

Annual financial report

Iberdrola, S.A., and subsidiary
companies

Year 2019



AUDITOR'S REPORT



KPMG Auditores, S.L.
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Independent Auditor's Report on the Consolidated Annual Accounts

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

To the Shareholders of *Iberdrola, S.A.*

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

We have audited the consolidated annual accounts of Iberdrola, S.A. (the "Parent") and subsidiaries (together the "Group"), which comprise the consolidated statement of financial position at 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

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

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

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

Key Audit Matters

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

Recoverability of non-current assets

See note 13 to the consolidated annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>The principal activities of the different businesses included in the consolidated annual accounts of the Group are related to the generation, transmission, distribution and supply of electricity, and therefore the balances recognised under other intangible assets and property, plant and equipment are highly significant.</p> <p>Furthermore, as a result of the acquisitions made in recent years, the consolidated annual accounts include goodwill for an amount of Euros 8,153 million.</p> <p>IFRS-EU determine the need to carry out an analysis of the recoverable amounts of assets in those cases in which indications of impairment were identified. Goodwill, intangible assets with indefinite useful lives and in-process intangible assets are not amortised, but are instead tested for impairment at least on an annual basis.</p> <p>The calculation of the recoverable amount of non-current assets indicated in the preceding paragraphs is determined through the use of methodologies based on discounted cash flows, the estimation of which requires the use of a high degree of judgement.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▪ Assessing the design and implementation of the key controls related to the process of determining recoverable amount. ▪ Assessing the reasonableness of the methodology used to calculate value in use and the main assumptions considered, with the involvement of our specialists. ▪ Analysing the consistency of the estimated growth in future cash flows with the business plans approved by the governing bodies. We also contrasted the cash flow forecasts estimated in prior years with the actual cash flows obtained. ▪ Assessing the sensitivity of the recoverable amount to changes in certain assumptions that are considered reasonable. ▪ Assessing whether the disclosures in the consolidated annual accounts comply with the requirements of the applicable financial reporting framework.

Pension commitments
See note 25 to the consolidated annual accounts

<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>The Group has important commitments with personnel in relation to retirement and other long-term liabilities. These commitments are mainly in Spain, the United States, the United Kingdom and Brazil.</p> <p>The present value of commitments undertaken is Euros 11,198 million, while the fair value of the different plan assets amounts to Euros 8,750 million, of which Euros 1,844 million is classified as level 3 in the fair value hierarchy.</p> <p>Non-material variations in the main assumptions that determine the valuation of the commitments undertaken or the fair value of the associated assets could have a significant impact on the amounts recognised in the consolidated annual accounts.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▪ Assessing the design and implementation of controls related to the valuation process. ▪ Reading and understanding of collective agreements and other commitments assumed with personnel. ▪ Evaluation of the integrity and accuracy of the databases used for the beneficiaries of the different commitments. ▪ Analysis of the reasonableness of the main actuarial assumptions and calculation methods applied by the Group in the different jurisdictions in which it operates through the involvement of our specialists. ▪ Performance of substantive procedures on a sample of the assets subject to the different plans in order to verify the reasonableness of their valuation. Our procedures included obtaining external confirmations. ▪ Analysis of compliance with the disclosure requirements established in IFRS-EU.

Provisions for litigation and claims See note 26 to the consolidated annual accounts	
<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>As a result of the operations carried out by the entities that comprise the Group, the consolidated statement of financial position includes provisions for litigation procedures underway amounting to Euros 1,196 million that are shown in the "provisions for litigation, indemnities and other items" and "other provisions" columns of note 26 to the consolidated annual accounts. Current tax liabilities under non-current liabilities amount to Euros 261 million.</p> <p>The calculation of amounts to be provided for is subject to significant uncertainties that affect both the determination of the probability of an outflow of resources and the quantification thereof..</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▪ Assessing the design and implementation of the controls related to the process of recognising and evaluating litigations and claims. ▪ Obtaining details of litigation prepared by the Group's legal services department and analysing the reasonableness of the amounts recognised in the consolidated annual accounts. ▪ Sending confirmations to the lawyers with whom the Group operates. ▪ Reading of the minutes of board of directors' meetings. ▪ Selection of a sample of the main litigation procedures and analysis of the reasonableness of provisions, if any, with the involvement of our specialists. ▪ Analysis of compliance with the disclosure requirements established in IFRS-EU.

Revenue recognition See note 5 to the consolidated annual accounts	
<i>Key Audit Matter</i>	<i>How the Matter was Addressed in Our Audit</i>
<p>The Group's businesses that carry out electricity supply activities must make estimates of unbilled supplies to end customers in the period between the last meter reading and the end of the fiscal year.</p> <p>Unbilled electricity supplied is estimated based on internal and external information that is compared with the measurements contained in the management systems used by the businesses. Revenue is calculated by multiplying the volume of estimated unbilled use by the tariff agreed for each customer, a process that is subject to a high degree of uncertainty.</p> <p>Estimated electricity supplied and not invoiced amounts to Euros 2,137 million.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▪ Analysis of the design, implementation and operating effectiveness of the key controls related to the estimation of unbilled revenue. ▪ Evaluation of the reasonableness of the calculation model used by comparing the estimates made at the close of the previous period and actual invoicing data (retrospective analysis). ▪ Verification of the reasonableness of the volume of unbilled electricity through an analysis of historical information and other available internal and external data. ▪ Verification, for a sample selected, of the tariffs applied by comparing them with the data contained in the customer contract databases.

Other information: Consolidated Directors' Report

Other information solely comprises the 2019 consolidated directors' report, the preparation of which is the responsibility of the Parent's Directors and which does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility regarding the content of the consolidated directors' report is defined in the legislation regulating the audit of accounts, which establishes two different levels:

- a) A specific level applicable to the consolidated non-financial information statement and to certain information included in the Annual Corporate Governance Report (ACGR), as defined in article 35.2. b) of Audit Law 22/2015, which consists solely of verifying that this information has been provided in the directors' report, or where applicable, that the consolidated directors' report makes reference to the separate report on non-financial information, as provided for in legislation, and if not, to report on this matter.
- b) A general level applicable to the rest of the information included in the consolidated directors' report, which consists of assessing and reporting on the consistency of this information with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned accounts and without including any information other than that obtained as evidence during the audit. Also, assessing and reporting on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have verified that the non-financial information mentioned in section a) above is presented in the separate report, "Non-financial information statement – Consolidated sustainability report of Iberdrola, S.A. and its subsidiaries", to which reference is made in the consolidated directors' report, that the information contained in the ACGR, mentioned in said section, is included in the consolidated directors' report, and that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2019 and the content and presentation of the report are in accordance with applicable legislation.

Directors' and Audit Committee's Responsibility for the Consolidated Annual Accounts

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

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

The Parent's Audit and Risk Supervision Committee is responsible for overseeing the preparation and presentation of the consolidated annual accounts.

Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts

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

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

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

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent's Directors.

- Conclude on the appropriateness of the Parent's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide the Parent's Audit and Risk Supervision Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated to the Audit and Risk Supervision Committee of the Parent, we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the key audit matters.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Report to the Audit Committee of the Parent

The opinion expressed in this report is consistent with our additional report to the Parent's Audit and Risk Supervision Committee dated 28 February 2020.



Contract Period

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 31 March 2017 for a period of three years, from the year ended 31 December 2017.

KPMG Auditores, S.L.

On the Spanish Official Register of Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Enrique Asla García

On the Spanish Official Register of Auditors ("ROAC") with No. 1,797

28 February 2020

**CONSOLIDATED ANNUAL ACCOUNTS AND CONSOLIDATED DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019**

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Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

Thousands of Euros			
ASSETS	Note	31.12.2019	31.12.2018 (*)
Intangible assets	8	20,367,861	21,000,248
Goodwill		8,152,918	7,837,843
Other intangible assets		12,214,943	13,162,405
Investment property	9	342,286	428,592
Property, plant and equipment	10	71,289,209	66,109,320
Property, plant and equipment in use		63,448,544	58,517,671
Property, plant and equipment under construction		7,840,665	7,591,649
Right-of-use asset	2.a, 11	1,782,247	-
Non-current investments		5,818,537	5,191,132
Equity-accounted investees	14.a	1,956,827	1,709,518
Non-current securities portfolio		86,058	68,831
Other non-current investments	14.b	3,019,222	2,685,387
Derivative financial instruments	28	756,430	727,396
Trade and other non-current assets	15	2,850,970	814,577
Current tax assets	2.d, 33	665,675	665,675
Deferred tax assets	33	5,694,528	5,485,999
NON-CURRENT ASSETS		108,811,313	99,695,543
Assets held for sale		-	62,164
Nuclear fuel	17	305,501	272,674
Inventories	18	2,541,593	2,173,831
Trade and other receivables current		7,499,400	6,854,733
Current tax assets	34	318,082	252,907
Public entities, other	34	507,031	503,444
Trade and other receivables current	15	6,674,287	6,098,382
Current investments		1,097,920	1,177,821
Other current financial investments	14.b	692,561	571,568
Derivative financial instruments	28	405,359	606,253
Cash and cash equivalents	19	2,113,279	2,801,157
CURRENT ASSETS		13,557,693	13,342,380
TOTAL ASSETS		122,369,006	113,037,923

(*) The Consolidated statement of financial position at 31 December 2018 is presented for comparative purposes only.

The accompanying Notes 1 to 55 and the Appendix are an integral part of the Consolidated statement of financial position at 31 December 2019.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

Thousands of Euros			
EQUITY AND LIABILITIES	Note	31.12.2019	31.12.2018 (*)
Of the parent company	20	37,678,307	36,582,199
Subscribed capital		4,771,554	4,798,222
Valuation adjustments		(544,109)	(32,196)
Other reserves		33,581,946	32,731,625
Treasury shares		(1,436,205)	(1,010,348)
Translation differences		(2,101,190)	(2,919,156)
Net profit for the year		3,406,311	3,014,052
Non-controlling interests		9,516,358	7,394,355
EQUITY		47,194,665	43,976,554
Capital grants	23	1,398,523	1,477,928
Facilities assigned and financed by third parties	24	4,987,463	4,823,396
Non-current Provisions		5,990,106	5,267,918
Provision for pensions and similar obligations	25	2,661,283	2,420,032
Other provisions	26, 2.d	3,328,823	2,847,886
Non-Current financial liabilities		33,639,307	31,778,763
Loans and borrowings and obligations or other securities	27	30,125,903	30,751,710
Equity instruments having the substance of a financial liability	22	193,384	140,582
Derivative financial instruments	28	471,221	387,153
Leases	2.a, 30	1,613,880	–
Other non-current financial liabilities	31	1,234,919	499,318
Other non-current liabilities	32	407,347	374,688
Current tax liabilities	2.d	261,467	179,669
Deferred tax liabilities	33	9,358,886	9,042,567
TOTAL NON-CURRENT LIABILITIES		56,043,099	52,944,929
Liabilities linked to assets held for sale		–	561
Current Provisions		660,056	579,984
Provision for pensions and similar obligations	25	24,669	22,874
Other provisions	26	635,387	557,110
Current financial liabilities		16,534,288	13,639,597
Loans and borrowings and obligations or other securities	27	8,800,387	6,574,762
Equity instruments having the substance of a financial liability	22	22,149	36,647
Derivative financial instruments	28	477,545	448,381
Leases	2.a, 30	153,237	–
Trade payables		5,097,884	5,259,414
Other non-current financial liabilities	31	1,983,086	1,320,393
Other current liabilities		1,936,898	1,896,298
Current tax liabilities	34	242,626	349,314
Public entities, other	34	1,020,645	1,039,449
Other current liabilities	32	673,627	507,535
TOTAL CURRENT LIABILITIES		19,131,242	16,116,440
TOTAL EQUITY AND LIABILITIES		122,369,006	113,037,923

(*) The Consolidated statement of financial position at 31 December 2018 is presented for comparative purposes only.

The accompanying Notes 1 to 55 and the Appendices are an integral part of the Consolidated statement of financial position at 31 December 2019.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED AT 31 DECEMBER 2019

Thousands of Euros	Note	31.12.2019	31.12.2018 (*)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS			
Revenue	36	36,437,908	35,075,873
Supplies	37	(20,174,529)	(19,640,736)
GROSS MARGIN		16,263,379	15,435,137
Personnel expenses	38	(2,841,171)	(2,678,725)
Capitalised personnel expenses	38	695,114	658,719
Net personnel expenses		(2,146,057)	(2,020,006)
External services		(2,842,958)	(2,797,175)
Other operating income		658,578	661,950
Net external services		(2,184,380)	(2,135,225)
Net operating expenses		(4,330,437)	(4,155,231)
Taxes	39	(1,828,973)	(1,931,003)
GROSS OPERATING PROFIT (EBITDA)		10,103,969	9,348,903
Valuation adjustments, trade and contract assets	15	(297,315)	(253,656)
Amortisation, depreciation and provisions	40	(3,929,433)	(3,655,874)
OPERATING PROFIT (EBITDA)		5,877,221	5,439,373
Result of equity-accounted investees - net of taxes	14.a	13,998	55,904
Finance income	42	863,610	839,911
Financial costs	43	(2,163,701)	(1,996,005)
Financial result		(1,300,091)	(1,156,094)
Gains on disposal of non-current assets	41	206,215	48,468
Losses on disposal of non-current assets	41	(3,416)	(39,617)
Gains /(losses) from non-current assets		202,799	8,851
PROFIT BEFORE TAX		4,793,927	4,348,034
Corporate tax	33	(914,016)	(959,499)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		3,879,911	3,388,535
PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS (NET OF TAXES)		(65,354)	(51,167)
Non-controlling interests	20	(408,246)	(323,316)
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE PARENT		3,406,311	3,014,052
BASIC EARNINGS PER SHARE IN EUROS FOR CONTINUING OPERATIONS	53	0.534	0.455
DILUTED EARNINGS PER SHARE IN EUROS FOR CONTINUING OPERATIONS	53	0.533	0.454
BASIC AND DILUTED EARNINGS PER SHARE IN EUROS FOR DISCONTINUED OPERATIONS	53	(0.010)	(0.008)

(*) The Consolidated income statement at 31 December 2018 is presented for comparative purposes only.

The accompanying Notes 1 to 55 are an integral part of the Consolidated income statement for the year ended at 31 December 2019

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED AT 31 DECEMBER 2019

Thousands of Euros	Note	31.12.2019			31.12.2018 (*)		
		Parent company	Non-controlling interests	Total	Parent company	Non-controlling interests	Total
NET PROFIT FOR THE YEAR		3,406,311	408,246	3,814,557	3,014,052	323,316	3,337,368
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED TO THE INCOME STATEMENT IN SUBSEQUENT PERIODS							
In valuation adjustments		(508,586)	(90)	(508,676)	19,981	(7,298)	12,683
Change in value of cash flow hedges	20	(643,408)	1,438	(641,970)	32,787	(9,884)	22,903
Changes in hedging costs		(5,291)	–	(5,291)	1,041	–	1,041
Tax effect	33	140,113	(1,528)	138,585	(13,847)	2,586	(11,261)
In translation differences		817,966	89,146	907,112	(90,686)	(193,420)	(284,106)
TOTAL		309,380	89,056	398,436	(70,705)	(200,718)	(271,423)
OTHER COMPREHENSIVE INCOME NOT TO BE RECLASSIFIED TO THE INCOME STATEMENT IN SUBSEQUENT PERIODS							
In other reserves		(285,649)	5,616	(280,033)	(39,595)	(634)	(40,229)
Actuarial gains and losses on pension schemes	25	(340,118)	8,534	(331,584)	(48,501)	(333)	(48,834)
Tax effect	33	54,469	(2,918)	51,551	8,906	(301)	8,605
TOTAL		(285,649)	5,616	(280,033)	(39,595)	(634)	(40,229)
OTHER COMPREHENSIVE INCOME OF EQUITY-ACCOUNTED INVESTEEES (NET OF TAXES)							
In other reserves		–	–	–	(862)	–	(862)
In valuation adjustments		(3,327)	–	(3,327)	(11,031)	–	(11,031)
TOTAL	14.a	(3,327)	–	(3,327)	(11,893)	–	(11,893)
TOTAL NET PROFIT RECOGNISED DIRECTLY IN EQUITY		20,404	94,672	115,076	(122,193)	(201,352)	(323,545)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		3,426,715	502,918	3,929,633	2,891,859	121,964	3,013,823

(*) The Consolidated statement of comprehensive income at 31 December 2018 is presented for comparison purposes only. The accompanying Notes 1 to 55 and the Appendix are an integral part of the Consolidated statement of comprehensive income for the year ended at 31 December 2019.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED AT 31 DECEMBER 2019

Thousands of Euros	Subscribed capital	Treasury shares	Other reserves				Retained earnings	Valuation adjustments	Translation differences	Net profit for the year	Non-controlling interests	Total
			Legal reserve	Revaluation reserves	Share premium	Other restricted reserves						
Balance at 01.01.2019	4,798,222	(1,010,348)	968,998	28,000	14,667,676	842,464	16,224,487	(32,196)	(2,919,156)	3,014,052	7,394,355	43,976,554
Comprehensive income for the period	–	–	–	–	–	–	(285,649)	(495,545)	779,419	3,406,311	502,918	3,907,454
Transactions with shareholders or owners												
Share capital increase (Note 20)	183,675	–	–	(28,000)	(155,673)	–	(820)	–	–	–	–	(818)
Share capital reduction (Note 20)	(210,343)	2,015,182	–	–	–	210,343	(2,015,233)	–	–	–	–	(51)
Distribution of 2018 profit	–	–	–	–	–	–	2,684,445	–	–	(3,014,052)	(178,778)	(508,385)
Transactions with non-controlling interests (Notes 6 and 20)	–	–	–	–	–	–	445,220	(16,368)	38,547	–	1,033,997	1,501,396
Transactions with treasury shares (Note 20)	–	(2,441,039)	–	–	–	–	5,252	–	–	–	–	(2,435,787)
Other movements in equity												
Share based payments (Note 21)	–	–	–	–	–	–	4,585	–	–	–	542	5,127
Issuance of perpetual subordinated bonds (Note 20)	–	–	–	–	–	–	(4,120)	–	–	–	800,000	795,880
Other movements	–	–	–	–	–	–	(10,029)	–	–	–	(36,676)	(46,705)
Balance at 31.12.2019	4,771,554	(1,436,205)	968,998	–	14,512,003	1,052,807	17,048,138	(544,109)	(2,101,190)	3,406,311	9,516,358	47,194,665

Thousands of Euros	Other reserves						Retained earnings	Valuation adjustments	Translation differences	Net profit for the year	Non-controlling interests	Total
	Subscribed capital	Treasury shares	Legal reserve	Revaluation reserves	Share premium	Other restricted reserves						
Balance at 01.01.2018 (*)	4,738,136	(597,797)	968,998	236,866	14,667,676	693,684	14,868,427	(42,254)	(2,828,470)	2,803,994	7,223,926	42,733,186
Adjustments due to IFRS 9 (Note 2.a)	-	-	-	-	-	-	100,731	1,108	-	-	(8,017)	93,822
Adjustments due to IFRS 15 (Note 2.a)	-	-	-	-	-	-	(40,325)	-	-	-	-	(40,325)
Adjusted balance at 01.01.2018(*)	4,738,136	(597,797)	968,998	236,866	14,667,676	693,684	14,928,833	(41,146)	(2,828,470)	2,803,994	7,215,909	42,786,683
Comprehensive income for the period	-	-	-	-	-	-	(40,457)	8,950	(90,686)	3,014,052	121,964	3,013,823
Transactions with shareholders or owners												
Share capital increase (Note 20)	208,866	-	-	(208,866)	-	-	(859)	-	-	-	-	(859)
Share capital reduction (Note 20)	(148,780)	1,245,420	-	-	-	148,780	(1,245,469)	-	-	-	-	(49)
Distribution of 2017 profit	-	-	-	-	-	-	2,661,298	-	-	(2,803,994)	(197,955)	(340,651)
Acquisition of free-of-charge allocation rights (Note 20)	-	-	-	-	-	-	(97,899)	-	-	-	-	(97,899)
Transactions with treasury shares (Note 20)	-	(1,657,971)	-	-	-	-	(225)	-	-	-	-	(1,658,196)
Other movements in equity												
Share based payments (Note 21)	-	-	-	-	-	-	2,671	-	-	-	(448)	2,223
Issuance of perpetual subordinated bonds (Note 20)	-	-	-	-	-	-	(2,538)	-	-	-	700,000	697,462
Write-off of subordinated perpetual obligations (Note 20)	-	-	-	-	-	-	-	-	-	-	(525,000)	(525,000)
Other movements	-	-	-	-	-	-	19,132	-	-	-	79,885	99,017
Balance at 31.12.2018 (*)	4,798,222	(1,010,348)	968,998	28,000	14,667,676	842,464	16,224,487	(32,196)	(2,919,156)	3,014,052	7,394,355	43,976,554

(*) The Consolidated statement of changes in equity at 31 December 2018 is presented for comparison purposes only.

The accompanying Notes 1 to 55 and the Appendix are an integral part of the Consolidated statement of changes in equity for the year ended at 31 December 2019.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 55). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED AT 31 DECEMBER 2018

Thousands of Euros	Note	31.12.2019	31.12.2018 (*)
Profit for the year from continuing activities before tax		4,793,927	4,348,034
Profit before tax from discontinued operations		(56,428)	(64,660)
Adjustments for			
Amortisation, provisions, valuation adjustments of financial assets and personnel expenses for pensions	38, 40	4,527,296	4,080,238
Net profit/loss from investments in associates and joint ventures	14	(7,345)	(55,904)
Capital grants and other deferred income	23	(273,805)	(282,898)
Finance income and finance costs	42, 43	1,304,337	1,156,094
Gains on disposal of non-current assets	41	(202,681)	(8,851)
Movement in working capital			
Change in trade receivables and other		(963,085)	(434,905)
Change in inventories		(344,626)	(313,389)
Change in trade payables and other liabilities		(500,482)	(24,057)
Change in receivables and other non-current payables		-	(24,520)
Provisions paid		(625,612)	(511,382)
Income taxes paid		(796,512)	(332,891)
Dividends received		60,133	55,339
Net cash flows from operating activities		6,915,117	7,586,248
Acquisition of intangible assets	8	(410,971)	(1,040,078)
Acquisition of associates	14.a	(204,823)	(91,305)
Acquisition of investment property	9	(2,673)	(11,878)
Acquisition of property, plant and equipment	10	(5,169,315)	(4,655,478)
Interest paid excluded capitalised interest	42	(222,990)	(193,424)
Capitalised personnel expenses paid		(695,114)	(658,719)
Capital grants and other deferred income	23	12,404	14,040
Collection/(payments) for securities portfolio		(17,227)	(1,746)
Collection/(payments) for other investments		(925,298)	(675,737)
Collection/(payments) for current financial assets		(135,209)	(63,360)
Interest collected		49,172	192,291
Income tax		-	22,076
Proceeds from disposal of non-financial assets		340,011	6,604
Proceeds from disposal of financial assets		-	47,152
Disposal of subsidiaries		-	1,059,150
Net cash flows used in investing activities		(7,382,033)	(6,050,412)
Acquisition of free allocation rights	20	-	(97,899)
Dividends paid		(329,607)	(142,696)
Dividends paid to non-controlling interests		(178,778)	(161,241)
Perpetual subordinated bonds	20		
Issue		795,880	697,462
Reimbursement		-	(525,000)
Interest paid		(37,125)	(39,563)
Loans and borrowings, obligations or other securities	29		
Issues and disposals		15,301,504	13,148,399
Reimbursement		(14,953,110)	(12,422,739)
Interest paid excluding capitalised interest		(818,659)	(873,853)
Financial liabilities from leases	30		
Payment of principal		(155,890)	(4,924)
Interest paid excluding capitalised interest		(33,101)	(5,536)
Equity instruments having the substance of a financial liability	22		
Issue		114,384	176,704
Payments		(99,786)	(65,658)
Cash outflows due to capital decrease	20	(51)	(49)
Cash outflows due to capital increase	20	(818)	(859)
Acquisition of treasury shares	20	(1,404,316)	(1,674,480)
Proceeds from disposal of treasury shares	20	49,723	63,286
Transactions with non-controlling interests	6	1,472,820	132,483
Net cash flows from/(used in) financing activities		(276,930)	(1,796,163)
Effect of exchange rate fluctuations on cash and cash equivalents		55,968	(135,856)
Net increase/(decrease) in cash and cash equivalents		(687,878)	(396,183)
Cash and cash equivalents at the beginning of period		2,801,157	3,197,340
Cash and cash equivalents at the end of period		2,113,279	2,801,157

(*) The Consolidated statement of cash flows for 2018 is presented for comparison purposes only. The accompanying Notes 1 to 55 and the Appendix are an integral part of the Consolidated statement of cash flows at 31 December 2019.

IBERDROLA, S.A. AND SUBSIDIARIES

Consolidated financial statement for the year ended at 31 December 2019

1. GROUP ACTIVITIES

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

- 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 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 in the Atlantic region: Spain, the United Kingdom (UK), the United States of America (USA), Mexico and Brazil.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

2.a) Applicable accounting legislation

The IBERDROLA Group's 2019 Consolidated annual accounts were prepared by the directors on 24 February 2020, in accordance with International financial reporting standards (hereinafter, IFRS), as adopted by the European Union, in conformity with Regulation (EC) number 1606/2002 of the European Parliament and of the European Council. The directors of IBERDROLA expect these Consolidated annual accounts to be approved at the General Shareholders' Meeting without modification.

The IBERDROLA Group's 2018 Consolidated annual accounts were approved at the General Shareholders' Meeting on 29 March 2019.

At 31 December 2019, the annual accounts present a negative working capital of Euros 5,574 million. The directors declare the deficit will be offset by the generation of funds from the IBERDROLA Group's businesses. Moreover, as detailed in Note 4, the IBERDROLA Group has undrawn granted borrowings amounting to Euros 12,187 million.

These Consolidated annual accounts have been prepared on the basis of a historical cost, except for available-for-sale financial assets and derivatives, which have been measured at fair value. The carrying amounts of assets and liabilities that are hedged at fair value are adjusted to reflect variations in their fair value arising from the hedged risk.

On 1 January 2018, IFRS 9 “Financial instruments” and IFRS 15 “Revenues from contracts with customers” published by the International Accounting Standards Board (IASB), adopted by the European Union for its use in Europe, were applied for the first time.

The accounting policies used in the preparation of these Consolidated annual accounts correspond with those used for the year ended on 31 December 2018, except for the application on 1 January 2019, of the IFRS 16 “Leases” adopted by the European Union to be used in Europe.

Application of IFRS 16 Leases

Transition

From the perspective of the lessee, IFRS 16 eliminates the previous classification between operating and financial leases based on the transfer of risks and benefits and sets, in relation to lease contracts, that the lessee should recognise a right-of-use asset (Note 11) and a liability for the present value of the lease during said period (Note 30) in the statement of financial position. From the perspective of the lessor, IFRS 16 does not introduce relevant changes.

The IBERDROLA Group made the transition to IFRS 16 through the modified retroactive alternative, which involves not restating the comparative period and applying IFRS 16 for the first time on 1 January 2019 (the date it was first applied). Therefore, in leases previously classified as operational in accordance with IAS 17 where the IBERDROLA Group is lessee, lease liabilities are measured at the present value of the remaining lease payments, discounted using the discount rate at the time of the first application will be applied.

In accordance with the transition options of the regulation, the IBERDROLA Group has opted for:

- Not recognising the right of use and lease liabilities related to contracts for which the termination date came up twelve months before the transition date, recognising them as current leases;
- Excluding initial direct costs related to contracts from right-of-use assets; and
- Calculating lease terms from information available at the time of the transition.

Lease contracts previously recognised as financial leases in accordance with IAS 17 where the IBERDROLA Group acted as lessee maintains lease assets and liabilities before the first application date. From said date, these agreements will be registered applying the IFRS 16.

Presentation of financial statements

In the Consolidated financial statements for 2019, the IBERDROLA Group has classified the right-of-use asset and the lease liabilities under the new headings "Right-of-use assets", "Non-current financial liabilities - Leases", and "Current financial liabilities - Leases" respectively, in the Consolidated statement of financial position.

At 31 December 2018, the IBERDROLA Group classified assets and liabilities from financial leases in which it acted as lessee in “Property, plant and equipment”, “Non-current financial liabilities-Loans and other financial liabilities” and “Current financial liabilities-Loans and other financial liabilities”, respectively. On 1 January 2019, Euros 215,465, 114,767 and 27,541 thousand have been respectively reclassified, moving to the new headings "Right-of-use asset", "Non-current financial liabilities - Leases" and "Current financial liabilities - Leases" of the Consolidated statement of financial position.

In addition, in the Consolidated annual accounts for 2019 the lease expense related to lease contracts classified as operating leases under IAS 17 is now recognised under the headings “Amortisation, depreciation and provisions” and “Financial expense” of the Consolidated income statement, whereas in the comparative year it was recognised under the heading “External services” of the Consolidated income statement.

Impact on IBERDROLA Group

The IBERDROLA Group has performed an analysis to assess whether an agreement constitutes or includes a lease on the date of first application, in accordance with the definition and conditions set out in IFRS 16.

The IBERDROLA Group has opted not to apply the exemption when recognising short-term leases (those with lease terms equivalent to or shorter than 12 months).

Contracts may include lease elements as well as non-lease elements. The IBERDROLA Group has opted not to separate such elements for accounting purposes and to recognise them as a single element.

In the Consolidated annual accounts for 2018 it was stated that the IBERDROLA Group considered agreements for the use of land where the wind energy generation facilities are located did not comply with the requirements for being considered leases. This conclusion coincided and coincides with the one applied under the American standards (ASC 842 Leases) whose definition of lease is the same as the one used in international standards. Moreover, condensed consolidated annual accounts for the six-month period ended on 30 June 2019 and the results information for the first and third quarter of 2019 were prepared using this criterion.

Note 2.a of the Consolidated annual accounts for 2018 and Note 6 of the Condensed consolidated accounts for the six-month period ended on 30 June 2019 included a mention regarding the accounting treatment of shared use agreements, i.e. agreements that convey the share use of the underlying assets. The accounting treatment of these agreements was subject to judgement that could change in accordance with future interpretations. Moreover, those notes stated that in case of agreements for the shared use of land for windfarms were considered to meet lease definition in IFRS 16, the maximum increase in lease liabilities for IBERDROLA Group that would have been recognised amounted to Euros 846,374 thousand at 1 January 2019. At 30 June 2019 that amount did not experienced significant changes .

In June 2019, the International Financial Rules Interpretation Committee (IFRIC) issued its conclusion on a query related to the accounting treatment of an agreement executed with a pipeline operator which allowed its installation underground during a specific period of time for a consideration (subsurface rights). Although the query does not specifically approach the problem of land assignment agreements for installing wind farms in which the agreed terms and conditions allow shared use of the land by the owner and the Group, the analysis carried out by the IFRIC and the interpretations of auditing firms from the publication of said query determined the need to restate the accounting treatment initially adopted. In this regard, as a result of the new information available, the Group decided to consider that agreements for the shared use of land where windfarms are located qualify as lease contracts within the scope of IFRS 16 and expanded, as such, the scope of application.

Bearing in mind this, the impact recognised by the IBERDROLA Group in implementing IFRS 16 at 1 January 2019 was as follows:

Thousands of Euros	01.01.2019
Property, plant and equipment	(215,465)
Right-of-use asset	1,419,528
NON-CURRENT ASSETS	1,204,063
TOTAL ASSETS	1,204,063
Provisions	9,243
Non-Current financial liabilities	
Loans and borrowings and obligations or other securities	(114,767)
Leases	1,244,809
Other financial liabilities	(31,021)
NON-CURRENT LIABILITIES	1,108,264
Provisions	843
Current financial liabilities	
Loans and borrowings and obligations or other securities	(27,541)
Leases	143,011
Trade payables	(20,514)
CURRENT LIABILITIES	95,799
TOTAL EQUITY AND LIABILITIES	1,204,063

Net increases in “Loans and borrowings and obligations or other securities” and “Leases” in current and non-current liabilities related to lease contracts correspond to the following type of assets:

Thousands of Euros	01.01.2019
Buildings and real property	231,437
Vehicle fleet	34,543
Fibre optic and other distribution facilities	38,334
Land associated to renewable facilities	892,394
Other	48,804
Total	1,245,512

Details of discount rates (minimum and maximum range) on the date of the first application are as follows:

Currency	Less than 5 years		Between 20-30 years	
	Minimum	Maximum	Minimum	Maximum
Euro	-	2.15	1.87	2.94
Sterling Pounds	1.12	3.21	3.19	4.94
US dollar	2.68	3.30	4.16	4.48
Mexican peso	9.09	9.46	11.36	12.62
Brazilian reals	8.68	11.96	14.55	15.15

Below is a detail of the reconciliation between minimum future payments of non-cancellable operating leases under the scope of IAS 17 at 31 December 2018 and lease liabilities recognised at 1 January 2019 in the transition to IFRS 16:

Thousands of Euros	
Future non-cancellable minimum lease payments in accordance with IAS 17	1,462,154
Lease contracts starting after 1 January and 2019 and other	(127,171)
Difference in finance discount	(89,471)
Lease liabilities at 1 January 2019 under IFRS 16	1,245,512

Standards issued pending of application

On the other hand, at the date these Consolidated financial statements were authorised for issuance, the following standards, amendments and interpretations had been issued, all of which are effective subsequent to 1 January 2020:

Regulation		Mandatory application	
		IASB	European Union
Amendments to IFRS 3	Business definition	01.01.2020	Pending approval
Amendments to IFRS 9, IAS 39 and IFRS 7	Reform of reference interest rate index	01.01.2020	01.01.2020

The amendments to IFRS 3 “Business combinations” clarify the definition of a business, aiming at helping entities to determine if a transaction should be recognised as a business combination under IFRS 3 or asset acquisition.

The amendments to IFRS 9, IAS 39 and IFRS 7 on financial instruments approach the uncertainties related to the reform of interbank rates (IBOR indexes) avoiding the discontinuation of existing hedges due to temporary exceptions to the application of certain specific requirements of hedging accounting (Note 4).

The IBERDROLA Group has not applied in advance of the formulation of these Consolidated financial statements any published standard, interpretation or amendment that has not yet come into force. The IBERDROLA Group believes that their application would not have had a material impact on these Consolidated annual accounts.

2.b) Basis of consolidation

The appendix I to these Consolidated annual accounts lists all IBERDROLA subsidiaries, jointly controlled entities and associates, together with the consolidation or measurement basis used and other related disclosures.


Subsidiaries

The subsidiaries over which the IBERDROLA Group exercises control are fully consolidated, except when they are scantily material with respect to presenting fairly the annual accounts of the IBERDROLA Group.

The IBERDROLA Group considers that it maintains control of a company when it is exposed, or has the right to variable yields from its involvement in the company, and has the capability to influence in these yields through its power thereon.

Results of subsidiaries acquired or sold in the year are included in the Consolidated income statement as from the effective date of acquisition or up to the effective date of sale. All accounts and transactions between fully consolidated companies have been eliminated in consolidation.

On the acquisition date, assets, liabilities and contingent liabilities of a subsidiary are recognised at fair value. Any excess of the subsidiary’s acquisition cost over the market value of its assets and liabilities is recognised as goodwill, as it corresponds to assets that cannot be identified and measured separately. If the difference is negative, it is recognised as a credit in the Consolidated income statement.



Holdings of non-controlling interests are recognised at the initial moment at an amount equivalent to their proportional interest in the net assets of the acquired company on the takeover date. The interest of non-controlling interests shareholders in equity and the results of the fully consolidated subsidiaries is presented under the "Equity – Non-controlling interests" heading on the liability side of the Consolidated statement of financial position and under the heading "Non-controlling interests" of the Consolidated income statement, respectively.

When there is a loss of control of a company of the Group, its assets, liabilities and any non-controlling interests are written off. The resulting gains or losses are recognised in the profit and loss account. Holdings maintained in the subsidiaries whose control has been lost will be measured by their fair value on the date when this loss of control occurred.

The income obtained in stock purchase transactions with minority shareholders in controlled companies and the sale of stock without loss of control will be recognised as charged or credited to reserves.

Investments accounted for using the equity method

Equity accounted investments include investments in associates and joint businesses. Associates are companies in which the IBERDROLA Group has significant influence, i.e., the power to intervene in decisions regarding financial and operating policies yet without having control or joint control. A joint business is a joint agreement in which the Group has the right to net assets of the agreement.

In the transactions carried out with associates and joint businesses, the gains or losses of the operation are eliminated in the percentage of holding interest in each company. The result of measuring investments in associates using the equity method is recognised under the headings "Other reserves" and "Result of equity-accounted investees - net of taxes" of the Consolidated balance sheet and income statement, respectively.

Closing date of the annual accounts

The closing date of the annual accounts of the subsidiaries, jointly controlled entities and associates is 31 December, with the exception of Siemens Gamesa Renewable Energy, S.A. (hereinafter, SIEMENS GAMESA), whose closing date was changed to 30 September. However, for the purposes of these Consolidated annual accounts harmonisation has been applied so that the equity method includes the equity of the associate at 31 December. As described in Note 51, the interest in SIEMENS GAMESA has been sold at the beginning of 2020.

The accounting policies applied by these companies are the same or have been harmonised with the ones used by the IBERDROLA Group.

Conversion of the annual accounts of foreign companies

The annual accounts of each foreign company were drawn up in their respective functional currencies, defined as the currency of the economy in which each company operates and in which it generates and uses cash.

The conversion of the annual accounts of foreign companies has been carried out by applying the year-end exchange rate method. This method consists of converting to euros all the assets, rights and obligations at the exchange rates prevailing at the date of the Consolidated annual accounts; for at the average exchange rates (provided that there are non-material transactions that do not deem appropriate to use the average exchange rate) for the year the Consolidated income statement items, keeping equity at the historical exchange rate at the time of the acquisition (or at the average exchange rate of the year in which they were generated in the case of accumulated results). The resulting translation differences are taken directly to reserves.

2.c) Comparative information

When comparing the figures for 2019 included in these Consolidated annual accounts with those corresponding to the year 2018, it is necessary to take into account the application on 1 January 2019 of IFRS 16 (Note 2.a).

2.d) Amendment to comparative information

- Classification of uncertain tax assets and liabilities: In the meeting held in 2019, the Interpretation Committee of the IASB concluded in a decision that uncertain assets and liabilities recognised in accordance with IFRIC 23 “Uncertainty over income tax treatments” are current (or deferred) tax assets and liabilities, defined in IAS 12 “Taxes”.

Therefore, the IBERDROLA Group has reclassified the uncertain tax assets and liabilities in the Consolidated statement of financial position at 31 December 2018. Uncertain tax assets have been reclassified from the heading “Trade receivables and other non-current assets” to the new heading “Current tax assets” in non-current assets in the amount of Euros 665,675 thousand. Uncertain tax liabilities have been reclassified from the heading “Non-current provisions” to the new heading “Current tax liabilities” in non-current liabilities in the amount of Euros 179,669 thousand.

- Geographical and business segment reporting (Note 7) In the first half of 2019 it was decided to extend the breakdown of geographical information corresponding to the Liberalised segment. Thus, the activities included under Spain and continental Europe at 31 December 2018 have been disaggregated in Spain and Rest of the World bearing in mind the ever increasing importance of the retail business in other geographical areas.
- Earnings per share (Note 53): As described in Note 20 and 51 of these Consolidated annual accounts, in July 2019 and January 2020 two free capital increases took place in the context of the “Iberdrola flexible dividend” programme. In accordance with IAS 33: “Earning per share” these free capital increases have resulted in the correction of the earnings per share corresponding to the 2018 year-end included in the Consolidated annual accounts for that year, and they have been taken into account to calculate the 2019 year share basic and diluted earnings per share.
- Moreover, current liabilities and non-current liabilities in the Consolidated statement of financial position have been reorganised compared to the Consolidated annual accounts at 31 December 2018 in order to adapt the liabilities structure to the accounting standards in force.

3. ACCOUNTING POLICIES

3.a) Goodwill

Goodwill represents future economic benefits arising from other financial assets acquired in a business combination that are not individually identified and separately recognised.

Goodwill arising from acquisitions of companies with a functional currency other than the euro is converted to euros at the exchange rate prevailing at the reporting date of the Consolidated statement of financial position.

Goodwill acquired on or after 1 January 2004 is measured at acquisition cost and the one that is acquired earlier is measured at the carrying amount at 31 December 2003 in accordance with Spanish accounting standards in effect on that date, as provided in IFRS 1: "First-time adoption of IFRS".

Goodwill is not amortised. However, at the end of each reporting period goodwill is reviewed for its recoverability and any impairment is written down (Note 3.i).

3.b) Other intangible assets

Concessions, Patents, licenses, trademarks and others

The amounts recognised as concessions, patents, licenses, trademarks and others relate to the cost incurred in their acquisition net of accumulated amortisation and depreciation and valuation changes due to impairment if applicable.

The electricity distribution and transmission concessions held in UK by SCOTTISH POWER and those linked to the activities of AVANGRID, are not subject to any legal or other nature limits. Accordingly, intangible assets with an indefinite useful life are not amortised by the IBERDROLA Group, although they are assessed for indications of impairment each year, as described in 3.i.

Intangible assets under IFRIC 12

IFRIC 12: "Service concession arrangements" concerning public-private service concession arrangements that meet two conditions:

- the grantor controls or regulates which services the operator must provide with the infrastructure, to whom it must provide them to and at what price; and
- the grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

Infrastructures within the scope of a service concession arrangement are not recognised as property, plant and equipment of the operator, because the operator does not have the right to control the use of the infrastructure.

If the operator performs more than one service (i.e. operation services and construction or upgrade services), the consideration received under the agreement for provision of services is recognised separately in the Consolidated income statement, in accordance with IFRS 15 "Revenues from contracts with customers".

