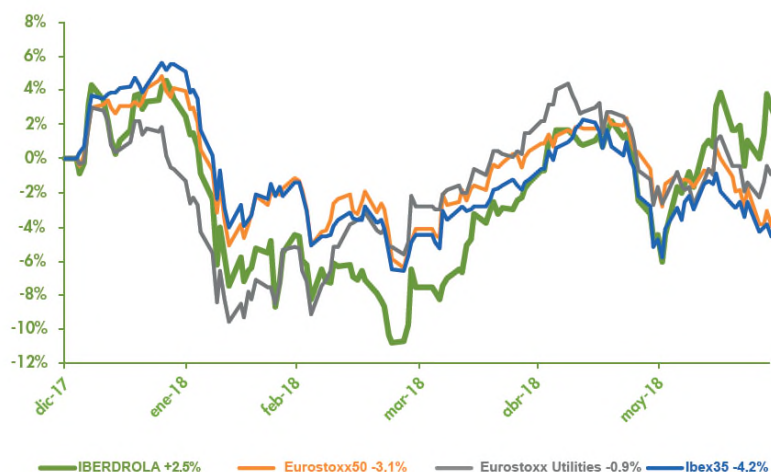
### 3. STOCK MARKET DATA. THE IBERDROLA SHARE

#### - Stock market data

			30.06.2018
Market Capitalisation	Millions of euros		41,333,760
Basic earnings per share	Euros		0.231
P.E.R. (Listing end/earning per share last four quarters)	Number of times		15.57
Price / Book value (Capitalisation / Equity of the parent company)	Number of times		1.13

#### - The IBERDROLA share:

Stock market performance of IBERDROLA compared to the indexes:



			30.06.2018
Number of shares outstanding	No.		6,240,000,000
Share price at close of period	Euros		6.624
Dividends paid in the last twelve months:	Euros		0.322
Gross complementary dividend (21/07/2017) <sup>(1)</sup>	Euros		0.177
Gross interim dividend 29/01/2018 <sup>(1)</sup>	Euros		0.140
Attendance premium	Euros		0.005
Dividend yield <sup>(2)</sup>			4.86%

(1) Dividend in cash or purchase price of rights guaranteed by IBERDROLA.

(2) Dividends paid in the last 12 months and attendance premium / listing end period.

#### 4. ALTERNATIVE PERFORMANCE MEASURES

To complement the Consolidated financial statements prepared in accordance with International Financial Reporting Standards adopted by the European Union (IFRS-EU), the IBERDROLA Group presents Alternative Performance Measures (APM). These measures, as well as the financial measures, are used in accordance with IFRS-EU to set budgets and goals and to manage businesses, assess operating and financial performance thereof and compare such performance with previous periods and the performance of competitors. The presentation of such measures are considered to be useful for analysing and comparing the profitability of companies and sectors, since it eliminates the impact of the financial structure and accounting effects other than cash flows.

Moreover, non-financial measures and other similar measures which are generally used by investors, securities analysts and other agents as additional measures to performance are also presented.

The Consolidated financial statements of the IBERDROLA Group includes lines and subtotals relevant for the purposes of reporting its position and performance and includes subtotals such as "Gross margin", "Net operating expenses", "Gross operating profit /EBITDA", "Operating profit/EBIT", "Profit" and "Non-current asset profit/(loss)".

In general, these APM are the ones used in the Management Report, so the traceability is direct to the Consolidated income statement and does not require reconciliation.

The detail of the definitions and calculations of the APM can be found on the corporate website ([www.iberdrola.com](http://www.iberdrola.com)) in the "Shareholders and Investors" section.

## STATEMENT OF RESPONSIBILITY



**FINANCIAL REPORT FOR THE FIRST HALF OF 2018  
STATEMENT OF RESPONSIBILITY**

The members of the Board of Directors of IBERDROLA, S.A. state that, to the best of their knowledge, the interim condensed separate financial statements of IBERDROLA, S.A., as well as the interim condensed consolidated financial statements of IBERDROLA, S.A. and its subsidiaries for the first half of fiscal year 2018, issued by the Board of Directors at its meeting of July 24, 2018, 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.

Madrid, July 24, 2018

---

Mr. José Ignacio Sánchez Galán  
*Chairman & Chief Executive Officer*

---

Ms. Inés Macho Stadler  
*Vice Chair*

---

Mr. Íñigo Víctor de Oriol Ibarra  
*Director*

---

Ms. Samantha Barber  
*Director*

---

Ms. María Helena Antolín Raybaud  
*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*

---

Mr. Juan Manuel González Serna  
*Director*

---

Mr. Francisco Martínez Córcoles  
*Business CEO*

---

Mr. Anthony Luzzato Gardner  
*Director*