In the case of the IBERDROLA Group, IFRIC 12 only affects the electricity distribution activities carried out by the IBERDROLA Group in Brazil (Note 12). Remuneration for network construction and upgrade work carried out by the IBERDROLA Group in this country consisted, on the one hand, of an unconditional right to receive cash and, on the other hand, of the right to charge certain amounts to consumers. As a result, by applying IFRS 12, two different assets were recognised for the two types of consideration received:

- A financial asset, which is recognised under the heading "Other non-current financial assets" of the Consolidated statement of financial position (Note 14.b).
- An intangible asset, amortisable in the concession period, which is recognised under the heading "Other intangible assets" of the Consolidated statement of financial position (Note 8).

Computer software

The acquisition and development costs incurred in relation to the computer software are recorded with a charge to the heading "Other intangible assets" of the Consolidated statement of financial position. Maintenance costs of computer software are recorded with a charge to the Consolidated income statement for the year in which they are incurred.

Computer software is amortised on a straight-line basis over a period of between three and five years from the entry into service of each software asset.

Customer acquisition costs

The IBERDROLA Group recognises incremental costs from customer contracts related mainly to commissions for the execution of purchase agreements as intangible assets and are amortised on a systematic basis according to the average expected life of contracts with customers that are associated with such costs.

Research and development expenditure

The IBERDROLA Group's policy is to record research expenses in the Consolidated income statement for the period when they are incurred.

Development costs are recognised as an intangible asset in the Consolidated statement of financial position if the Group can identify them separately and show the technical viability of the asset, its intention and capacity to use or sell it, and how it will generate probable future economic benefits.

3.c) Investment property

Investment properties will be recognised at their acquisition cost net of accumulated depreciation. They are depreciated on a straight-line basis, minus material residual value, over each asset's estimated useful life which ranges between 37.5 y 75 years based on the features of each asset concerned.

3.d) Property, plant and equipment

Items of property, plant and equipment are measured at acquisition or production cost deducted the accumulated amortisations and value adjustments.

The acquisition cost includes, where applicable, are as follows:

1. Prior to the transition to IFRS (1 January 2004), the IBERDROLA Group updated certain Spanish assets under the heading "Property, plant and equipment" of the Consolidated statement of financial position as permitted by the applicable legislation, including the Royal Decree-law 7/1996, and considered the amount of these revaluations as part of the cost of the assets, in accordance with IFRS 1.
2. Finance expense related to external funding accrued exclusively during the construction period (Note 42) is determined as follows:
 - The interests accrued by specific-purpose sources of financing used to build certain assets are fully capitalised.
 - The interests accrued by general-purpose borrowings is capitalised by applying the average effective interest rate on this financing to the average cumulative investment qualifying for capitalisation, after deducting the investment financed with specific-purpose borrowings, provided that it does not exceed the total finance costs incurred in the year.
3. Personnel expenses related directly or indirectly to construction in progress (Note 38).
4. If the IBERDROLA Group is required to dismantle its facilities or renovate the place where it is located, the current value of said costs is included in the carrying value of assets for their present value, with a credit to the sub-heading "Provisions - Other provisions" of the Consolidated statement of financial position (Note 3.r).

The IBERDROLA Group periodically checks their estimation of said current value increasing or decreasing the asset value depending on the results of said estimation.

The IBERDROLA Group transfers property, plant and equipment in progress to property, plant and equipment in use at the end of the related trial period.

The costs of expansion or improvements leading to increased productivity, capacity or to a lengthening of the useful lives of the assets are capitalised. Replacements or renewals of complete items are recorded as additions to property, plant and equipment, and the items replaced are derecognised.

Gains or losses arising on the disposal of items of property, plant and equipment are calculated as the difference between the amount received on the sale and the carrying amount of the asset disposed of.

3.e) Depreciation of property, plant and equipment in use

The cost of property, plant and equipment in use is depreciated on a straight-line basis, less any material residual value, at annual rates based on the following years of estimated useful life:

	Average years of estimated useful life
Conventional thermal power plants	25-50
Combined cycle power plant	40
Nuclear power plants	44-47
Onshore wind farms	
Structural components	40
Non-structural components	25
Offshore wind farms	25
Gas storage facilities	25-40
Transmission facilities	40-56
Distribution facilities	30-54
Conventional meters and measuring devices	10-40
Electronic or smart meters	10
Buildings	50-75
Dispatching centres and other facilities	4-50

As hydroelectric plants are operated under concessions (Note 12), the depreciation of civil engineering assets is performed over the life of the concession, while its electromechanical equipment is depreciated over the lower of the concession period or 50 years.

The important components of the plant and equipment that maintain different useful lives are considered separately.

Every year, the IBERDROLA group reviews the useful life of its assets based on internal and external information sources.

Following the agreement reached with the authorities, ENRESA and all other partners, the IBERDROLA Group amended the useful life of the nuclear facilities on 1 January 2019, based on the agreed closure schedule for said facilities. The useful life had been considered to be 40 years prior to the change. The closure calendar is as follows:

Nuclear facility	Closure date
Almaraz I	November 2027
Almaraz II	October 2028
Ascó I	October 2030
Ascó II	September 2032
Cofrentes	November 2030
Valdellós II	February 2035
Trillo	May 2035

As a result, the heading "Amortisation and provisions" of the Consolidated income statement for 2019 includes the impact of this change in the estimate, which as per accounting regulations had been applied prospectively since 1 January 2019, and produced a lower depreciation charge of approximately Euros 111,498 thousand.

3.f) Lease contracts

As indicated in Note 2.a, the IBERDROLA Group started applying IFRS 16 “Leases” from 1 January 2019 in lease contracts.

Criteria applied before 2019

Before 2019, the Group’s income was recognised, mainly, in accordance with IAS 17: “Leases” and IFRIC 4: “Determining whether an arrangement contains a lease”. The IBERDROLA Group classifies as finance leases all arrangements under which the lessor transfers to the lessee substantially all the risks and rewards incidental to ownership of the asset. All other leases are classified as operating leases. Said classification was applied both the IBERDROLA Group was the lessor and the lessee.

Assets acquired under finance leases are recognized as non-current assets in accordance with their nature and function. Assets are measured at the lower of the fair value of the leased asset and the present value of the future lease payments, and it is amortised by the useful life of each asset.

The expenses arising from operating leases are allocated to the Consolidated income statement on an accrual basis over the life of the lease agreement.

Criteria applied from 1 January 2019

After 1 January 2019, the Group’s lease was recognised in accordance with the criteria in IAS 16: “Leases”.

Right-of-use assets are initially recorded by cost, which includes:

- The initial valuation amount of the lease liability;
- Any lease payment made on or before the asset start date, minus incentives received;
- The initial direct costs incurred as a result of the lease; and
- An estimation of the costs that will be incurred by the lessee for the dismantling and restoration of assets.

After the initial recognition, right-of-use assets are recorded at cost minus accumulated amortisation and deterioration losses. The amortisation of right-of-use assets is recorded under the heading "Amortisations, depreciation and provisions" of the Consolidated income statement for the useful life of the underlying asset or the lease term, whichever is shorter (Note 40). If the property is transferred to the lessee or it is practically certain that the lessee will exercise the purchase option, it will be amortised over the useful life of the asset. Furthermore, for calculation loss due to right of use asset impairment, the Group applies impairment criteria on the value of non-current assets described in Note 3.i).

Moreover, right of-use asset is later on adjusted due to the impact of certain restatement affecting lease liabilities.

The initial value of lease liabilities is calculated as present value of future lease payments deducted at the implicit interest rate that may reliably be determined or, otherwise, at the incremental interest rate.

Lease payments include:

- Fixed or substantially fixed lease fees specified in the contract, minus any incentive to be received for the lessee;
- variable fees dependent on an index or rate initially valued by applying the indices or rates existing at the beginning of the lease;
- The amounts that the lessee expects to pay for guarantees on the residual value of the underlying asset;
- The exercise price of the purchase option, if it is reasonably certain that the lessee will exercise said option; and
- The payments corresponding to extension options whose exercise is considered to be fairly certain or early lease cancellation fines if the lease period are included in early cancellation.

Contingent rents subject to the occurrence of a specific event and the variable fees dependent on revenues or the use of the underlying asset are recorded at the time when they are incurred under the heading "External services" of the Consolidated income statement, rather than forming part of the lease liability.

Subsequently, lease liability is increased to show finance costs and is reduced in the amounts paid. The financial update is recorded under the heading "Finance costs" of the Consolidated income statement (Note 43).

Lease liability is revaluated when there is a change in indexes or rates, in the estimated amounts to be paid for guarantees on the residual value, in those cases where options to extend are reasonably certain or in those cases where options to cancel are considered not to be exercised within reasonable.

3.g) Nuclear fuel

The IBERDROLA Group measures its nuclear fuel stocks on the basis of the costs actually incurred in acquiring and subsequently processing the fuel.

Nuclear fuel costs include the finance costs accrued during construction, calculated as indicated in Note 3.d (Note 42).

The nuclear fuel consumed is recognised under the heading "Procurements" of the Consolidated income statement from when the fuel loaded into the reactor starts to be used, based on the cost of the fuel and the degree of burning in each reporting period.

3.h) Inventories

Energy resources

Energy resources are measured at acquisition cost, calculated using the average weighted price method, or net realisable value, if the latter is lower. No adjustments to the value of energy sources that are part of the production process are made if it is expected that the finished products into which they will be incorporated will be sold at above cost.

Real estate inventories

The real estate inventories were measured at acquisition cost, which includes both the acquisition cost of the land and plot and the costs of urban infrastructures and construction of real estate developments incurred until the year end. These costs include those incurred by the architecture and construction departments.

The acquisition cost also includes finance cost to the extent that such expenses relate to the period of town planning permits, urbanisation or construction up until the time at which the land or plot is ready for operation, calculated using the method set out in Note 3.d (Note 42).

Trade expenses are charged to the Consolidated income statement for the year in which they are incurred, except for those incremental costs required to obtain customer contracts.

The IBERDROLA Group periodically compares the cost of acquisition of real estate inventories with their net realisable value, recognising the necessary impairment losses with a charge to the Consolidated income statement when the latter is lower. If the circumstance leading to the valuation adjustment no longer exists, it is reversed recognising the corresponding income.

For land, construction in progress and unsold units, net realisable value is used taking into account the appraisals by independent experts. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to finish the production and the necessary costs to carry on with the sale of the element.

This value is determined using the residual method, where the estimated total cost of the work, is deducted from the gross value of the completed project, and the allowance for developer's risk and profit is added. The key variables of the residual method are:

- Expected income: it consists in the estimated price at which each of the promotion units may be sold, in accordance with a sales rate in accordance with estimates from independent experts.
- The cost of the development, including all disbursements to be made by the developer of the work depending on the type (e.g. government-sponsored or private single-family dwellings) and quality of the construction. In addition to the cost of the work, it includes the cost of projects and licenses (10%-12% of the physical construction project), legal fees (1%-1.5% of the material implementation project), marketing and promotional expenses (2%-4% of income) and unforeseen contingencies (3%).
- Development time: time required for the different planning, management and urban discipline stages, as well as expected construction and trade periods.
- The developer profit considered for each asset, depending on the zone state of the land, size and complexity of the development, ranging from 10% to 45% of total costs.

For land with licences, construction in progress and unsold units, the main difference with regard to unlicensed land is the developer profit, which in this case is lower given the stage of completion of the work and the decrease in risk as the completion of construction nears.

Emission allowances and renewable certificates

Energy resources are measured at acquisition cost, calculated using the average weighted price method, or net realisable value, if the latter is lower. No adjustments to the value of energy sources that are part of the production process are made if it is expected that the finished products into which they will be incorporated will be sold at above cost.

Emission allowances acquired for the purpose of benefiting through fluctuations in their market price are measured at fair value with a credit or debit to the Consolidated income statement.

Emission allowances and renewable energy certificates are derecognised from the Consolidated statements of financial position when they are sold to third parties, have been delivered or expire. When the allowances are delivered, they are derecognised with a charge to the provision made when the CO₂ emissions were produced.

3.i) Non-Financial assets impairment

Each closing date at 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 it is necessary. In the case of assets that do not generate cash inflows that are largely independent from those generated by other assets, the IBERDROLA Group estimates the recoverable amount of the cash-generating unit to which they belong.

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 (Note 8).

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. The assumptions used in assessing value in use, in making the estimates include discount rates, growth rates and expected changes in selling prices and direct costs. The discount rates reflect the time value of money and the risks specific to each cash-generating unit. The growth rates and the changes in prices and direct costs are based on contractual commitments that have already been signed, information in the public domain, sector forecasts and the experience of the IBERDROLA Group (Note 13).

If the recoverable amount of an asset is less than its carrying amount, the difference is registered as a charge to the heading "Amortisation and provisions" of the Consolidated income statement.

The IBERDROLA Group distinguishes between impairment allowances and write-offs depending on whether the impairment is reversible or not reversible. A write-off involves a decrease of the carrying amount of assets, either because the impairments are considered definitive and non-reversible, or because the accounting standards establish that, such as the case of goodwill, or when considering that the value of the asset is not going to be recovered for its use or disposal. Impairment losses are due to the fact that future expected earnings to be obtained are less than the carrying amount.

Impairment losses recognised for an asset are reversed with a credit under the heading “Amortisation and provisions” of the Consolidated income statement when there is a change in the estimates concerning the recoverable amount of the asset, increasing the carrying amount of the asset, but so the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

3.j) Associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. Under this method, investments are measured initially at acquisition cost, subsequently adjusted for changes to each company’s equity, taking into consideration the percentage of ownership and, if applicable, any valuation adjustments.

Some investments in associates and joint ventures which in the context of these Consolidated annual accounts are immaterial are recorded at acquisition cost within “Non-current financial assets – Non-current equity investments” heading of the Consolidated statements of financial position.

The IBERDROLA Group regularly analyses the existence of impairment at its associates and joint ventures by comparing the total carrying amount of the associate or joint venture, (including goodwill), to its recoverable amount. If the carrying amount exceeds the recoverable amount, the IBERDROLA Group recognises the related impairment with a debit to the Consolidated income statement within the “Results of equity-accounted investees - net of taxes” heading.

3.k) Joint operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. These Consolidated annual accounts include the proportional part of the assets, liabilities, income and expenses of the joint operation in which the IBERDROLA Group takes part in (Note 45).

3.l) Financial instruments

Classification and measurement of financial assets

The IBERDROLA Group measures its current and non-current financial assets in accordance with the criteria described below:

1. Assets at amortised cost

Under this category financial assets that met the following conditions are included:

- The assets are held within a business model where the objective is to hold the assets to obtain the contract cash flows, and
- The contract terms produce, on specific dates, cash flows which are only payments of the principal and interest on the amount of the outstanding principal.

These assets are initially recognised at fair value plus transactions costs and are subsequently measured at amortised cost. Interests accrued on these liabilities are recognised in the Income statement using the effective interest rate method. However, trade loans maturing in less than a year that do not have a contractual interest rate, as well as advances and loans granted to employees, receivable dividends and the unpaid portion of equity instruments expected to be received in the short term, are measured both initially and subsequently at nominal value when the impact of not discounting cash flows is not significant.

2. Financial assets at fair value through profit and loss:

The IBERDROLA Group includes in this category the derivative financial instruments which do not satisfy the conditions necessary for hedge accounting based on the requirements established for this purpose in IAS 9: "Financial instruments (Note 28).

Assets at fair value with changes are recognised at fair value. The transaction costs directly attributable to purchase or issuing are recognised as an expense in the Income Statement insofar as they are incurred. The changes that occur in their fair value are allocated to the Consolidated income statement for the period in the headings "Finance costs" and "Finance income" of the Consolidated income statement, as may be applicable.

The IBERDROLA Group determines the most appropriate classification for each asset on acquisition and reviews the classification at each year end date.

Impairment of financial assets at amortised cost and contract assets

The IBERDROLA Group recognised valuation changes resulting from credit losses expected from financial assets and contract assets at amortised cost.

The IBERDROLA Group will apply the general model for calculation of expected loss on financial assets other than trade and lease receivables, where the simplified model will be applied.

Under the general model, credit losses expected in the next twelve months are recorded unless the credit risk of financial instruments has significantly increased from the initial recording. In such case, they will qualify as expected credit losses over the life of the asset. The IBERDROLA Group recognises that the credit risk of a financial instrument has not increased in a significant manner since its initial recognition if it is determined that at the reporting date it is a low credit risk.

Under the simplified model, they qualify as expected credit losses over the life of the asset. The IBERDROLA Group has adopted the practical solution whereby it calculates the expected credit loss on trade receivables by using a matrix of provisions based on its experience of losses historically adjusted for available prospective information

Valuation changes and reversals of financial assets at amortised cost and contract assets are recognised under the heading "Valuation changes in trade and other receivables" of the Consolidated income statement. Valuation changes and reversals of financial assets due to impairment of the other financial assets at amortised cost are recognised under the heading "Finance costs" of the Consolidated income statement (Note 43).

Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows in relation thereto have extinguished or have been transferred or when the risks and profits are considered to have been substantially assigned arising from its ownership.

The derecognition of a financial asset implies the recognising in the Consolidated statement of profit the difference between its carrying value and the sum of the consideration received less directly attributable transaction costs, including assets obtained or assets assumed and any deferred loss or gain in other comprehensive profit.

Classification and measurement of financial liabilities

The IBERDROLA Group classifies all financial liabilities measured at amortised cost using the effective interest method, except for financial instruments registered at reasonable value.

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished, this means, when the obligation under the liability is discharged or cancelled or expires. Moreover, when a debt instrument between IBERDROLA and the counterparty is replaced by another, on substantial different terms, the original financial liability is derecognised and the new liability is recognised.

IBERDROLA considers that the conditions are substantially different if the current value of the discounted cash flows under the new conditions, including any net paid fee or any received fee, and using the original effective interest rate for the discount, differs at least 10 per cent from the current discounted value of the cash flows that still remain from the original financial liability.

The difference between the carrying value of the financial liability or of the part of it that has given below and the paid consideration, including the attributable transaction costs, and in which any transferred asset different from the assumed cash or liability is also included, recognised in the Consolidated income statement of the period in which it takes place.

When there is an exchange in debt instruments that do not have substantial changes, changed flows are deducted at the original interest rate, and every difference with the previous accounting value is recognised in the Consolidated statement of profit. In addition, costs or commissions adjust the carrying value of financial liabilities and are amortised at amortised cost method during the rest of the life of the changed liabilities.

Interests and dividends

Interest income is accrued on a time proportional basis, by reference to the outstanding principal and the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the asset to that asset's carrying amount.

Dividend income is recognised when the IBERDROLA Group companies are entitled to receive them.

Contracts to buy or sell non-financial items

The IBERDROLA Group performs a detailed analysis of all its contracts to buy or sell non-financial items to ensure they are classified correctly for accounting purposes.

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

Purchase agreements for non-finance components for which IFRS 9 is not applicable: "Financial instruments" qualify as own-use contracts and are recognised as the IBERDROLA Group receives or delivers the rights or obligations originating thereunder.

Derivative financial instruments and hedge accounting

Financial derivatives are initially recognised at acquisition cost in the Consolidated statement of financial position and the required value adjustments are subsequently made to reflect their fair value at all times. Gains and losses arising from these changes are recognised in the Consolidated income statement, unless the derivative has been designated as a cash flow hedge or a hedge of a net investment in foreign countries.

At the start of the hedge, the hedging relationships are designed and documented formally, as well as the purpose and strategy of risk management. Moreover, at the beginning of the hedging relationship it is assessed, as well as periodically, if the relationship complies prospectively with efficiency requirements.

The accounting treatment for hedging transactions is as follows:

1. Fair value hedges:

Both changes in the fair value of the derivative financial instruments designated as hedging, or the exchange rate component of a monetary item in the case of non-derivative hedge instruments, such as changes in the fair value of the hedged item produced by the hedged risk are recognised with a charge or credit to the same caption of the Consolidated income statement.

2. Cash flow hedges:

The IBERDROLA Group recognises under the heading "Valuation adjustments" the profit or loss proceeding from the assessment at fair value of the hedge instrument that corresponds to the part identified as effective hedge. The hedging portion considered ineffective is recognised under the headings "Finance income" and "Finance expense" of the Consolidated income statement.

Accumulated loss or gain in "Valuation adjustments" is taken to the heading of the Consolidated income statement affected by the hedged item insofar as it has an impact on the Consolidated income statement. If a hedge of a future transaction results in a non-financial asset or liability, this balance is taken into account when determining the initial value of the asset or liability generating the hedging transaction.

3. Net investment hedges:

The IBERDROLA Group recognises in "Translation differences" the profit or loss proceeding from the assessment at fair value of the hedge instrument that corresponds to the part identified as effective hedge. The hedging portion considered ineffective is recognised under the heading "Finance income" and "Finance expense" of the Consolidated income statement.

Discontinuation of hedging accounting

The IBERDROLA Group prospectively discontinues the fair value hedge accounting in the cases in which the hedging instrument matures, is sold, let go of or exercised, the goal of the risk management has changes, there is no financial relation between the hedge element and the hedged item, the credit risk effect dominates value changes, the hedge instrument matures or is liquidated or the underlying hedge ceases to exist.

When hedge accounting is discontinued, the cumulative amount at that date recognised under the headings “Valuation adjustments” and “Translation differences” in cash flow hedges and net investment hedges, respectively, is retained under that heading until the hedged transaction occurs, at which time the gain or loss on the transaction will be adjusted. If a hedged transaction is no longer expected to occur, the gain or loss recognised under the aforementioned heading is transferred to the Consolidated income statement.

Embedded derivatives

Embedded derivatives in financial liabilities and transactions whose main contract is out of the scope of IFRS 9: “Financial instruments” are recognised separately when the IBERDROLA Group considers that their risks and characteristics are not closely related to the financial instruments in which they are embedded, providing the entire contract is not measured at fair value through profit or loss.

Fair value of derivative financial instruments

The fair value of the derivative financial instruments is calculated as follows (Note 16):

- For derivatives quoted on an organised market corresponds to its market price at year end.
- To measure derivatives not traded on an organised market, the IBERDROLA Group uses assumptions based on market conditions at year end. In particular,
 - the fair value of Exchange rate swaps is calculated as the value discounted at market interest rates of the interest rate swap contract spread.
 - In the case of currency futures, they are measured by discounting the future cash flows calculated using the forward exchange rates at year end; and
 - the fair value of contracts to trade non-financial items falling under the scope of IFRS 9 is calculated on the basis of the best estimate of future price curves for the underlying non-financial items at the year end of the Consolidated annual accounts, using, wherever possible, prices established on futures markets.

These measurement models take into account the risks of the asset or liability, among these, the credit risk of both the counterparty (Credit Value Adjustment) and the entity itself (Debit Value Adjustment). The credit risk is calculated according to the following parameters:

- Exposure at default: the amount of the risk arising at the time of non-payment by a counterparty, taking into account any collateral or compensation arrangements connected to the transaction.
- Probability of default: the probability that a counterparty will breach its obligations to pay the principal and/or interests, depending mainly on the features of the counterparty and its credit rating.
- Loss given default: the estimated loss in the event of default.

Financial instruments offsetting principles

The financial assets and liabilities are offset and corresponding net amount is shown in the Statement of financial position if the company currently has a legally enforceable right to set off the recognised amounts and the intention either to settle them on a net basis or to realise the assets and settle the liabilities simultaneously.

3.m) Treasury shares

At year end, the IBERDROLA Group's treasury shares are included under the heading "Treasury shares" of the Consolidated statement of financial position and are measured at acquisition cost.

The gains and losses obtained on disposal of treasury shares are recognised under the heading "Other reserves" of the Consolidated statement of financial position.

3.n) Capital grants

This heading includes any non-repayable government grants for financing property, plant and equipment, including the cash received from the US Government in the form of Investment Tax Credits as a result of setting up wind power facilities.

All capital grants are taken to the heading "Other operating income" of the Consolidated income statement as the facilities are depreciated.

3.o) Facilities transferred or financed by third parties

According to the regulation applicable to electricity distribution in the countries in which IBERDROLA operates, the Group occasionally receives cash payments from third parties for the construction of electricity grid connection facilities or direct assignment of such facilities. Both the cash received and the fair value of the facilities received are credited to the heading "Facilities transferred" of the Consolidated statement of financial position.

These amounts are subsequently recognised under the heading "Other operating income" of the Consolidated income statement as the facilities are depreciated.

3.p) Post-employment and other benefits

Contributions to defined contribution post-employment benefit plans are registered as an expense under the "Personnel expenses" of the Consolidated income statement on an accrual basis.

In the case of the defined benefit plans, the IBERDROLA Group recognises the expenditure relating to these obligations on an accrual basis over the working life of the employees by commissioning the appropriate independent actuarial studies using the projected unit credit method to measure the obligation accrued at the year end. The provision recognised under this concept represents the present value of the defined benefit obligation reduced by the fair value of the related plans.

New measurement of net liabilities corresponding to defined provision commitments including positive or negative actuarial differences, the performance of the plan assets, excluding amounts included in the net interest on assets or liabilities and any changed impacting the limit of assets, are recognised under the heading “Other reserves”.

If the fair value of the assets exceeds the present value of the obligation, the net asset is not recognised in the Consolidated statement of financial position.

The IBERDROLA Group determines the net financial expense (income) related with their commitments for pensions by applying the discount rate used in its measurement on their value at the beginning of the period once considering the changes in the net commitments for pensions made during the period in terms of contributions and repayments made. The net interest and the amount corresponding to other expenses related with the commitments undertaken are recorded in the Consolidated income statement.

The IBERDROLA Group determines the discount rate with reference to the market yields at the end of the reporting period, corresponding to the bonds or business obligations of high credit quality (The Iberdrola Group considers rating equivalent to AA/Aa). In the countries in which does not exist a deep market to such bonds and obligations, the discount rate is determined with reference to Government bonds.

For the Eurozone, United Kingdom and the United States of America, there is a deep bond market with a sufficient period of maturity to cover all payments expected. In reference to the countries related to the Eurozone, the depth of the bond or obligation market is evaluated at the level of the monetary union and not for the particular country. In the case of Brazil, the discount rate has been determined taking into account the Brazilian sovereign credit, because a deep corporative market does not exist as they don't satisfy the indicated credit qualifications.

The IBERDROLA Group applies a weighted average discount rate that reflects the estimate timing and amount of benefit payment, as well as the currency in which the benefits are to be paid.

The calculation methodology is mainly based on the following principles:

- The universe and spectrum of the outstanding bonds that meet the criteria of an AA/Aa rating is generated. The source of the information used is Bloomberg. The IBERDROLA Group has adopted the notional issuances that are higher than Euros 50 million or its equivalent in local currency as the selection criteria.
- Once the bonds' database is obtained, the result is screened and the bonds that show any deficiencies are eliminated.
- The sample is grouped based on the bonds' duration and the return on each duration and outstanding nominal amount of the issuance is shown.
- The benefit payment is calculated using a mathematical formula, i.e., the discrete minimum approximation of the quadratic function, resulting in a market return curve based on the duration. The market curve result will provide the discount factors for each future maturity date of the bonds.
- For markets in which government bonds or corporate bonds with maturity dates beyond 25/30 years are not available, bench marking sovereign rates at said maturity periods are combined with the AA corporate credit spread.

The discount rate reflects the time value of money and estimated schedule for the benefit payments. However, it does not reflect the actuarial risk, investment, credit or deviation in compliance with the actuarial assumptions risk.

3.q) Collective redundancy procedure and other early retirement plans for employees

IBERDROLA recognises termination benefits when the Group can no longer remove the offer or when the expenses of restructuring are recognised from which the payment of severance payments arises, in the case that said recognition is made previously.

The payments related with restructuring processes are recognised when the IBERDROLA Group has an implicit debenture, i.e., at the time that there is a detailed formal plan to perform the restructuring (in which are identified, at least, the company activities, or part of them, implied, the main locations affected, the location, function and approximate number of employees that will be paid for the termination of their contracts, the repayments that will be carried out, and the dates on which the plan will be implemented) and has generated a valid expectation amongst the affected personnel which the restructuring will be carried out, either for having started to execute the plan or for having announced its main characteristics.

The IBERDROLA Group recognises the full amount of the expenditure relating to these plans when the obligation arises by performing the appropriate actuarial studies to calculate the present value of the actuarial obligation at year end. The actuarial gains and losses are recognised in the Consolidated income statement.

3.r) Production facility closure costs

The IBERDROLA Group will incur in several decommissioning costs of its production plants, among which include those arising from necessary tasks to fit the land where they are located. Additionally, in accordance with the current legislation, the Group must perform certain tasks prior to the decommissioning of its nuclear plants, of which Empresa Nacional de Residuos Radioactivos, S.A. (hereinafter, ENRESA) is responsible for.

The estimated present value of these costs is capitalised with a credit to “Provisions – Other provisions” at the beginning of the useful life of the related asset (Note 26).

This estimate is subject to annual revision so that the provision reflects the present value of the full amount of the estimated future costs. The value of the asset is only adjusted for variances with respect to the initial one.

The IBERDROLA Group applies a risk-free rate to financially update the provision because the estimated future cash flows to satisfy the obligation reflect the specific risks of the corresponding liability. The risk-free rate used corresponds to the yield at year end on which reports, government bonds with enough depth and solvency in the same currency and similar due date to the obligation.

Any change in the provision as a result of its discounting is recognised under the heading “Finance cost” of the Consolidated income statement.

3.s) Other provisions

The IBERDROLA Group recognises provisions to cover present obligations, whether these are legal or implied, which arise as a result of past events, provided that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation (Note 26).

A provision is recognised when the liability or obligation arises, with a charge to the relevant heading of the Consolidated income statement depending on the nature of the obligation, for the present value of the provision when the effect of discounting the value of the obligation to present value is material. The change in the provision due to its discounting each year is recognised under the heading “Finance cost” of the Consolidated income statement.

These provisions include those recorded to cover environmental damage, which were determined on the basis of a case-by-case analysis of the situation of the polluted assets and the cost of decontaminating them.

3.t) Current and non-current debt classification

In the Consolidated statement of financial position debts are classified by their maturity date at year end. Debts that are due within twelve months are classified as current items and those due within more than twelve months as non-current items.

3.u) Recognition of income from customer contracts

Revenue from ordinary activities is recognised in such a manner that it depicts 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.

In the case of contracts with customers with several performance obligations, income is assigned to each performance obligation based on individual sale price at the beginning of the contract. The individual sale price is estimated based on the observable price of sale of goods or services transactions when they are sold separately under similar circumstances to similar customers. If there are no observable prices in the market, the price is estimated based on the most adequate method based on the information available.

When the IBERDROLA Group acts as principal, it recognises ordinary income in the gross amount of the consideration it expects to have right in exchange for the goods or services transferred, whereas when it acts as agent, it recognises ordinary income in the amount of any payment or commission it expects to have right in exchange for organising for a third party the supply of the goods or services.

The IBERDROLA Group presents contracts with customers in the Consolidated statement of financial situation as a contract assets or liabilities depending on the relationship between the IBERDROLA Group's performance and the payment settled by the customer.

- The contract with the customer is recognised as contract liabilities when the customer has paid a consideration before the control of the goods or services has been transferred to the customer, so there is an obligation from IBERDROLA Group's side to transfer the goods or services for which it has already received a consideration.

- Contracts with customers are recognised as contract assets when the IBERDROLA Group has completed the performance by transferring the control of the goods or services to the customer before the customer has settled the consideration, so the IBERDROLA Group has a right to a consideration in exchange for the goods or services transferred to the customer.

Ordinary income beyond the scope of IFRS 15 “Ordinary income from contracts with customers” related to lease contracts (Note 3.f) and derivative financial instruments (Note 3.l) are recognised in accordance with the applicable accounting rules.

3.v) Transactions in foreign currency

Transactions carried out in currencies other than the functional currency of the Group companies are recorded at the exchange rates prevailing at the transaction date.

The monetary assets and liabilities denominated in foreign currency have converted to euros applying the existing rate at the close of the financial year, while the non-monetary ones assessed at historical cost are converted applying the exchange rates applied on the date on which the transaction took place.

During the year, the differences arising between the exchange rates at which the transactions were recorded and those in force at the date on which the related proceeds are made are charged or credited, as appropriate, to the Consolidated income statement.

Those foreign currency transactions in which the IBERDROLA Group has decided to mitigate translation risk through the use of financial derivatives or other hedging instruments are recorded as described in Note 3.l.

3.w) Income Tax

Since 1986, IBERDROLA has filed Consolidated Tax Returns with certain Group companies. Foreign companies are taxed according to the current legislation of their respective jurisdiction.

The expense or income for the Corporate income tax includes both the current and deferred tax. The tax on the current or deferred earnings are recognised in the Consolidated income statement, unless arising from a transaction or economic success that has been recognised in the same year or in a different one, against net equity or from a business combination.

The assets or liabilities from tax on the current earnings are assessed for the quantities expected to pay or recover from the tax authorities, using the regulations and tax rates that are approved or are about to be approved on the closing date.

The recognition of anticipated and deferred taxes based on the differences between carrying amount of assets and liabilities and its tax base, using the tax rates objectively expected to be in force when the assets and liabilities are realised.

The IBERDROLA Group recognises deferred tax liabilities in all cases but when:

- arise from the initial recognition of the goodwill or from an asset or liability in a transaction that is not a business combination and on the date of the transaction does not affect the accounting income or the taxable income;

- correspond to temporary differences related with investments in subsidiary companies, associates and joint ventures over which the Group has the ability to control the moment of their reversal and was not probable that their reversal occurred in a foreseeable future.

The IBERDROLA Group recognises deferred tax assets in all cases but when:

- it is probable that there are sufficient future tax earnings for clearing or when the tax legislation includes the possibility of future conversion of assets for deferred tax in a credit due to the public administration. However, the deferred tax assets that arise from the initial recognising of assets or liabilities in a transaction that is not a business combination and on the date of the transaction does not affect the accounting income or the taxable income, are not recognised;
- correspond to temporary differences related with investments in subsidiaries, associates and joint ventures inasmuch as the temporary differences will not be reinvested in a foreseeable future and are not awaiting creating future positive tax earnings to clear the differences.

Deductions in order to avoid double taxation and other tax credits as well as tax relief earned as a result of economic events occurring in the year are deducted from the Income Tax expense, unless there are doubts as to whether they can be realised.

The existence of uncertainties in the treatment of transactions for tax purposes is considered in the taxable events, credits for negative taxable income or applied deductions. In those cases, in which the asset or the liability for tax calculated with these criteria, exceeds the amount in the self-settlements, this is presented as current or not current on the Consolidated statement of financial position taking into account the expected recovery or settlement date, considering, where applicable, the amount of the corresponding interest on arrears on the liability as earned in the profit and loss account. The IBERDROLA Group records the changes in facts and circumstances regarding tax uncertainties as a change in the estimate.

3.x) Final radioactive waste management costs

On 8 November 2003, the Royal Decree 1349/2003 was published regulating the ENRESA activities and its financing. This royal decree grouped together the previous legislation regulating the activities that ENRESA develops as well as its financing, and repeals, inter alia, the Royal Decree 1899/1984, of 1 August.

Meanwhile, the Royal Decree-law 5/2005 and the Law 24/2005 establish that the costs relating to the management of radioactive waste and spent fuel from nuclear plants, and to the dismantling and closure of the plants attributable to their operation and incurred after 31 March 2005, will be financed by the owners of the nuclear plants in use.

On the other hand, on 7 May 2009, the Royal Decree-law 6/2009 was published, adopting various energy sector measures and approving the social tariff. The principal measures introduced are as follows:

- Necessary costs incurred in the management of radioactive waste and nuclear fuel at nuclear power stations that are definitively dismantled before the state-owned radioactive waste management company ENRESA begins operating, which had not yet been done at the date of these Consolidated annual accounts, and all necessary costs incurred in dismantling and closing these power stations, will be treated as diversification and capacity guarantee costs.

Amounts used to cover the cost of managing radioactive waste generated by research activities directly related to nuclear electricity generation and the costs deriving from the reprocessing of spent fuel sent overseas prior to the entry into force of the Electricity Industry Law 54/1997, and all other costs that may be specified by the royal decree, shall also be considered diversification and capacity guarantee costs.

- Amounts used to register provisions to cover the costs incurred in managing radioactive waste and spent fuel generated at operational nuclear power stations after the establishment of ENRESA as well as dismantling and closure costs will not be treated as supply diversification and security costs, since these will be financed by the owners of the nuclear power stations while they are operational, irrespective of the date on which they are generated.
- The balance of ENRESA's provision remaining after deduction of the amounts needed to cover the supply security and diversification costs will be used to cover costs not included in this category.
- To cover the costs associated with nuclear power plants in operation, the companies owning the stations must pay a charge directly proportional to the volume of energy generated at each plant in accordance with the methodology proposed for each plant.

After a detailed analysis of the impact of the Royal Decree-law 6/2009, the IBERDROLA Group considers that the rate is the best estimate available of the accrued expenses originated for that royal decree-law.

3.y) Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to the Parent company by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the parent company held by Group companies (Notes 20 and 53).

Meanwhile, diluted earnings per share are calculated by dividing the net profit for the year attributable to the parent company and by the weighted average number of ordinary shares outstanding during the year, adjusted by the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all the potential ordinary shares into ordinary shares of IBERDROLA. For these purposes, it is considered that shares are converted at the beginning of the year or at the date of issue of the potential ordinary shares, if the latter were issued during the current period.

3.z) Non-current assets held for sale and discontinued operations

If the carrying amount of a non-current asset (or a disposable group of assets) is recovered principally through its sale rather than through its continued use, the IBERDROLA Group classifies it as held for sale and values it at the lower of its carrying amount and its fair value less the costs of sale.

The impairment losses related with the disposal asset groups are assigned first to the goodwill and then to the rest of assets and liabilities proportionally. Value adjustments that could affect the stocks, financial assets, deferred tax assets, assets related with commitments with staff are not recognised. These assets are assessed in accordance with the principles contained in the previous sections. The losses recognised at the time of initial classification in this sub-heading and the capital gains and/or losses that are highlighted later are recognised in the Consolidated income statement.

The elements classified as non-current kept for their disposal are not amortised.

A discontinued operation is a component of the entity that either has been sold or disposed of by other means, or is classified as held for sale and:

- represents a business line or geographical area that is significant and can be considered separately from the rest;
- is part of a single and coordinated plan to sell or dispose by other means a business line or geographical area that can be considered separately from the rest; or
- is a subsidiary acquired exclusively with a view to resale.

If discontinued operations are deemed to exist, the IBERDROLA Group recognises a single heading in the Consolidated income statement comprising the total of:

- profit or loss after tax from discontinued operations, and
- profit or loss after tax recognized by measurement at fair value less costs of sale, or sale or disposal by other means of the assets or disposable groups of assets that constitutes the discontinued operation.

3.aa) Consolidated statements of cash flow

In the Consolidated statements of cash flow, which were prepared using the indirect method, the following terms are considered:

- Operating activities: the typical activities of the Group companies, as well as other activities that are not investing or financing activities.
- Investing activities: the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and liabilities of the company that are not operating activities.

3.ab) Share-based employee compensation

The delivery of IBERDROLA shares to employees as compensation for their services is recognised under the heading “Personnel expenses” of the Consolidated income statement as the employees perform the remunerated services, with a credit to equity under “Equity – Other reserves” of the Consolidated statement of financial position at the fair value of the equity instruments on the delivery date, defined as the date the IBERDROLA Group and its employees reach an agreement establishing the terms of the share delivery.

Fair value is determined in reference to the market value of shares at the concession date deducting estimated dividends, to which employees are not entitled, during the irrevocability period. Market conditions and undetermined irrevocability conditions are taken into consideration on the date of the initial valuation and are not subject to subsequent adjustment. The rest of the conditions are considered adjusting the number of equity instruments included in the determination of the transaction amount, so that finally, the amount recognised for the services received, is based on the number of equity instruments that will prospectively be consolidated.

If remuneration based on equity instruments is paid in cash, the amount booked as “Personnel expenses” in the Consolidated income statement is credited to “Non-current financial liabilities - Other non-current financial liabilities” or “Current financial liabilities - Other current financial liabilities” on the liabilities side of the Consolidated statement of financial position, as appropriate. The fair value of the cash-settled compensation is remeasured at each reporting date.

The equity instruments retained to make the payment of the corresponding tax obligations to the employee do not change the qualification of the plan as settled on equity instruments.

4. FINANCING AND FINANCIAL RISK POLICY

The IBERDROLA Group is exposed to risks inherent to the different countries, industries and markets in which it operates and in the businesses it carries out, which could prevent it from achieving its objectives and executing its strategies successfully. Section 4 of the consolidated directors’ report contains additional information on the Group’s risks.

In particular, the *Financing and Financial Risk Policy* of the IBERDROLA Group approved by the Board of Directors identifies the risk factors described below. The IBERDROLA Group has an organisation and systems which allow the financial risks to which the group is exposed to be identified, measured and controlled.

Interest rate risk

The IBERDROLA Group is exposed with regards to its financial liabilities to the risk of fluctuations in interest rates affecting cash flows and fair value.

In order to adequately manage and limit this risk, the IBERDROLA Group yearly determines the desired structure of the debt between fixed and floating interest rate. Once the target structure has been defined, the Group carries out a dynamic management due to which the actions to be taken throughout the year are limited: new sources of financing at a fixed or floating rate and/or the use of interest rate derivatives, whether to set interest rate (or limit its variability) of variable rate debt or to change debt from fix rate to variable rate. Derivatives may also be used to establish the cost of future debt emissions, provided they are highly probable in accordance with the budget or the strategic plan in force.

The debt structure at 31 December 2019 and 2018, after taking into account hedges via derivatives (Note 28), is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Fixed interest rate	23,044,770	22,081,044
Floating interest rate	15,881,520	15,245,428
Loans and borrowings and obligations or other securities (Note 27)	38,926,290	37,326,472
Cash and cash equivalents (Note 19)	2,113,279	2,801,157
CSA Derivatives value guarantee deposits (Notes 14.b and 20)	112,550	77,840
Total net loans and borrowings and obligations or other securities	36,700,461	34,447,475

Floating rate borrowings and cash placements of IBERDROLA Group are basically pegged to market rates (mainly Euribor, Libor-pound sterling, Libor-dollar and the CDI in the case of the debt of Brazilian subsidiaries).

IBOR (Interbank offered rates) Reform

The global reform of benchmark interest rates is crucial and is continuously followed-up by IBERDROLA Group since interbank interest rates (IBORs) are key benchmarks in many contracts of the Group.

In 2019, European institutions continued working on the reform of interest rate indices and in the transition towards alternative indices adapted to the Benchmarks - Regulation (EU) 2016/1011. The European Central Bank started publishing on 2 October 2019 the €STR (*Euro short-term rate*), a Euro short-term interest rate reflecting the financing cost of credit entities in the Eurozone in the wholesale market of daily deposits. EONIA, on the other part, is calculated as €STER +8.5 basis points until it is suspended following its publication on 2 January 2022. In the same line work has been carried out in the United States with the SOFR (*Secured Overnight Financing Rate*) and the United Kingdom with the reformed SONIA (*Sterling Overnight Index Average*), referenced to the RFR (*Risk Free Rate*).

With regards to Euribor, a new hybrid calculation methodology has been developed in 2019 based on real market transactions distinguishing three levels of estimates based on the observability of said transactions. This new methodology was approved by the authorities, so it is not required to amend the existing contracts. For the remaining IBORs, the cease of the publication of 31 December 2021 is expected. For this reason, the main market intervening parties (regulators, central banks, banks, institutions, ...) are working in the definition of the equivalences between those IBORs and the new RFR references.

As a result, IBERDROLA Group considers the on-going IBOR rates reform a risk, due to the impact it may have on any good linked to said references and, more specifically, due to a hypothetical discontinuation of cash flow hedges. In face of the existing uncertainty during the transition, IBERDROLA Group has initiated an action plan with the purpose of minimising any potential negative risk, identifying first the transactions affected, quantifying its notional and reviewing, with the counterparties, the drafting of the agreements.

At 31 December 2019, no amendments to the terms and conditions related to the on-going IBOR reform have been made.

Exchange rate risk

IBERDROLA Group is exposed to currency exchange rate variations used in the different financing and operating transactions compared to the operating currencies used by the different Group companies. Said operating currencies are mainly the Euro, the US dollar, the Sterling Pound and the Brazilian Real.

Moreover, IBERDROLA Group is exposed to exchange rate risks as a result of net investments in foreign companies (mainly Scottish Power, Avangrid, Iberdrola México and Neenergía) arising from fluctuations in cash exchange rate differences of operating currencies other than the Euro. Currency exchange variations imply a risk affecting the valuation of net assets and the translation of profit, impacting IBERDROLA Group's equity situation.

The IBERDROLA Group mitigates exchange rate risks ensures that all its economic flows are carried out in the currency of each Group company, maintaining an adequate percentage of debt in foreign currency and/or through derivatives.

Commodity price risk

The IBERDROLA Group's activities require the acquisition and sale of raw materials (natural gas, coal, fuel oil, gas oil, emission allowances, etc.), whose price is subject to the volatility of international markets (global and regional) where those raw materials are traded.

To reduce uncertainty, mainly linked to expected margin of scheduled IBERDROLA Group transactions, as a result of the volatility of said markets, the Group subscribes financial derivatives to close the cost of own generation and purchase of energy associated to the expected sales of gas and electricity to customers.

Derivatives for managing risk

In relation to the derivatives subscribed to mitigate the abovementioned interest rate, exchange rate and commodities prices risks, in accordance with the risk management policies developed by IBERDROLA Group, the critical terms of hedging instruments are set in terms and conditions equivalent to those of the hedged item, among other:

- The notional value of the hedging instrument is equal to or less than that of the hedged element.
- The underlying currency of the hedging instrument is the same as that of the hedged element.
- The term of the hedging instrument is equal to or less than that of the hedged element.
- The variable benchmark interest rate applicable to the hedging instrument is the same as that of the hedged operation, if appropriate.
- The interest frequency of the hedging instrument is the same as that of the hedged element.

Derivatives subscribed for interest rate hedges, exchange rate hedges and commodity hedges are described in Note 28.

Liquidity risk

Exposure to adverse situations in the debt or capital markets or the IBERDROLA Group's economic and financial situation can hinder or prevent the IBERDROLA Group from obtaining the financing required to properly carry on its business activities.

IBERDROLA Group's liquidity policy is designed to ensure that it can meet its payment obligations without having to obtain financing under unfavourable terms. For this purpose, various management measures are used, such as the arrangement of committed credit facilities of sufficient amount, term and flexibility, diversification of the hedge of financing needs through access to different markets and geographical areas, and diversification of the maturities of the debt issued.

For 2020 the IBERDROLA Group is expected to face the ordinary investment program established with the cash flow generated from its operations and access to the bank financial markets, capital markets and supranational moneylenders (such as EIB), even though, the Group has the treasury and sufficient credits and loans available to meet these investments.

At 31 December 2019 and 2018, the IBERDROLA Group had undrawn loans and credit facilities amounting to Euros 12,186,633 and 10,210,609 thousand, respectively. The breakdown is shown below by maturities of the liquidity position at 31 December 2019 and 2018, considering the balance of the heading "Cash and cash equivalents" of the Consolidated statement of financial position:

Thousands of Euros	2019	2018
Available maturity		
2019	–	671,213
2020	457,631	193,605
2021 ⁽¹⁾	100,259	9,345,791
2022 on	11,628,743	–
Total	12,186,633	10,210,609
Cash and cash equivalents (Note 19)	2,113,279	2,801,157
Liquidity position	14,299,912	13,011,766

(1) The information corresponding to 2018 refers to maturity dates from 2021 on.

Credit risk

The IBERDROLA Group is exposed to the credit risk arising from the possibility that counterparties (customers, financial institutions, partners, insurers, etc.) might fail to comply with contractual obligations.

Risk is properly managed and limited, depending on the type of transaction and the creditworthiness of counterparties. In particular, there is *Corporate credit risk policy* setting the framework and action principles for a correct risk management, developed at business and country level (admission criteria, approval flows, authority levels, rating tools, exposure measurement methodologies, etc.) through procedures.

Below is a breakdown by country of balances at 31 December 2019 and 2018 of financial assets and contract assets:

Thousands of Euros	Other non-current investments (Note 14.b)		Other current financial investments (Note 14.b)		Trade receivables and other non-current assets (Note 15)		Trade and other receivables current (Note 15)	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Spain	78,575	94,686	397,427	186,617	466,959	339,815	2,658,350	2,369,953
United Kingdom	126	61	114,497	40,773	108,149	80,354	1,147,153	1,004,961
United States	53,418	55,187	47,656	65,044	17,821	10,247	991,722	1,021,981
Mexico	9,220	5,947	10,151	2,193	345,462	303,212	156,691	137,505
Brazil	2,857,998	2,514,505	120,974	276,831	1,908,080	76,813	1,320,096	1,227,174
Iberdrola Energía Internacional (IEI)	19,885	15,001	1,856	110	4,499	4,136	400,275	336,808
Total	3,019,222	2,685,387	692,561	571,568	2,850,970	814,577	6,674,287	6,098,382

Balances of "Other current and non-current financial investments" correspond to concession agreements executed with Brazilian public administrations (Note 12) and receivables related to regulated activities in Spain. With regard to credit risk on trade receivables, the historical cost of defaults has remained moderate, below 1% of total turnover of this activity at global level.

With regard to the heading “Cash and cash equivalents” of the Consolidated statement of financial position, the credit quality of the counter parties is BBB+ according to the Standard and Poor’s rating.

IBERDROLA and the United Kingdom leaving the EU (BREXIT)

Following a long process that started with the referendum in 2016, on 31 January 2020 the effective exit of the United Kingdom from the European Union took place under a provisional framework governing the relationships between the two, to be in force until 31 December 2020.

By virtue of said framework and for the purposes of the relationships between both parties, the United Kingdom will continue being considered another European Union country, although it will be able to close trade agreements with third parties. The purpose of this transition periods is for both parties to reach a trade agreement on their relationships from 1 January 2021. If no agreement is reached, the rules governing their relationship will be those of the World Trade Organisation, including its corresponding customs fees and customs controls.

Therefore, risks will have an impact on both the Group’s activities in the United Kingdom and those of the IBERDROLA Group as a whole and will depend on whether an agreement is reached or not and, in case of agreement, on the conditions thereof.

In terms of the potential impacts to ScottishPower, for some time the business has been proactively analysing the performance of negotiations through the multidepartment group and has identified the most relevant risks and the response plans associated. It must be highlighted that risks may arise directly from the lack of agreement but also from the direct impact of other ScottishPower sectors.

Some of the key risks taken into consideration are:

Risk	Measures
<p>Market reactions to the events during the negotiation (such as Sterling Pound and interest rate).</p> <p>In the longer term, there may be positive or negative impact on the UK’s economy and the political and regulatory framework under which the Group operates.</p>	<p>Besides monitoring law developments and on-going measures related to Brexit, the Group’s <i>Financial risk policy</i> bears in mind most common financial risks in the short-term.</p> <p>Any impact in the long-term on the British economy and its impact on the Group and its businesses will be managed based on future performance.</p> <p>A wide ScottishPower’s regulatory team is monitoring any potential risk that may arise and is proactively in touch with regulators.</p>
<p>Interruption of supply change: delays in the import of equipment and components essential for the main maintenance projects and construction projects which may cause delays and extra costs.</p>	<p>Key materials and supplies have been identified placing additional orders to increase stock levels before 31 January 2020.</p> <p>This process could repeat itself at the end of 2020 based on the evolution of the negotiations.</p>
<p>Exposure to exchange rates and entry into force of additional custom fees if WTO’s rules are applied.</p>	<p>Exchange rates have been covered by existing hedge contracts.</p> <p>All critical contracts have been reviewed from a legal perspective in order to determine potential exposure to additional fees.</p>

Additionally, risks have been identified and action plans have been implemented regarding employee movement, transfer of personal data and potential impact on existing trading contracts and contracts of any other nature.

With regards to the possible impact on IBERDROLA Group, it must be highlighted that the main risks to which the Group is subject result from a greater or lower growth in the countries where the Group operates, directly or indirectly affected by Brexit, and the Sterling Pound / Euro translation risk of our businesses in the UK, which are mitigated by:

- ScottishPower represents 16.53% of the reported Groups' total EBITDA.
- Approximately 90% of said EBITDA is generated by the regulated business of distribution and transmission and the output of renewable energy.
- Said regulated business have stable long-term regulatory frameworks with updated income, totally or partially, based on the evolution of inflation or interest rates in the United Kingdom no subject to the risk of greater or lower demand growth at UK level.

Sensitivity analysis

The following sensitivity analyses show, for each type of risk (without reflecting the interdependence among risk variables), how income for the year and equity might be affected by reasonably possible changes in each risk variable at 31 December 2019 and 2018.

- Interest rates:

For calculating the sensitivity of consolidated profit to variations in interest rates, an increase or decrease of 25 basis points is used (the same for all currencies) on the average balance of net debt at variable rate, once derivative hedges have been taken into consideration, For calculating the sensitivity of equity, an increase or decrease of 25 basis points is used (the same for all currencies) on the fair value of cash flow hedges at reporting date, whose variation in fair value is recognised in equity.

The sensitivity of the consolidated profit and the equity to the variation of the interest rates is as follows:

Thousands of Euros	Increase/ decrease in interest rate (basis points)	Impact on profit of the year before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2019	25	(34,727)	101,914	67,187
	(25)	34,727	(101,914)	(67,187)
2018	25	(34,929)	112,923	77,994
	(25)	34,929	(112,923)	(77,994)

- Exchange rates:

For calculating the sensitivity of consolidated profit to variations of exchange rates, a depreciation or appreciation of 5% is applied mainly on the profit of foreign subsidiary companies whose operating currency is different to the Euro (net of subscribed economic hedges), given the risk originated from other transactions in foreign currency, either due to financing or business operation, are covered by exchange rate hedges. The sensitivity of equity to exchange rates is calculated applying an appreciation or depreciation of 5% on net translation differences and on cash flow derivative hedges whose variation in fair value are recognised in equity.

The sensitivity of the consolidated profit and equity of the IBERDROLA Group to changes in the dollar/euro, sterling pound /euro and Brazilian real/euro exchange rate is as follows:

Thousands of Euros	Change in the dollar/euro exchange rate	Impact on profit of the year before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2019	Depreciation 5%	(12,159)	(865,113)	(877,272)
	Appreciation 5%	1,173	956,177	957,350
2018	Depreciation 5%	(3,296)	(774,761)	(778,057)
	Appreciation 5%	3,643	856,315	859,958

Thousands of Euros	Change in the sterling pound/euro exchange rate	Impact on profit of the year before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2019	Depreciation 5%	(11,166)	(693,359)	(704,525)
	Appreciation 5%	7,418	766,344	773,762
2018	Depreciation 5%	(4,137)	(583,133)	(587,270)
	Appreciation 5%	4,573	644,515	649,088

Thousands of Euros	Change in the Brazilian real/euro exchange rate	Impact on profit of the year before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2019	Depreciation 5%	(4,050)	(232,823)	(236,873)
	Appreciation 5%	3,917	257,330	261,247
2018	Depreciation 5%	(1,744)	(221,775)	(223,519)
	Appreciation 5%	1,927	245,120	247,047

- Raw materials:

The sensitivity of the consolidated profit and the equity to changes in the market prices of the main raw materials is as follows:

Year 2019	Variation in price	Thousands of Euros		
		Impact on profit of the year before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
Gas	5%	511	13,796	14,307
	(5)%	(511)	(13,796)	(14,307)
Electricity	5%	(2,356)	30,100	27,744
	(5)%	2,360	(30,337)	(27,977)
CO ₂	5%	-	-	-
	(5)%	-	-	-
Coal	5%	(72)	-	(72)
	(5)%	72	-	72

Year 2018	Variation in price	Thousands of Euros		
		Impact on profit of the year before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
Gas	5%	(2,356)	30,100	27,744
	(5)%	2,360	(30,337)	(27,977)
Electricity	5%	5,825	71,949	77,774
	(5)%	(5,581)	(71,949)	(77,530)
CO ₂	5%	(171)	–	(171)
	(5)%	171	–	171
Coal	5%	(552)	621	69
	(5)%	552	(621)	(69)

5. USE OF ACCOUNTING ESTIMATES

The most significant estimates made by the IBERDROLA Group in these Consolidated annual accounts are as follows:

- Unbilled power supplied:

The revenue figure for each year includes an estimate of the power supplied to customers of liberalised markets but not billed because it had not been measured at year end for reasons relating to the regular meter-reading period. The estimated unbilled power at 31 December 2019 and 2018 amounted to 2,137,292 and 2,066,981 thousand, respectively. This amount is included under the heading "Trade and other receivables" of the Consolidated statements of financial position at 31 December 2019 and 2018 (Note 15).

- Settlements relating to regulated activities in Spain:

At the end of each year, the IBERDROLA Group estimates the definitive settlements relating to regulated activities in Spain for that year, establishing the shortfall in revenue, if any, that corresponds together with the amount that will be recovered in the future on the basis of the announcements made by the authorities and the periods during which this recovery will take place (Note 36).

These estimates are made on the basis of the provisional settlements published up to the date of formulation of the Consolidated annual accounts and all available information on the sector.

- Provisions for contingencies and expenses:

As indicated in Note 3.s, the IBERDROLA Group recognises provisions to cover present obligations arising from past events. For this purpose, it must assess the outcome of certain of legal or other nature procedures that are ongoing at the date of formulation of these Consolidated annual accounts based on the best information available.

- Useful lives:

The IBERDROLA Group's tangible assets operate over very prolonged periods of time. The Group estimates their useful lives for accounting purposes (Note 3.e) taking into account each asset's technical characteristics, the period over which they are expected to generate economic benefits and the applicable legislation in each case.

- Costs incurred in closing and dismantling electrical energy facilities:

The IBERDROLA Group periodically revises the estimates made concerning the costs to be incurred in the dismantling of its facilities.

- Provision for pensions and similar commitments and restructuring plans:

At each year end, the IBERDROLA Group estimates the current actuarial provision required to cover obligations relating to restructuring plans, pensions and other similar obligations to its employees. In several cases, it involves the valuation of the assets affected to certain plans. In making these estimates, the IBERDROLA Group receives advice from independent actuaries and expert appraisers (Notes 3.p, 3.q and 25).

- Fair value of investment property:

The IBERDROLA Group appraises its investment property each year.

- Impairment of assets:

As described in Notes 3.i and 13, the IBERDROLA Group, in accordance with applicable accounting regulations, tests the cash-generating units that require testing for impairment each year. Specific tests are also conducted if indications of impairment are detected. These impairment tests require estimating the future cash flows of the businesses and the most appropriate discount rate in each case. The IBERDROLA Group believes its estimates in this respect are appropriate and consistent with the current market situation and reflect its investment plans and the best available estimate of its future expense and income. Also, the discount rates reflect the risk of cash-generating units.

- Determining lease term:

With the entry into force of IFRS 16 (Note 2.a), in the determination of the lease term, the IBERDROLA Group considers all relevant facts and circumstances that create a significant economic incentive for the lessee to exercise the renewal option or not to exercise the cancellation option. Renewal or termination options are only included in the determination of the lease term if it is reasonably certain that the contract will be extended or will not be cancelled. In the event that a significant event or a significant change in circumstances occurs that may affect the term, the IBERDROLA Group reviews the valuations made in the determination of the lease term.

6. CHANGES TO THE SCOPE OF CONSOLIDATION AND OTHER SIGNIFICANT TRANSACTIONS

In 2019 the IBERDROLA GROUP carried out the following transactions:

- On 6 March 2019, Iberdrola España, S.A.U., I-DE Redes Eléctricas Inteligentes, S.A.U. (formerly, Iberdrola Distribución Eléctrica, S.A.U.) and Iberdrola Generación, S.A.U., belonging to the IBERDROLA Group, reached an agreement with Lyntia Networks, S.A.U. for the assignment of the right of use of part of its dark fibre optic network. The operation involves the exclusive long-term assignment to Lyntia Networks of the right of use of the surplus capacity of the fibre optic network to which the aforementioned companies have a right of ownership or right to exclusive long-term use. Furthermore, as part of the operation, Lyntia Networks is due to acquire Iberdrola Spain, S.A.U.'s portfolio of contracts with fibre optic (dark and lit) customers. The total consideration for the operation, subject to the usual adjustments for this type of operation, amounts to Euros 260 million.

Following the authorisation from the Spanish Market and Competition Commission, the closing of the transaction took place in August 2019, resulting in a credit of Euros 48,630 thousand under the heading "Revenue" of the Consolidated income statement for 2019 for the sale of the contracts portfolio in force with optic fibre customers and a credit of Euros 113,816 thousand under the heading "Gains on disposal of non-current assets" of the Consolidated income statement for 2019 due to the long-term assignment of the right to use the exceeding capacity of the optic fibre networks (Note 41).

- On 20 June 2019, Iberdrola, S.A., Iberdrola Generación, S.A.U. and Iberdrola Generación España, S.A.U. reached an agreement with Pavilion Energy Trading & Supply Pte. Ltd. (Pavilion) for the assignment of their contractual position in the portfolio of liquid natural gas (LNG) supply contracts portfolio in the long term, sea transportation and use of gas infrastructures, as well as other ancillary contracts related to LNG.

In consideration for this Transaction, Pavilion will pay to IBERDROLA Group the amount of Euros 119 million, to be paid in accordance with the transaction's schedule subject to upward and downward changes agreed, as well as the value of the LNG inventory transferred at the time of closing the transaction. The closing of the transaction will take place on 1 January 2020, and Euros 96 million have been collected in advance on 31 December 2019.

As a result of the transaction, in 2019, IBERDROLA has recognised LNG supply contracts which had not been previously recognised in the financial statements until the time of delivery at their fair value. These contracts were maintained for the purposes of supplying LNG based on expected use needs (own use contracts excluded from the scope of IFRS 9). "Financial instruments". Moreover, raw materials and exchange rate hedges whose purpose was to manage risks associated to assigned LNG contracts have been discontinued

As a result, IBERDROLA Group has recognised an income of Euros 86,747 thousand under the heading "Revenue" of the Consolidated income statement for 2019 and a reduction of Euros 85,109 thousand in the heading "Valuation adjustments" of the Consolidated statement of financial position at 31 December 2019.

Transactions with non-controlling interests

- On 27 June 2019, Neoenergia S.A., initial public offering took place in Brazil at a final price per share of BRL 15.65 (equivalent to Euros 3.576). In July the gross amount of Euros 101,835 thousand was collected. Prior to this, IBERDROLA Group had an interest of 52.45% that subsequent to the transaction was reduced to 50%. Later on, Iberdrola Group increased its interest in Neoenergia Group up to 51.04% by purchasing 12,618,700 shares to Iberdrola, S.A.

Since IBERDROLA Group holds the control over Neoenergia Group, the transaction was recognised as a transaction in non-controlling interests resulting in an increase of Euros 72,384 thousand of the heading "Non-controlling shares" (Note 20), a charge of Euros 70,498 thousand under the heading "Other reserves" and a credit of Euros 38,547 thousand under the heading "Translation differences" of the Consolidated statement of financial position at 31 December 2019.

- On 30 August 2019 the sale of 40% of the share capital in East Anglia One Ltd, holder of the offshore project East Anglia One in the United Kingdom, to Bilbao Offshore Holding Ltd, subsidiary of Macquarie Group was completed. Since IBERDROLA Group holds the control over the company, the transaction was recognised as a transaction in non-controlling interests resulting in an increase of Euros 765,293 thousand in "Non-controlling shares" (Note 20), a credit of Euros 515,718 thousand under the heading "Other reserves" and a charge of Euros 16,223 thousand under the heading "Translation differences" of the Consolidated statement of financial position at 31 December 2019. Additionally, subsequent share capital increases which have resulted in a credit of Euros 196,320 thousand under the heading "Net equity - Non-controlling interests" of the Consolidated statement of financial position at 31 December 2019 (Note 20).

With regards to 2018, the IBERDROLA Group carried out the following sales of interests in Group companies:

- On March 2018, Avangrid Renewables Holdings, Inc., subsidiary company of AVANGRID, executed the sale of the gas trading business operated through Enstor Energy Services, LLC, to CCI U.S. Asset Holdings LLC, subsidiary of Castleton Commodities International, LLC. Additionally, on 1 May 2018 the Final agreement for the sale of Enstor Gas, LLC, operating the gas storage business unit, to Amphora Gas Storage USA, LLC, subsidiary of ArcLight Capital Partners, LLC, was executed.

Said transactions resulted in gross losses of Euros 13,881 thousand recorded under the heading "Losses on disposal of non-current assets" of the Consolidated financial statement for 2018 (Note 41).

- In November 2018, 90% of Iberdrola Energía Solar de Puertollano, S.A. was sold to Sociedad Ence Energía, S.L.U. for Euros 72,300 thousand. The transaction resulted in a gross surplus of 12,470 thousand, which was recorded under the heading "Earnings from sales of non-current assets" of the Consolidated income statement for (Note 41).
- On 16 October 2018 Scottish Power agreed the sale of Scottish Power Generation Ltd. to Drax Group Plc. (DRAX). The transaction was completed on 31 December 2018 for Sterling Pounds 693 million (Euros 779,101 thousand). The transaction implied a gross capital gain of Euros 25,579 thousand, which was registered under the heading "Gains on disposal of non-current assets" of the Consolidated income statement for 2018 (Note 41).

- In December 2018, the IBERDROLA Group sold 80% stake in Coyote Ridge Wind LLC to WEC Infrastructure, for an amount of Euros 50,789 thousand, which implied a gross capital gain of Euros 23,116 thousand recorded under the heading "Gains on sale of non-current assets" of the Consolidated income statement for 2018 (Notes 14.a and 41).

7. SEGMENT INFORMATION

The IBERDROLA Group combines their segments tending to the nature of the business activities in the different geographic areas in which said activities take place. The operating segments identified by the IBERDROLA Group bearing in mind the changes described in Note 2.d are as follows:

- Networks business: including all the energy transmission and distribution activities, and any other regulated activity carried out in Spain, the United Kingdom, the United States and Brazil.
- Liberalised business: includes the electricity generation and supply businesses carried out by the Group in Spain, the United Kingdom, Mexico, Brazil and the rest of the countries within the Iberdrola Energía Internacional (IEI) holding.
- Renewables business: activities related to renewable energies (principally wind, solar and hydroelectric) in Spain, the United Kingdom, the United States, Brazil and the rest of the countries within the Iberdrola Energía Internacional (IEI) holding.
- Other businesses: groups supply and gas storage up to the moment of sale (Notes 6 and 41) and other non-energy businesses.

Additionally, Corporation includes the costs of the Group's structure (Single Corporation), and of 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 usually executed under market conditions.

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

Business segment reporting for 2019:

Thousands of Euros	Liberalised						Renewables						Networks					Other business, Corporation and adjustments	Total	
	Spain	United Kingdom	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Brazil			Total
REVENUE																				
External revenues	12,007,169	4,489,721	2,357,676	275,250	1,127,582	20,257,398	396,198	82,051	1,063,643	87,260	133,919	334,909	2,097,980	1,997,213	1,211,359	4,271,789	6,438,846	13,919,207	163,323	36,437,908
Intersegment sales	793,673	36,757	(30,678)	316,843	22,767	1,139,362	931,558	644,835	–	29,083	81,270	49,559	1,736,305	124,955	161,275	–	4,485	290,715	(5,851)	3,160,531
Eliminations						(670,567)							–					–	(2,489,964)	(3,160,531)
Total						20,726,193							3,834,285					14,209,922	(2,332,492)	36,437,908
RESULTS																				
Segment operating profit	1,114,748	(242,603)	636,406	41,634	(58,131)	1,492,054	394,826	363,155	116,394	43,448	76,278	227,805	1,221,906	1,162,449	641,037	713,278	779,569	3,296,333	(133,072)	5,877,221
Result of equity-accounted investees - net of taxes	5,568	–	–	–	–	5,568	8,594	992	(7,451)	–	6,741	(3)	8,873	2,259	21	9,417	–	11,697	(12,140)	13,998
ASSETS																				
Segment assets	7,023,024	6,742,499	4,995,347	466,664	462,003	19,689,537	9,106,209	7,216,645	13,216,433	1,459,204	1,577,999	2,307,791	34,884,281	12,377,117	13,357,858	22,407,312	6,342,791	54,485,078	4,280,374	113,339,270
Equity-accounted investees	23,008	–	–	–	–	23,008	59,513	9,311	444,791	–	665,750	–	1,179,365	29,186	3	123,839	–	153,028	601,426	1,956,827
LIABILITIES																				
Segment liabilities	3,065,195	1,364,898	1,227,133	115,523	158,819	5,931,568	1,120,927	1,278,708	4,040,677	297,830	255,514	344,632	7,338,288	5,496,257	2,644,733	7,255,157	2,551,720	17,947,867	2,098,912	33,316,635
OTHER INFORMATION																				
Total cost incurred during the period in the acquisition of property, plant and equipment and non-current intangible assets	306,940	213,142	312,286	32,564	81,953	946,885	727,426	954,482	1,314,524	111,210	32,114	58,885	3,198,641	548,763	688,908	1,263,662	11,140	2,512,473	168,935	6,826,934
Valuation adjustments, trade and other receivables (expense/income)	44,886	78,058	(402)	148	10,898	133,588	(149)	556	1,605	970	(210)	(751)	2,021	2,673	2,165	82,164	78,941	165,943	(4,237)	297,315
Amortization and depreciation	396,933	267,302	126,030	22,050	22,305	834,620	339,310	161,171	469,732	41,188	52,020	95,900	1,159,321	537,112	341,863	507,737	367,609	1,754,321	126,151	3,874,413
Reversal for asset impairment	–	–	–	–	–	–	–	–	(20,024)	–	–	–	(20,024)	–	–	–	–	–	–	(20,024)
(Charges)/Reversal for other provisions	1,152	7,345	(42)	10	(32)	8,433	1,208	96	23,588	33	(3,129)	45	21,841	8,453	1,760	27,170	8,181	45,564	(794)	75,044
Expenses for the period other than depreciation and amortisation not resulting in cash outflows	27,322	4,135	2,334	–	14	33,805	10,097	–	(591)	–	–	453	9,959	40,479	21,586	77,331	7,380	146,776	75,108	265,648

Business segment reporting for 2018:

Restated (Note 2.d)	Liberalised						Renewables						Networks					Other business, Corporation and adjustments	Total	
	Spain	United Kingdom	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Brazil			Total
REVENUE																				
External revenues	11,810,659	4,942,455	2,252,552	477,457	978,369	20,461,492	367,908	119,913	1,026,925	92,976	56,100	250,988	1,914,810	1,994,890	1,113,669	4,274,777	5,184,180	12,567,516	132,055	35,075,873
Intersegment sales	778,788	80,220	(6,303)	315,432	49,323	1,217,460	1,328,206	577,560	–	(1,981)	187,701	38,697	2,130,183	130,644	161,879	–	1,199	293,722	3,046	3,644,411
Eliminations						(686,775)							–					–	(2,957,636)	(3,644,411)
Total						20,992,177							4,044,993					12,861,238	(2,822,535)	35,075,873
RESULTS																				
Segment operating profit	520,350	55,301	533,518	71,386	(41,484)	1,139,071	588,298	355,549	213,982	39,803	76,071	123,218	1,396,921	1,174,156	605,293	712,063	542,756	3,034,268	(130,887)	5,439,373
Result of equity-accounted investees - net of taxes	23,590	–	–	–	–	23,590	3,624	1,527	(3,548)	–	11,303	(9)	12,897	2,769	(18)	11,067	–	13,818	5,599	55,904
ASSETS																				
Segment assets	6,779,470	6,297,480	4,483,086	468,940	312,476	18,341,452	8,386,777	5,555,003	11,967,083	1,327,027	1,560,275	2,282,958	31,079,123	12,117,292	12,141,816	21,308,069	5,186,168	50,753,345	3,631,729	103,805,649
Equity-accounted investees	10,409	–	–	–	–	10,409	62,216	7,834	195,226	–	661,553	–	926,829	29,773	–	123,696	–	153,469	618,811	1,709,518
LIABILITIES																				
Segment liabilities	2,462,164	1,342,529	1,085,490	122,222	115,533	5,127,938	1,135,109	907,132	3,841,665	316,362	240,994	358,465	6,799,727	5,587,747	2,456,186	7,121,821	1,694,157	16,859,911	1,933,997	30,721,573
OTHER INFORMATION																				
Total cost incurred during the period in the acquisition of property, plant and equipment and non-current intangible assets	204,677	194,654	628,717	16,223	26,127	1,070,398	369,023	365,037	307,934	324,683	99,184	221,090	1,686,951	495,395	564,223	1,053,862	725,883	2,839,363	148,926	5,745,638
Valuation adjustments, trade and other receivables (expense/income)	39,209	66,495	2,323	(287)	7,349	115,089	9	(355)	(72)	14	260	1,059	915	611	955	72,462	61,629	135,657	1,995	253,656
Amortization and depreciation	469,628	169,129	102,485	20,742	8,471	770,455	323,898	159,641	410,177	25,616	45,595	119,533	1,084,460	519,395	313,229	474,685	344,740	1,652,049	80,135	3,587,099
Charges for asset impairment	–	13,565	–	–	–	13,565	–	–	–	–	–	–	–	–	–	–	–	–	–	13,565
Reversal for asset impairment	–	–	–	–	–	–	–	–	(52,688)	–	–	–	(52,688)	–	–	–	–	–	–	(52,688)
Write-off (Charges)/Reversal for other provisions	(2,788)	2,731	96	170	–	209	5,498	2,672	1,669	(1)	7,477	(2,220)	15,095	15,200	(34)	71,993	5,873	93,032	(438)	107,898
Expenses for the period other than depreciation and amortisation not resulting in cash outflows	13,492	8,189	(3,730)	–	310	18,261	5,415	–	429	–	–	363	6,207	14,744	8,033	72,905	2,845	98,527	95,299	218,294

Additionally, the breakdown of net revenue and non-current assets by geographical area is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Revenue		
Spain	14,513,186	14,165,352
United Kingdom	5,807,931	6,247,767
United States	5,335,432	5,323,913
Mexico	2,443,367	2,337,219
Brazil	6,848,015	5,717,489
IEI	1,489,977	1,284,133
Total	36,437,908	35,075,873

Thousands of Euros	31.12.2019	31.12.2018
Non-current assets (*)		
Spain	23,553,881	22,681,809
United Kingdom	24,916,547	21,983,136
United States	32,769,241	30,071,080
Mexico	5,426,599	4,892,649
Brazil	4,821,302	5,703,513
IEI	2,294,033	2,205,973
Total	93,781,603	87,538,160

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

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

Thousands of Euros	31.12.2019	31.12.2018
Segment assets	113,339,270	103,805,649
Non-current financial investments	5,818,537	5,191,132
Current financial investments	1,097,920	1,177,821
Cash and cash equivalents	2,113,279	2,801,157
Assets held for sale	–	62,164
Total assets	122,369,006	113,037,923

Thousands of Euros	31.12.2019	31.12.2018
Segment liabilities	33,316,635	30,721,573
Equity	47,194,665	43,976,554
Non-Current financial liabilities	32,404,388	31,279,445
Loans and borrowings and obligations or other securities	30,125,903	30,751,710
Equity instruments having the substance of a financial liability	193,384	140,582
Derivative financial instruments	471,221	387,153
Leases	1,613,880	–
Current financial liabilities	9,453,318	7,059,790
Loans and borrowings and obligations or other securities	8,800,387	6,574,762
Equity instruments having the substance of a financial liability	22,149	36,647
Derivative financial instruments	477,545	448,381
Leases	153,237	–
Liabilities linked to assets held for sale	–	561
Total liabilities and equity	122,369,006	113,037,923

8. INTANGIBLE ASSETS

The changes in 2019 and 2018 in intangible assets and the appropriate accumulated amortisations and procurement has been as follows:

Thousands of Euros	Balance at 01.01.2018	First application of IFRS 15 (Note 2.a.)	Translation differences	Modification of the consolidation perimeter (Note 6)	Additions and charges/(reversals)	Capitalised Personnel expenses (Note 38)	Transfers	Decreases, disposals or reductions	Balance at 31.12.2018	Translation differences	Additions and charges/(reversals)	Capitalised Personnel expenses (Note 38)	Transfers	Decreases, disposals or reductions	Balance at 31.12.2019
Cost:															
Goodwill	7,932,404	–	(77,605)	(16,956)	–	–	–	–	7,837,843	359,228	–	–	–	(44,153)	8,152,918
Concessions, Patents, licenses, trademarks and others	7,930,667	–	(31,055)	(318,228)	5,704	8,725	23,888	(3,858)	7,615,843	168,903	30,535	2,726	(7,295)	(132)	7,810,580
Intangibles assets under IFRIC 12 (Notes 3.b and 12)	5,506,356	–	(688,654)	–	739,358	55,408	(271,146)	(64,639)	5,276,683	(41,521)	–	–	(512,330)	(65,425)	4,657,407
Computer software	2,040,009	–	25,506	(12,057)	144,163	8,644	(10,823)	(18,831)	2,176,611	45,187	154,011	11,166	1,271	(34,629)	2,353,617
Customer acquisition costs	–	298,028	(2,564)	–	161,784	–	–	–	457,248	9,869	222,018	–	300	(42,605)	646,830
Other intangible assets	3,549,070	–	97,144	–	24,805	1,122	(73,742)	(332,303)	3,266,096	87,753	10,126	–	(372,771)	(14,938)	2,976,266
Total cost	26,958,506	298,028	(677,228)	(347,241)	1,075,814	73,899	(331,823)	(419,631)	26,630,324	629,419	416,690	13,892	(890,825)	(201,882)	26,597,618
accumulated depreciation and procurement:															
Concessions, Patents, licenses, trademarks and others	823,497	–	(36,948)	(305,838)	141,299	–	2,215	–	624,225	17,546	241,336	–	3,033	(132)	886,008
Intangibles assets under IFRIC 12 (Notes 3.b and 12)	2,467,907	–	(309,147)	–	260,855	–	5,519	(47,520)	2,377,614	(30,456)	281,630	–	396	(50,557)	2,578,627
Computer software	1,467,064	–	16,599	(11,374)	132,754	–	(10,823)	(17,695)	1,576,525	30,424	162,625	–	384	(34,499)	1,735,459
Customer acquisition costs	–	123,027	(1,073)	–	80,580	–	–	–	202,534	3,653	121,955	–	–	(42,605)	285,537
Other intangible assets	674,161	–	14,218	–	121,648	–	(1,061)	(299,962)	509,004	12,921	103,220	–	(882)	(12,114)	612,149
Total accumulated depreciation	5,432,629	123,027	(316,351)	(317,212)	737,136	–	(4,150)	(365,177)	5,289,902	34,088	910,766	–	2,931	(139,907)	6,097,780
Impairment allowance (Notes 7 and 40)	377,850	–	15,012	–	(52,688)	–	–	–	340,174	5,919	(20,024)	–	(194,092)	–	131,977
Total accumulated depreciation and procurement	5,810,479	123,027	(301,339)	(317,212)	684,448	–	(4,150)	(365,177)	5,630,076	40,007	890,742	–	(191,161)	(139,907)	6,229,757
Total net cost	21,148,027	175,001	(375,889)	(30,029)	391,366	73,899	(327,673)	(54,454)	21,000,248	589,412	(474,052)	13,892	(699,664)	(61,975)	20,367,861

The amounts incurred in due to research and development (expenses and investment) activities in 2019 and 2018 totals Euros 280,395 and 266,547 thousand respectively.

The fully amortised intangible assets in use at 31 December 2019 and 2018 amounted to 1,214,042 and 1,122,173 thousand, respectively.

The IBERDROLA Group maintains at 31 December 2019 and 2018 commitments to acquire intangible assets for Euros 16,184 and 18,942 thousand, respectively.

In addition, at 31 December 2019 and 2018, there were no significant restrictions on the ownership of intangible assets, except for the regulated businesses that may require authorisation of the corresponding regulator for specific transactions.

The allocation of goodwill to the cash-generating units at 31 December 2019 and 2018 is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Electricity and gas generation and supply in the UK	4,503,920	4,256,753
Regulated activities in the UK	881,318	832,954
Renewables in the UK	524,503	495,720
Renewable in the USA	839,829	866,431
Regulated activities in the	1,065,977	1,044,989
Regulated activities in Brazil	151,426	153,038
Electricity generation and retail in the UK	40,636	41,059
Renewable activities in Brazil	119,707	120,976
Other activities	25,602	25,923
Total	8,152,918	7,837,843

The allocation of indefinite life and in-progress intangible assets at 31 December 2019 and 2018 to the different cash generating units is as follows:

Thousands of Euros	2019			2018		
	Intangible assets with indefinite useful lives	Intangible assets in progress	Total	Intangible assets with indefinite useful lives	Intangible assets in progress	Total
Electricity distribution in Scotland	781,628	–	781,628	738,734	–	738,734
Electricity distribution in Wales and England	752,261	–	752,261	710,979	–	710,979
Electricity transmission in the UK	297,075	–	297,075	280,772	–	280,772
Renewable in the USA	–	41,738	41,738	–	126,756	126,756
Electricity and gas distribution in New York (NYSEG)	1,062,289	–	1,062,289	1,041,374	–	1,041,374
Electricity and gas distribution in New York (RG&E)	957,493	–	957,493	938,641	–	938,641
Electricity transmission and distribution in Maine (CMP)	263,803	–	263,803	258,609	4,908	263,517
Electricity transmission and distribution in Connecticut (UI)	1,106,269	–	1,106,269	1,084,487	–	1,084,487
Gas distribution in Connecticut (CNG)	279,143	–	279,143	273,647	–	273,647
Gas distribution in Connecticut (SCG)	547,989	–	547,989	537,200	–	537,200
Gas distribution in Massachusetts (BGC)	37,374	–	37,374	36,638	–	36,638
Other	–	395,771	395,771	–	387,560	387,560
Total	6,085,324	437,509	6,522,833	5,901,081	519,224	6,420,305

The undefined useful life assets mostly correspond to the acquisition cost of licences to operate in different businesses that make up the main activity of the activities performed by the IBERDROLA Group.

9. INVESTMENT PROPERTY

The changes in 2019 and 2018 in the IBERDROLA Group's investment property were as follows:

Thousands of Euros	Balance at 01.01.2019	Additions and (charges)/ reversals	Transfers	Decreases, disposals or reductions	Balance at 31.12.2019
Investment property	513,072	2,673	1,469	(95,320)	421,894
Impairment allowance	(25,845)	1,071	(118)	4,479	(20,413)
Accumulated depreciation	(58,635)	(7,781)	–	7,221	(59,195)
Total net cost	428,592	(4,037)	1,351	(83,620)	342,286

Thousands of Euros	Balance at 01.01.2018	Additions/and (charges)/ reversals	Transfers	Decreases, disposals or reductions	Balance at 31.12.2018
Investment property	501,959	11,878	(23)	(742)	513,072
Impairment allowance	(26,805)	960	–	–	(25,845)
Accumulated depreciation	(51,125)	(7,533)	(49)	72	(58,635)
Total net cost	424,029	5,305	(72)	(670)	428,592

The investment property owned by the IBERDROLA Group relates primarily to properties destined for leasing. The income accrued during fiscal years 2019 and 2018 for this operation are Euros 28,411 and 26,764 thousand, respectively, and were registered under the heading "Revenue" of the Consolidated income statement. The operating expenses directly related to investment properties during fiscal years 2019 and 2018 were not significant.

The fair value of the investment property in use at 31 December 2019 and 2018 amounted to Euros 394,916 and Euros 479,864 thousand, respectively. This fair value (classified in Level 3) is determined via expert independent appraisals made annually in accordance with the Assessment Standards published by the Royal Institution of Chartered Surveyors (RICS) of Great Britain, in their January 2014 edition. The assessments on 31 December 2019 and 2018 have been made by Knight Frank España.

The assets have been valued individually and not as part of a property portfolio.

The methods applied for the calculation of fair value have been the discount of cash flows, the capitalisation of revenue and the comparison method, contrasted, as far as possible, with comparable transactions to reflect the reality of the market and the prices to which they are currently closing the asset operations of similar characteristics to the reference operations.

The discount of cash flows is based on a prediction of the probable net income that real estate investment will generate for a period of time and it considers its residual value at the end of the period. Cash flows are discounted at an internal rate of return that reflects the urban, construction and business risk of the asset.

The key variables and assumptions of the cash flow discount method are:

- Net income that the property will generate for a certain period of time, considering the initial contractual situation, development of renters and expected income, marketing costs, divestment expenses (variable percentage depending on the sale price), etc.
- Discount rate or objective internal return rate adjusted to reflect the risk that the investment entails depending on the localisation, occupation, renter quality, property age, etc.
- Disposal return, which consists of an estimate of the exit (sale) price of the property applying an estimated return for the close of the transaction at that date, considering the criteria of obsolescence, liquidity and market uncertainty.

For property for hire that does not include many variables as extensive and involves leased property for a period of time greater than 10 years and up and one renter, the capitalisation method for income is usually applied. This method consists of the perpetual capitalisation of the current contractual income via a capitalisation rate that inherently includes the risks and uncertainties that could arise in the market.

At 31 December 2019 and 2018, none of the investment properties had been fully depreciated and there were no restrictions on their realisation. Moreover, there were no contractual obligations to acquire, build, develop, repair or maintain investment property.

10. PROPERTY, PLANT AND EQUIPMENT

The changes in 2019 and 2018 in Property, plant and equipment and the appropriate accumulated amortisations and procurement has been as follows:

Thousands of Euros	Balance at 01.01.2018	Translation differences	Modification of the consolidation perimeter (Note 6)	Additions and charges/(reversals)	Transfers	Disposals/ Derecognitions	Write-off	Balance at 31.12.2018	First application of IFRS 16 (Note 2.a.)	Translation differences	Additions	Charges/Reversals	Transfers	Disposals/ Derecognitions	Balance at 31.12.2019
Cost:															
Land and buildings	2,186,770	42,770	(59,955)	61,919	121,624	(28,845)	(2,289)	2,321,994	(117,882)	29,273	102,075	-	254,661	(50,503)	2,539,618
Electric energy technical facilities:															
Hydroelectric power plants	7,301,185	(45,882)	(314,643)	12,006	5,303	-	(1,478)	6,956,491	-	(2,818)	171	-	169,708	-	7,123,552
Thermal power plants	1,220,389	8	-	81	5,269	(73)	-	1,225,674	-	4	930	-	959	-	1,227,567
Combined cycle power plant	8,139,345	122,547	(1,218,052)	11,760	243,107	(75,290)	-	7,223,417	-	77,601	82,434	-	1,206,249	(17,701)	8,572,000
Nuclear power plants	7,622,997	(1)	-	15,977	106,638	(54,040)	-	7,691,571	-	-	35,424	-	135,268	(65,516)	7,796,747
Wind farms and other renewable	23,162,963	379,751	111,256	40,334	1,408,562	(253,536)	(20,713)	24,828,617	(96,687)	498,535	419,278	-	1,918,596	(226,292)	27,342,047
Facilities:															
Gas storage	101,205	2,369	-	11	41,242	(4,072)	(1,223)	139,532	-	5,581	44	-	32,783	-	177,940
Electricity transmission	7,891,912	139,539	-	2,521	411,060	(5,304)	(21,672)	8,418,056	-	318,085	28,885	-	459,464	(21,882)	9,202,608
Electricity distribution	28,788,742	183,229	16,121	88,936	1,181,079	(109,930)	(22,970)	30,125,207	-	582,541	111,474	-	1,320,379	(51,216)	32,088,385
Gas distribution	2,768,888	131,024	-	-	138,576	(6,097)	(3,358)	3,029,033	-	61,687	-	-	231,777	(13,951)	3,308,546
Meters and metering devices	2,050,701	24,581	-	102,068	68,453	(278,054)	(1,243)	1,966,506	-	47,185	102,027	-	49,997	(35,121)	2,130,594
Dispatching centres and other facilities	1,981,267	5,365	(32,358)	15,960	136,040	(17,601)	(2,621)	2,086,052	-	20,678	36,331	-	137,130	(145,552)	2,134,639
Total operating electric energy technical facilities	91,029,594	942,530	(1,437,676)	289,654	3,745,329	(803,997)	(75,278)	93,690,156	(96,687)	1,609,079	816,998	-	5,662,310	(577,231)	101,104,625
Others in use	1,712,004	33,482	(4,905)	203,381	4,017	(48,107)	(679)	1,899,193	(48,943)	20,815	212,963	-	166,482	(54,286)	2,196,224
On-going electric energy technical facilities	6,479,773	40,190	(23,006)	4,381,212	(3,778,551)	(4,233)	-	7,095,385	(137)	205,569	5,521,711	-	(5,565,413)	(20,027)	7,237,088
Prepayments and other PP&E under construction (*)	357,117	4,022	(4,185)	507,962	(76,927)	(229,842)	(2,803)	555,344	-	6,034	589,202	-	(311,255)	(197,282)	642,043
TOTAL COST	101,765,258	1,062,994	(1,529,727)	5,444,128	15,492	(1,115,024)	(81,049)	105,562,072	(263,649)	1,870,770	7,242,949	-	206,785	(899,329)	113,719,598

(*) Prepayment amounts at 31 December 2019 and 2018 amount to Euros 136,971 and 152,724 thousand respectively.

Thousands of Euros	Balance at 01.01.2018	Translation differences	Modification of the consolidation perimeter	Additions and charges/(reversals)	Transfers	Disposals/Derecognitions	Write-off	Balance at 31.12.2018	First application of IFRS 16 (Note 2.a.)	Translation differences	Additions	Charges/(Reversals)	Transfers	Disposals/Derecognitions	Balance at 31.12.2019
ACCUMULATED AMORTISATION AND DEPRECIATED															
Buildings	458,782	8,006	3,515	84,732	–	(5,185)	–	549,850	(18,560)	8,065	–	61,158	(209)	(5,348)	594,956
Electric energy technical facilities:															
Hydroelectric power plants	3,977,776	(12,340)	(172,034)	108,089	–	–	–	3,901,491	–	(10,506)	–	105,794	–	–	3,996,779
Thermal power plants	1,062,120	8	–	48,862	–	(73)	–	1,110,917	–	4	–	53,214	–	–	1,164,135
Combined cycle power plant	3,156,180	39,589	(674,419)	223,172	–	(60,160)	–	2,684,362	–	31,191	–	232,419	–	(11,109)	2,936,863
Nuclear power plants	5,725,982	–	–	284,433	–	(52,857)	–	5,957,558	–	–	–	183,245	–	(64,623)	6,076,180
Wind farms and other renewable	7,337,064	125,049	97,141	830,022	–	(101,314)	–	8,287,962	(22,701)	136,745	82,988	851,476	–	(79,177)	9,257,293
Facilities:															
Gas storage	44,441	426	–	3,743	–	(3,822)	–	44,788	–	2,179	–	5,572	13,965	–	66,504
Electricity transmission	1,709,449	37,877	–	141,697	–	(3,447)	–	1,885,576	–	70,028	–	183,556	–	(11,806)	2,127,354
Electricity distribution	9,990,459	75,883	9,867	766,929	–	(96,488)	–	10,746,650	–	174,175	–	774,473	–	(37,932)	11,657,366
Gas distribution	1,123,173	52,834	–	48,162	–	(3,977)	–	1,220,192	–	24,585	–	29,359	–	(9,338)	1,264,798
Meters and metering devices	1,006,790	7,553	–	112,020	–	(265,865)	–	860,498	–	23,049	–	116,728	–	(24,776)	975,499
Dispatching centres and other facilities	762,611	(650)	(32,856)	72,020	–	(13,253)	–	787,872	–	8,834	225	96,058	1,846	(65,251)	829,584
Total operating electric energy technical facilities	35,896,045	326,229	(772,301)	2,639,149	–	(601,256)	–	37,487,866	(22,701)	460,284	83,213	2,631,894	15,811	(304,012)	40,352,355
Others in use	1,049,602	12,304	(1,573)	118,549	(9,722)	(43,316)	–	1,125,844	(6,923)	20,531	35	122,696	(65)	(52,105)	1,210,013
Total accumulated depreciation	37,404,429	346,539	(770,359)	2,842,430	(9,722)	(649,757)	–	39,163,560	(48,184)	488,880	83,248	2,815,748	15,537	(361,465)	42,157,324
Impairment allowance (Note 40)	278,450	4,061	–	13,565	–	(6,884)	–	289,192	–	(275)	–	–	4,977	(20,829)	273,065
Total ACCUMULATED AMORTISATION AND DEPRECIATED	37,682,879	350,600	(770,359)	2,855,995	(9,722)	(656,641)	–	39,452,752	(48,184)	488,605	83,248	2,815,748	20,514	(382,294)	42,430,389
TOTAL NET COST	64,082,379	712,394	(759,368)	2,588,133	25,214	(458,383)	(81,049)	66,109,320	(215,465)	1,382,165	7,159,701	(2,815,748)	186,271	(517,035)	71,289,209

The breakdown by business of the main investments made in property, plant and equipment in 2019 and 2018, not including the capitalisation of personnel expenses (Note 38) and of financial costs (Note 42), is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Liberalised business		
Spain	172,932	127,177
United Kingdom	111,163	112,480
Mexico	324,970	620,012
Brazil	31,958	16,147
Iberdrola Energía Internacional	259	49
Renewable Business		
Spain	767,552	366,609
United Kingdom	947,931	364,493
United States	1,331,897	304,186
Mexico	110,688	340,641
Brazil	70,493	95,633
Iberdrola Energía Internacional	69,092	220,858
Networks business		
Spain	523,673	477,772
United Kingdom	589,304	558,695
United States	1,228,706	1,019,288
Brazil	13,787	17,708
Corporation and other	67,300	63,812
Total	6,361,705	4,705,560

The fully amortised tangible assets in use at 31 December 2019 and 2018 amounted to 2,502,064 and 2,211,844 thousand, respectively.

The IBERDROLA Group maintains at 31 December 2019 and 2018 commitments to acquire tangible assets for Euros 4,196,211 and 3,308,813 thousand, respectively.

11. RIGHT-OF-USE ASSET

Changes in 2019 in right-of-use assets resulting from contracts in which the IBERDROLA Group is the lessor have been as follows:

Thousands of Euros	Balance at 31.12.2018	Application of IFRS 16	Translation differences	Additions and charges/ (reversals)	Re-evaluation/changes of lease liabilities	Disposals	Balance at 31.12.2019
Cost:							
Land	–	957,378	22,836	229,045	78,840	(1,093)	1,287,006
Buildings	–	282,750	7,715	22,387	(9,248)	(387)	303,217
Equipment	–	68,499	957	2,732	5,429	(15)	77,602
Fleet	–	41,417	1,395	25,020	3,183	(314)	70,701
Other rights of use	–	118,415	1,938	108,060	11,911	(853)	239,471
Total cost	–	1,468,459	34,841	387,244	90,115	(2,662)	1,977,997
accumulated depreciation and procurement:							
Land	–	–	(521)	(58,115)	–	1	(58,635)
Buildings	–	(19,307)	(193)	(39,862)	–	–	(59,362)
Equipment	–	(4,745)	(203)	(9,623)	–	–	(14,571)
Fleet	–	(2,178)	(293)	(19,807)	–	101	(22,177)
Other rights of use	–	(22,701)	(858)	(16,998)	–	–	(40,557)
Total accumulated depreciation	–	(48,931)	(2,068)	(144,405)	–	102	(195,302)
Impairment allowance	–	–	(14)	(434)	–	–	(448)
Total accumulated depreciation and procurement	–	(48,931)	(2,082)	(144,839)	–	102	(195,750)
Total net cost	–	1,419,528	32,759	242,405	90,115	(2,560)	1,782,247

IBERDROLA Group is the holder of lease agreement enabling the assignment of use of the land used for the installation of wind farms, solar plants and other renewable facilities, as well as electricity distribution and transmission infrastructures. These are long-term agreements and/or include extension options which may adjust lease term to the useful life of property, plant and equipment installed there. The payment of the rent includes fixed and variable amounts calculated based on parameters such as electricity generation or the sales of the facilities.

Moreover, the Group maintains long-term lease contracts with options to extend on certain office buildings.

Many of lease contracts for land and buildings are related to consumer price indexes or similar indexes.

12. CONCESSION AGREEMENTS

The description of electricity service concession arrangements in Brazil within the scope of IFRIC 12: “Service Concession Arrangements” (Note 3.b) is set out below:

Distribution

Company	Location	Concession date	Maturity date	No. of towns	Tariff cycle	Last review
Elektro Redes, S.A.	Estado do Sao Paulo	27/08/1998	26/08/2028	223	4 years	August-
Elektro Redes, S.A.	Estado do Mato Grosso do Sul	27/08/1998	26/08/2028	5	4 years	August-19
Companhia de Eletricidade do Estado do Bahia, S.A.	Estado da Bahia	08/08/1997	07/08/2027	415	5 years	April-18
Companhia Energética de Pernambuco, S.A.	Estado de Pernambuco	30/03/2000	29/03/2030	184	4 years	April-17
Companhia Energética de Pernambuco, S.A.	Distrito de Fernando de Noronha	30/03/2000	29/03/2030	1	4 years	April-17
Companhia Energética de Pernambuco, S.A.	Estado da Paraíba	30/03/2000	29/03/2030	1	4 years	April-17
Companhia Energetica do Rio Grande do Norte, S.A.	Estado do Rio Grande do Norte	31/12/1997	30/12/2027	167	5 years	April-18

Transmission in operation

Company	Location	Concession date	Maturity date	Tariff cycle	Last review
Afluente Transmissão de Energia Elétrica, S.A.	Estado da Bahia	08/08/1997	08/08/2027	5 years	2015
S.E. Narandiba, S.A. (SE Narandiba)	Estado da Bahia	28/01/2009	28/01/2039	5 years	2019
S.E. Narandiba, S.A. (SE Extremoz)	Estado do Rio Grande do Norte	10/05/2012	10/05/2042	5 years	2017
S.E. Narandiba, S.A. (SE Brumado)	Estado da Bahia	27/08/2012	27/08/2042	5 years	2018
Potiguar Sul Transmissão de Energia, S.A.	Estado da Paraíba do Rio Grande do Norte	01/08/2013	01/08/2043	5 years	2019

Transmission in constructions

Company	Location	Concession date	Maturity date
Neoenergia Guanabara Transmissão de Energia, S.A. (formerly, EKTT 3 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Estado do Rio de Janeiro	22/03/2019	22/03/2049
Neoenergia Itabapoana Transmissão de Energia, S.A. (formerly, EKTT 4 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Estado do Rio de Janeiro	22/03/2019	22/03/2049
Neoenergia Lagoa dos Patos Transmissão de Energia, S.A. (formerly, EKTT 5 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Rio Grande do Sul e Santa Catarina	22/03/2019	22/03/2049
Neoenergia Vale do Itajaí Transmissão de Energia, S.A. (formerly, EKTT 11 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Paraná e Santa Catarina	22/03/2019	22/03/2049
Neoenergia Jalapão Transmissão de Energia, S.A. (formerly, EKTT 1 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Estados do Tocantins, Bahia e Piauí	08/03/2018	08/03/2048
Neoenergia Santa Luzia Transmissão de Energia, S.A. (formerly, EKTT 2 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Estados da Paraíba e Ceará	08/03/2018	08/03/2048
Neoenergia Dourados Transmissão de Energia, S.A. (formerly, EKTT 12 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Estados do Mato Grosso do Sul e São Paulo	31/07/2017	31/07/2047
Neoenergia Atibaia Transmissão de Energia, S.A. (formerly, EKTT 13 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Estado de São Paulo	31/07/2017	31/07/2047
Neoenergia Biguaçu Transmissão de Energia, S.A. (formerly, EKTT 14 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Estado de Santa Catarina	31/07/2017	31/07/2047
Neoenergia Sobral Transmissão de Energia, S.A. (formerly, EKTT 15 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Estado do Ceará	31/07/2017	31/07/2047

The duration of each concession is 30 years, and they may be extended for up to 30 years upon application by the concession holder and at the discretion of the concession grantor, which is the Agência Nacional de Energia Elétrica (ANEEL). The concession holder may not transfer such assets or use them as collateral without the prior written consent of the regulatory body. At the end of the concession the property is automatically reversed to the concession grantor and the amount of indemnification due to the concession holder is assessed and determined. Appendix II shows in greater detail the Brazilian regulation applicable to the abovementioned concessions.

Income from previous concession agreements include the provision of construction services (Note 36) and operation and maintenance services for facilities built whose ownership falls upon the granting public administration. The provisions of said services constitutes two separate execution obligations incorporating different margins.

Construction services have a length of 3 to 5 years, whereas the provision of operation and maintenance services for facilities starts on the date they are delivered. Said date determines, in general, when the agreed annual payments are collected as part of the concession agreements. The collection of said annual payments is extended during the concession period (normally 30 years), a circumstance that determines the existence of a significant financial component.

13. IMPAIRMENT OF NON-FINANCIAL ASSETS

Methodology of impairment tests

At least yearly, the IBERDROLA Group analyses its assets for indications of impairment. If such indications are found, an impairment test is conducted.

In addition, the IBERDROLA Group conducts a systematic analysis of the impairment of cash-generating units that include goodwill or intangible assets in progress or with indefinite useful life.

The projections used in the impairment tests are based on the best forecast information held by the IBERDROLA Group and include the investment plans for each country prevailing at that time.

a) Assumptions used in liberalised business:

- Facilities' production: the hours of operation used are consistent with those in previous years, and in line with the expected evolution of the energy mix of the countries where the IBERDROLA Group operates.
- Selling prices of electricity and gas: the selling prices used are the ones agreed upon in the signed price purchase agreements. For unsold production, future prices in the market where the IBERDROLA Group operates are used.
- Electricity and gas retail margin: growth forecasts for the number of customers and unit margins based on the knowledge of the markets in which the IBERDROLA Group operates and the company's relative position in each of them.
- Investment: the projections were based on the best available information about the plants that were expected to be put into operation in the next years.
- Operation and maintenance costs: maintenance agreements for the current facilities were used. Other operating costs were projected consistent with the expected growth of each cash-generating unit, assuming its headcount grows at the same pace.

b) Assumptions used in the Networks business:

- Regulated income: approved income was used for years in which it was available, while for subsequent periods regulation set actualization mechanisms of such income, and these were applied in line with the estimated costs of the corresponding cash-generating units.
- Investment: the projections were based on investment plans consistent with the expected demand growth and undertakings in each concession, with the minimums set by each regulator and with the estimate of future income used.
- Operation and maintenance costs: the best available estimation of the performance of the operation and maintenance cost was used, which is in line with the income assumed to be received in each year.

c) Assumptions used in the renewables business:

- Facilities' production: the operation hours of each plant were consistent with their historical output. In this respect, the long-term predictability of wind output was taken into account, which was also covered by regulatory mechanisms that enabled wind farms to produce whenever meteorological and network conditions allowed it.
- Selling prices of electricity: the selling prices used are the ones agreed upon in the signed price purchase agreements. For unsold production, future prices in the market where the IBERDROLA Group operates are used. In any case, the existing support mechanisms have been taken into account.
- Investment: the projections were based on the best information available about the plants that were expected to be put into operation in the next years, taking into account the fixed prices stated in the contracts to buy wind turbines from various suppliers among which is SIEMENS GAMESA (Note 50) as well as the technical and financial capacity of the IBERDROLA Group to successfully fulfil the planned projects.
- Operation and maintenance costs: the prices set in land leases and maintenance agreements for the useful life of the facilities were used.

d) Forecast period and growth nominal rate:

The forecast period of future cash flows and the growth nominal rate (g) used to extrapolate these projections beyond the reporting period are as follows:

	2019		2018	
	No. of years	g	No. of years	g
Electricity and gas generation and supply in the UK	10	2.0%	10	2.0%
Electricity transmission and distribution in the UK	10	2.0%	10	2.5%
Renewables in the UK	Useful life	-	Useful life	-
Electricity and gas transmission and distribution in the US	10	1.0%	10	1.0%
Renewable in the USA	Useful life	-	Useful life	-
Electricity generation and retail in Brazil	Useful life / 10	- 4.0%	Useful life / 15	- 4.5%
Electricity transmission and distribution in Brazil	Concession life	-	Concession life	-
Renewable Energies in Brazil	Useful life	-	Useful life	-

Although IAS 36 "Impairment of assets" recommends the use of projections not exceeding five years for impairment test purposes, IBERDROLA has decided to use the periods included in this table for the following reasons:

- The most appropriate method for assets in the generation business is using their remaining useful lives. This is due to the fact that in the liberalised business there are long-term energy sale contracts in force and long-term estimated prices curves are frequently used in the operating activity of the IBERDROLA Group (contracts, hedges, etc.).
- Energy is a basic first-need good. Therefore, the business of electricity and gas retail is influenced by long-term governmental policies and is based on stable relationship with customers, using in certain cases infrastructures such as smart meters with large recoverability periods.

- The electricity transmission and distribution concessions include longer regulatory periods and the method that the regulator will use to calculate the new tariff at the beginning of the new regulatory period is known.
- The IBERDROLA Group considers its projections to be reliable and that past experience demonstrates its ability to predict cash flows in periods such as those under consideration.

Moreover, the nominal growth rate considered in the electricity and gas transmission and distribution activities in Brazil, the United Kingdom and the United States is consistent with the market and inflation growth forecasts used by the IBERDROLA Group for these markets.

e) Discount rate:

The methodology for calculating the discount rate used by IBERDROLA consisted of adding to the temporary value of money or risk-free rate of each market the specific asset risks or risk premium of the asset or business.

The risk-free rate corresponded to 10-year Treasury bonds issued in the market, with sufficient depth and solvency. In countries with economies or currencies lacking sufficient depth and solvency, a country risk and currency risk was estimated so that the aggregate of all such components were considered to be the finance cost without the risk spread of the asset.

The asset's risk premium corresponded to the specific risks of the asset, the calculation of which took into account the unlevered betas estimated on the basis of comparable companies performing the same main activity.

The discount rates before taxes used for the impairment test for the different cash generating units were:

	Rates 2019	Rates 2018
Electricity and gas generation and supply in the UK	6.75%	7.01%
Electricity transmission and distribution in the UK	4.10%	4.57%
Renewable energies in the UK onshore/offshore	5.35%/5.97%	5.72% / 6.29%
Electricity and gas transmission and distribution in the US	4.86%	5.49%
Renewable Energies in the US onshore/offshore	5.69% / 7.04%	6.29% / 7.49%
Electricity generation and retail in Brazil	12.09%	13.90%
Electricity transmission and distribution in Brazil	10.32%	12.34%
Renewable Energies in Brazil	11.64%	13.61%

Impairments and write-offs recognised in 2019 and 2018

As a consequence of the impairment test carried out in 2019 and 2018 on the renewable facilities in the USA (Note 3.b), the IBERDROLA Group has proceeded to revert part of the provision accounted for in relation their intangible assets from past years. In 2019 and 2018 this reversal has amounted to Euros 20,024 thousand and to Euros 52,668 thousand, respectively (Notes 8 and 40).


Sensitivity analysis

The IBERDROLA Group has performed several sensitivity analyses of the impairment test results carried out in a systematic way including reasonable changes in a series of basic assumptions defined for each cash-generating unit (or cash generating unit groups):

- Electricity and gas generation and retail in the United Kingdom and Brazil:
 - Decrease of 10% in energy produced.
 - Decrease of 10% in margin per kWh.
 - Decrease of 10% in electricity and gas customer growth.
 - Decrease of 10% in electricity and gas retail per kWh.
 - Increase of 10% in operating and maintenance costs.
 - Increase of 10% in investment costs.
- Electricity transmission and distribution in the United Kingdom, the United States and Brazil:
 - Decrease of 10% in rate of return on which regulated remuneration is based.
 - Increase of 10% in operating and maintenance costs.
 - Decrease of 10% in investment (resulting in a subsequent decrease in remuneration).
- Renewable energies in the United Kingdom, the United States and Brazil:
 - Decrease of 5% in produced energy.
 - Decrease of 10% in total price per kWh, solely applicable to production for which there is no long-term sales agreement.
 - Increase of 10% in operating and maintenance costs.
 - Increase of 10% in investment costs.

Moreover, the IBERDROLA Group has performed an additional sensitivity analysis, increasing the applicable discount rate in the United Kingdom and the United States in 50 basic points and in Brazil in 100 basic points.

These sensitivity analyses were carried out for each basic assumption separately would not state out any depreciation whatsoever, except for the following cases:

- 
- Electricity and gas generation and retail in the United Kingdom, whose value is close to its carrying amount, so practically any negative adjustment would imply that the value in use is lower than carrying amount. In the United Kingdom the electricity and gas retail market is currently undergoing difficult times, affected by the entrance of new agents who compete aggressively in prices and margins, sometimes even under negative conditions. This is leading certain agents to bankruptcy. This market situation is believed to be unsustainable and it would be reasonable to wait till margins closer to historical ones can be achieved. Under these premises, assumptions have been prepared in the business plan (and the impairment test). This risk is to be monitored. In this regard, the potential impairment (before taxes) linked to the impact a change in key assumptions is detailed below:
 - No customer growth in electricity and gas (instead of the expected increase): Euros 271 million.
 - Decrease of margin per electricity and gas customer of 10% compared to expectations in the business plan: Euros 284 million.
 - Increase in discount rate of 50 basis points: Euros 480 million.
 - Renewable energies in the United, whose value in use is Euros 678 million more than its carrying amount, in which a decrease of 2.2% in energy production, a lower market price of 4.7% or an increase in 30 basic points on the discount rate would imply that the value in use is lower than carrying amount.

14. FINANCIAL INVESTMENTS

14.a) Equity-accounted investees

Movement for the years 2019 and 2018 in the carrying amounts recognised through global integration of IBERDROLA Group's associates and combines business (Appendix I) is as follows:

Thousands of Euros	Associated companies	Joint ventures			Other	Total
		Subgroup NEONERGIA	Flat Rock Subgroup	Vineyard Wind, LLC		
Balance at 01.01.2018	652,204	710,242	124,938	8,407	295,105	1,790,896
Investment/Addition	3,879	48,997	982	37,067	380	91,305
Change of the consolidation perimeter	4,821	–	–	–	(46,197)	(41,376)
Transfers	19,569	–	22,492	–	(19,569)	22,492
Profit for the year from continuing activities	11,370	11,301	(3,353)	(1,824)	7,482	24,976
Profit for the year from discontinued activities	697	–	–	–	–	697
Other comprehensive income	(2,743)	–	–	–	(9,150)	(11,893)
Dividends	(6,135)	(13,363)	(6,437)	–	(27,120)	(53,055)
Translation differences	(36,034)	(95,785)	6,214	1,920	12,899	(110,786)
Disposal/derecognition	–	–	–	–	(4,460)	(4,460)
Other	1,128	161	(2)	–	(565)	722
Balance at 31.12.2018	648,756	661,553	144,834	45,570	208,805	1,709,518
Investment/Addition	17,516	12,988	269	156,781	120,538	308,092
Profit for the year from continuing activities	(6,660)	6,741	(4,202)	(6,620)	24,739	13,998
Profit for the year from discontinued activities	(6,653)	–	–	–	–	(6,653)
Other comprehensive income	(3,338)	–	–	–	11	(3,327)
Dividends	(7,145)	(9,549)	(8,056)	–	(22,311)	(47,061)
Translation differences	3,558	(6,886)	2,862	1,471	2,940	3,945
Disposal/derecognition	(6,044)	–	–	–	(15,916)	(21,960)
Other	671	903	–	–	(1,299)	275
Balance at 31.12.2019	640,661	665,750	135,707	197,202	317,507	1,956,827

The balance corresponding to the NEOENERGIA Subgroup at 31 December 2019 and 2018 mainly includes the shares in Companhia Hidreletrica Teles Pires, S.A (TELES PIRES), Norte Energia, S.A. (NORTE ENERGÍA) and Energetica Aguas da Pedra, S.A.(EAPSA) held by IBERDROLA Group through NEOENERGIA.

Moreover, the IBERDROLA Group, through the company Vineyard Wind, LLC, continues the development of a large scale offshore wind farm in the coasts of Massachusetts, in the United States.



On the other hand, the balance of associate companies at 31 December 2019 includes an amount of Euros 566,351 thousand (Euros 571,414 thousand at 31 December 2018) corresponding to the interest of IBERDROLA Group in SIEMENS GAMESA whose trading price at reporting date amounts to Euros 859,570 thousand (Euros 584,958 thousand at 31 December 2018). As described in Note 51, the interest has been sold at the beginning of 2020.

Main Transactions

In 2019 no significant transactions related to accounted for investments by equity method have taken place. In 2018 the main transactions were:

- In December 2018, the IBERDROLA Group sold its 80% interest in its subsidiary Coyote Ridge Wind, LLC, keeping the remaining 20%, over which exercises significant influence and which is now held as equity-accounted investee (Notes 6 and 41).
- In June 2018, the IBERDROLA Group sold 20% stake in Tirme, S.A., for an amount of Euros 35,100 thousand, which implied a gross capital gain of Euros 30,928 thousand recorded under the heading "Gains on sale of non-current assets" of the Consolidated financial statement for 2018.

Summary of Financial Information

The summarised financial information at 31 December 2019 and 2018 (at 100% and before intercompany eliminations) for the major subgroups accounted for using the equity method is as follows:

Thousands of Euros	NORTE ENERGIA		TELES PIRES		EAPSA		Flat Rock Subgroup		Vineyard Wind, LLC	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Segment	Liberalised-Brazil				Renewables – USA					
Percentage ownership	10.00%		50.56%		51.00%		50%		50%	
Current assets	252,391	195,966	35,304	37,327	24,634	16,290	2,496	10,126	28,768	13,859
Non-current assets	9,713,497	9,611,303	1,539,157	1,150,246	303,582	318,000	266,681	318,384	314,499	77,942
Total assets	9,965,888	9,807,269	1,574,461	1,187,573	328,216	334,290	269,177	328,510	343,267	91,801
Current liabilities	975,704	832,300	71,553	83,786	21,028	19,786	8,821	8,041	179,576	15,493
Non-current Liabilities	5,880,515	6,003,096	738,742	768,145	87,583	98,018	34,815	30,799	2,083	–
Total liabilities	6,856,219	6,835,396	810,295	851,931	108,611	117,804	43,636	38,840	181,659	15,493
Income from ordinary activities	996,818	1,020,144	201,943	192,146	60,394	62,214	12,423	17,994	–	–
amortisation and depreciation	(254,036)	(165,519)	(40,830)	(41,260)	(6,654)	(6,638)	(15,549)	(17,758)	(472)	–
Income from interests	10,274	16,272	(871)	–	935	1,157	63	79	47	–
Expenses from interests	(381,742)	(274,788)	(64,715)	(73,569)	(5,195)	(6,496)	(1,342)	(329)	(34)	–
Tax (expense)/income	37,059	(109,587)	4,890	2,666	(3,169)	(2,669)	–	–	–	–
Profit for the year from continuing operations	84,765	209,159	(24,367)	(93,418)	22,658	19,572	(5,703)	(6,963)	(19,402)	–
Total global profit	84,765	209,159	(24,367)	(93,418)	22,658	19,572	(5,703)	(6,963)	(19,402)	–
Other information										
Cash and cash equivalents	42,941	20,601	9,516	6,226	14,155	5,933	1,237	7,613	27,617	13,270
Current financial liabilities (*)	633,174	576,430	47,221	53,779	7,853	15,653	–	–	–	–
Non-current financial liabilities (*)	5,576,987	5,934,007	623,862	708,671	46,690	57,848	–	–	–	–

(*) Excluding trade and other payables

14.b) Other financial assets


The detail of the headings “Other non-current financial assets” and “Other current financial assets” of the IBERDROLA Group’s Consolidated statement of financial position is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Non-current (Note 4)		
Collection rights in Brazil (Notes 3.b and 12)	2,596,789	2,196,551
Long-term deposits and guarantees	311,008	281,942
Fixed-income securities	4,073	4,061
Concessional guarantee of the sufficiency tariff in Brazil (Note 12)	–	1,922
Long-term deposits	53,914	52,429
Loans to third parties	9,265	7,241
Assets for pension plans (Note 25)	7,190	7,007
Other investments in equity-accounted investees	19,953	9,195
Other	21,018	144,171
Bad debt provisions	(3,988)	(19,132)
Total	3,019,222	2,685,387
Current (Note 4)		
Collection rights in Brazil (Notes 3.b and 12)	–	11,606
Short-term deposits and guarantees	794	716
Concessional guarantee of the sufficiency tariff in Brazil (Note 12)	87,284	227,698
Accounts receivable for financing imbalance in revenues in 2019	212,599	–
Accounts receivable for financing imbalance in revenues in 2018	–	25,727
Other investments in equity-accounted investees	6,227	7,542
Debt guarantee deposits (Notes 4 and 20)	112,550	77,840
Other short-term deposits and guarantees	209,344	163,465
Other	87,906	66,603
Bad debt provisions	(24,143)	(9,629)
Total	692,561	571,568

Collection rights in Brazil

The heading “Collection rights in Brazil” relates to receivables by the Brazilian companies upon termination of their service concession arrangements. The Law N°12.783/13 provides that such indemnification must be determined by the replacement value (*Valor Novo de Reposição, VNR*) of the concession assets which have not been depreciated/amortised by the end of the concession period, using the residual value of the Asset regulatory base (*Base de Remuneração Regulatória, BRR*) at the end of the concession agreement.

The methodology established by the regulator enables doing reasonable estimations of receivables following the termination of the concession in so far the Public Administration blocks the value of the Asset Regulatory Base after each ordinary rate revision. Ordinary reviews are conducted every four or five years, depending on the concession. This means that after the regulator has conducted a tariff review the value of the Regulatory Asset Base prior to that date the Brazilian Large Consumers Prices General Index (*Índice Nacional de Preços ao Consumidor Amplo* (IPCAM) is changed. The next tariff review will determine the value of the regulatory asset base only with regard to additions in the interval between two tariff reviews.



To estimate the amount of the financial asset, observable values are used. Specifically, the net replacement value, as calculated by the energy regulator in the course of the latest tariff review. The amount is updated in the intervals between tariff reviews by additions to the underlying fixed assets and currency translation differences or, as the case may be, any changes in the method of calculation of the net realizable value and the IGPM.

Long-term deposits and guarantees

"Non-current deposits and guarantees" essentially corresponds to the portion of guarantees and deposits received from customers at the time of recruitment as security of electricity supply (which are recorded under the heading "Non-Current Liabilities - Other non-current payables" of the Consolidated statement of financial position - Note 31) and have been deposited with the competent Public Authorities in accordance with the current legislation in Spain.

Collection right due to imbalanced financing

Act 24/2013 of the Electricity Sector establishes that, in the case that in a period an imbalance occurs due to an income deficit in the settlements of the electricity sector, its quantity may not exceed 2% of the estimated incomes for the system for this period. Furthermore, the accumulated debt due to imbalances in preceding periods may not exceed 5% of the income estimated for the system. If these limits are exceeded, the entrance tolls will be reviewed at least in a total equivalent to the excess of these limits. This law establishes, furthermore, that the part of the imbalance due to an income deficit that, without exceeding these limits, is not compensated via the increase of tolls and charges, will be financed by those subject to the settlement system proportionally to the remuneration that corresponds to them for the activity they carry out.

The final settlement of the Spanish electricity system for 2018 presented a surplus and it was estimated as such by IBERDROLA Group in said year. In 2019, IBERDROLA Group estimated that the final settlement off the Spanish electricity system for 2018 presented a deficit to be offset by unused gains from the previous years. In any case, the provisional settlements made up to 31 December 2019 and 2018 show income deficit. The IBERDROLA Group's financed deficit at 31 December 2019 and 2018 amounted to Euros 368,746 and 222,841 thousand respectively.

In 2019 and 2018 the amounts of Euros 156,147 and 197,114 thousand respectively correspond to financed deficit and have been subject to a non-recourse factoring contract with credit assignment. Therefore, said amounts have been derecognised in the Consolidated financial statements at 31 December 2019 and 2018.

The IBERDROLA Group's financed deficit at 31 December 2018 has been collected in 2019.

15. TRADE AND OTHER RECEIVABLES

Details of the headings “Non-current trade and other receivables” of the Consolidated statement of financial position are as follows:

Thousands of Euros	31.12.2019	31.12.2018
Non-current		
Receivables in equity-accounted investees	2,077	–
PIS/COFINS Brazil (Note 31)	536,616	–
Other receivables	738,342	515,545
Contract assets:		
Concessions under IFRIC Note 12 (Note 3.u 12)	1,225,695	–
CFE (Note 36)	344,726	303,407
Other	11,163	–
Valuation changes for impairment	(7,649)	(4,375)
Total	2,850,970	814,577

Thousands of Euros	31.12.2019	31.12.2018
Current		
Customers (Note 5)	6,560,011	5,949,227
PIS/COFINS Brazil (Note 31)	189,283	–
Other receivables	425,077	543,840
Receivables in equity-accounted investees	12,788	6,587
Contract assets:		
Construction contracts	61,424	104,479
CFE (Note 36)	110,967	116,998
Valuation changes for impairment	(685,263)	(622,749)
Total	6,674,287	6,098,382

In September 2019, the Brazilian federal government issued a favourable decision for COSERN and COELBA regarding the recognition of the credit right related to unduly paid amounts for including the *Operações relativas à Circulação de Mercadorias e Prestação de Serviços de Transporte Interestadual e Intermunicipal e de Comunicação (ICMS)* on the calculation base for *Programas de Integração Social (PIS)* and the *Contribuição para Financiamento da Seguridade Social (COFINS)*.

As a result, the IBERDROLA Group has recognised receivables for the exclusion of the ICMS from the tax base credited to payables under the heading “Other non-current financial liabilities” of the Consolidated statement of financial situation (Note 31) based on the understanding that the tax credit would be transferred unto end customers following legal and regulatory rules in the Brazilian electricity sector, although its payment would not take place in the short-term. Therefore, the decision from the Brazilian federal government has had no impact on IBERDROLA Group’s statement of profit for 2019.

The movements in valuation changes resulting from credit losses expected from previous balances are as follows:

Thousands of Euros	2019	2018
Initial balance	627,124	646,403
First application of IFRS 9 (Note 2.a.)	–	31,389
Charges	410,594	345,723
Bad debt provision	(240,418)	(274,313)
Excess	(113,279)	(92,067)
Translation differences	7,319	(29,991)
Other	1,572	(20)
Final balance	692,912	627,124

Practically the entire provision corresponds to gas and electricity consumers.

16. MEASUREMENT AND OFFSETTING OF FINANCIAL INSTRUMENTS

With the exception of financial derivative instruments, most of the financial assets and liabilities registered in the Consolidated statements of financial position correspond to the financial instruments classified at amortised cost.

Fair value in “Loans and borrowings and obligations or other securities” in current and non-current liabilities in IBERDROLA Group’s Consolidated balance statement at 31 December 2019 and 2018 amounts to Euros 41,285,124 and Euros 38,422,381 thousand, respectively. The carrying amount is Euros 38,926,290 thousand and Euros 37,326,472 thousand respectively. Said value is classified in Level 2 of the valuation hierarchy. The fair value of the derivative financial instruments does not differ significantly from book value thereof.

The sensitivity of the fair value of the heading “Loans and borrowings and obligations or other securities” of the IBERDROLA Group, after the effect of hedge accounting, changes in the euro-dollar and euro-sterling pound and the euro-Brazilian real exchange rates is as follows:

Thousands of Euros	2019		2018	
	Depreciation 5%	Appreciation 5%	Depreciation 5%	Appreciation 5%
Debt's fair value variation:				
US dollars	(408,373)	451,360	(326,675)	361,062
Sterling Pounds	(175,513)	193,988	(151,563)	167,517
Brazilian reals	(238,662)	263,785	(224,082)	247,670

The estimated fair value of “Loans and borrowings and obligations or other securities” bearing fixed interest rates, after the effect of hedge accounting at 31 December 2019 and 2018, calculated by discounting future cash flows at market interest rates, amounted to Euros 24,892,771 thousand and Euros 22,752,999 thousand, respectively. The interest rate curve used to make this calculation takes into account the risks associated with the electricity industry and the credit rating of the IBERDROLA Group. The sensitivity of that fair value to interest rate fluctuations is as follows:

Thousands of Euros	31.12.2019		31.12.2018	
Interest rate variation	+0.25%	+(0.25)%	+0.25%	+(0.25)%
Debt's fair value variation	(391,515)	346,120	(272,305)	300,099

The IBERDROLA Group measures equity instruments and derivative financial instruments at fair value, provided they can be measured reliably, 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 31.12.2019	Level 1	Level 2	Level 3
Derivatives financial instruments (financial assets)	1,161,789	12	1,016,106	145,671
Derivative financial instruments (financial Liabilities)	(948,766)	(94)	(830,197)	(118,475)
Total (Note 28)	213,023	(82)	185,909	27,196

Thousands of Euros	Value at 31.12.2018	Level 1	Level 2	Level 3
Derivatives financial instruments (financial assets)	1,333,649	4,721	1,221,240	107,688
Derivative financial instruments (financial Liabilities)	(835,534)	(208)	(699,489)	(135,837)
Total (Note 28)	498,115	4,513	521,751	(28,149)

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	Derivative financial instruments	
	2019	2018
Initial balance	(28,149)	81,870
Income and expense recognised in the Consolidated income statement	5,307	6,655
Income and expense recognised in equity	62,898	(17,298)
Purchases	(19,474)	(9,402)
Sales and settlements	4,186	(7,422)
Translation differences	(400)	(597)
Technology	2,828	(81,955)
Final balance	27,196	(28,149)

The fair value of Level 3-classified financial instruments has been determined by 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.

In addition, the IBERDROLA Group's financial assets and liabilities are compensated and presented net on the Consolidated statement of financial position when a legally enforceable right exists to offset the amounts recognised and the Group intends to settle the assets and liabilities net or simultaneously. The breakdown of offset financial assets and liabilities at 31 December 2019 and 2018 is as follows:

Thousands of Euros	31.12.2019					
	Gross amount	Offset amount (Note 28)	Net amount	Uncompensated amounts under compensation agreements		Net amount
				Financial instruments	Financial guarantee	
ASSET DERIVATIVES						
Current						
Commodities	346,909	(242,355)	104,554	(47,107)	(10,356)	47,091
Other	1,505	(33)	1,472	–	(1,157)	315
Non-current						
Commodities	152,887	(14,659)	138,228	(24,238)	(32,908)	81,082
Other	56,258	(2,432)	53,826	–	(51,479)	2,347
Total	557,559	(259,479)	298,080	(71,345)	(95,900)	130,835
OTHER FINANCIAL ASSETS:						
Receivables	216,119	(169,892)	46,227	(11,852)	(9,324)	25,051
LIABILITIES DERIVATIVES						
Current						
Commodities	591,426	(266,264)	325,162	(47,107)	(6,180)	271,875
Other	6,256	(33)	6,223	–	–	6,223
Non-current						
Commodities	70,655	(18,125)	52,530	(24,238)	(5,073)	23,219
Other	1,353	(261)	1,092	–	–	1,092
Total	669,690	(284,683)	385,007	(71,345)	(11,253)	302,409
OTHER FINANCIAL LIABILITIES						
Payables	372,280	(169,892)	202,388	(11,852)	(103,514)	87,022

31.12.2018						
Thousands of Euros	Gross amount	Offset amount (Note 28)	Net amount	Uncompensated amounts under compensation agreements		
				Financial instruments	Financial guarantee	Net amount
ASSET DERIVATIVES						
Current						
Commodities	544,729	(356,914)	187,815	(59,254)	(6,745)	121,816
Other	5,705	(636)	5,069	(1)	–	5,068
Non-current						
Commodities	143,668	(16,126)	127,542	(11,123)	(29,770)	86,649
Other	58,284	–	58,284	–	(53,490)	4,794
Total	752,386	(373,676)	378,710	(70,378)	(90,005)	218,327
OTHER FINANCIAL ASSETS:						
Receivables	510,806	(380,637)	130,169	(38,454)	(7,841)	83,874
LIABILITIES DERIVATIVES						
Current						
Commodities	495,500	(356,913)	138,587	(59,254)	(9,852)	69,481
Other	2,122	(637)	1,485	(1)	(1)	1,483
Non-current						
Commodities	68,401	(16,126)	52,275	(11,123)	(14,864)	26,288
Other	2	–	2	–	–	2
Total	566,025	(373,676)	192,349	(70,378)	(24,717)	97,254
OTHER FINANCIAL LIABILITIES						
Payables	694,988	(380,637)	314,351	(38,454)	(33,179)	242,718

17. NUCLEAR FUEL

The changes in the heading “Nuclear Fuel” of the Consolidated statement of financial position in 2019 and 2018, as well as the detail thereof at 31 December 2019 and 2018 are as follows:

Thousands of Euros	Fuel loaded into the reactor core	Nuclear fuel in progress	Total
Balance at 01.01.2018	263,385	68,498	331,883
Additions	–	63,198	63,198
Capitalised financing expenses (Notes 3.g and 42)	–	633	633
Transfers	82,082	(82,082)	–
Fuel consumed (Note 3.g)	(123,040)	–	(123,040)
Balance at 31.12.2018	222,427	50,247	272,674
Additions	–	149,801	149,801
Capitalised financing expenses (Notes 3.g and 42)	–	1,252	1,252
Transfers	150,019	(150,019)	–
Fuel consumed (Note 3.g)	(118,226)	–	(118,226)
Balance at 31.12.2019	254,220	51,281	305,501

The IBERDROLA Group’s nuclear fuel purchase commitments at 31 December 2019 and 2018 amount to Euros 514,047 thousand and Euros 485,015 thousand, respectively.

18. INVENTORIES

The details of the heading “Inventories” (Note 3.h) of the Consolidated statements of financial position at 31 December 2019 and 2018 are as follows:

Thousands of Euros	31.12.2019	31.12.2018
Energy sources	178,931	215,277
Emission allowances and renewable certificates	455,189	351,575
Real estate inventories	1,214,756	1,177,230
Land and plot	966,066	962,665
Developments in construction	240,606	200,763
Developments completed	8,084	13,802
Other inventories	847,370	581,230
Real estate inventories impairment allowance	(154,653)	(151,481)
Total	2,541,593	2,173,831

The variations in the impairment allowance in 2019 and 2018 are as follows:

Thousands of Euros	2019	2018
Initial balance	151,481	131,624
Charges	7,727	2,284
Reversals	(2,061)	(2,622)
Applications and others	(2,494)	20,195
Final balance	154,653	151,481

The heading “Revenue” in the 2019 and 2018 Consolidated income statements includes Euros 131,499 thousand and Euros 81,274 thousand, respectively, in respect of real estate inventories.

19. CASH AND CASH EQUIVALENTS

The breakdown of this heading in the Consolidated statement of financial position is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Cash	500,235	143,868
Short-term deposits	1,613,044	2,657,289
Total	2,113,279	2,801,157

Short-term deposits mature within a period of less than three months and bear market interest rates. There are no restrictions on cash withdrawals for significant amounts.

20. EQUITY

Subscribed capital

Changes in 2019 and 2018 in the different items of the share capital of IBERDROLA are as follows:

	Registration in the Mercantile Registry	% Capital	Number of shares	Nominal	Euros
Balance at 01.01.2018			6,317,515,000	0.75	4,738,136,250
Capital increase	31 January 2018	1.913	120,859,000	0.75	90,644,250
Capital reduction	28 June 2018	3.081	(198,374,000)	0.75	(148,780,500)
Capital increase	30 July 2018	2.526	157,629,000	0.75	118,221,750
Balance at 31.12.2018			6,397,629,000	0.75	4,798,221,750
Capital increase	31 January 2019	1.920	122,828,000	0.75	92,121,000
Capital reduction	21 June 2019	4.300	(280,457,000)	0.75	(210,342,750)
Capital increase	30 July 2019	1.956	122,072,000	0.75	91,554,000
Balance at 31.12.2019			6,362,072,000	0.75	4,771,554,000

The capital increases taken place in 2019 and 2018 correspond to the different execution approved by the General Shareholders' Meeting through which the Iberdrola Flexible Remuneration (Iberdrola Flexible Dividend before) system is implemented.

In 2017 IBERDROLA changed the framework of the second Iberdrola flexible remuneration programme, adding a fourth additional option to the traditional three options. As a result, shareholders could choose among:

- receiving their remuneration in free allocation right shares;
- transfer in part or in whole the free allocation rights to the market;
- transferring in part or in whole the free allocation rights to the Company at a fixed guaranteed price by virtue of a purchase undertaking by the Company, or
- receiving their remuneration in cash, collecting an amount for the dividends corresponding to 2017.

In 2018, with the implementation of the first settlement of the Iberdrola flexible remuneration, the option to transfer the free allocation rights to the Company at a fixed price was eliminated. The other three options remained. In 2018, IBERDROLA acquired 699,283,602 free allocation rights for a gross total amount of Euros 97,899 thousand corresponding to the scrip issue of 29 January 2018.

Additionally, on 21 June 2018 and 21 June April 2019, capital reductions through the amortisation of treasury stock were agreed, as approved at the General Shareholders Meeting held on 13 April 2018 and 29 March 2019, respectively.

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 established by the Spanish Companies Act.

IBERDROLA's shares are listed for trading on the Spanish electronic trading system (Mercado Continuo Español), and included in the IBEX-35 and European Eurostoxx-50 index.

Major shareholders

Since IBERDROLA's shares are represented by the book-entry system, the exact stakes held by its shareholders are not known. The table below summarises major direct and indirect shareholdings in the share capital of IBERDROLA at 31 December 2019 and 2018, as well as the holdings of financial instruments disclosed by the owners of these stakes in compliance with the Royal Decree 1362/2007 of 19 October. This information is based on filings by the owners of the shares in the official registers of the National Securities Market Commission (hereinafter, Comisión Nacional del Mercado de Valores - CNMV) or the company's annual accounts or press releases, and it is presented in the 2019 IBERDROLA Group's Annual Corporate Governance Report (Directors' report).

Among direct or indirect shareholders with a significant stake, IBERDROLA treats as a "significant shareholder" any shareholder who exerts a significant influence on the company's financial and operating decisions when they i) attend the Board of Directors or a similar committee or ii) they have the possibility of exercising the proportional representation system. Therefore, the company treats Qatar Investment Authority as significant shareholder, being the only shareholder who satisfied that condition at 31 December 2019 and 2018.

Holder	% of voting rights 2019			Financial instruments 2019	Directors in IBERDROLA 2019
	Direct	Indirect	Total		
Qatar Investment Authority ⁽¹⁾	–	8.694	8.694	–	–

Holder	% of voting rights 2018			Financial instruments 2018	Directors in IBERDROLA 2018
	Direct	Indirect	Total		
Qatar Investment Authority ⁽¹⁾	–	8.646	8.646	–	–

(1) Parent company of Qatar Holding LLC, direct holder of the investment (formerly, the direct holder of the investment was Qatar Holding Luxembourg II, S.A.R.L.).

In addition, the breakdown of other companies having at 31 December 2019 and 2018 direct or indirect voting rights higher than 3% of the share capital are as follows:

Holder	% of voting rights 2019			% of voting rights 2018		
	Direct	Indirect	Total	Direct	Indirect	Total
Norges Bank	3.430	–	3.430	3.332	–	3.332
Blackrock, Inc.	–	5.160	5.160	–	5.131	5.131

Financial management

The IBERDROLA Group's main financial management objectives are to ensure short and long-term financial stability, robust financial liquidity ratios, the optimization of the liquidity position, the financial risk management, and at the same time maintaining a sustainable remuneration policy for its shareholders.

At 31 December 2019, Moody's, Standard & Poor's and Fitch's ratings were Baa1, BBB+ and BBB+, respectively.

Leverage ratios at 31 December 2019 and 2018 stand at:

Thousands of Euros	31.12.2019	31.12.2018
Loans and borrowings and obligations or other securities (Note 27)	38,926,290	37,326,472
Equity instruments having the substance of a financial liability (Note 22)	215,533	177,229
Derivative financial liabilities	425,313	486,453
Current (Note 30)	1,767,117	–
Non-current financial lease (Note 31)	16,857	–
Gross debt	41,351,110	37,990,154
Derivative financial assets	753,895	911,966
CSA Derivatives value guarantee deposits (Notes 4 and 14.b)	112,550	77,840
Cash and cash equivalents (Note 19)	2,113,279	2,801,157
<i>Total treasury assets</i>	<i>2,979,724</i>	<i>3,790,963</i>
Net debt	38,371,386	34,199,191
Equity		
Parent company	37,678,307	36,582,199
Non-controlling interests	9,516,358	7,394,355
	47,194,665	43,976,554
Leverage	44.84%	43.75%

For comparison purposes, if in 2019 IFRS 16 Leases had not been applied, leverage in 2019 would have been 43.76%.

Derivative financial instruments detailed in the table above only include the ones relating to financing operations which breakdown is as follows (Note 28):

Thousands of Euros	2019					
	Derivative assets			Derivative liabilities		
	Short term	Non-current	Total	Current	Non-current	Total
Interest rate hedges	31,556	106,630	138,186	12,310	(111,077)	(98,767)
Exchange rate hedges	211,682	338,060	549,742	(106,875)	(146,955)	(253,830)
Total hedging derivatives	243,238	444,690	687,928	(94,565)	(258,032)	(352,597)
Interest rate derivatives	6,399	–	6,399	(11,527)	–	(11,527)
Exchange rate derivatives	–	300	300	(1,652)	(269)	(1,921)
Treasury shares derivatives	–	59,268	59,268	–	(59,268)	(59,268)
Total non-hedging derivatives	6,399	59,568	65,967	(13,179)	(59,537)	(72,716)
Total	249,637	504,258	753,895	(107,744)	(317,569)	(425,313)

Thousands of Euros	2018					
	Derivative assets			Derivative liabilities		
	Short term	Non-current	Total	Current	Non-current	Total
Interest rate hedges	29,462	110,135	139,597	3,905	(109,077)	(105,172)
Exchange rate hedges	346,919	404,239	751,158	(242,663)	(121,484)	(364,147)
Total hedging derivatives	376,381	514,374	890,755	(238,758)	(230,561)	(469,319)
Interest rate derivatives	4,980	–	4,980	(100)	(34)	(134)
Exchange rate derivatives	–	183	183	(377)	(575)	(952)
Treasury shares derivatives	–	16,048	16,048	–	(16,048)	(16,048)
Total non-hedging derivatives	4,980	16,231	21,211	(477)	(16,657)	(17,134)
Total	381,361	530,605	911,966	(239,235)	(247,218)	(486,453)

Powers delegated by the General Shareholders' Meeting

The General Shareholders' Meeting on 8 April 2016 resolved, in respect of items seven and eight on the agenda, to delegate powers to the Board of Directors, with express powers of substitution, for a period of five years, to:

- increase share capital in the terms and to the limits stipulated in Article 297.1 b) of the Spanish Companies Act ("Ley de Sociedades de Capital"), with authorisation to exclude preferential subscription rights, and
- issue bonds or debentures swappable for and/or convertible into shares in the Company or other companies, and warrants on new or existing shares in the Company or other companies, to a maximum amount of Euros 5,000 million. This authorisation includes the delegation of powers to, where applicable: (i) determine the basis and procedures for conversion, swap or exercise; (ii) increase share capital by the amount required to cover applications for conversion; and (iii) exclude shareholders' preferential subscription rights on the issue.

Both authorisations have a joint limit to a maximum nominal amount of 20% of the share capital.

Legal reserve

Under the Spanish Companies Act, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve may be used to increase the share capital in an amount equal to the portion of the balance that exceeds 10% of capital after the increase. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, if no other reserves are available.

Revaluation reserves

The balance of "Revaluation reserves" arose as a result of the revaluation of property, plant and equipment made by IBERDROLA pursuant to the Royal Decree-law 7/1996. This balance can be used, free of tax, to offset recorded losses both prior years' accumulated losses and current year losses or losses which might arise in the future, and to increase share capital. From 1 January 2007, the balance of this reserve can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised on the portion on which depreciation has been taken for accounting purposes or if the revalued assets have been transferred or derecognised. If the balance of this account was used in any way other than as specified in the Royal Decree-law 7/1996, it would be subject to tax.

At 31 December 2018 the amount in this reserve was Euros 28,000 thousand. In 2019 this reserve has been fully destined to increase share capital on 31 December 2019. As a result, on 31 December 2019 there are no amounts in this reserve.

Share premium

The Spanish Companies Act expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use.

Other restricted reserves

"Other restricted reserves" of the heading "Equity" of the Consolidated statement of financial position primarily includes the restricted reserve set up by IBERDROLA in accordance with article 335.c) of the Spanish Companies Act arising from the capital reductions carried out in prior years through the retirement of treasury shares. The restricted reserves relating to Group companies other than the parent IBERDROLA are included under "prior years' profit and loss" of the same heading.

Non-controlling interests

The variations in this headings in 2019 and 2018 are as follows:

Thousands of Euros	Subgroup AVANGRID	Subgroup NEONERGIA	East Anglia	Other	Perpetual subordinated bonds	Total
Balance at 01.01.2018	3,060,962	2,538,003	–	72,415	1,552,546	7,223,926
Capital increase	9,727	128,954	–	10,571	700,000	849,252
Disposals	–	–	–	–	(525,000)	(525,000)
Profit for the year from non-controlling interests	99,796	165,979	–	19,972	37,569	323,316
Other comprehensive income	(12,627)	4,440	–	255	–	(7,932)
Dividends	(82,295)	(106,713)	–	(8,947)	–	(197,955)
Translation differences	131,673	(325,715)	–	622	–	(193,420)
Other	(19,787)	(3,241)	–	(15,241)	(39,563)	(77,832)
Balance at 31.12.2018	3,187,449	2,401,707	–	79,647	1,725,552	7,394,355
Capital increase	4,565	–	196,320	4,805	800,000	1,005,690
Profit for the year from non-controlling interests	99,839	228,346	3,343	16,623	60,095	408,246
Other comprehensive income	6,225	6,464	(7,726)	563	–	5,526
Dividends	(89,836)	(77,038)	–	(11,904)	–	(178,778)
Translation differences	62,316	(31,687)	58,119	398	–	89,146
Transactions with non-controlling interests (Note 6)	–	72,384	765,293	–	–	837,677
Other	(9,876)	(6,693)	–	8,190	(37,125)	(45,504)
Balance at 31.12.2019	3,260,682	2,593,483	1,015,349	98,322	2,548,522	9,516,358

In March 2018 NEONERGIA resolved to increase share capital in BRL 999,999,963, taking into consideration the percentage of ownership of its shareholders, resulting in a payment of Euros 115,795 thousand under the heading “Equity in non-controlling shares” of the Consolidated financial statement at 31 December 2019.

Moreover, from August 2019 several share capital increases have been executed to complete the construction of the East Anglia project in the amount of Euros 490,800, subscribed by the shareholders in proportion to their interest, resulting in a payment of Euros 196,320 thousand in the heading “Equity in non-controlling shares” of the Consolidated financial statement at 31 December 2019.

The summarised financial information related to subgroups in which IBERDROLA Group does not have a 100% interest refers to amounts consolidated before intercompany eliminations:

Thousands of Euros	Subgroup AVANGRID		Subgroup NEONERGIA		East Anglia
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019
Current assets	1,399,919	1,271,334	2,859,598	2,595,495	865,203
Non-current assets	35,705,645	32,254,086	10,438,462	9,256,051	2,223,749
Total assets	37,105,564	33,525,420	13,298,060	11,851,546	3,088,952
Current liabilities	3,291,721	2,754,223	2,112,283	1,794,650	379,155
Non-current liabilities	16,328,719	13,706,546	6,002,417	5,129,099	170,335
Total liabilities	19,620,440	16,460,769	8,114,700	6,923,749	549,490
Gross operating profit (EBITDA)	1,943,215	1,925,397	1,372,577	1,143,272	6,807
Trade receivables and other assets' valuation adjustments,	(83,757)	(72,393)	(75,156)	(63,731)	(19)
Amortisation, depreciation and provisions	(1,009,654)	(906,613)	(447,527)	(425,225)	(4,375)
Result of equity-accounted investees - net of taxes	1,966	7,519	6,741	11,301	-
Financial result	(245,546)	(201,618)	(303,817)	(268,214)	95
Gains /(losses) from non-current assets	63,868	(34,794)	2,270	893	-
Corporate tax	(130,841)	(186,914)	(99,454)	(60,640)	(1,168)
Non-controlling interests	(1,068)	(2,010)	(228,343)	(165,978)	-
Net profit for the year	538,183	528,574	227,291	171,678	1,340

Perpetual subordinated bonds

The IBERDROLA Group has carried out the following perpetual subordinated bonds emissions:

Emission date	Thousands of Euros	Coupon	Early amortisation and depreciation option
22/11/2017	1,000,000	1.875% per year from the emission date until 22 May 2023. From the date of the first revision, swap rate to 5 years plus an annual margin of 1.592% during the following five years. Swap rate to 5 years plus a margin of 1.8492% per year during each of the five-year revision periods starting on 22 May 2028, 2033 and 2038 and swap rate to five years plus a margin of 2.5992% per year during the subsequent five-year revision periods.	During the three previous months until (including) 22 May 2023 and from that date each year.
26/03/2018	700,000	Fixed annual rate of 2.625% from the issuance date until 26 March 2024. From the date of the first revision, swap rate to 5 years plus an annual margin of 2.061% during the following five years. Swap rate to 5 years plus a margin of 2.311% per year during each of the five-year revision periods starting on 26 March 2029, 2034 and 2039 and swap rate to five years plus a margin of 3.061% per year during the subsequent five-year revision periods.	During the three previous months until (including) 26 March 2024 and from that date each year.

Emission date	Thousands of Euros	Coupon	Early amortisation and depreciation option
12/02/2019	800,000	<p>Fixed annual rate of 3.25% from the issuance date until 12 February 2025.</p> <p>From the date of the first revision, swap rate to 5 years plus an annual margin of 2.973% during the following five years.</p> <p>Swap rate to 5 years plus a margin of 3.223% per year during each of the five-year revision periods starting on 12 February 2030, 2035 and 2040 and swap rate to five years plus a margin of 3.973% per year during the subsequent five-year revision periods.</p>	<p>During the three previous months until (including) 12 February 2025 and from that date each year.</p>

On 27 February 2013, the IBERDROLA Group's perpetual subordinated bonds issuance was completed and disbursed, in the amount of Euros 525 million. The issue price was set at 99.472% of the face value and obligations will accrue a fix annual interest of 5.75% from the issue date. On 27 February 2018 the IBERDROLA Group exercised its early redemption option on a series of subordinated bonds. Redemption was made at par, as set out in the terms and conditions attaching to the bonds.

These bonds do not have a contractual maturity date. After analysing the issue conditions, the IBERDROLA Group recognised the cash received with a credit to the heading "Perpetual subordinated obligations" under equity in the Consolidated statement of financial position, as it considers that it does not qualify 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.

The interest accrued on these bonds will not be callable but rather cumulative. However, the IBERDROLA Group will be obliged to settle the interest accrued in the event it distributes dividends. The amount in interests accrued at 31 December 2019 and 2018 whose payment will take place when IBERDROLA distributes dividends amounts to Euros 60,095 and 37,569 thousand, respectively.

Valuation adjustments

The change in this reserve arising from valuation adjustments to derivatives designated as cash flow hedges at 31 December 2019 and 2018 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 allocated to the income statement	31.12.2018	Change in fair value and other	Allocation to the values of hedged assets	Amounts allocated to the income statement	31.12.2019
Valuation adjustments of equity-accounted investees (net of tax):	13,417	-	(11,045)	-	14	2,386	(3,341)	-	14	(941)
Available-for-sale assets	615	(615)	-	-	-	-	-	-	-	-
	615	(615)	-	-	-	-	-	-	-	-
Cash flow hedges:										
Interest rate swaps	(358,894)	-	(64,580)	-	63,389	(360,085)	(237,026)	-	75,091	(522,020)
Collars	(4,252)	-	(1,499)	-	-	(5,751)	-	-	-	(5,751)
Commodities derivatives	236,718	-	199,105	-	(207,039)	228,784	(635,352)	-	243,230	(163,338)
Currency forwards	48,193	-	39,424	(1,138)	5,125	91,604	(41,454)	(18,766)	(29,131)	2,253
	(78,235)	-	172,450	(1,138)	(138,525)	(45,448)	(913,832)	(18,766)	289,190	(688,856)
Hedging costs	-	2,069	(86,950)	-	87,991	3,110	(36,308)	-	31,017	(2,181)
Tax effect on available-for-sale assets and cash flow hedges	21,949	(346)	(17,756)	170	3,739	7,756	195,116	3,643	(58,646)	147,869
Total	(42,254)	1,108	56,699	(968)	(46,781)	(32,196)	(758,365)	(15,123)	261,575	(544,109)

Treasury shares

The IBERDROLA Group buys and sells treasury shares in accordance with the prevailing law and the resolutions of the General Shareholders Meeting. Such transactions include purchases and sales of company shares and derivatives thereon.

At 31 December 2019 y 2018 the balances of the different instruments are as follows:

	31.12.2019		31.12.2018	
	No. of shares	Thousands of Euros	No. of shares	Thousands of Euros
Treasury shares held by IBERDROLA	24,376,375	217,865	135,985,344	873,065
Treasury shares held by SCOTTISH POWER	913,719	7,939	1,050,639	8,076
Total return swaps	11,949,623	77,599	11,810,088	77,599
Accumulators (exercised shares)	63,395,734	530,343	209,361	1,378
Accumulators (potential shares)	70,058,270	602,459	7,613,376	50,230
Total	170,693,721	1,436,205	156,668,808	1,010,348

(a) Treasury shares

Changes in 2019 and 2018 in the treasury shares of IBERDROLA and SCOTTISHPOWER (Note 3.m) are as follows:

	IBERDROLA		SCOTTISH POWER	
	No. of shares	Thousands of Euros	No. of shares	Thousands of Euros
Balance at 01.01.2018	75,710,149	507,175	1,156,863	8,417
Additions	266,442,793	1,672,087	362,108	2,393
Capital reduction	(198,374,000)	(1,245,420)	–	–
Iberdrola flexible remuneration ⁽¹⁾	5,117	–	144,747	–
Iberdrola flexible remuneration ⁽²⁾	–	(11,044)	–	–
Disposals ⁽³⁾	(7,798,715)	(49,733)	(613,079)	(2,734)
Balance at 31.12.2018	135,985,344	873,065	1,050,639	8,076
Additions	172,369,618	1,402,123	256,592	2,193
Capital reduction	(280,457,000)	(2,015,182)	–	–
Iberdrola flexible remuneration ⁽¹⁾	3,039,564	–	110,714	–
Disposals ⁽³⁾	(6,561,151)	(42,141)	(504,226)	(2,330)
Balance at 31.12.2019	24,376,375	217,865	913,719	7,939

- (1) Shares received
- (2) Free of charges allocation rights disposed.
- (3) Includes awards to employees.

SCOTTISHPOWER's treasury shares correspond to the matching shares held by the trust in the share plan called Share Incentive Plan (Note 21).

During 2019 and 2018, treasury shares held by the IBERDROLA Group were below the legal limit.

(b) Derivatives settled by physical delivery

The IBERDROLA Group recognises the transaction directly in equity under the heading “Treasury shares” and records the obligation to purchase said shares under the heading “Loans and borrowings and obligations or other securities” in current and non-current liabilities of the Consolidated statement of financial position.

- Total return swaps

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

The characteristics of these contracts at 31 December 2019 and 2018 are as follows:

	No. of shares at 31.12.2019	Strike price	Maturity date	Interest rate	2019 thousands of Euros
Total return swap	5,810,088	6.188	24/07/2020	3-month Euribor + 0.30%	35,953
Total return swap	6,139,535	6.783	25/07/2020	3-month Euribor + 0.30%	41,646
Total	11,949,623				77,599

	No. of shares at 31.12.2018	Strike price	Maturity date	Interest rate	2018 thousands of Euros
Total return swap	5,810,088	6.188	24/07/2019	3-month Euribor + 0.38%	35,953
Total return swap	6,000,000	6.941	25/07/2019	3-month Euribor + 0.30%	41,646
Total	11,810,088				77,599

- 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.

The characteristics of these contracts at 31 December 2019 and 2018 are as follows:

2019	No. of shares	Average Price of the period	Maturity date	Thousands of Euros
Exercised shares	63,395,734	8.3656	07/02/2020 - 11/06/2020	530,343
Potential maximum ⁽¹⁾	70,058,270	8.5994	07/02/2020 - 11/06/2020	602,459

2018	No. of shares	Average Price of the period	Maturity date	Thousands of Euros
Exercised shares	209,361	6.5819	14/02/2019	1,378
Potential maximum ⁽¹⁾	7,613,376	6.5976	14/02/2019	50,230

⁽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).

Distribution of dividends with charge to 2019 results

IBERDROLA's Board of Directors has agreed to propose at the General Shareholders' Meeting, the distribution of a dividend, chargeable to the results of 2019 and the retained earnings from previous years. The gross amount of this dividend will be the same as the following amounts:

- (a) Euros 238,559 thousand that were paid out in an interim dividend on 5 February 2020 to the holders of 1,419,991,945 IBERDROLA shares that chose to receive their remuneration in cash within the scope of the second settlement of the Iberdrola flexible remuneration system for 2019 through the collection of an amount of gross Euros 0.168 per share; and
- (b) the amount to be determined by multiplying:
 - (i) the gross amount per share that, as additional dividend payment for 2019, will be distributed by the Company within the scope of the first settlement of the Iberdrola flexible remuneration system for 2020 (the Supplementary dividend; by
 - (ii) the total number of shares upon which the holders have opted for receiving the Supplementary dividend within the scope of the first settlement execution of the Iberdrola flexible remuneration system.

On the date of authorisation of these Consolidated annual accounts, it is not possible to determine the amount of the Supplementary dividend or, consequently, the amount of the Dividend.

The payment of the Supplementary dividend shall be made together with the execution of the increase in share capital that will be proposed at the General Shareholders' Meeting, to offer the shareholders the possibility of receiving their remuneration in cash (through the payment of the supplementary dividend) or in the free shares of the new issuance of the Company (through the aforementioned increase in share capital).

The payment of the Supplementary dividend is configured as one of the alternatives that the shareholder may choose when receiving their remuneration within the scope of the first settlement of the Iberdrola Flexible Remuneration corresponding to 2020. As a consequence of the aforementioned, it will be understood that these shareholders who choose to receive their remuneration in cash by means of the supplementary dividend with respect to all or part of their shares, expressly, automatically and irrevocably waive the free allocation rights corresponding to these shares and, therefore, the possibility of putting them on the market or receiving fully issued new shares.

21. LONG-TERM COMPENSATION PLANS

21.1. Share-based long-term 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 targets had been met. Accordingly, and as the bases supporting the handover of shares in the first tranche of the payment were confirmed, in the first half of 2019 the third and last payment was carried out through the handover of 2,393,909 shares. These shares included those delivered to executive directors (Note 47) and to senior management (Note 49).

Additionally, following the corporate restructuring in Brazil, the third and last payment of the 2014-2016 Strategic Bonus Programme corresponding to the 14 beneficiaries from the ELEKTRO Group companies was settled in cash in the first half of 2019 in the amount of Euros 1,413 thousand.

2017-2019 Strategic Bonus Programme

The shareholders at their 2017 General Meeting approved the establishment of a Strategic Bonus for executive directors, senior managers and other IBERDROLA employees who, due to their position or responsibility are deemed to have made a decisive contribution to the creation of value (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, and 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 31 December 2019 the number of shares granted is 11,509,809 shares, and the transaction was as follows:

	No. of shares
Balance at 31.12.2016	–
Additions	12,535,000
Balance at 31.12.2017	12,535,000
Additions	400,000
Cancelled ⁽¹⁾	(1,249,584)
Balance at 31.12.2018	11,685,416
Additions	80,000
Cancellations	(255,607)
Balance at 31.12.2019	11,509,809

- (1) Following the corporate restructuring in Brazil, IBERDROLA's board of directors, in the meeting held on 19 December 2017 approved to offer those 17 beneficiaries of the 2017-2019 Strategic Bonus from Elektro Group the possibility of receiving an amount in cash for the early partial settlement thereof. The beneficiaries of the Strategic bonus 2017-2019 from Elektro Group received, in the first half of 2018 the amount proportional to the time elapsed between the commencement of the retribution plan and its early termination in 31 December 2017. The Board of Directors had previously assessed the degree of performance tied to objectives at the time of the early termination. The early termination settlement amounted to Euros 1,527 thousand.

Long-term incentives for AVANGRID shares (2016–2019)

The shareholders of AVANGRID at their 2016 General Meeting approved the establishment of a Strategic Bonus for executive directors and other executive personnel (approximately 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 group of the Bonus beneficiaries will be 2,500,000 shares, of which 1,202,751 shares were delivered at 31 December 2019.

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

Restrictive shares programme AVANGRID

As part of the Avangrid Omnibus Plan, a general plan establishing the governance framework for executive remuneration in cash and in shares, 68,000 restricted shares were assigned to certain executives in 2018. In order for said share assignment to be effective, the eligible executives must remain in the company for two years following the assignment.

In relation to bonuses described above, settlement of which is made in shares, movement in the heading "Other reserves" of the Consolidated statement of financial position is as follows:

Thousands of Euros	2014-2016 IBERDROLA Strategic Bonus Programme	2017-2019 IBERDROLA Strategic Bonus Programme	2016- 2019 AVANGRID Strategic bonus (*)	AVANGRID Restricted shares (*)	Total
Balance at 01.01.2018	38,390	11,818	6,721	–	56,929
Charges	8,347	26,718	(3,191)	765	32,639
Effect price charged to equity	748	–	–	–	748
Payments in shares	(21,699)	–	–	–	(21,699)
Payments in cash due to leaving the company	(3,709)	–	–	–	(3,709)
Transfer	(1,247)	(1,581)	2	–	(2,826)
Balance at 31.12.2018	20,830	36,955	3,532	765	62,082
Charges	790	23,943	1,422	1,534	27,689
Effect price charged to equity	3,708	–	–	–	3,708
Payments in shares	(25,016)	–	–	–	(25,016)
Payments in cash due to leaving the company	(224)	–	–	–	(224)
Transfer	(88)	(66)	(22)	(6)	(182)
Balance at 31.12.2019	–	60,832	4,932	2,293	68,057

(*) Submitted for 100%. Non-controlling interests represent 18.5%.

SCOTTISH POWER share-based incentive plan

SCOTTISH POWER has two share-based plans for its employees.

- *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 recognised in the Income statement over the plan's vesting period (three or five years) with a credit to equity.

The heading "Personnel expenses" of the Consolidated income statements for 2019 and 2018 includes Euros 551 thousand and Euros 700 thousand, respectively, which have been credited under the heading "Other reserves" of the Consolidated statement of financial position.

Additionally, in 2019 and 2018 payments for options have been made in the amount of Euros 1,395 thousand and Euros 3,118 thousand, respectively.

Changes in the number of share options are as follows:

	No. of shares	Number of shares
Balance at 01.01.2017	2,616	5,531,681
Exercised	(90)	(125,025)
Cancelled	(117)	(279,308)
Balance at 31.12.2017	2,409	5,127,348
Exercised	(1,090)	(1,414,705)
Cancelled	(59)	(138,761)
Balance at 31.12.2018	1,260	3,573,882
Exercised	(140)	(378,572)
Cancelled	(18)	(129,250)
Balance at 31.12.2019	1,102	3,066,060

- *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 subject to the maximum contribution allowed by the law in the United Kingdom. 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, from both the company and the employees, are put into 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, shares acquired with company contributions (matching shares) do not vest until three years after the date of purchase. The matching shares acquired by the trust in 2019 and 2018 amount to 2,576,876 and 3,133,397 shares, respectively.

Company contributions 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.

The heading "Personnel expenses" of the Consolidated income statement for 2019 and 2018 amount to Euros 2,302 and 2,223 thousand respectively, which have been credited under the heading "Other reserves" of the Consolidated statement of financial position.

Additionally, in 2019 and 2018 there have been transfers to shareholders for exercised options in the amount of Euros 2,330 and 2,734 thousand, respectively.

21.2. Cash-based long-term compensation plans

Below is a description of long-term compensation plans to be settled in the form of shares:

2018-2019 Long-term incentive plan NEOENERGIA

The Board of Directors of NEOENERGIA, at the meeting held on 27 September 2017, approved the establishment of a long-term incentive plan for executive directors and senior executives who due to their position or responsibility in the NEOENERGIA Group are deemed to have made a decisive contribution to the creation of value (up to a maximum of 100 beneficiaries), in the maximum amount of BRL 50 million.

This long-term incentive plan is tied to NEOENERGIA Group's performance in relation to certain metrics throughout the assessment period from 2018 to 2019.

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

The heading "Personnel expenses" of the Consolidated income statement for 2019 includes Euros 3,946 thousand.

22. EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY

In the United States, the IBERDROLA Group has signed several contracts that have brought in third parties as non-controlling interests in some of its wind farms in exchange for cash and other financial assets primarily.

The main characteristics of these contracts are as follows:

- Regardless of the interest acquired by the non-controlling interests, the IBERDROLA Group retains the control and management of the wind farms; accordingly, they are fully consolidated in these Consolidated annual accounts.
- The non-controlling interests have the right to a substantial portion of the profits and tax credits generated by these wind farms up to the return level established at the beginning of the contract.
- The non-controlling interests remain in the equity of the wind farms until they achieve the stipulated returns.
- Once these returns have been obtained, the non-controlling interests must renounce their stake in the wind farms, thus losing their right to the profits and tax credits generated.
- Whether or not the non-controlling interests of the IBERDROLA Group obtain the agreed upon returns depends on the economic performance of the wind farms. Although the IBERDROLA Group is obliged to operate and maintain these facilities in an efficient manner and to take out the appropriate insurance policies, it is not obliged to deliver cash to the non-controlling interests over and above the aforementioned profits and tax credits.

Following an analysis of the economic substance of these agreements, the IBERDROLA Group classifies the consideration received at the outset of the transaction under the headings “Non-current equity instruments having the substance of a financial liability” and “Current equity instruments having the substance of a financial liability” of the Consolidated statement of financial position. Subsequently, this consideration is measured at amortised cost.

At 31 December 2019 and 2018 the amount in this heading accrues an average interest in US Dollar of 7.85% and 7.05% respectively.

Changes in this heading of the Consolidated statements of financial position for 2019 and 2018 are as follows:

Thousands of Euros	2019	2018
Initial balance	177,229	47,281
Finance cost accrued in the year	20,010	12,026
Payments	(99,786)	(65,658)
Translation differences	3,696	6,876
Additions	114,384	176,704
Final balance	215,533	177,229

In June 2019 and May 2018, the IBERDROLA Group executed new agreements through its subsidiary companies in the United States Patriot Wind Holdings LLC and El Cabo Wind LLC, respectively.

23. CAPITAL GRANTS

The change in this heading of the Consolidated statements of financial position in 2019 and 2018 is as follows (Note 3.n).:

Thousands of Euros	Capital grants	Investment tax credits	Total
Balance at 01.01.2018	282,173	1,198,938	1,481,111
Additions	6,184	7,856	14,040
Derecognition	(147)	–	(147)
Transfers	2,252	–	2,252
Translation differences	2,864	52,683	55,547
Allocation to income statement (Note 3.o)	(17,121)	(57,516)	(74,637)
Modification of the consolidation perimeter (Note 6)	(238)	–	(238)
Balance at 31.12.2018	275,967	1,201,961	1,477,928
Additions	12,403	–	12,403
Derecognition	(3,079)	(37,004)	(40,083)
Translation differences	1,314	23,759	25,073
Allocation to income statement (Note 3.o)	(16,206)	(60,592)	(76,798)
Balance at 31.12.2019	270,399	1,128,124	1,398,523

24. FACILITIES TRANSFERRED OR FINANCED BY THIRD PARTIES

The change in this heading of the Consolidated statements of financial position in 2019 and 2018 is as follows (Note 3.o).:

Thousands of Euros	Transfer of assets from third parties	Assets financed from third parties	Total
Balance at 01.01.2018	2,601,786	2,161,362	4,763,148
Additions	88,873	170,419	259,292
Derecognition	(9)	(769)	(778)
Transfers	(1,018)	(1,234)	(2,252)
Translation differences	(266)	1,172	906
Allocation to income statement (Note 3.o)	(118,321)	(78,599)	(196,920)
Balance at 31.12.2018	2,571,045	2,252,351	4,823,396
Additions	110,436	184,755	295,191
Derecognition	(99)	(3,114)	(3,213)
Translation differences	4,068	65,028	69,096
Allocation to income statement (Note 3.o)	(121,122)	(75,885)	(197,007)
Balance at 31.12.2019	2,564,328	2,423,135	4,987,463

25. PROVISION FOR PENSIONS AND SIMILAR OBLIGATIONS

The breakdown of this heading of the Consolidated statements of financial position is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Defined benefit plans (Spain)	408,678	372,553
Long-service bonuses and other long-term benefits (Spain)	43,729	40,796
Defined benefit plans (United Kingdom)	765,535	569,204
Defined benefit plans (United States)	1,031,518	1,006,606
Defined benefit plans (Brazil)	189,739	210,432
Defined benefit plans and other long term benefits (Spain and other countries)	74,551	55,542
Restructuring plans	172,202	187,773
Total	2,685,952	2,442,906

Each year IBERDROLA estimates, based on an independent actuarial report, the payments for pensions and similar benefits that it will have to meet in the following financial year. These are recognised as current liabilities in the Consolidated statement of financial position.

25.a Defined benefit plans and other non-current employee benefits

Spain

IBERDROLA Group's main commitments to providing defined benefits for its employees in Spain, in addition to those provided by Social Security, are as follows:

- Employees subject to IBERDROLA's Collective Labour Agreement who retired before 9 October 1996, are covered by a defined benefit retirement pension scheme, the actuarial value of which was fully externalised at 31 December 2019 and 2018.

IBERDROLA Group has no liability of any kind for this group and has no claim on any potential excess generated in the assets of this plan over the defined benefits.

- Also, in relation to serving employees and employees who have retired after 1996 and are subjected to IBERDROLA Group's Collective Labour Agreement and members/beneficiaries of the IBERDROLA Pension Plan, risk benefits (e.g. widowhood, permanent disability or orphanage) which guarantee a defined benefit at the time the event giving rise to such benefits occurs, are instrumented through a pluriannual insurance policy. The guaranteed benefit consists of the difference between the present actuarial value of the above mentioned defined benefit at the time of the event and the member's vested rights at the time of the event, if the latter were lower. The premiums on the insurance policy for 2019 and 2018 are recognised under the heading "Personnel expenses" of the Consolidated income statements and for an amount of Euros 14,318 thousand and Euros 10,621 thousand, respectively.
- In addition, IBERDROLA maintains a provision of coverage of certain commitments with its employees other than those indicated above, which are covered by internal funds linked to social security benefits, consisting mainly of free electricity supply, with an annual consumption limit, for retired employees and other long term benefits, primarily consisting of long-service bonus for active employees at 10, 20 and 30 years of service.

United Kingdom (SCOTTISH POWER)

SCOTTISH POWER employees residing in the United Kingdom, hired before 1 April 2006, are covered by the defined benefit retirement plans *ScottishPower Pension Scheme* (SPPS) and *Manweb Group of Electricity Supply Pension Scheme* (Manweb).

One-off capital sums have been offered to pensioners and deferred beneficiaries, reducing the defined benefit burden.

USA (AVANGRID)

The former employees of SCOTTISH POWER that now form part of the workforce of the IBERDROLA Group in the United States, most of them belonging to the workforce of the Iberdrola Renewables Holding Inc. (hereinafter, ARHI), are members of various post-employment plans (Supplemental Executive Retirement Plan, Iberdrola Renewables Retiree Benefits Plan and Iberdrola Renewables Retirement Plan).

Effective from 30 April 2011, a change affecting all plan participants occurred in the Iberdrola Renewables Retiree Benefits Plan, whereby the benefit receivable at retirement age was set at the amount accrued until 30 April 2011 and the plan became a defined-contribution scheme from that date onwards.

On the other hand, the employees of the AVANGRID NETWORKS Group are affiliated to various defined benefit retirement pension plans (Qualified Pension Plans, Non-Qualified Pension Plans), disability benefit plans (Long Term Disability Plans) and health insurance plans (Postretirement Welfare Plans).

UIL Group's employees were covered by several defined benefit retirement plans (Qualified Pension Plans, Non-Qualified Pension Plans) and health plans (Postretirement Welfare Plans).

Defined benefit retirement pension plans are not available for new incorporations and when possible those who remain are only recognised for past services.

One-off capital sums have been offered to pensioners and deferred beneficiaries, reducing the defined benefit burden.

Brazil

On 24 August 2017 NEOENERGIA was acquired through the incorporation of ELEKTRO. ELEKTRO, CELPE, COELBA and COSERN employees are covered by several defined benefit retirement plans. COELBA employees are covered by a post-employment health plan too.

Defined benefit retirement plans are not available for new incorporations.

Other commitments with employees

In addition, some IBERDROLA Group companies have provisions to meet certain commitments with their employees, other than those described above, which are met by in-house pension funds.

The most significant information related to plans is as follows:

Thousands of Euros	Spain		United Kingdom		United States				Brazil				Other		Total			
					ARHI		UIL		AVANGRID NETWORKS		ELEKTRO ⁽¹⁾		NEOENERGIA ⁽²⁾					
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018		
Present value of the obligation	(452,407)	(413,349)	(6,081,053)	(5,463,614)	(63,591)	(61,192)	(1,129,169)	(1,004,348)	(2,531,231)	(2,307,689)	(361,226)	(299,674)	(504,576)	(481,917)	(74,551)	(55,542)	(11,197,804)	(10,087,325)
Fair value of plan assets	-	-	5,315,518	4,894,410	34,610	30,514	714,862	609,765	1,943,001	1,726,344	363,240	330,695	378,856	331,671	-	-	8,750,087	7,923,399
Net asset / (Net provision)	(452,407)	(413,349)	(765,535)	(569,204)	(28,981)	(30,678)	(414,307)	(394,583)	(588,230)	(581,345)	2,014	31,021	(125,720)	(150,246)	(74,551)	(55,542)	(2,447,717)	(2,163,926)
Amounts recognised in the Consolidated statement of financial position:																		
Provision for pensions and similar commitments and similar obligations	(452,407)	(413,349)	(765,535)	(569,204)	(28,981)	(30,678)	(414,307)	(394,583)	(588,230)	(581,345)	-	-	(189,739)	(210,432)	(74,551)	(55,542)	(2,513,750)	(2,255,133)
Assets for pensions and similar commitments and similar obligations (Note 14.b)	-	-	-	-	-	-	-	-	-	-	-	-	7,190	7,007	-	-	7,190	7,007
Net asset / (Net provision)	(452,407)	(413,349)	(765,535)	(569,204)	(28,981)	(30,678)	(414,307)	(394,583)	(588,230)	(581,345)	-	-	(182,549)	(203,425)	(74,551)	(55,542)	(2,506,560)	(2,248,126)

(1) These amounts have not been recognised in the Consolidated statement of financial position at 31 December 2019 and 2018, respectively, since the requirements set forth in the current legislation for their accounting treatment are not met.

(2) At 31 December 2019 and 2018 a surplus of Euros 56,829 thousand and 53,179 thousand, respectively, was not recognised, applying the IFRIC 14: "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction".

The changes in provisions for the commitments detailed in the previous section in 2019 and 2018 is as follows:

Thousands of Euros	Spain		United Kingdom	United States			Brazil ⁽¹⁾		Other	Total
	Electricity tariff	Long-service bonus		ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGIA		
Balance at 01.01.2018	402,883	42,539	6,189,753	63,425	1,015,714	2,389,049	303,237	542,248	58,376	11,007,224
Modification of the consolidation perimeter (Note 6)	-	-	(64,774)	-	-	-	-	-	-	(64,774)
Normal cost (Note 38)	5,741	3,627	69,226	581	13,909	30,204	1,434	626	6,247	131,595
Cost for past services (Note 38)	-	-	(7,662)	(153)	190	(2,656)	-	(2,531)	(6,047)	(18,859)
Finance cost (Note 43).	6,518	330	154,304	2,433	37,648	84,065	27,128	47,702	2,033	362,161
Actuarial gains and losses										
To profit (Note 38)	537	366	-	-	-	-	-	-	-	903
To reserves	(26,706)	-	(289,375)	(5,197)	(45,482)	(126,314)	21,197	8,045	450	(463,382)
Members contributions	-	-	7,574	-	-	-	925	534	-	9,033
Payments	(16,420)	(6,066)	(505,101)	(5,268)	(61,657)	(168,407)	(15,966)	(50,718)	(5,553)	(835,156)
Translation differences	-	-	(90,331)	5,371	44,026	101,748	(38,281)	(63,989)	36	(41,420)
Balance at 31.12.2018	372,553	40,796	5,463,614	61,192	1,004,348	2,307,689	299,674	481,917	55,542	10,087,325
Normal cost (Note 38)	4,515	3,831	57,677	756	13,276	28,206	1,499	(10)	3,386	113,136
Cost for past services (Note 38)	-	-	(12,564)	(1,348)	484	(26)	-	-	539	(12,915)
Finance cost (Note 43).	5,861	378	152,138	2,428	40,446	88,893	27,928	44,086	1,752	363,910
Actuarial gains and losses										
To profit (Note 38)	1,372	2,506	-	-	-	-	-	-	-	3,878
To reserves	40,000	-	431,747	3,647	111,960	223,080	53,939	29,356	19,087	912,816
Members contributions	-	-	6,718	-	-	-	928	306	-	7,952
Payments	(15,623)	(3,782)	(344,705)	(4,319)	(63,141)	(163,650)	(18,017)	(45,348)	(6,822)	(665,407)
Translation differences	-	-	326,428	1,235	21,796	47,039	(4,725)	(5,731)	1,067	387,109
Balance at 31.12.2019	408,678	43,729	6,081,053	63,591	1,129,169	2,531,231	361,226	504,576	74,551	11,197,804

- (1) As the surplus was not recognised, the actuarial differences recognised in reserves were adjusted upwards in 2019 and 2018 by Euros 33,030 thousand and 4,120 thousand respectively in the application of the current legislation IFRIC 14: "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction". Moreover, in 2019 and 2018, and for the same concept, the finance costs recognised were adjusted upwards by Euros 7,957 and 8,334 thousand, respectively.

The average length at the end of the year of the liability for the employee benefits described previously is:

Years	Spain		United Kingdom	United States			Brazil	
	Electricity tariff	Long-service bonus		ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGIA
Average length	21	9	19	13	14	11	15	11

The movement in the fair value of the plan assets in 2019 and 2018 is as follows:

Thousands of Euros	United Kingdom	United States			Brazil		Total
		ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGIA	
Fair Value at 01.01.2018	5,552,232	34,622	661,511	1,853,869	343,432	348,118	8,793,784
Modification of the consolidation perimeter (Note 6)	(59,348)	–	–	–	–	–	(59,348)
Revaluation (Note 43)	140,690	1,254	24,325	65,498	30,922	30,698	293,387
Actuarial gains and losses to reserves	(343,877)	(3,070)	(61,367)	(146,210)	13,659	24,529	(516,336)
Company contributions	183,149	1,609	19,860	45,018	738	21,972	272,346
Members contributions	7,574	–	–	–	925	534	9,033
Payments	(505,101)	(5,268)	(61,657)	(168,406)	(15,966)	(50,718)	(807,116)
Translation differences	(80,909)	1,367	27,093	76,575	(43,015)	(43,462)	(62,351)
Fair Value at 31.12.2018	4,894,410	30,514	609,765	1,726,344	330,695	331,671	7,923,399
Revaluation (Note 43)	139,044	1,207	24,870	66,859	30,982	30,595	293,557
Actuarial gains and losses to reserves	143,940	3,936	98,386	233,564	22,236	46,140	548,202
Company contributions	187,726	2,645	32,373	44,503	763	20,208	288,218
Members contributions	6,718	–	–	–	928	306	7,952
Payments	(344,705)	(4,319)	(63,141)	(163,650)	(18,017)	(45,348)	(639,180)
Translation differences	288,385	627	12,609	35,381	(4,347)	(4,716)	327,939
Fair Value at 31.12.2019	5,315,518	34,610	714,862	1,943,001	363,240	378,856	8,750,087

The main assumptions applied in the actuarial reports that determined the provisions needed to meet the abovementioned commitments at 31 December 2019 and 2018 are as follows:

2019	Discount rate	Wage increase	Price kWh (euros)	Inflation	Survivorship table	Health insurance cost Pre-Medicare/Medicare
Spain						
Electricity tariff ⁽¹⁾	0.93%	–	2020: 0.1129174; 2021: 0.118912; 2022: 0.116039; 2023: 0,1115581; [...]	–	PERMF 2000P	–
Long-service bonus ⁽¹⁾	0.47%	1.00%	–	–	PERMF 2000P	–
United Kingdom	2.10%	3.07%	–	3.07%	Pre-retirement/Post-retirement Male: 85% AMC00 / 90%S2PMA CMI2018 M (1.25% improvement rate) Women: 85%AFC00 / 100%S2PFA CMI2018 F (1.25% improvement rate)	–
United States						
ARHI	3.10%	n.a.	–	2.00%	Pri-2012 Fully Generational Projection using Scale MP 2019	Based on RX year: 6.75%(pre-65)/7.50% (post-65) (2020); 6.50%/7.25%(2021); [...]: 4,50%/4,50% (2029 onwards)
UIL	3.19%	3.50% - 3.80%	–	2.00%	Pri-2012 Fully Generational Projection using Scale MP 2019	Based on year: 6.75%(pre-65)/5.50% (post-65) (2020); 6.50%/5.25%(2021); [...]: 4,50%/4,50% (2029 onwards)
AVANGRID NETWORKS	2.93%	Based on the age and Union/ Non Union	–	2.00%	Pri-2012 Fully Generational Projection using Scale MP 2019	Based on RX year: 6.75%(pre-65)/7.50% (post-65) (2020); 6.50%/7.25%(2021); [...]: 4.50%/4.50% (2029 onwards)
Brazil						
ELEKTRO	7.81%	6.65%	–	4.00%	AT - 2000 male - 10%	–
NEOENERGIA						
Celpe BD	7.61%	5.04%	–	4.00%	AT-2000 male	–
Coelba BD	7.53%	–	–	4.00%	BR-EMS-sb 2015 Male -15%	–
Coelba Plan As. Médica	7.79%	n.a.	–	4.00%	AT-2000 Basic	–
Cosern BD	7.41%	–	–	4.00%	AT - 2000 (40% male; 60% female) - 10%	–

2018	Discount rate	Wage increase	CPI increase	Inflation	Survivorship table	Health insurance cost Pre-Medicare/medicare
Spain						
Electricity tariff ⁽¹⁾	1.60%	–	2019 0.12722; 2020 0.13072; 2021 0.12215; 2022 0.12185; [...]	–	PERMF 2000P	–
Long-service bonus ⁽¹⁾	0.93%	1.00%	–	–	PERMF 2000P	–
United Kingdom	2.80%	3.76%	–	3.26%	Pre-retirement/Post-retirement Male: 85% AMC00 / 90%S2PMA CMI2017 M (1.25% improvement rate) Female: 85%AFC00 / 100%S2PFA CMI2017 F (1.25% improvement rate)	-
United States						
ARHI	4.09%	n.a.	–	2.00%	RP-2006 fully generational table using Scale MP-2018	Based on RX year: 7%(pre-65)/7.75% (post-65) (2019); 6.75%/7.50%(2020); [...]: 4.50%/4.50% (2029 onwards)
UIL	4.09%	3.50% - 3.80%	–	2.00%	RP-2006 fully generational table using Scale MP-2018	Based on RX year: 7%(pre-65)/7.75% (post-65) (2019); 6.75%/7.50%(2020); [...]: 4.50%/4.50% (2029 onwards)
AVANGRID NETWORKS	3.93%	Based on the age and Union/ Non Union	–	2.00%	RP-2006 fully generational table using Scale MP-2018	Based on RX year: 7%(pre-65)/7.75% (post-65) (2019); 6.75%/7.50%(2020); [...]: 4.50%/4.50% (2029 onwards)
Brazil						
ELEKTRO	9.46%	6.33%	–	4.25%	AT - 2000 male - 10%	-
NEOENERGIA						
Celpe BD	9.36%	5.29%	–	4.25%	AT-2000 male	-
Celpe Mixto	8.94%	5.29%	–	4.25%	AT-2000	-
Coelba BD	9.25%	5.29%	–	4.25%	BR-EMS-sb 2015 Male -15%	-
Coelba mixto	9.10%	5.29%	–	4.25%	AT-2000 Basic	-
Coelba Plan As. Médica	9.46%	n.a.	–	n.a.	AT-2000 Basic	-
Cosern BD	9.20%	5.29%	–	4.25%	AT - 2000 (40% male; 60% female) - 10%	-
Cosern Mixto	9.10%	5.29%	–	4.25%	AT-2000 - 10%	-

(1) In both cases, the retirement age has been established pursuant to the Law 27/2011, of 1 August, on the upgrade, adjustment and modernisation of the Social Security system, providing for a gradual increase in the retirement age in accordance with the law.

The most relevant figures for these commitments over the last years are the following:

Thousands of Euros	2019	2018	2017	2016	2015
Spain					
Present value of the obligation	(452,407)	(413,349)	(445,422)	(553,361)	(501,032)
Net asset / (Net provision)	(452,407)	(413,349)	(445,422)	(553,361)	(501,032)
Experience adjustments arising on plan liabilities	(9,245)	4,914	7,799	4,664	25,355
United Kingdom					
Present value of the obligation	(6,081,053)	(5,463,614)	(6,189,753)	(6,261,592)	(6,272,818)
Fair value of plan assets	5,315,518	4,894,410	5,552,232	5,741,838	5,915,545
Net asset / (Net provision)	(765,535)	(569,204)	(637,521)	(519,754)	(357,273)
Experience adjustments arising on plan liabilities	13,437	81,052	46,097	(17,836)	27,541
Experience adjustments arising on plan assets	143,940	(343,877)	97,442	552,312	(77,098)
ARHI					
Present value of the obligation	(63,591)	(61,192)	(63,425)	(72,785)	(73,133)
Fair value of plan assets	34,610	30,514	34,622	37,722	38,284
Net asset / (Net provision)	(28,981)	(30,678)	(28,803)	(35,063)	(34,849)
Experience adjustments arising on plan liabilities	(1,836)	(507)	(975)	1,626	7,834
Experience adjustments arising on plan assets	(3,936)	(3,070)	3,810	864	(2,695)
UIL					
Present value of the obligation	(1,129,169)	(1,004,348)	(1,015,714)	(1,126,064)	(1,055,586)
Fair value of plan assets	714,862	609,765	661,510	695,330	647,357
Net asset / (Net provision)	(414,307)	(394,583)	(354,204)	(430,734)	(408,229)
Experience adjustments arising on plan liabilities	(7,057)	2,995	27,026	(30,075)	182
Experience adjustments arising on plan assets	(98,386)	(61,367)	67,787	20,218	(10,620)
AVANGRID NETWORKS					
Present value of the obligation	(2,531,231)	(2,307,689)	(2,389,049)	(2,629,032)	(2,595,775)
Fair value of plan assets	1,943,001	1,726,344	1,853,869	1,991,669	1,893,611
Net asset / (Net provision)	(588,230)	(581,345)	(535,180)	(637,363)	(702,164)
Experience adjustments arising on plan liabilities	(21,214)	20,183	(25,591)	37,797	(11,669)
Experience adjustments arising on plan assets	(233,563)	(146,210)	179,082	38,298	(95,019)
ELEKTRO					
Present value of the obligation	(361,226)	(299,674)	(303,237)	(336,323)	(206,387)
Fair value of plan assets	363,240	330,695	343,432	376,175	270,711
Net asset / (Net provision)	2,014	31,021	40,195	39,852	64,324
Experience adjustments arising on plan liabilities	(8,459)	(1,667)	17,615	(15,966)	(5,980)
Experience adjustments arising on plan assets	22,236	13,659	(2,734)	16,502	(10,632)
NEOENERGIA					
Present value of the obligation	(504,576)	(481,917)	(542,248)	–	–
Fair value of plan assets	378,856	331,671	348,118	–	–
Net asset / (Net provision)	(125,720)	(150,246)	(194,130)	–	–
Experience adjustments arising on plan liabilities	(12,630)	13,637	(7,298)	–	–
Experience adjustments arising on plan assets	46,140	(24,529)	(8,293)	–	–

The sensitivity at 31 December 2019 of the present value of the obligation of these commitments to changes in the discount rate:

Increase/decrease	Spain		United Kingdom	United States			Brazil	
	Electricity tariff	Long-service bonus		ARHI	UIL	AVANGRID NETWORKS	ELEKTRO	NEOENERGIA
Increase/decrease (basic points)								
10	(6,953)	(337)	(107,036)	(636)	(14,775)	(27,668)	(4,759)	(4,677)
(10)	7,144	418	114,930	648	15,073	28,194	5,345	5,103
Inflation (basic points)								
10	–	–	102,784	–	–	–	–	–
(10)	–	–	(100,200)	–	–	–	–	–
Wage increase (basic points)								
10	–	417	–	–	1,942	2,619	–	–
(10)	–	(375)	–	–	(1,926)	(2,591)	–	–
Survivorship table (years)								
1	–	–	234,582	–	–	–	–	–
Health insurance cost (basic points)								
25	–	–	–	10	1,336	1,275	–	–
(25)	–	–	–	(9)	(1,277)	(1,227)	–	–
Price increase kWh (basic points)								
10	8,308	–	–	–	–	–	–	–
(10)	(7,776)	–	–	–	–	–	–	–

Category of assets

The main categories of plan assets, as a percentage of total plan assets at year end, are shown in the table below:

2019	Equity securities	Fixed income securities	Cash and cash equivalents	Other
United Kingdom	16%	32%	7%	45%
AVANGRID NETWORKS				
<i>Retirement plan</i>	22%	63%	2%	13%
<i>Retiree Benefits Plan</i>	52%	37%	2%	9%
UIL				
<i>Qualified Pension Plans</i>	33%	52%	1%	14%
<i>Postretirement Welfare Plans</i>	10%	4%	65%	21%
ARHI				
<i>Qualified Pension Plans</i>	42%	42%	1%	15%
<i>Postretirement Welfare Plans</i>	46%	48%	6%	–
ELEKTRO	–	96%	–	4%
NEOENERGÍA	1%	97%	0%	2%
2018	Equity securities	Fixed income securities	Cash and cash equivalents	Other
United Kingdom	17%	40%	5%	38%
AVANGRID NETWORKS				
<i>Retirement plan</i>	33%	42%	1%	24%
<i>Retiree Benefits Plan</i>	48%	48%	4%	–
UIL				
<i>Qualified Pension Plans</i>	51%	43%	–	6%
<i>Postretirement Welfare Plans</i>	61%	24%	14%	1%
ARHI				
<i>Qualified Pension Plans</i>	36%	41%	3%	20%
<i>Postretirement Welfare Plans</i>	49%	44%	3%	4%
ELEKTRO	12%	84%	–	4%
NEOENERGÍA	2%	95%	–	3%

The assets associated with these plans include neither financial instruments issued by the IBERDROLA Group nor tangible nor intangible assets.

Moreover, the breakdown of assets of the plans measured at fair value by level is as follows:

Thousands of Euros	Value at 31.12.2019	Level 1	Level 2	Level 3
United Kingdom	5,315,518	549,852	3,414,092	1,351,574
AVANGRID	2,692,473	393,217	1,859,269	439,987
ELEKTRO	363,240	197,018	133,398	32,824
NEOENERGIA	378,856	5	359,461	19,390
Total	8,750,087	1,140,092	5,766,220	1,843,775
Thousands of Euros	Value at 31.12.2018	Level 1	Level 2	Level 3
United Kingdom	4,894,410	711,123	3,027,800	1,155,487
AVANGRID	2,366,623	245,852	1,554,323	566,448
ELEKTRO	330,695	195,700	108,487	26,508
NEOENERGIA	331,671	3	311,015	20,653
Total	7,923,399	1,152,678	5,001,625	1,769,096

The strategic distribution of pension plans investments is supported by periodic specific Asset Liability Management studies for each of the plans. This guarantees the match with the funding policy and the expected time to fully finance the commitment in accordance with flows resulting therefrom. Those studies provide the level of sensitivity to the different expected return rates of assets and discount of obligations. On the other hand, it is guaranteed that the financing of plans is adequate while recovering regulated cash flows. Moreover, there are prudential investment rules applicable to pensions within the scope of the Group.

Regarding the management of assets at global level, they have been progressively switched to passive management. Provisions for death and permanent disability have been covered with pension plans through insurance policies and managing entities and investment assets have been qualified through independent third parties, resulting in investments with lower liquidity. Additionally, in the United Kingdom, the longevity risk has been covered with swaps and work is underway to partially cover inflation risk.

25.b) Defined contribution plans

The active employees of IBERDROLA and employees who have retired after 9 October 1996, are members of the IBERDROLA pension plan with joint promoters, are covered by an occupational, defined-contribution retirement pension system independent of the Social Security system.

In accordance with this system and IBERDROLA Group's effective Collective Labour Agreement, the periodic contribution to be made is calculated as a percentage of the annual pensionable salary of each employee, except for employees joining the Company after 9 October 1996, who are subject from 1 January 2019 to a contributory system where the Company pays 62,5% and the employee 37,5% (before this date, the Company paid 60% and the employee 40%). For the ones hired after 20 July 2015 the company pays 1/3 and the employee 2/3, until the date in which the employee takes part in the Base Salary Rating (SBC). At this moment the same criteria will be applied to those employees as the ones who were hired since 9 October 1996. The respective subsidiaries finance these contributions for all their active employees under 65.

IBERDROLA's contributions in 2019 and 2018 were Euros 18,820 thousand and Euros 19,006 thousand, respectively, and are recognised under the heading "Personnel expenses" of the Consolidated income statement.

Additionally, the contribution made on behalf of employees not covered by the Collective Bargaining Agreement in 2019 and 2018, recognised under the heading "Personnel expenses" of the Consolidated income statement is shown below.

Defined contribution plans	2019	2018
SCOTTISH POWER	14,067	12,825
AVANGRID	35,389	31,258
NEOENERGIA	5,892	5,883
Other	876	646
Total	56,224	50,612

25.c) Restructuring plans

Given the interest shown by some of the employees in requesting early retirement, IBERDROLA Group has offered these employees the mutually agreed termination of the employment relationship. To do so, IBERDROLA has carried out a process of individual termination contracts in Spain. At 31 December 2019, the existing provisions in this regard correspond to the following restructuring plans:

Thousands of Euros	31.12.2019		31.12.2018	
	Provisions	No. of contracts	Provisions	No. of contracts
2012 restructuring plan	288	4	981	19
2014 restructuring plan	21,258	159	35,738	238
2015 restructuring plan	6,790	51	10,649	69
2016 restructuring plan	4,774	43	8,238	61
2017 restructuring plan	85,020	386	112,824	409
2019 restructuring plan	38,045	141	–	–
Total	156,175	784	168,430	796

In addition, the following provisions at 31 December 2019 and 2018 are kept to face these commitments abroad and for the subsidiary company Iberdrola Ingeniería y Construcción, S.A.U.(IIC):

Thousands of Euros	31.12.2019	31.12.2018
SCOTTISH POWER	6,151	5,265
IIC	9,876	14,078
Total	16,027	19,343

The discount to present value of the provisions is charged under the heading “Finance cost” heading of the Consolidated income statement.

The movement in provisions for the commitments detailed in the previous section in 2019 and 2018 is as follows:

Thousands of Euros	2019	2018
Initial balance	187,773	266,027
Charge	48,061	8,200
Financial Cost	798	505
Actuarial gain and losses and other	(2,308)	(5,799)
Payments and translation differences(*)	(62,122)	(81,160)
Final balance	172,202	187,773

(*) Payments made during 2019 and 2018 amount to Euros 62,335 thousand and Euros 79,771 thousand, respectively.

The main assumptions applied in the actuarial reports that determined the provisions needed to meet the abovementioned commitments relating to the restructuring plans at 31 December 2019 and 2018 are as follows:

	2019		2018	
	Discount rate	Inflation	Discount rate	Inflation
Restructuring plans	0.24% / 0.26%	1.00% / 0.70%	0.33% / 0.42%	1.00% / 0.70%

26. OTHER PROVISIONS

The movement and breakdown of the heading “Other provisions” in the liabilities of the Consolidated statement of financial position in 2019 and 2018 is as follows:

Thousands of Euros	Provisions for litigation, indemnity payments and similar costs Restated (Note 2.d)	Provision for CO2 emissions	Provision for facility closure costs (Notes 3.r and 5)	Other provisions	Total
Balance at 01.01.2018	805,805	415,906	1,715,698	449,941	3,387,350
Charge or reversals for the year with a debit/credit to “Property, Plant and Equipment” (Note 3.d)	14,359	–	72,334	–	86,693
Charge for discount to present value (Note 43)	39,695	–	28,381	(19)	68,057
Charge for the year to the income statement	105,794	593,574	416	12,487	712,271
Reversal due to excess	(81,654)	(2)	(15,400)	(11,151)	(108,207)
Modification of the consolidation perimeter (Note 6)	(532)	(30,489)	(5,565)	–	(36,586)
Translation differences	(33,667)	(5,922)	13,027	15,969	(10,593)
Transfers	(88)	–	(5,027)	(21,745)	(26,860)
Payments made and other	(87,440)	–	(6,090)	(30,069)	(123,599)
Emission allowances and Green certificates	–	(543,530)	–	–	(543,530)
Balance at 31.12.2018	762,272	429,537	1,797,774	415,413	3,404,996
First application of IFRS 16 (Note 2.a.)	(5,843)	–	15,929	–	10,086
Charge or reversals for the year with a debit/credit to “Property, Plant and Equipment” (Note 3.d)	22,259	–	391,255	9,587	423,101
Charge for discount to present value (Note 43)	48,829	–	35,256	542	84,627
Charge for the year to the income statement	185,814	617,846	8,644	29,190	841,494
Reversal due to excess	(68,764)	–	(9,667)	(6,334)	(84,765)
Translation differences	(103)	20,482	25,867	7,368	53,614
Transfers	22,745	–	6	(7,527)	15,224
Payments made and other	(176,707)	–	(2,415)	(43,007)	(222,129)
Emission allowances and Green certificates	–	(562,038)	–	–	(562,038)
Balance at 31.12.2019	790,502	505,827	2,262,649	405,232	3,964,210

In addition, the IBERDROLA Group has provisions for responsibilities arising from litigation in progress and from indemnity payments, obligations, collateral and other similar guarantees, and those aimed at covering environmental risks. These last ones have been determined on the basis of a case-by-case analysis of the polluted assets status and the cost that will have to be incurred in cleaning them.

The IBERDROLA Group also maintains provisions to meet a series of costs needed for dismantling work at its nuclear and thermal power plants, its wind farms, and at other facilities.

The cost arising from dismantling obligations is recalculated on a regular basis to incorporate to the estimate of future costs the experience of the reasonableness of provisions of dismantling events, or to include new statutory or regulatory requirements.

The detail of provision for plants closure costs is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Thermal power plants	57,031	60,848
Nuclear power plants	657,010	612,174
Wind-powered farms and other alternative stations	1,255,964	945,344
Combined cycle power plant	206,884	146,194
Other facilities	64,047	33,214
Right-of-use asset	21,713	–
Total	2,262,649	1,797,774

The amount related to nuclear plants covers the costs in which the plant operator will incur from the end of its useful life until ENRESA (Note 3.x) takes control of them.

The discount rates (minimum and maximum range) before taxes of the main countries in which the IBERDROLA Group operates used in the present value of the operating provisions are as follows:

Country	Currency	Discount rate 2019		Discount rate 2018	
		5 years	30 years	5 years	30 years
Spain	Euro	(0.05)%	1.46%	0.33%	2.61%
United Kingdom	Sterling Pounds	0.61%	1.33%	0.90%	1.82%
United States	US dollar	1.71%	2.36%	2.51%	3.01%

The estimated dates on which the IBERDROLA Group considers that it will have to meet the payments relating to the provisions included in this heading of the Consolidated statement of financial position at 31 December 2019 are as follows:

Thousands of Euros	
2020	635,387
2021	144,617
2022	93,681
2023 onwards	3,090,525
Total	3,964,210

27. LOANS AND BORROWINGS AND OBLIGATIONS OR OTHER SECURITIES

The detail of bank borrowings outstanding at 31 December 2019 and 2018, once considered foreign exchange hedges, and the repayment schedule are as follows:

Loans and borrowings and obligations or other securities at 31 December 2019 maturing in								
Thousands of Euros	Balance at 31.12.2019 (*)	Current			Non-current			Total non-current
		2020	2021	2022	2023	2024	2025 and following	
Euros								
Obligations and bonds	13,125,691	1,962,070	1,077,786	2,011,141	1,234,800	1,924,436	4,915,458	11,163,621
Promissory notes	2,215,726	2,215,726	–	–	–	–	–	–
Loans	2,813,548	319,437	696,475	595,356	344,208	6,582	851,490	2,494,111
Other financing transactions	3,246,422	1,855,416	36,770	42,397	40,892	238,826	1,032,121	1,391,006
Unpaid accrued interest	207,849	207,745	–	–	–	–	104	104
	21,609,236	6,560,394	1,811,031	2,648,894	1,619,900	2,169,844	6,799,173	15,048,842
Foreign currency								
US dollars	8,496,555	1,191,250	724,966	330,608	757,386	808,101	4,684,244	7,305,305
Sterling Pounds	3,638,927	98,150	399,063	46,435	505,400	401,034	2,188,845	3,540,777
Brazilian reals	4,948,405	770,269	572,829	843,266	776,929	791,968	1,193,144	4,178,136
Other	41,936	3,422	3,785	4,058	4,351	4,551	21,769	38,514
Unpaid accrued interest	191,231	176,902	7,355	6,974	–	–	–	14,329
	17,317,054	2,239,993	1,707,998	1,231,341	2,044,066	2,005,654	8,088,002	15,077,061
Total	38,926,290	8,800,387	3,519,029	3,880,235	3,663,966	4,175,498	14,887,175	30,125,903

Loans and borrowings and obligations or other securities at 31 December 2018 maturing in								
Thousands of Euros	Balance at 31.12.2018 (*)	Current		Non-current				Total non-current
		2019	2020	2021	2022	2023	2024 and following	
Euros								
Financial leases under IAS 17 (Note 2.a)	60,760	2,111	2,106	2,107	2,108	2,109	50,219	58,649
Obligations and bonds	14,335,659	1,507,876	1,839,117	1,107,522	1,994,717	1,128,814	6,757,613	12,827,783
Promissory notes	1,942,316	1,942,316	–	–	–	–	–	–
Loans	4,526,554	958,900	285,700	1,670,966	945,533	343,964	321,491	3,567,654
Other financing transactions	1,434,316	219,061	566,433	32,471	28,097	30,678	557,576	1,215,255
Unpaid accrued interest	232,599	232,546	–	–	–	–	53	53
	22,532,204	4,862,810	2,693,356	2,813,066	2,970,455	1,505,565	7,686,952	17,669,394
Foreign currency								
US dollars	6,794,968	868,763	501,323	286,952	317,097	611,221	4,209,612	5,926,205
Sterling Pounds	3,139,385	96,589	44,813	376,158	43,474	485,860	2,092,491	3,042,796
Brazilian reals	4,640,747	575,203	1,009,109	738,281	800,592	729,450	788,112	4,065,544
Other	43,932	4,239	3,316	3,553	3,809	4,083	24,932	39,693
Unpaid accrued interest	175,236	167,158	1,928	1,787	1,712	1,594	1,057	8,078
	14,794,268	1,711,952	1,560,489	1,406,731	1,166,684	1,832,208	7,116,204	13,082,316
Total	37,326,472	6,574,762	4,253,845	4,219,797	4,137,139	3,337,773	14,803,156	30,751,710

(*) At 31 December 2019, the balance includes Euros 537,971 thousand from draw downs on credit lines and credit facilities, and Euros 2,719,562 thousand from issues of domestic promissory notes (USCP) and the Euro Commercial Paper (ECP).

(*) At 31 December 2018, the balance includes Euros 527,380 thousand from draw downs on credit lines and credit facilities, and Euros 2,460,110 thousand from issues of domestic promissory notes (USCP) and the Euro Commercial Paper (ECP).

The average balance under the Euro Commercial Paper (ECP) programme amounts to Euros 2,257,987 and 1,900,889 thousand, respectively, in 2019 and 2018.

The breakdown of maturities applicable to future commitments of unaccrued interest payments at 31 December 2019 after considering the effect of exchange rate hedges and interest rate hedges, considering interest rates in force will kept till they mature is as follows:

Thousands of Euros	2020	2021	2022	2023	2024	2025 and	Total
Euros	269,917	233,577	203,658	170,399	126,028	197,320	1,200,899
US dollars	347,282	308,072	302,504	280,484	265,550	2,116,533	3,620,425
Sterling Pounds	178,404	171,311	168,414	156,747	126,316	364,121	1,165,313
Brazilian reals	251,296	221,022	199,088	144,674	102,300	208,226	1,126,606
Other	4,051	3,675	3,348	2,986	2,592	5,571	22,223
Total	1,050,950	937,657	877,012	755,290	622,786	2,891,771	7,135,466

Significant transactions carried out by IBERDROLA during 2019 are as follows:

2019						
Lessor	Transaction	Amount (millions)	Currency	Interest rate	Extension	Maturity
Main new financing transactions						
Iberdrola Financiación, S.A.U.	Bilateral loan	200	EUR	-	-	Mar-26
	Bilateral loan	125	EUR	-	-	Oct-26
	Bilateral loan	75	EUR	-	-	Mar-26
	Sustainable syndicated loan	1,500	EUR	-	option 1+1	Mar-24
	EIB loan	150	EUR	-	-	Dec-34
	Bilateral green loan ⁽¹⁾	145	EUR	-	-	Upon drawing
	EIB loan ⁽¹⁾	440	EUR	-	-	Upon drawing
	Green ICO loan	400	EUR	-	-	May-31
Iberdrola Finanzas, S.A.U.	Green ICO loan	140	EUR	-	-	Jul-28
	Private bond	50	EUR	1.782%	-	Oct-30
Avangrid Inc.	Private bond	100	EUR	Euribor3m +0.65%	-	Dec-23
	Bilateral loan	500	USD	-	-	June-21
New York State Electric & Gas Corp.	Public green bond	750	USD	3.80%	-	June-29
	Green bond	300	USD	3.30%	-	Sept-49
Rochester Gas & Electric Corp.	Mortgage-backed bond	150	USD	3.10%	-	June-27
SP Transmission	Public bond	350	GBP	2.00%	-	Nov-31
Iberdrola Generación Mexico	Bilateral loan ⁽¹⁾	500	USD	-	option 1+1	Dec-24
CELPE	Bonds	300	BRL	109.50% CDI	-	Apr-24
	Bonds	200	BRL	111.00% CDI	-	Apr-26
COELBA	Loan 4131 ⁽⁴⁾	34	EUR	-	-	May-24
	Loan 4131 ⁽⁴⁾	89	USD	-	-	June-24
	Loan 4131 ⁽⁴⁾	84	USD	-	-	Jul-22
	Bonds	309	BRL	108.00% CDI	-	Apr-24
	Bonds	391	BRL	110.25% CDI	-	Apr-26
COSERN	Bonds	282	BRL	107.25% CDI	-	Apr-24
	Infrastructures bond	180	BRL	IPCA+4.254%	-	Apr-26
Elektro Redes, S.A.	Infrastructures bond	38	BRL	IPCA+4.499%	-	Apr-29
	Loan 4131 ⁽⁴⁾	45	EUR	-	-	May-24
Neoenergia, S.A.	Infrastructures green bond	803	BRL	IPCA+4.07%	-	June-29
	Infrastructures green bond	492	BRL	IPCA+4.22%	-	June-33
	EIB loan ⁽¹⁾	250	EUR	-	-	Upon drawing
Termopernambuco, S.A.	Bonds	500	BRL	111.50% CDI	-	Apr-24
Itapebi	Loan 4131 ⁽⁴⁾	25	USD	-	-	May-24
Chafariz 3 Energia Renovavel	BNB loan ⁽¹⁾	93	BRL	-	-	June-43
Chafariz 6 Energia Renovavel	BNB loan ⁽¹⁾	80	BRL	-	-	June-43
Chafariz 7 Energia Renovavel	BNB loan ⁽¹⁾	93	BRL	-	-	June-43
Força Eolica do Brasil, S.A.	BEI loan ⁽¹⁾	1,324	BRL	-	-	Dec-45
Neoenergia Dourados Transmissão de Energia, S.A.	Loan 4131	200	BRL	-	-	Sep-20

2019						
Lessor	Transaction	Amount (millions)	Currency	Interest rate	Extension	Maturity
	BNDES Loan ⁽¹⁾	375	BRL	-	-	Dec-43
Main transactions for extending existing financing						
Iberdrola S.A.	Sustainable syndicated loan ⁽³⁾	2,979	EUR	-		Feb-24
	Sustainable syndicated loan ⁽³⁾	2,321	EUR	-		Feb-24
Avangrid Inc.	Sustainable syndicated loan ⁽³⁾	2,500	USD	-	Option+1 year	June-24

⁽¹⁾ Financing executed in 2019 that is expected to be drawn in the period 2020/2021.

⁽²⁾ The lenders are subsidiary companies of Forza Eólica: Chafariz 1 Energía Renovavel S.A., Chafariz 2 Energía Renovavel S.A., Canoas 2 Energía Renovavel S.A., Canoas 4 Energía Renovavel S.A., Lagoa 3 Energía Renovavel S.A. and Lagoa 4 Energía Renovavel S.A.

⁽³⁾ Transactions whose maturity has been extended for an additional year.

⁽⁴⁾ Currency swap contracts to the company's operating currency (BRL)

The most significant financial transactions performed by the IBERDROLA Group during the year 2018 have been the following:

2018						
Lessor	Transaction	Million	Currency	Interest rate	Extension	Maturity
Main new financing transactions						
Iberdrola, S.A. ⁽²⁾	Sustainable syndicated loan	2,979	EUR	-	option 1+1	Feb-23
	Sustainable syndicated loan	2,321	EUR	-	option 1+1	Feb-23
Iberdrola Financiación, S.A.U.	Bilateral loan	100	EUR	-	-	Nov-25
	Bilateral loan	200	EUR	-	-	Dec-25
	EIB loan	500	EUR	-	-	Upon drawing
Iberdrola Finanzas, S.A.U.	Increase private issuance	200	EUR	1.621%	-	Nov-29
	Private bond	200	EUR	Euribor3m +0.35%	-	Feb-20
	Private bond	800	NOK ⁽¹⁾	3.010%	-	May-28
	Private bond	30	EUR	1.128%	-	June-25
	Green bonds	750	EUR	1.250%	-	Oct-26
	Green bonds	50	USD ⁽¹⁾	3.724%	-	dec-25
	Private bond	75	EUR	1.621%	-	Nov-29
Avangrid Inc ⁽³⁾	Sustainable syndicated loan	2,500	USD	-	option 1+1	June-23
Berkshire Gas ⁽⁵⁾	Private bond	20	USD	4.07%	-	Jan-29
Connecticut Natural Gas ⁽⁵⁾	Private bond	50	USD	4.52%	-	Jan-49
Southern Connecticut Gas ⁽⁵⁾	Mortgage-backed bond	75	USD	4.42%	-	Jan-49
Central Maine Power	Mortgage-backed bond	60	USD	3.95%	-	Dec-28
	Mortgage-backed bond	80	USD ⁽⁵⁾	3.87%	-	June-26
	Mortgage-backed bond	80	USD ⁽⁵⁾	4.05%	-	Jan-30
	Mortgage-backed bond	80	USD ⁽⁵⁾	4.20%	-	June-34
New York State Electric & Gas Corp.	Tax exemption bond	174	USD	3.00%	-	jun-23/Oct-29

2018						
Lessor	Transaction	Million	Currency	Interest rate	Extension	Maturity
Rochester Gas & Electric Corp.	Tax exemption bond	152	USD	3.00%	-	June-25
United Illuminating	Tax exemption bond	64.5	USD	2.80%	-	Oct-23
	Private bond	100	USD	4.07%	-	Oct-28
	Private bond	50	USD ⁽⁵⁾	4.52%	-	Jan-49
	Private bond	50	USD	3.96%	-	Dec-25
CELPE	Loan 4131	46	USD ⁽¹⁾	Libor3m +1.50%	-	Jan-21
	Bonds	500	BRL	119.6% CDI	-	Feb-23
	Loan 4131	80	EUR ⁽¹⁾	1.679%	-	Jul-22
	Infrastructures bond	600	BRL	IPCA+6.0352%	-	Jul-25
	BEI loan	643	BRL	TLP+1.86%	-	Dec-28
COELBA	BEI loan	574	BRL	IPCA+3.30%	-	Nov-30
	Bonds	900	BRL	117% CDI ⁽⁴⁾	-	Oct-22
	Infrastructures bond	300	BRL	IPCA+6.22%	-	Apr-23
	Infrastructures bond	800	BRL	IPCA+6.22%	-	Jul-25
	BEI loan	1,043	BRL	TLP+1.69%	-	Dec-25
COSERN	BEI loan	800	BRL	IPCA+3.30%	-	Nov-30
	Infrastructures bond	130	BRL	IPCA+5.970%	-	Jul-23
ELEKTRO	Loan 4131	95	USD ⁽¹⁾	3.689%	-	Nov-23
	Bonds	1,000	BRL	113.0% CDI ⁽⁴⁾	-	May-21/May-23/May-25
	Infrastructures bond	300	BRL	IPCA+5.9%	-	May-25
	Loan 4131	100	USD ⁽¹⁾	3.6937%	-	May-22
Iberdrola México S.A. de CV	BEI loan	785	BRL	TLP+1.76%	-	Dec-26
	Bilateral green loan	400	USD	-	option 1+1	May-23
Termopernambuco, S.A.	Bonds	300	BRL	117.4% CDI	-	Aug-23
	Loan 4131	57	USD ⁽¹⁾	4.145%	-	Oct-22
Pier ⁽⁵⁾	Project financing	177	USD	-	-	Aug-33
Ceu Azul	BEI loan	600	BRL	TJLP+1.78%	-	June-35
Sobral III	BEI loan	50	BRL	IPCA+2.57%	-	Dec-38
Main transactions for extending existing financing						
Iberdrola S.A.	Sustainable 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
	Bilateral loan	600	EUR	-	+1 year	July-21

⁽¹⁾ Currency swap contracts to the company's operating currency

⁽¹⁾ Reconfiguration of Euros 4.4 billion, already existing, and new Euros 900 million, totalling Euros 5.3 billion, with the option of extension for 1+1 years.

⁽³⁾ Reconfiguration of \$1.5 billion, already existing, and new \$1 Billion, totalling \$2.5 billion, with the option of extension for 1+1 years.

⁽⁴⁾ Average cost of different obligations stated in reference to the CDI at the date of the issuance.

⁽⁵⁾ Financing signed in 2018 and drawn in 2019.

Certain Group investment projects, mainly related to renewable energies, have been financed specifically through loans that include covenants such as the compliance with certain financial ratios or the obligation to pledge in benefit of creditors the shares of the project-companies (Note 46). The fair value of real property investments in operation fully amortised intangible assets at 31 December 2019 and 2018 amounted to Euros 561 and 483 million, respectively. Moreover, the establishment of a reserved deposit for the fulfilment of the obligations under the loan agreements is required, being the default ratios and/or the security deposit not reaching the agreed amount, the reason to preclude the dividends in the year in which they had not been fulfilled.

Regarding clauses in relation to credit ratings covenants, the IBERDROLA Group has arranged funding with the EIB and the ICO at 31 December 2019 and 2018 amounting to Euros 2,647 million and Euros 1,265 million, respectively, which may have to be renegotiated in the event of a rating downgrade, probably equalling the price to that of other IEB transactions and with the ICO that does not include said clauses.

Also, at 31 December 2019 and 2018, the IBERDROLA Group has arranged loans and credits amounting to Euros 1,038 and 2,002 million, respectively, the cost of which would be revised as a result of the decline in its credit rating. However, in both cases, the increase in cost would not be significant.

In addition, at 31 December 2019 there are bonds issued, borrowings and other agreements between bank entities and the IBERDROLA Group whose maturity dates could be impacted or may require additional guarantees to those already existing should there be a control change to be implemented in the manner and times set. The most significant changes are those described in the following paragraphs:

- Bond issues in the amount of Euros 12,897,516 thousand in the European market and USD 150,000 thousand (equivalent to Euros 134,943 thousand) in the US market.
- EIB and ICO loans jointly total Euros 2,647,379 thousand.
- Borrowings amounting to Euros 1,157,075 thousand and USD 400,000 thousand (equivalent to Euros 358,648 thousand).
- Lastly, BRL 9,447,425 (equivalent to Euros 2,089,223 thousand) from issuances and BRL 11,265,735 thousand (equivalent to Euros 2,491,328 thousand) from borrowings to the Brazilian subsidiary NEOENERGY and its subsidiaries.

At 31 December 2019 and 2018, the IBERDROLA Group was fully up to date on all its financial debt payments and there had been no circumstances affecting the change of control or adverse changes in the credit quality, and consequently it had not been necessary to meet the early maturity of the debt or modify the cost related to the loans of which it is the holder.

The average cost of debt of the IBERDROLA Group in 2019 and 2018 was 2.92% and 2.97%, respectively.

28. DERIVATIVE FINANCIAL INSTRUMENTS

The breakdown of balances at 31 December 2019 and 2018 including valuation of derivative financial instruments at those dates is as follows:

Thousands of Euros	2019				2018			
	Assets		Liabilities		Assets		Liabilities	
	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	Long-term
INTEREST RATE HEDGES	31,556	106,630	12,310	(111,077)	29,462	110,135	3,905	(109,077)
Cash flow hedges	45	16,689	(14,119)	(108,476)	(86)	689	(25,958)	(108,381)
Exchange rate swaps	45	16,689	(14,119)	(108,476)	(86)	689	(25,958)	(108,381)
Fair value hedges	31,511	89,941	26,429	(2,601)	29,548	109,446	29,863	(696)
Exchange rate swaps	31,411	89,941	27,292	(2,601)	29,002	103,959	30,211	–
Currency forwards	100	–	(863)	–	9	–	(1,041)	–
Other	–	–	–	–	537	5,487	693	(696)
EXCHANGE RATE HEDGES	211,682	338,060	(106,875)	(146,955)	346,919	404,239	(242,663)	(121,484)
Cash flow hedges	67,349	130,559	(100,229)	(113,435)	93,454	139,873	(81,072)	(49,215)
Exchange rate swaps	19,192	113,526	(23,690)	(110,518)	(3,487)	117,178	(13,100)	(45,398)
Currency forwards	47,792	17,033	(76,539)	(2,917)	96,704	22,352	(67,972)	(3,812)
Collar	365	–	–	–	237	343	–	(5)
Fair value hedges	108,072	207,501	4,345	(26,158)	162,739	263,062	(18,185)	(73,464)
Exchange rate swaps	108,072	207,501	4,345	(26,158)	162,739	263,062	(18,185)	(73,464)
Net investments hedges	36,261	–	(10,991)	(7,362)	90,726	1,304	(143,406)	1,195
Exchange rate swaps	–	–	(2,579)	(7,362)	(1,295)	1,304	(1,399)	1,195
Currency forwards	36,261	–	(8,412)	–	92,021	–	(142,007)	–
COMMODITIES HEDGES	118,182	144,435	(359,434)	(126,432)	173,244	123,957	(166,029)	(132,670)
Cash flow hedges	118,182	144,435	(359,434)	(126,432)	173,244	123,957	(166,029)	(132,670)
Futures	118,182	144,435	(359,434)	(126,432)	173,244	120,685	(166,029)	(132,670)
Other	–	–	–	–	–	3,272	–	–
NO HEDGE DERIVATIVES	286,327	184,396	(289,843)	(105,143)	414,178	105,191	(401,144)	(40,048)
Treasury shares derivatives	12	59,268	–	(59,268)	–	16,048	–	(16,048)
Treasury shares derivatives	12	59,268	–	(59,268)	–	16,048	–	(16,048)
Exchange rate derivatives	6,399	–	(11,527)	–	4,980	–	(100)	(34)
Currency forwards	6,399	–	(11,527)	–	4,980	–	(100)	(34)
Derivatives on commodities	279,916	124,828	(276,664)	(45,606)	409,198	88,960	(400,667)	(23,391)
Futures	278,970	90,775	(275,262)	(37,919)	409,188	88,960	(400,657)	(23,391)
Other	946	34,053	(1,402)	(7,687)	10	–	(10)	–
Interest rate derivatives	–	300	(1,652)	(269)	–	183	(377)	(575)
Exchange rate swaps	–	300	(1,652)	(269)	–	183	1,275	–
Other	–	–	–	–	–	–	(1,652)	(575)
NETTED OPERATIONS (Note 16)	(242,388)	(17,091)	266,297	18,386	(357,550)	(16,126)	357,550	16,126
Total	405,359	756,430	(477,545)	(471,221)	606,253	727,396	(448,381)	(387,153)

The maturity schedule of the notional underlying of derivative instruments contracted by the IBERDROLA Group and outstanding at 31 December 2019, is as follows:

Thousands of Euros	2020	2021	2022	2023	2024 and following	Total
INTEREST RATE HEDGES	1,908,635	719,025	941,950	269,658	5,688,549	9,527,817
Cash flow hedges	265,956	89,608	6,077	266,940	4,940,546	5,569,127
Exchange rate swaps	265,956	89,608	6,077	266,940	4,940,546	5,569,127
Fair value hedges	1,642,679	629,417	935,873	2,718	748,003	3,958,690
Exchange rate swaps	1,584,234	629,417	935,873	2,718	748,003	3,900,245
Currency forwards	58,445	-	-	-	-	58,445
EXCHANGE RATE HEDGES	6,122,212	1,340,220	888,095	342,226	1,750,368	10,443,121
Cash flow hedges	4,814,969	380,536	629,074	120,595	1,551,172	7,496,346
Exchange rate swaps	749,392	188,145	579,960	107,747	1,534,668	3,159,912
Currency forwards	4,063,460	192,391	49,114	12,848	16,504	4,334,317
Collar	2,117	-	-	-	-	2,117
Fair value hedges	763,728	959,684	259,021	54,872	199,196	2,236,501
Exchange rate swaps	763,728	959,684	259,021	54,872	199,196	2,236,501
Net investments hedges	543,515	-	-	166,759	-	710,274
Exchange rate swaps	-	-	-	166,759	-	166,759
Currency forwards	543,515	-	-	-	-	543,515
COMMODITIES HEDGES	2,043,612	621,859	204,083	155,972	552,778	3,578,304
Cash flow hedges	2,043,612	621,859	204,083	155,972	552,778	3,578,304
Futures	2,043,612	621,859	204,083	155,972	552,778	3,578,304
NO HEDGE DERIVATIVES	3,334,246	1,272,416	1,677,199	651,887	7,057,165	13,992,913
Treasury shares derivatives	35	-	1,000,000	-	-	1,000,035
Treasury shares derivatives	35	-	1,000,000	-	-	1,000,035
Interest rate derivatives	358,906	-	-	-	-	358,906
Currency forwards	358,906	-	-	-	-	358,906
Derivatives commodity price	2,975,305	1,197,416	677,199	651,887	7,057,165	12,558,972
Futures	2,293,102	470,041	66,303	37,958	2,434	2,869,838
Other	682,203	727,375	610,896	613,929	7,054,731	9,689,134
Interest rate derivatives	-	75,000	-	-	-	75,000
Exchange rate swaps	-	75,000	-	-	-	75,000
Total	13,408,705	3,953,520	3,711,327	1,419,743	15,048,860	37,542,155

The information presented in the table above includes notional amounts of derivative financial instruments arranged in absolute terms (without offsetting assets and liabilities or purchase and sale positions) and, therefore, do not constitute the risk assumed by the IBERDROLA Group since this amount only records the basis on which the calculations to settle the derivative are made.

The heading "Finance expense" of the 2019 and 2018 Consolidated income statements includes Euros 198,568 thousand and Euros 161,174 thousand, respectively, in connection with derivatives linked to financial indices that fail to meet the conditions to qualify as hedging instruments or, having met the conditions, but as explained in Notes 3.l and 43 are partially ineffective. The heading "Finance income" of the Consolidated income statement for the same years also includes Euros 78,228 thousand and Euros 114,736 thousand, respectively, for the abovementioned items (Note 42).

The nominal value of the liabilities for which foreign exchange hedges (Note 4) have been arranged is as follows:

2019					
Hedge rate	Thousands of US dollars	Thousands of Japanese Yens	Thousands of Norwegian Kroner	Thousands of Sterling Pound	Thousands of Euros
Cash flow	1,360,896	–	2,250,000	–	158,487
Fair value	1,604,263	3,000,000	–	700,000	–

2018					
Hedge rate	Thousands of US dollars	Thousands of Japanese Yens	Thousands of Norwegian Kroner	Thousands of Sterling Pound	Thousands of Euros
Cash flow	1,227,533	–	2,250,000	–	79,250
Fair value	2,995,082	13,000,000	–	700,000	173

The nominal value of the most significant liabilities for which interest rate hedges (Note 4) have been arranged is as follows:

2019			
Hedge rate	Thousands of Euros	Thousands of Sterling Pound	Thousands of Brazilian reals
Cash flow	1,842,701	225,000	–
Fair value	3,641,000	–	1,136,127

2018			
Hedge rate	Thousands of Euros	Thousand Sterling Pound	Thousand Brazilian reals
Cash flow	2,610,258	225,000	–
Fair value	3,808,844	–	784,959

Additionally, at 31 December 2019, the IBERDROLA Group has arranged derivatives to cover the interest rate risk of the future financing for a nominal amount of Euros 4,551,000 thousand, which help to mitigate the interest rate risk (Euros 4,642,000 thousand at 31 December 2018).

29. STATEMENT OF CASH FLOWS

The 2019 and 2018 transactions of the liabilities classified as financing activities in the Cash flow statement excluded from the equity, equity qualifying as financial liabilities (Note 22) and leases (Note 30), is the following:

Thousands of Euros	Balance at 01.01.2019	First application of IFRS 16 (Note 2.a.)	Cash flow			Other non-cash changes					Balance at 31.12.2019
			Issues and disposals (1)	Redemptions/charge instalments paid	Interest paid	Accrual of interest	Foreign currency exchange (2)	Change in fair value and others	Accrual of transactions costs	Potential treasury shares accumulated	
Financial leases under IAS 17	142,308	(142,308)	–	–	–	–	–	–	–	–	–
Obligations, bonds and promissory notes	27,309,611	–	5,580,429	(5,023,856)	4,461	(6,051)	352,153	(22,686)	95,926	–	28,289,987
Loans and other financing transactions	9,337,511	–	9,726,392	(10,108,272)	–	–	81,685	(2,845)	(7,648)	–	9,026,823
Unpaid accrued interest	407,835	–	–	–	(1,111,797)	1,098,659	4,382	–	–	–	399,079
Derivatives on the company's own shares with a physical settlement (Note 20)	129,207	–	–	(106,917)	–	–	–	–	–	1,188,111	1,210,401
Total (Note 27)	37,326,472	(142,308)	15,306,821	(15,239,045)	(1,107,336)	1,092,608	438,220	(25,531)	88,278	1,188,111	38,926,290
Derivative financial instruments associated with financing	(436,941)	–	(5,317)	179,018	65,687	(79,260)	(59,381)	52,956	–	–	(283,238)
Total	36,889,531	(142,308)	15,301,504	(15,060,027)	(1,041,649)	1,013,348	378,839	27,425	88,278	1,188,111	38,643,052

Thousands of Euros	Balance at 01.01.2018	Cash flow				Other non-cash changes					Balance at 31.12.2018
		First application of IFRS 9 (Note 2.a.)	Issues and disposals (1)	Redemptions/charge instalments paid	Interest paid	Accrual of interest	Foreign currency exchange (2)	Change in fair value and others	Accrual of transactions costs	Potential treasury shares accumulated, transfers and other	
Financial leases under IAS 17	127,430	–	–	(4,924)	(5,536)	2,310	2,946	–	–	20,082	142,308
Obligations, bonds and promissory notes	26,252,859	(150,674)	4,998,038	(3,979,452)	–	–	101,856	(19,380)	95,353	11,011	27,309,611
Loans and other financing transactions	9,818,844	(5,760)	8,078,830	(8,593,582)	–	–	7,329	(27,015)	1,189	57,676	9,337,511
Unpaid accrued interest	409,160	–	–	–	(1,188,823)	1,189,802	(2,343)	–	–	39	407,835
Derivatives on the company's own shares with a physical settlement (Note 20)	82,205	–	–	(732,293)	–	–	–	–	–	779,295	129,207
Total Bank borrowings and other financial liabilities - Loans and others (Note 27)	36,690,498	(156,434)	13,076,868	(13,310,251)	(1,194,359)	1,192,112	109,788	(46,395)	96,542	868,103	37,326,472
Derivative financial instruments associated with financing	(557,688)	–	71,531	150,295	121,547	(111,255)	(294,749)	182,975	–	403	(436,941)
Total	36,132,810	(156,434)	13,148,399	(13,159,956)	(1,072,812)	1,080,857	(184,961)	136,580	96,542	868,506	36,889,531

(1) Net emissions of expenses.

(2) Includes translation differences

30. LEASES

Lessee

Changes in lease liabilities in 2019 are as follows:

Thousands of Euros	2019
Balance at 31.12.2018	–
First application of IFRS 16 (Note 2.a)	1,387,820
Translation differences	34,514
New lease contracts	387,011
Financial update (Note 43)	62,316
Payments made from principal	(155,890)
Interest paid	(33,101)
Re-evaluation/changes of lease liabilities	89,267
Disposals	(5,343)
Other	523
Balance at 31.12.2019	1,767,117

The breakdown of lease liabilities at 31 December 2019 is as follows:

Thousands of Euros	31.12.2019
2020	153,237
2021	160,087
2022	144,253
2023	177,344
2024	122,967
From 2025 onwards	1,884,493
Total	2,642,381
Financial Cost	875,264
Present value of the payments	1,767,117
Total	2,642,381

Additionally, the IBERDROLA Group is potentially exposed to future cash outflows that are not reflected in the measurement of lease liabilities mainly due to payment commitments related to variable leases. In 2019, the IBERDROLA Group accrued an amount of Euros 34,669 thousand for variable lease recognised under the heading “External Services” of the Consolidated income statement. Said amount corresponds mainly to lease rents depending on output and operating income from wind farms located in leased lands.

Expenses in 2019 related to short-term leases excluded from the scope of IFRS 16 amounts to Euros 14,210 thousand and have been recognised under the heading “External services” of the Consolidated income statement.

In addition, income from subleasing rights of use of assets in the year have rose to Euros 8,459 thousand and have been recognised in the Consolidated income statement.

On the other hand, the heading “External services” of the Consolidated income statement for 2018 includes Euros 148,607 thousand corresponding to operating leases in application of IFRS 17 (Note 3.f.). Moreover, the breakdown by maturities of undeducted minimum payments for financial and operating leases under IAS 17 at 31 December 2018 was as follows:

Thousands of Euros	Operating leases	Financial lease	Total
2019	126,656	31,061	157,717
2020	129,403	13,400	142,803
2021	124,231	10,480	134,711
2022	116,221	6,496	122,717
2023	104,473	48,048	152,521
From 2024 onwards	1,498,675	69,319	1,567,994
Total	2,099,659	178,804	2,278,463
Financial Cost	637,505	36,501	674,006
Present value of the payments	1,462,154	142,303	1,604,457
Total	2,099,659	178,804	2,278,463

The previous amount for the present value of minimum payments for operating leases under IAS 17 defers the effect of the first adjustments due to IFRS 16: "Leases" as indicated in Note 2.a.

Operating lessor

On the other hand, the IBERDROLA Group acts as lessor in certain operating leases consisting basically on the rental of investment property (Note 9) and the property, plant and equipment. The breakdown by type is as follows:

Thousands of Euros	31.12.2019
Buildings	220,196
Land	112,916
Other	16,769
Total	349,881

The headings "Net turnover" and "Other operating income" of the Consolidated income statement for 2019 include Euros 30,207 and 23,103 thousand, respectively.

The estimate of non-deducted future minimum payments for contracts in force at 31 December 2019 is as follows:

Thousands of Euros	31.12.2019
2020	32,004
2021	28,026
2022	24,287
2023	22,550
2024	20,527
From 2025 onwards	76,189
Total	203,583

31. OTHER FINANCIAL LIABILITIES

The detail of the headings “Other non-current financial assets” and “Other current financial assets” of the Consolidated statement of financial position is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Non-current		
Long term deposits and guarantees (Note 14.b.)	156,604	166,772
Concessional guarantee of the sufficiency tariff in Brazil (Note 12)	69,315	41,394
Financial lease suppliers	16,857	19,335
PIS/COFINS Brazil (Note 15)	724,516	–
Other	267,627	271,817
Total	1,234,919	499,318
Current		
Short-term deposits and guarantees	189,214	147,927
Loans with equity-accounted investees	357,554	93,681
Financial lease suppliers	874,255	573,820
Staff pending remuneration	253,956	232,291
Other	308,107	272,674
Total	1,983,086	1,320,393

32. OTHER LIABILITIES

The detail of the headings “Other non-current financial liabilities” and “Other current financial liabilities” of the Consolidated statement of financial position is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Non-current		
Contract liabilities		
CFE (Note 36)	92,365	95,279
All others	314,982	279,409
Total	407,347	374,688
Current		
Contract liabilities	187,100	169,519
Other liabilities	486,527	338,016
Total	673,627	507,535

33. DEFERRED TAXES AND CORPORATE INCOME TAX

Income tax

Due to the multinational nature of the IBERDROLA Group, it is subject to the regulations in force in other tax jurisdictions.

Taxes in Spain

Iberdrola S.A. is the parent company of two tax consolidation groups in Spain: the 2/86 group in the so-called common tax system territory, and the 02415BSC group, in Biscay tax system territory, although Iberdrola, S.A., is currently integrated in the former.

The 2/86 group is formed by 77 companies, whereas the 02415BSC group is formed by 20 companies.

The other entities that are fiscal residents in Spain and which are not incorporated into these two groups pay corporate income tax on an individual basis.

Companies taxed under the common tax system are subject to a 25% rate in 2019, while in the fiscally autonomous foral regions of Biscay, Gipuzkoa, Álava and Navarra it is 24%.

Taxations in other countries

Other Group companies whose fiscal residence is outside Spain are taxed based on their resident jurisdiction. In the United States, company taxation is based on a consolidated fiscal system, with the existence of a federal tax group, with a tax group also operating in other countries, as well as a tax group in some States. In the United Kingdom the group relief mechanism is used. In other tax jurisdiction, Group companies are subject to taxes under the individual tax regime.

Nominal tax rates applicable in the main jurisdictions in which the IBERDROLA Group operates are as follows (OCDE figures, including central and federal Governments):

Country	2019	2018
Australia	30.0	30.0
Brazil	34.0	34.0
Bulgaria	10.0	10.0
Canada	26.6	26.7
Cyprus	12.5	12.5
France	32.0	34.4
Germany	29.8	29.8
Greece	24.0	29.0
Hungary	9.0	9.0
Ireland	12.5	12.5
Italy	27.9	27.9
Luxembourg	24.9	26.0
Mexico	30.0	30.0
Netherlands	25.0	25.0
Portugal	31.5	31.5
Qatar	10.0	10.0
Romania	16.0	16.0
South Africa	28.0	28.0
Spain	25-24	25-26
United Kingdom	19.0	19.0
United States	26.1	26.1

Income tax expense

Income tax expense for 2019 y 2018 is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Profit for the year from continuing activities before tax	4,793,927	4,348,034
Profit for the year from discontinued operations before tax	(56,428)	(64,660)
Consolidated profit before tax	4,737,499	4,283,374
Non-deductible expenses and non-computable income:		
- from individual companies	(11,247)	(40,425)
- from consolidation adjustments	(240,920)	(140,079)
Profit of equity-accounted investees	(7,345)	(55,904)
Adjusted accounting profit	4,477,987	4,046,966
Gross tax calculated at the tax rate in force in each country	1,090,000	987,888
Tax credits deductions due to reinvestment of extraordinary profits and other tax credits	(97,947)	(84,118)
Adjustment of prior years' income tax expense	117	(22,865)
Net movement in provisions for litigation, compensation payments, similar costs and other provisions	(7,873)	12,400
Adjustment of deferred tax assets and liabilities	42,574	38,022
Taxes related to non-distributed earnings and other withholdings paid abroad (a)	(108,066)	15,519
Other	4,137	(841)
Accrued income tax in the Consolidated statement of profit (Income) / Expense	914,016	959,499
Accrued income tax from discontinued operations (Income) / Expense	8,926	(13,494)
Accrued income tax (Income) / Expense	922,942	946,005

- a) Includes the amount resulting from the reversal of deferred tax liabilities from previous years in the amount of Euros 123 million related to undistributed earnings from Avangrid Inc. subgroup, following the amendment of the Double Taxation Treaty between Spain and the United States which became effective on 27 November 2019.

The breakdown between current and deferred Income Tax is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Current taxes	710,315	663,372
Deferred taxes	212,627	282,633
Expense/(income) from continuing and discontinued activities	922,942	946,005

Deferred taxes

The detail of the headings "Deferred tax assets" and "Deferred tax liabilities" of the Consolidated statement of financial position is as follows:

Thousands of Euros	Balance at 01.01.2018	First application of IFRS 9 and IFRS 15 (Note 2.a.)	Modification of the consolidation perimeter	Translation differences	Credit (charge) to the income statement	Credit (charge) to Unrealised gains/(losses) reserve	Credit (charge) to "Other reserves"	Other changes	Balance at 31.12.2018	Translation differences	Credit (charge) to the income statement	Credit (charge) to Unrealised gains/(losses) reserve	Credit (charge) to "Other reserves"	Other changes	Balance at 31.12.2019
Deferred tax assets:															
Measurement of financial instruments derivatives	303,612	121	(1,356)	1,308	(49)	(30,468)	–	–	273,168	29,712	–	70,151	–	–	373,031
Balance sheet revaluation 16/2012	1,440,023	–	–	–	(106,560)	–	–	–	1,333,463	–	(79,775)	–	–	–	1,253,688
Pensions and similar commitments	514,944	–	–	(2,453)	68,974	–	8,605	–	590,070	11,889	(1,598)	–	51,551	–	651,912
Allocation of non-deductible negative goodwill arising on consolidation	65,025	–	–	–	(1,143)	–	–	–	63,882	–	(1,575)	–	–	–	62,307
Provision for facility closure costs	74,437	–	–	1,269	7,926	–	–	–	83,632	761	21,787	–	–	–	106,180
Tax credits for losses and deductions	1,669,001	–	926	41,971	181,752	–	–	58,449	1,952,099	30,703	(17,460)	–	–	51,143	2,016,485
Other deferred tax assets	1,315,331	82,267	(756)	15,625	(120,977)	–	–	(101,805)	1,189,685	(66,732)	(315)	–	–	108,287	1,230,925
Total	5,382,373	82,388	(1,186)	57,720	29,923	(30,468)	8,605	(43,356)	5,485,999	6,333	(78,936)	70,151	51,551	159,430	5,694,528

Thousands of Euros	Balance at 01.01.2018	First application of IFRS 9 and IFRS 15 (Note 2.a.)	Modification of the consolidation perimeter	Translation differences	Credit (charge) to the income statement	Credit (charge) to Unrealised gains/(losses) reserve	Balance at 31.12.2018	Translation differences	Credit (charge) to the income statement	Credit (charge) to Unrealised gains/(losses) reserve	Other changes	Balance at 31.12.2019
Deferred tax liabilities:												
Available-for-sale assets	306	–	–	–	(154)	–	152	–	25	–	–	177
Measurement of financial instruments Derivatives	344,248	–	(1,357)	1,449	(38,424)	(19,207)	286,709	9,679	4,876	(68,434)	–	232,830
Accelerated depreciation	4,388,915	10,468	(49,772)	139,698	29,608	–	4,518,917	115,906	291,286	–	39,953	4,966,062
Overprice in business combinations	3,265,743	–	(163)	21,119	3,708	–	3,290,407	64,190	120,059	–	–	3,474,656
Other deferred tax liabilities	559,207	52,623	(956)	17,690	317,818	–	946,382	12,407	(282,555)	–	8,927	685,161
Total	8,558,419	63,091	(52,248)	179,956	312,556	(19,207)	9,042,567	202,182	133,691	(68,434)	48,880	9,358,886

Administrative actions

Undergoing tax inspections at reporting date in 2019 depend on the tax law applicable in each country, but no material impacts arising therefrom not included in these financial statements are expected.

In Spain, there are no general tax inspections in place. However, during this period several partial assessments have been completed which have resulted in agreed tax investigation reports and contested tax investigation reports. In the case of agreed tax investigation report, the Group has had to settle no material amounts, whereas in the case of contested tax investigation reports, the balance was zero.

In those countries where the Group has significant presence, the main ongoing inspections are as follows:

- In the United States the most relevant ongoing inspection is related to Income Tax in the State of New York. Additionally, giving its nature of large contributor, both at federal level and state level, AVANGRID Group has around 28 ongoing tax inspection over other tax figures.
- In the United Kingdom, ScottishPower has been assigned by the HRMC the condition of low risk. The only relevant matter under discussion affects the deductibility of certain payments made as required by the electric regulator (OFGEM).
- Last, Brazil is known for being a jurisdiction with a high risk of litigation and there are multiple ongoing investigation actions, which follows the tax and administrative structure of the country and the usual procedure of tax authorities. However, NEONERGIA's directors do not expect any relevant impacts arising from them and, overall, these procedures are rarely settled in favour of tax administrations.

Tax litigation

Among its principles, IBERDROLA includes the promotion of relationships with the tax authorities, based on the respect for the law, loyalty, trust, professionalism, collaboration, reciprocation and good faith, notwithstanding legitimate controversies that may arise due to the interpretation of tax rules. Therefore, when those controversies arise, IBERDROLA carries out its actions before the authorities based on a cooperative relationship, in accordance with the principles of transparency and mutual trust.

All IBERDROLA actions have been analysed by its internal and external advisors, both for this year and for preceding years, and they have determined that these actions have been carried out in accordance with the Law and are based on the reasonable interpretation of tax law. The occurrence of contingent liabilities has also been subject to analysis. IBERDROLA's overall criteria applied has been to recognise provisions for tax litigation when there is a risk of potential unfavourable decision for Iberdrola is probable whereas no recognition is required when the risk is possible or remote.

IBERDROLA Group's directors and their tax consultants consider that the current inspection process will not give rise to additional liabilities of significance for the IBERDROLA Group to those already recognised at 31 December 2019.

Tax litigation in Spain

In Spain, at present, the Group is awaiting the decision by the Central Administrative Economic Court for the complaints lodged as a result of disagreement signed as part of the general verification process for 2008-2011.

The main controversies arise from the settlement agreements resulting from contested tax investigation reports related to the quantification of goodwill, subject to tax amortisation and depreciation, for the acquisition of SCOTTISH POWER, the elimination of the exemption applicable to SCOTTISH POWER's dividends received for the Tax Agency considers that this exemption is incompatible with valuation adjustments for net investment hedges, differences in tax consolidation criteria and the possible existence of circumstances established in Article 15.1 of Spain's General Tax Law in a debtor-swap operation in a number of bond issues.

At present, IBERDROLA is awaiting the decision by the Central Administrative Economic Court for the complaints lodged as a result of disagreement signed as part of the general verification process for 2012-2014. The discrepancy with the Administration focuses on the applicability, not the criteria of temporary imputation established in many Supreme Court's orders, regarding income received from the Group, resulting from payments made based on rules contrary to the Law.

Tax litigation in other countries

As a general rule, no significant tax litigation is currently undergoing in the other jurisdictions where the Group operates but in Brazil, where there is a large number of litigation and administrative and judicial proceedings in place. The Group considers it is probable the final rulings will be favourable.

Update of the financial goodwill (section 12.5 of the revised Corporate income tax Act).

No significant changes have taken place during this period. From the perspective of the Spanish authorities, an aid retrieval procedure was initiated by virtue of the General Tax Act, recovering from the IBERDROLA Group the amount Euros of 665 million (Euros 576 million as tax base and Euros 89 million as late-payment interests) by virtue of Section 12.5. IBERDROLA paid the required amount by (i) using Euros 363 million of the 2016 income tax rebate, and (ii) paying Euros 302 million in February 2018. For this, the Administration, in this case, understood that IBERDROLA was affected by the Third Decision of the European Commission.

The amount paid has been recognised under the heading "Current tax assets" of the Consolidated statements of financial position at 31 December 2019 and 2018. The assets show the amount recoverable from the Administration for corporate income tax insofar as in the view of IBERDROLA the payments made are higher than the current tax whose recoverability is considered to be probable, subject to the final outcome of the appeals submitted against the three European Commission decisions.

Moreover, the application of the incentive provided in section 12.5 of the TRLIS resulted in a taxable temporary difference and subsequently deferred tax liabilities were recognised. Therefore, in the event the outcome is contrary to the Company's interests (a circumstance which is not considered to be probable in accordance with the information currently available), the impact on equity would be substantially mitigated.

34. TAX RECEIVABLES AND PAYABLES

The breakdown of the headings “Income tax receivables/payables” and “Other tax receivables/payables” on the asset and liability sides, respectively, of the Consolidated statement of financial position is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Public Administrations Receivables		
Public Treasury, Corporate income tax receivables	318,082	252,907
Public Treasury, VAT refundable	192,506	229,975
Tax withholdings and prepayments	3,192	158,319
Public Treasury, other receivables	311,333	115,150
Total	825,113	756,351
Public Administrations Payables		
Public Treasury, Corporate income tax payables	242,626	349,314
Public Treasury, VAT payable	141,063	105,942
Public Treasury, withholdings payable	52,641	69,980
Public Treasury, other payables	797,465	837,010
Social Security Agencies, payables	29,476	26,517
Total	1,263,271	1,388,763

35. INFORMATION ON AVERAGE PAYMENT PERIOD TO SUPPLIERS. THIRD ADDITIONAL PROVISION. "REPORTING REQUIREMENT" OF LAW 15/2010, OF 5 JULY

The breakdown of the required information for 2019 and 2018 is the following:

	Number of days	
	2019	2018
Average payment period to suppliers	13	15
Ratio of transactions settled	13	14
Outstanding payment transactions ratio	31	26

Thousands of Euros	2019	2018
Total payments made	12,881,683	13,413,355
Total payments due	241,190	301,766

The information in the table above has been prepared in accordance with Law 15/2010 of 5 July, amending Law 3/2004 of 29 December, establishing measures to combat late payments in commercial operations and in accordance with the Resolution of 29 January 2016, from the Instituto de Contabilidad y Auditoría de Cuentas, on the information to be included in the notes to the annual accounts in relation to deferred payments to suppliers in commercial transactions operations. The specifications with which such information has been prepared are the following:

- Ratio of paid operations: amount in days of the ratio between the sum of the amount of each of the operations paid and the number of pay days, and in the denominator, the total amount of payments made during the year.

- Ratio of outstanding payment operations: amount in days of the ratio between the sum of the amount of the outstanding payment transaction and the number of unpaid days, and the total amount of outstanding payments.
- Suppliers: trade payables included in current liabilities in the Consolidated statement of financial position generated from debts of goods or services with suppliers.
- Property, plant and equipment and other finance lease suppliers are not considered in the information scope.
- Taxes, levies, indemnifications and some other headings are not considered in the information scope since they are not commercial transactions.
- The table below shows information corresponding to Spanish companies included in the consolidated group once the credits and debits between the subsidiary companies are eliminated.

36. REVENUE

The breakdown of this heading of the Consolidated income statement is as follows:

Year 2019 Thousands of Euros	Liberalised							Renewables							Networks					Other business, Corporation and adjustments	Total
	Spain	United Kingdo m	Mexico	Brazil	IEI	Eliminati ons	Total	Spain	United Kingdo m	United States	Mexico	Brazil	IEI	Total	Spain	United Kingdo m	United States	Brazil	Total		
In regulated markets																					
Electricity	1,355,178	-	1,425,334	-	-	-	2,780,512	684,085	-	-	-	-	-	684,085	2,030,138	1,372,634	2,943,212	5,185,519	11,531,503	(682,853)	14,313,247
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,305,953	-	1,305,953	-	1,305,953
In liberalised markets																					
Electricity	8,983,907	3,200,400	936,696	558,764	1,098,073	(588,988)	14,188,852	643,671	403,166	896,300	86,932	208,388	346,059	2,584,516	-	-	20,753	-	20,753	(1,475,971)	15,318,150
Gas	1,783,734	1,282,446	-	-	36,640	(64,187)	3,038,633	-	-	-	-	-	-	-	-	-	-	-	-	4,654	3,043,287
Other	548,565	36,205	-	-	15,628	(1,233)	599,165	-	323,720	151,895	328	-	-	475,943	76,398	-	1,871	-	78,269	(212,199)	941,178
Income from lease contracts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13,836	-	-	954,023	967,859	-	967,859
Income for lease contracts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,796	-	-	-	1,796	28,411	30,207
Commodities derivatives	129,458	7,427	(35,032)	33,329	8	(16,159)	119,031	-	-	15,448	29,083	6,801	38,409	89,741	-	-	-	303,789	303,789	5,466	518,027
Total	12,800,842	4,526,478	2,326,998	592,093	1,150,349	(670,567)	20,726,193	1,327,756	726,886	1,063,643	116,343	215,189	384,468	3,834,285	2,122,168	1,372,634	4,271,789	6,443,331	14,209,922	(2,332,492)	36,437,908

Year 2018 Restated (Note 2.d)	Liberalised							Renewables							Networks					Other business, Corporation and adjustments	Total	
	Spain	United Kingdom	Mexico	Brazil	IEI	Eliminations	Total	Spain	United Kingdom	United States	Mexico	Brazil	IEI	Total	Spain	United Kingdom	United States	Brazil	Total			
In regulated markets																						
Electricity	1,458,487	-	1,491,876	-	-	-	2,950,363	691,452	-	-	-	-	-	691,452	2,021,992	1,275,548	3,022,356	4,982,531	11,302,427	(291,607)	14,652,635	
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,234,545	-	1,234,545	-	1,234,545	
In liberalised markets																						
Electricity	8,918,178	3,490,913	778,324	740,754	1,015,487	(556,478)	14,387,178	1,004,662	366,590	878,313	92,976	221,520	258,692	2,822,753	-	-	15,978	-	15,978	(2,340,670)	14,885,239	
Gas	1,646,648	1,510,850	-	-	7,888	(135,952)	3,029,434	-	-	-	-	-	-	-	-	-	-	-	-	30,723	3,060,157	
Other	548,551	20,288	-	-	4,774	90	573,703	-	330,883	177,313	415	-	-	508,611	36,320	-	1,898	-	38,218	(241,994)	878,538	
Income from lease contracts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	66,732	-	-	34,634	101,366	-	101,366	
Income for lease contracts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	490	-	-	-	490	26,764	27,254	
Commodities derivatives	17,583	624	(23,951)	52,135	(457)	5,565	51,499	-	-	(28,701)	(2,396)	22,281	30,993	22,177	-	-	-	168,214	168,214	(5,751)	236,139	
Total	12,589,447	5,022,675	2,246,249	792,889	1,027,692	(686,775)	20,992,177	1,696,114	697,473	1,026,925	90,995	243,801	289,685	4,044,993	2,125,534	1,275,548	4,274,777	5,185,379	12,861,238	(2,822,535)	35,075,873	

Below are described the main activities for which IBERDROLA generates ordinary income from customer contracts:

- Electricity and gas transmission and distribution

IBERDROLA Group's performance obligation is to make transmission and distribution facilities available to customers. This performance obligation is recognised in a linear manner over time, since the customer receives and consumer simultaneously the benefits from IBERDROLA Group's performance insofar the transmission or distribution network is available.

In the countries where IBERDROLA Group operates, the retribution for transmission and distribution activities is basically determined by the regulated margin recognised by the corresponding regulator. In the case of some regulated activities carried out by the IBERDROLA Group, any discrepancies between costs estimated when setting the annual tariff and costs actually incurred are recognised as income or expense for the year in which they arise only if its proceed or payment is certain, regardless of future sales (Note 14.b).

- Gas and electricity sales

The amount of electricity and gas sales is recognised as income at the time the energy is delivered to the customer based on the amounts supplied and include an estimated of unbilled supplied energy (Note 5).

By countries:

- In Spain, income includes the amount of both sales in the gas regulated market at Tariff of Last Resort (TLR) and of electricity at Voluntary Price for the Small Consumer (VPSC) as well as the sales in the liberalised market.
- In the US and Brazil income from electricity and gas supply to end customers are based in tariffs rates subject to the corresponding state regulatory authorities, which determine the prices and other terms of service through the fixing of rates.
- In the United Kingdom, gas and electricity are traded in the liberalised market.
- Moreover, in Mexico electricity energy is supplied at liberalized conditions for consumers with a demand of 1 MW or upper.

IBERDROLA Group's retail companies act as principal. Moreover, purchase and sale of energy between the Group's generation and retail companies are left out of the consolidation process.

- Assignment of electricity generation capacity

The electricity generation capacity assignment is an obligation independent from electricity supply whose income is recognised through the term of the contract.

IBERDROLA Group maintains electricity generation capacity assignment agreements for some of its plants that set predetermined collection schedules for assigning energy supply capacity. Among others, IBERDROLA Group keeps electricity generation capacity assignment agreements in Mexico for its combined cycle power plant with the Federal Electricity Commission (CFE – Comisión Federal de la Energía). The term of these agreements is 25 years from the date on which each combined cycle plant enters into commercial operation.

- Verification, connection and assignment of use of metering equipment

The registration of customers, income for connecting to the receiving electricity and gas grid, as well as income from the verification of installations, are recognised at the time the actions take place since the customer benefits from the service provided and there is no associated future fulfillment obligation. On the other hand, income for the right of use of meters is recognised as income throughout the period of use.

- Sale of renewables obligation certificates

In the sale of renewables obligation certificates from the Renewables business associated to supplied energy (joint sale of energy and green certificates), income for the sale is recognised at the time the energy is delivered. When the sale of said certificates takes place separately from the energy produced, the income is recognised at the time the certificate is delivered to the customer.

- Construction contracts

Income from transmission and distribution concession agreements for electric energy IBERDROLA Group has executed in Brazil include two compliance obligations: (1) construction services and (2) following operation and maintenance of built facilities. The assignment of the consideration for each compliance obligation is done from the estimate of the independent sale price at the beginning of the contract, using IBERDROLA Group's experience in the provision of similar services, of bidding terms and conditions, as well as any other internal or external information available.

Income from construction projects whose income is recognised through the length of the construction, since the control of the asset is transferred to the customer on an on-going basis.

The income related to construction contracts are registered in an amount equivalent to the costs incurred to date as a proportion of the total estimated construction costs required until the termination of the contract. When the income from a contract cannot be reliably estimated, all such income is recognised to the extent that costs are incurred, provided that such costs are recoverable. Profit on the contract is only recognized when it is certain, based on budgeted costs and income.

Changes to construction work and any claims are included within contract revenue if amendments to the contract are legally demanded.

- Real property sales

As to real property sales, the IBERDROLA Group follows the principle of recognising income at the time when legal title is transferred to the purchaser, which usually matches the date of public execution of the respective contracts.

37. SUPPLIES

The breakdown of this heading of the Consolidated income statement is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Liberalised business	16,038,570	16,824,304
Spain	9,870,023	10,193,985
United Kingdom	3,842,035	4,159,851
Mexico	1,392,096	1,489,687
Brazil	499,929	658,960
IEI	1,105,036	1,008,463
Eliminations	(670,549)	(686,642)
Renewables business	388,659	434,058
Spain	76,828	116,342
United Kingdom	49,327	53,753
United States	211,593	191,828
Mexico	3,254	3,108
Brazil	41,469	65,606
IEI	6,188	3,421
Networks business	6,079,332	5,219,469
Spain	5,287	15,991
United Kingdom	61,967	53,101
United States	1,396,394	1,494,913
IEI	4,615,684	3,655,464
Other business, Corporation and adjustments	(2,332,032)	(2,837,095)
Total	20,174,529	19,640,736

38. PERSONNEL EXPENSES

The breakdown of this heading of the Consolidated income statement is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Wages and salaries	2,065,632	1,973,562
Company social security costs	313,022	292,731
Additional provisions for pensions and similar obligations and defined contributions to the external pension plan (Notes 3.p and 25)	239,267	195,706
Remuneration stipulated in by-law 48.1 (Note 47)	17,000	17,000
Token payments Art. 48.4	9,381	5,588
Other social expenses	196,869	194,138
	2,841,171	2,678,725
Capitalised personnel expenses		
Intangible assets (Note 8)	(13,892)	(73,899)
Property, plant and equipment (Note 3.d)	(611,474)	(581,672)
Nuclear fuel and inventories	(69,748)	(3,148)
	(695,114)	(658,719)
Total	2,146,057	2,020,006

The average number of the IBERDROLA Group employees in 2019 and 2018 has increased to 34,306 and 33,415 employees, of which 7,932 and 7,729 are women, respectively.

The average number of employees in the consolidated group corresponds to all the employees in those consolidated companies that have been integrated using the global integration method, as well as the employees of the joint ventures determined based on the participation share in those ones.

39. TAXES

The breakdown of this heading of the Consolidated income statement is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Liberalised business	807,692	802,050
Spain	687,233	693,187
United Kingdom	116,772	106,971
Brazil	32	44
Mexico	3,036	1,526
IEI	619	322
Renewable Business	341,414	468,006
Spain	269,159	396,418
United Kingdom	23,144	23,624
United States	42,396	43,650
Mexico	734	357
Brazil	855	539
IEI	5,126	3,418
Networks business	684,387	647,683
Spain	89,877	90,106
United Kingdom	108,895	105,368
United States	482,017	448,421
Brazil	3,598	3,788
Other business, Corporation and adjustments	(4,520)	13,264
Total	1,828,973	1,931,003

Law 15/2012 was published on 28 December 2012, regarding tax measures to ensure sustainability of the energy sector. Not only did it introduce the green cent measures, recognised under the heading "Taxes" of the Consolidated income statement, but also introduced the following tax figures registered under the heading "Taxes" of the Consolidated income statement of 2019 and 2018:

- A tax on the value of electricity output, entailing payment of 7% of the total amount to be received by the taxpayer for the production of electricity and incorporation thereof in the Spanish electricity system, measured at power station busbars, during the tax period. This tax gave rise to an expense of Euros 160,667 thousand and Euros 194,038 thousand in 2019 and 2018 respectively.
- A tax on spent nuclear fuel, whose cost has amounted to Euros 127,492 thousand and Euros 131,509 thousand in 2019 and 2018, respectively.
- A royalty on the use of inland water affecting production of electricity that is levied on the economic value of hydroelectric power produced, with a rate of 22%. The corresponding expense in 2019 and 2018, amounting to Euros 84,516 thousand and Euros 165,135 thousand, respectively.

- A green cent tax levied against energy products used in electricity production, entailing a cost for the IBERDROLA Group of Euros 1,892 thousand and Euros 35,575 thousand in 2019 and 2018, respectively. This payment was recognised under the heading "Supplies" of the Consolidated income statement.

Additionally, the heading "Taxes" of the 2019 and 2018 Consolidated income statement includes Euros 169,436 thousand and Euros 168,310 thousands, respectively, as the best estimate available of the accrued expenses originated by Royal Decree-Law 6/2009 (Note 3.x).

40. AMORTISATION, DEPRECIATION AND PROVISIONS

The breakdown of this heading of the Consolidated income statement is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Depreciation allowances		
Intangible assets (Note 8)	912,443	737,136
Investment in real property (Note 9)	7,781	7,533
Property, plant and equipment (Note 10)	2,815,091	2,842,430
Assets for pension plans (Note 11)	139,098	-
Allowances for impairments and write-offs of non-financial assets:		
Reversal of impairment of intangible assets in Renewables in USA (Notes 8 and 13)	(20,024)	(52,688)
Charge Reversal of impairment in PPE (Note 10)	-	13,565
Other write-off property, plant and equipment (Note 10)	-	81,049
Changes in provisions	75,044	26,849
Total	3,929,433	3,655,874

41. GAINS AND LOSSES ON DISPOSAL OF NON-CURRENT ASSETS

The breakdown of this heading "Gains on disposal of non-current assets" of the Consolidated income statement is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Gain on the disposal of intangible assets and PPE	152,561	10,419
Gain on the disposal of equity investments	53,654	38,049
Total	206,215	48,468

The breakdown of this heading "Losses due to disposal of non-current assets" of the Consolidated income statement is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Loss on the disposal of intangible assets and PPE	3,416	2,331
Loss on the disposal of equity investments	-	37,286
Total	3,416	39,617

Year 2019

- Surplus recognised under the heading “Gains on disposal of non-current assets” of the Consolidated income statement for 2019 mainly corresponds to the long-term assignment to Lyntia Networks of the right to use the exceeding capacity of the optic fibre network resulting in a credit of Euros 113,816 thousand (Note 6) and the sale of 50% of the interest in the companies Dry Lake II, LLC. and Cooper Crossing, LLC (subsidiary of Avangrid Arizona Renewables, LLC), whose sale price amounted to approximately Euros 100 million, resulting in a gross surplus of Euros 53,654 thousand.

Year 2018

- Gross losses recognised under the heading “Losses on disposal of non-current assets” of the Consolidated income statement for 2018 correspond mainly to the sale of the gas business in the United States in the amount of Euros 13,881 thousand and the 80% stake in Coyote Ridge Wind LLC to WEC Infrastructure, for an amount of Euros 23,116 thousand (Notes 6 and 14.a).
- The Gross surplus recognised under the heading “Gains on disposal of non-current assets” of the Consolidated income statement for 2018 corresponds to the sale of Iberdrola Energía Solar de Puertollano, S.A. for Euros 12,470 thousand and of Scottish Power Generation Limited for Euros 25,579 thousand (Note 6).

42. FINANCE INCOME

The breakdown of this heading “Financial Income” of the Consolidated income statement is as follows:

Thousands of Euros	31.12.2019	31.12.2018
Income from equity investments	804	2,284
Financial income related to assets at amortised cost:		
Other financial interests and income	131,373	194,261
Other interest and finance income due to credits to associated companies	185	58
Non-hedge derivatives and inefficiencies (Note 28)	78,228	114,736
Exchange losses in foreign currency for financing activities	327,293	191,789
Other Exchange losses in foreign currency	102,737	143,360
Capitalised finance costs	222,990	193,423
Total	863,610	839,911

The average capitalisation rates used in 2019 and 2018 for external financing of property, plant and equipment was 4.64% and 3.68%, respectively (Note 3.d).

43. FINANCIAL COSTS

The breakdown of this heading “Financial expense” of the Consolidated income statement is as follows:

Thousands of Euros	31.12.2019	31.12.2018
finance cost related to liabilities at amortised cost:		
finance cost and financing expenses	1,210,511	1,234,475
Other finance cost and similar expenses	86,968	94,503
Capitalised financing expenses (Notes 2.a and 30)	57,023	–
Equity instruments having the substance of a financial liability (Note 22)	20,010	12,026
Non-hedge derivatives and inefficiencies (Note 28)	198,568	161,174
Valuation adjustments of financial assets	1,771	2,798
Exchange losses in foreign currency for financing activities	330,197	198,604
Other Exchange losses in foreign currency	94,974	146,415
Financial update of other provisions (Note 26)	84,627	68,057
Financial update of provisions for pensions and similar commitments (Note 25)	79,052	77,953
Total	2,163,701	1,996,005

44. CONTINGENT ASSETS AND LIABILITIES

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

In relation to said disputes, the IBERDROLA Group's main contingent assets and liabilities not recognised in these Consolidated financial statements as the established criteria in accounting regulations is not met, are as follows:

Contingent liabilities

- On 16 June 2014, the CNMC initiated penalty proceedings against IBERDROLA GENERACIÓN ESPAÑA for purported fraudulent manipulation aimed at altering energy prices at the hydroelectric generation plants of the Duero, Tagus and Sil in December 2013. On 30 November 2015 the Company was notified of the Euros 25 million penalty. IBERDROLA GENERACIÓN ESPAÑA lodged an appeal for a judicial review with the Judicial Review Chamber of the National High Court, was given leave to proceed, and enforcement of the penalty was stayed. The procedure is currently on hold pending separate rulings.
- Complaints lodged in 2016 by the Group before the Central Economic-Administrative Court for contested tax investigation reports correspond to the years 2008-2011. The main controversies arise from the elimination of the exemption applicable to dividends received for the Tax Agency considers that this exemption is incompatible with valuation adjustments for net investment hedges, differences in tax consolidation criteria and the possible existence of circumstances established in Article 15.1 of Spain's General Tax Law in a debtor-swap operation in a number of bond issues.

- IBERDROLA INGENIERÍA's subsidiary company in the United States (Iberdrola Energy Projects - IEP) maintains an arbitration against one of its clients before the *International Centre for Dispute Resolution (ICDR)* de la *American Arbitration Association (AAA)* due to the undue termination of a contract and other claims. In turn, said client is claiming certain amounts resulting from delay penalties and other damages to IEP. Currently the proceeding is at the stages of documentation presentation and drafting of testimonies. The hearing will take place in August/September 2020.

In February 2019 the client executed the guarantee for 100% of its value (USD 141 million). The amount paid has been recognised under the heading "Trade and other non-current assets" of the Consolidated statement of financial position at 31 December 2019 because it is considerable probable to recover the amount from the counterparty in case the outcome is favourable or to offset it with the amount to be paid, in the event of an unfavourable outcome.

- In 2018, two arbitrations were initiated by two contractors (one in charge of the electrical part of the project and the other of the assembling of equipment) of the Salem Harbor project before the ICDR of the American Arbitration Association (AAA) against IEP claiming damages resulting from unpaid works, interferences and delays. For both IEP arbitrations counter-claims have been filed and hearings have been held in 2019. In one of the them, the conclusions writ was filed on 7 February 2020 and in the other the award is expected for March 2020.
- IBERDROLA INGENIERÍA's partner in the supply of certain electrical services for the combined cycle project in Lichterfelde in Berlin filed a claim, updated in May, for extension costs and direct costs incurred in due to delays and interferences attributable to IBERDROLA INGENIERÍA. Said claim has been rejected by IBERDROLA INGENIERÍA due to lack of grounds by virtue of the joint venture agreement and of evidence.
- Various labour, civil and tax claims are ongoing against several companies of the NEOENERGIA Group in Brazil as a result of daily operations. The IBERDROLA Group considers that the risk of potential losses at such companies has been assessed in line with the opinions of the authorities and the external tax advisers, and the relevant provisions have been made based on the likelihood of loss as per the available evidence, the position of courts and the most recent case law precedent.

Labour complaints were filed by former NEOENERGIA Group companies or by former subcontractor as regards additional working hours, equitable salaries and other employment rights. Civil cases refer to commercial and damages actions initiated to claim material or moral damages, arbitrations related to engineering contracts and environmental actions.

Among the tax claims are infraction notices due to the following:

- not deducting amortised and depreciated goodwill expense (agio) in the calculation basis of income tax (both in corporate income tax- IRPJ and social contribution tax -CSL) applicable to the subsidiary companies Celpe, Coelba, Cosern, Itapebi and Termopernambuco.
- failure to make income tax withholdings on interest payment on treasury capital between Group companies, and
- questioning tax credits related to consumption tax (ICMS) in Celpe and Elektro.
- the tax authorities considering that payments for subsidiary company revenue, social benefits, health insurance and life insurance should be recognised as social security expenses, and

- offsetting by Neoenergia of balances in its favour due to wrongly applying PIS/COFINS to finance income, under a favourable resolution, which has been contested.

Furthermore, it should be noted that there is favourable and final administrative ruling regarding the infraction notice against Elektro initiated by the Receita Federal do Brasil regarding income tax for capital gains resulting from the acquisition of Elektro Redes. There is also a favourable ruling by a first instance court on tax deductibility of goodwill applicable to Celpe (2007 and 2008).

As regards regulatory actions, the distribution companies Coelba, Celpe, Cosern and Elektro are involved in similar proceedings, among which the following should be highlighted: (i) procedure to calculate individual and collective technical service continuity indicators; (ii) trade matters; (iii) financial compensations and recovery of global indicators; (iv) matters related to collections and legality of rate items or guides, and (v) matters related to the legality of administrative actions imposed by ANEEL. Among said actions, the following stand out:

- Elektro's Energy Social Tariff (low rent), which the Consumers Association intends on increasing in number of eligible customers from 2002 to 2010, imposing on ANEEL and Elektro the obligation to restore tariff differences, which should be born, eventually, by the sector fund, the CDE;
 - The free or onerous use of rights of war areas in roads for the electricity grid, whose appropriateness is being discussed in a leading case in the Supreme Court (STF).
 - Several matters regarding over or under subscription of energy, under administrative discussion; and
 - The possibility of ANEEL including for the rate tax income resulting from favourable outcome from court disputes regarding the exclusion of the ICMS tax from the federal contributions calculation base PIS and COFINS. Matter under discussion from the administrative perspective.
- Complaint of the 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, including Avangrid Renewables, LLC (subsidiary of Avangrid, Inc.) 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 the initial ruling did conclude that price of the energy purchase contracts imposed an excessive burden on customers in the amount of USD 259 million. FERC recommended filing the case without sanction. Following these proceedings, FERC is expected to issue a final ruling in 2020 and its decision may be appealed in the courts. The IBERDROLA Group expects that the case will eventually be shelved without any penalty.

- PNE Energy Supply LLC vs. Eversource Energy and Avangrid, Inc.: Class Action Regarding LDC Gas Transportation Service on Algonquin Gas Transmission (AGT), presented on 10 August 2018. Plaintiff filed a civil antitrust action, on behalf of itself and those similarly situated, against the Company and Eversource alleging that their respective gas subsidiaries illegally manipulated the supply of pipeline

capacity in the “secondary capacity market” in order to artificially inflate New England natural gas and electricity prices. On 7 June 2019, the Court dismissed the complaint. Said decision has been appealed by the claimants before the Court of Appeal of the First Circuit in the USA and is pending of settlement. The Company cannot predict the outcome of this matter.

- On 1 May 2018, ARHI closed the transaction for the sale of the gas storage business to Amphora Gas Storage USA, LLC. On 30 October 2019, ARHI received a compensation complaint from Amphora Gas Storage USA, LLC in for the amount of approximately USD 20 million for, among others, certain infractions related to land occupation, health and safety requirements, and the situation and sufficiency of assets, and a complaint from a third party due to intellectual property rights infringement. In accordance with the terms and conditions of the purchase agreement, the total aggregate amount for which AHRI could be liable to compensation (due to matters different to the fundamental statements, tax matters and fraud complaint) could not exceed 15% of purchase price. This represents approximately USD 10 million. The company cannot foresee the outcome of this matter.

Additionally, as part of the ordinary business of the IBERDROLA Group, the following contingent liabilities have arisen:

- US gas companies own, or have owned, the land where they operated the gas manufacturing plants. Said land was polluted as a result of these activities. In some cases, the soil has been cleaned. In some other cases, the soil has been assessed and identified, but has not been cleaned yet. Last, in some cases, the extent of the pollution has not been determined yet. For the last group, at 31 December 2019 no provisions had been recognised because the reasonable cost of the regulators intervention and approval cannot be estimated. In the past, gas companies have received approval to recover expenses associated to cleaning from customers through rates and expects to recover cleaning expenses for the remaining soil.

Contingent assets

- AVANGRID initiated legal proceedings against the former owners of certain sites in order to recover the costs of environmental restoration work it was forced to pay.

The IBERDROLA Group'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 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.

As regards legal proceedings instigated by third parties that may affect the remuneration and equity of the IBERDROLA Group, no significant appeals have been lodged.

The contingent assets and liabilities at 31 December 2018 are described in the IBERDROLA Group's 2018 Consolidated annual accounts.

45. INTERESTS IN JOINT VENTURES

The detail (at 100%) of the most significant economic aggregates in 2019 and 2018 relating to the main joint ventures involving the IBERDROLA Group is as follows:

Thousands of Euros	Joint property of nuclear and thermal plants					A.I.E. Almaraz- Trillo	A.I.E. Ascó- Valdellós	West of Duddon Sands	Wiking OSS	Torre Iberdrola
	Year 2019	Almaraz	Trillo	Vandellós	Ascó					
Segment	Liberalised							Renewables		Other businesses
Intangible assets.	-	-	-	-	-	5,044	-	1,546,755	-	14
Property, plant and equipment										
Technical installations	650,795	925,580	942,015	587,575	-	-	-	-	141,593	-
Other fixed assets	330	3,911	13,087	-	1,811	2,138	-	-	-	165,844
Non-current financial assets	22,533	11,291	43,090	9,864	2,430	2,056	180,060	7,594	-	13,625
Current assets	586,220	367,510	354,639	325,279	64	56,910	136,286	-	-	1,314
Total assets	1,259,878	1,308,292	1,352,831	922,718	4,305	66,148	316,346	1,554,349	141,593	180,797
Non-Current liabilities	388,406	483,984	556,240	267,297	-	45,766	197,521	-	-	1,646
Current liabilities	1,252,784	908,801	846,103	775,921	4,775	20,382	99,592	30,904	-	1,377
Income	789,523	379,132	360,649	359,442	-	174,535	306,219	1,487	-	14,970
Expenses	773,418	373,539	356,670	296,830	470	174,535	255,255	30,469	-	10,928

Thousands of Euros	Joint property of nuclear and thermal plants					A.I.E. Almaraz- Trillo	A.I.E. Ascó- Valdellós	West of Duddon Sands	Wiking OSS	Torre Iberdrola
	Year 2018	Almaraz	Trillo	Vandellós	Ascó					
Segment	Liberalised							Renewables		Other businesses
Intangible assets.	-	-	-	-	-	5,290	-	-	-	21
Property, plant and equipment										
Technical installations	692,494	952,610	948,438	594,792	-	-	-	1,456,429	147,727	-
Other fixed assets	340	4,133	14,271	-	1,811	2,029	-	-	-	184,896
Non-current financial assets	22,533	11,291	43,090	9,864	2,430	1,919	144,532	-	-	-
Current assets	707,494	382,790	369,356	376,302	739	50,923	139,181	9,946	-	2,184
Total assets	1,422,861	1,350,824	1,375,155	980,958	4,980	60,161	283,713	1,466,375	147,727	187,101
Non-Current liabilities	365,529	463,666	515,544	245,947	-	39,799	156,007	-	-	1,515
Current liabilities	893,204	856,820	960,220	613,141	5,746	20,362	108,473	39,096	-	1,699
Income	908,702	444,292	304,278	484,922	7	163,076	323,508	1,372	-	13,602
Expenses	744,267	413,950	402,382	363,052	772	163,076	302,518	30,132	-	11,032

46. GUARANTEE COMMITMENTS TO THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

IBERDROLA and its subsidiaries are required to provide the bank or corporate guarantees associated with the normal management of the Group's activities.

In this regard, the IBERDROLA Group guarantees the obligations undertaken in energy purchase agreements and grid access transactions in different energy markets and against the operators of different electricity systems (MEFF, OMEL, OMI Clear, National Grid, CFE, REE and EDP Distribución).

With regard to generation from renewable sources, the IBERDROLA Group has provided guarantees to third parties to cover the construction, bringing into service and dismantling of facilities, in addition to its responsibilities in long-term energy sales.

In 2016, the signing of nonconformity has taken place regarding the corporate Income Tax for the years 2008 to 2011 and regarding the Value Added Tax, for years 2010 and 2011. IBERDROLA has filed the corresponding claims to the Economic Administrative Court against the liquidation agreements, which confirm the acts of nonconformity, requesting the automatic suspension of the execution of the settlements by means of the necessary bank guarantees (Note 33).

In addition, at 31 December 2019 and 2018, there were outstanding obligations resulting from bond issues in the United States amounting to Euros 1,962,701 and 1,787,818 thousand that were secured by the items in the property, plant and equipment of the subgroup AVANGRID.

IBERDROLA considers that any additional liability at 31 December 2019 and 2018, arising from the guarantees provided at that date, if any, would not be significant.

Moreover, the IBERDROLA Group in compliance with the contractual obligations associated with loans received from banks, had fully or partially pledged some of its subsidiaries shares at 31 December 2019 and 2018. The detail, by company, of the shares pledged is as follows:

Thousands of Euros	2019			2018		
	Carrying amount	Percentage of ownership of IBERDROLA Group	Carrying amount by percentage of IBERDROLA Group's ownership (thousands of euros)	Carrying amount	Percentage of ownership IBERDROLA Group	Carrying amount by percentage of IBERDROLA Group's ownership (thousands of euros)
Renewables business - Spain						
Eólica 2000, S.L.	6,150	51.00%	3,137	5,764	51.00%	2,940
Eólica de Campollano, S.A. (1)	27,485	25.00%	6,871	27,031	25.00%	6,758
Molinos de La Rioja, S.A. (1)	–	–	–	14,887	42.37%	6,308
Molinos del Cidacos, S.A.	–	–	–	37,336	31.78%	11,865
Renewables business - Brazil						
Arizona 1 Energia Renovável, S.A.	9,881	51.04%	5,043	10,993	52.45%	5,766
Caetité 1 Energia Renovável, S.A.	16,208	51.04%	8,273	16,499	52.45%	8,654
Caetité 2 Energia Renovável, S.A.	19,221	51.04%	9,811	18,895	52.45%	9,910
Caetité 3 Energia Renovável, S.A.	15,776	51.04%	8,052	16,083	52.45%	8,436
Calango 1 Energia Renovável, S.A.	11,964	51.04%	6,106	13,166	52.45%	6,906
Calango 2 Energia Renovável, S.A.	10,490	51.04%	5,354	11,192	52.45%	5,870
Calango 3 Energia Renovável, S.A.	10,685	51.04%	5,454	11,884	52.45%	6,233
Calango 4 Energia Renovável, S.A.	9,517	51.04%	4,858	10,891	52.45%	5,712
Calango 5 Energia Renovável, S.A.	10,293	51.04%	5,253	11,419	52.45%	5,989
Calango 6 Energia Renovável, S.A.	51,416	51.04%	26,243	51,491	52.45%	27,007
Canoas Energia Renovável, S.A.	43,291	51.04%	22,096	43,767	52.45%	22,956
Canoas 2 Energia Renovável, S.A.	2,242	51.04%	1,144	–	–	–
Canoas 3 Energia Renovável, S.A.	1,019	51.04%	520	–	–	–
Canoas 4 Energia Renovável, S.A.	2,109	51.04%	1,076	–	–	–
Chafariz 1 Energia Renovável, S.A.	2,660	51.04%	1,358	–	–	–
Chafariz 2 Energia Renovável, S.A.	2,241	51.04%	1,144	–	–	–
Chafariz 4 Energia Renovável, S.A.	2,086	51.04%	1,065	–	–	–
Chafariz 5 Energia Renovável, S.A.	2,197	51.04%	1,121	–	–	–
Ventos de Arapuá 1 Energia Renovável, S.A.	1,906	51.04%	973	–	–	–
Ventos de Arapuá 2 Energia Renovável, S.A.	2,352	51.04%	1,200	–	–	–
Ventos de Arapuá 3 Energia Renovável, S.A.	975	51.04%	498	–	–	–
Força Eolica Participações, S.A.	54,728	51.04%	27,933	58,563	52.45%	30,716
Lagoa I, S.A.	52,921	51.04%	27,011	52,827	52.45%	27,708
Lagoa II, S.A.	43,130	51.04%	22,013	42,521	52.45%	22,302
Lagoa 3 Energia Renovável, S.A.	1,816	51.04%	927	–	–	–
Lagoa 4 Energia Renovável, S.A.	1,537	51.04%	785	–	–	–
Mel 2 Energia Renovável, S.A.	7,563	51.04%	3,860	7,310	52.45%	3,834
Santana 1, Energia Renovável, S.A.	37,703	51.04%	19,244	40,791	52.45%	21,395
Santana 2, Energia Renovável, S.A.	29,675	51.04%	15,146	32,365	52.45%	16,975
Liberalised - Brazil						
Baguari Geração de Energia Elétrica, S.A.	33,915	50.99%	17,293	37,571	52.45%	19,706
Belo Monte Participações, S.A.	310,905	51.04%	158,684	306,082	52.45%	160,540
Companhia Hidrelétrica Teles Pires, S.A. (1)	425,008	26.03%	110,642	424,280	26.75%	113,504
Energética Aguas da Pedra, S.A. (1)	105,014	26.03%	27,336	97,405	26.75%	26,055
Energética Corumba III (1)	38,283	12.76%	4,885	37,391	13.11%	4,903
Geração CIII, S.A.	57,568	51.03%	29,380	57,589	52.45%	30,205
Norte Energia, S.A. (1)	3,101,854	5.10%	158,319	2,971,872	5.25%	155,875
Teles Pires Participações, S.A. (1)	337,189	25.81%	87,014	326,387	26.52%	86,554
Geração Ceu Azul, S.A.	271,054	51.04%	138,346	255,988	52.45%	134,266
Liberalised - Mexico						
Parque Industrial de Energías Renovables II Quecholac Felipe Angeles, S.A. de C.V.	17,210	51.00%	8,777	15,556	51.00%	7,934
Parque Industrial de Energia Renovable SA de CV	66,526	51.00%	33,929	62,647	51.00%	31,950
Parque Industrial de Energías Renovables IV, S.A. de C.V.	427	51.00%	218	403	51.00%	206
Networks - Brazil						
Potiguar Sul Transmissão de Energia, S.A.	58,944	51.04%	30,085	55,282	52.45%	28,995
Neoenergia Jalapão Transmissão de Energia, S.A.	30,702	51.04%	15,670	–	–	–
Neoenergia Dourados Transmissão de Energia, S.A.	47,332	51.04%	24,158	–	–	–
Total	5,393,168	–	1,088,305	5,184,128	–	1,064,933

(1) Companies recognised as equity-accounted investee.

47. REMUNERATION OF THE BOARD OF DIRECTORS

47.1 2019 by-law stipulated remuneration

Section 48 of IBERDROLA's by-laws provides that the Company shall assign on an annual basis, 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:

On the proposal of the Appointments and Remuneration Committee, the Board of Directors has decided to propose to shareholders at their General Meeting to assign by-law stipulated remuneration of Euros 17,000 thousand in 2019 and the same amount as in the previous four years, this is in 2015, 2016, 2017 and 2018.

These amounts have been registered under the heading "Personnel expenses" of the Consolidated income statement (Note 38).

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 2019 and 2018. The details are as follows:

Thousands of Euros	Fixed remuneration		Attendance fees	
	2019	2018	2019	2018
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

b) Remuneration of the executive directors for their executive duties

The Board of Directors has resolved to maintain the fixed remuneration for the chairman and chief executive officer in 2019 at Euros 2,250 thousand. It also decided to maintain the limit of variable annual remuneration, which may not exceed Euros 3,250 thousand and which will be paid as far as been agreed in 2020.

The board of directors decided on a fix remuneration in 2019 of Euros 1,000 thousand for the member of the board and Business CEO and set a limit of variable annual remuneration of Euros 1,000 thousand, to be paid, as may be agreed, in 2020.

c) Board member remunerations paid and accrued

The detailed fixed remuneration accrued by the members of the Board of Directors, individually, during 2019 and 2018, respectively, is detailed as follows:

Thousands of Euros	Salaries	Fixed remuneration ⁽¹⁾	Remuneration for sitting on Committees ⁽¹⁾	Attendance fees	Short-term variable remuneration ⁽¹⁰⁾	Remuneration in kind	Total 2019	Total 2018
Chairman of the board								
José Ignacio Sánchez Galán	2,250	567	–	92	3,250	72	6,231	6,062
Vice-chair of the board and committee chairs								
Inés Macho Stadler ⁽²⁾	–	165	275	76	–	3	519	511
Samantha Barber	–	165	275	82	–	2	524	516
María Helena Antolín Raybaud	–	165	275	52	–	7	499	486
Xabier Sagredo Ormazá ⁽³⁾	–	165	249	58	–	2	474	295
Juan Manuel González Serna ⁽⁴⁾	–	165	275	44	–	2	486	387
Committee members								
Iñigo Víctor de Oriol Ibarra	–	165	88	52	–	5	310	296
Georgina Kessel Martínez ⁽⁵⁾	–	165	114	46	–	1	326	505
Denise Mary Holt	–	165	88	40	–	1	294	294
José Walfredo Fernández	–	165	88	40	–	1	294	294
Manuel Moreu Munaiz	–	165	88	60	–	2	315	317
Francisco Martínez Córcoles	1,000	165	–	16	1,000	34	2,215	1,918
Anthony Luzzatto Gardner ⁽⁶⁾	–	165	88	30	–	1	284	198
Sara de la Rica Goiricelaya ⁽⁷⁾	–	126	67	24	–	1	218	–
Ceased members								
Braulio Medel Cámara ⁽⁸⁾	–	–	–	–	–	–	–	89
Ángel Jesús Acebes Paniagua ⁽⁹⁾	–	39	21	12	–	1	73	314
Total	3,250	2,712	1,991	724	4,250	135	13,062	12,482

(1) Remuneration accrued in 2019. These amounts are not satisfied until the approval of 2019 by-law stipulated remuneration by the General Shareholders Meeting 2020.

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

(3) On 19 February 2019 the Board of Directors approved his appointment as a chairman of the Audit and Risk Supervision Committee.

(4) On 21 June 2018 the Board of Directors approved the appointment as a member of the Audit and Risk Supervision Committee.

(5) On 19 February 2019, the appointment as chairwoman of the Audit and Risk Supervision Committee expired.

(6) Appointed member on 13 April 2018. On that same date, the Board of Directors approved the appointment as a member of the Audit and Risk Supervision Committee. On 24 April 2019 the appointment was approved as a member of the Audit and Risk Supervision Committee replacing Sara de la Rica Goiricelaya.

(7) Appointed member on 29 March 2019. On that same date, the Board of Directors approved the appointment as a member of the Audit and Risk Supervision Committee. On 24 April 2019 the appointment was approved as a member of the Audit and Risk Supervision Committee replacing Anthony Luzzatto Gardner.

(8) Ceased as vice-chairman of Boards of Directors at their meeting on 13 April 2018.

(9) Ceased as member of the board on 28 March 2019.

(10) Amount relates to variable remuneration received in the year 2019, based on attainment of targets and personal performance in 2018.

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

d) Civil Liability Insurance

The premium paid to cover directors' Civil Liability Insurance amounts to Euros 94 thousand and Euros 72 thousand in 2019 and 2018, respectively.

e) Others

The expenses of the Board of Directors related to external services and other items during 2019 and 2018 amounted to Euros 1,932 thousand and Euros 2,131 thousand, respectively.

In 2019 and 2018 rebates were received amounting to Euros 88 thousand and Euros 106 thousand, respectively, with respect to the adjustment of the pension insurance policies relating to former Members of the Board of Directors.

The undistributed by-law stipulated remuneration for 2019 amounting to Euros 2,000 thousand can be externalized to cover the obligations incurred by the Company to ensure them, in the event they should be materialized.

47.2 Remuneration through the delivery of Company shares

At their General Meeting held on 28 March 2014 the shareholders approved the *2014-2016 Strategic Bonus* as a long-term incentive tied to the performance of the Company in accordance to certain parameters (Note 21).

In the first half of 2019 the third and last annual settlement was made. The Chairman and CEO received 510,596 IBERDROLA shares. The member-Business CEO was granted 120,932 shares corresponding to his performance prior to his appointment as board member.

47.3 Remuneration for sitting on other committees

In 2019 senior executives who have held the position of directors in companies that are not wholly owned, directly or indirectly, by IBERDROLA have received Euros 302 thousand.

47.4 Law 11/2018: Non-financial information and diversity

Below the average remuneration received by members per type and genre in 2019 and 2018 is detailed as follows:

Thousands of Euros	2019		2018	
	Men	Women	Men	Women
Executive	4,374	–	4,121	–
Independent and other external	358	413	313	462

Additionally, executive members received 631,528 and 631,527 company shares in 2019 and 2018, respectively (Note 47.2).

47.5 Compensation clauses

Compensation clauses for Senior management are described in paragraph C.1.39 of the Annual Corporate Governance Report included in the Directors' Report.

48. INFORMATION REGARDING COMPLIANCE WITH ARTICLE 229 OF THE SPANISH COMPANIES ACT

As established in section 229 of the Spanish Companies Act (Ley de Sociedades de Capital) introduced by the Royal Decree-Law 1/2010 of 2 July 2010 and in the Law 31/2014, of 3 December 2014, modifying the Spanish Companies Act for the improvement of corporate governance, the conflicts-of-interest situations incurred by the directors are noted below.

The president and CEO and the member-Business CEO were absent during the deliberation of all the agreements related to his system of remuneration and assurance.

Finally, Mr. Sagredo Ormaza was absent during the deliberation of that agreements involving Kutxabank, S.A.

49. REMUNERATION TO SENIOR MANAGEMENT

Senior executives are those who answer directly to the Company's Board of Directors, chairman and chief executive officer and, in all cases, the Internal audit director, apart from any other director recognised as senior manager.

At 31 December 2019, the Company had 9 senior managers.

The personnel costs relating to senior executives amounting to Euros 12,851 thousand and Euros 12,006 thousand in 2019 and 2018, respectively, are recognised under the heading "Personnel expenses" of the Consolidated income statements of the mentioned years.

The remuneration and other compensation received by senior executives in 2019 and 2018 are detailed below:

Thousands of Euros	2019	2018 ⁽¹⁾
Remuneration in cash	4,893	5,125
Variable remuneration	5,233	4,436
Remuneration in kind and payments on account not charged	348	228
Social Security	138	124
Promoter contribution pension plan	1,094	1,079
Risk policy (death and permanent disability)	1,145	1,014
Total	12,851	12,006

Number of shares	2019	2018 ⁽¹⁾
Share-based payment plan, strategic bonus	418,340	418,340
Taxes charged and settlements (thousands of Euros)	2,386	1,872

(1) To facilitate comparison, the information regarding members who are considered senior managers from 1 January 2019 (4 additional members) has been included.

In the first half of 2019 the third of three annual payments corresponding to the 2014-2016 Strategic Bonus has been made (Note 21), once it has been confirmed the remuneration grounds have been met. Senior management members have received 418,340 shares in the third payment.

A maximum of 1,600,000 net shares to be settled in three years, Euros 6,005 thousand, are to be delivered to senior executives under the 2017-2019 Strategic Bonus (Note 21), tied to their success in achievement of objectives.

In 2019 and 2018 senior managers who have held the position of directors in companies that are not wholly owned, directly or indirectly, by IBERDROLA have received Euros 1,089 and 970 thousand, respectively.

Compensation clauses for Senior management are described in paragraph C.1.39 of the Annual Corporate Governance Report included in the Directors' Report.

On the other hand, during 2019 and 2018 there were no other transactions with executives outside the normal course of the business.

The amount of the fixed and variable remuneration of executives not included in the senior management of IBERDROLA (147 people) rose to Euros 48,537 thousand in 2019. This amount reached Euros 43,624 thousand in 2018 (146 people) ⁽²⁾. These amounts do not include shares delivered as part of the 2014-2016 Strategic bonus.

(2) To facilitate comparison, the information regarding members who are considered senior executives from 1 January 2019 (4 additional members) has been excluded.

50. 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:

Transactions carried out by IBERDROLA with significant shareholders (Note 20)

The most noteworthy transactions in 2019 and 2018 are as follows:

Thousands of Euros	Major shareholders	
	2019	2018
	Qatar Investment Authority	Qatar Investment Authority
Other transactions		
Dividends and other distributed profit ⁽¹⁾	2,766	2,766

(1) Amounts recognised as dividends and other benefits distributed in the first half of 2019 and 2018 correspond to the Iberdrola flexible remuneration system and the the General Shareholders' Meeting attendance fee received if applicable.

Transactions carried out with significant shareholders (Note 20)

The most noteworthy transactions in 2019 and 2018 are as follows:

Thousands of Euros	Major shareholders	
	2019	2018
	Qatar Investment Authority	Qatar Investment Authority
(Expenses)/ income		
Finance income ⁽¹⁾	248	344
Total income	248	344

- (1) Corresponds to income from cash placed in Qatar National Bank by Scottish Power, Ltd. At 31 December there were no pending amounts.


Other investments in equity-accounted investees

The breakdown of transactions with equity-accounted investees which are related parties that were not eliminated in consolidation (Note 2.b) is as follows:

Thousands of Euros	2019						2018					
	Asset acquisition	Trade payables	Trade receivables	Sales and services provided	Supplies	Received services	Asset acquisition	Trade payables	Trade receivables	Sales and services provided	Supplies	Received services
SIEMENS-GAMESA (Note 51) ⁽¹⁾	698,463	324,100	2,388	1,201	1,995	42,978	218,602	83,510	765	1,376	1,702	37,602
Norte Energia, S.A. ⁽²⁾	–	38,013	48	483	179,977	–	–	21,854	–	–	188,769	–
Companhia Hidrelétrica Teles Pires, S.A. ⁽²⁾	–	7,666	13	1,944	81,768	–	–	7,300	1,189	14,575	84,571	–
Energetica Aguas da Pedra, S.A. ⁽²⁾	–	1,732	3,074	1,948	14,699	–	–	1,683	2,683	1,906	14,474	–
Morecambe Wind, Ltd.	–	825	688	518	14,291	–	–	1,207	–	2,022	13,469	–
NGET/SPT Upgrades Ltd. ⁽³⁾	36,686	–	502	587	–	29	85,033	874	2,839	1,731	–	741
Vineyard Wind, LLC	–	–	83	11,714	–	–	–	–	–	2,608	–	–
Cogeneración Gequisa, S.A. ⁽⁴⁾	–	–	1	10,703	–	–	–	1,709	1	6,607	–	–
Fudepor, S.L. ⁽⁴⁾	–	–	2	3,154	–	–	–	–	38	4,233	–	–
Intermalta Energía, S.A. ⁽⁴⁾	–	–	297	1,271	–	–	–	–	3	7,143	–	–
East Anglia Offshore Wind, Ltd.	–	67	3,001	89	–	–	4,418	3,905	706	–	–	–
Other companies	211	78,633	31,039	6,127	4,756	1,610	1,762	76,902	15,100	6,128	4,195	2,121
Total	735,360	451,036	41,136	39,739	297,486	44,617	309,815	198,944	23,324	48,329	307,180	40,464

- (1) In 2019 the asset acquisitions correspond mainly to the purchase from SIEMENS-GAMESA of repair equipment, wind turbines and towers for the wind farms Roaring Brook (USA), Pradillo, Cavar, Chimiche II (Spain). Additional to the purchases detailed in the table above, in the year the following companies have been acquired: Sistemas Energéticos Loma del Viento, S.A., Sistemas Energéticos Serra de Lourenza, S.A. and Sistemas Energéticos Jaralón, S.A., in the amount of Euros 44,920 thousand, owners of the wind farms Puylobo, Casetonas and Ballestas (Spain).

On 21 December 2011, IBERDROLA and Gamesa Eólica, S.L.U (Company belonging to GAMESA Group) entered into a framework agreement to supply and maintain wind farms, whereby IBERDROLA undertakes to acquire from GAMESA a minimum amount of megawatts equal to 50% of the total fleet of onshore wind turbines acquired by the Group for its renewables business unit during the term of the framework agreement. This commitment will remain in effect from 1 January 2013 until 31 December 2022 or until the number of megawatts acquired by IBERDROLA from GAMESA under the framework agreement reaches 3,800 MW, whichever occurs first.



Additionally, on 22 May 2019, IBERDROLA and Siemens Gamesa Renewable Energy Eólica, S.L. (formerly, Gamesa Eólica S.L.U.) entered into a framework agreement to supply and maintain wind farms, whereby IBERDROLA undertakes to acquire from SGRE 200 MW of the total fleet of onshore wind turbines to be purchased by Iberdrola in Spain during the term of the framework agreement. This commitment will remain in effect from the execution date until 31 December 2022 or until the number of those 200 MW are acquired, whichever occurs first.

- (2) Supplies correspond mainly to purchases of electric energy.
- (3) The acquisition of assets corresponds mainly to investments made by Scottish Power Transmission Limited for the construction of a submarine interconnection in the Irish Sea to increase the power transmission capacity between England and Scotland. For such purpose, Scottish Power Transmission Limited is working with the British operator National Grid in relation to the joint venture NGET/SPT Upgrades, Ltd.
- (4) Sales and services provided correspond mainly to sale of has to cogeneration companies.

Transactions with directors and senior executives

Thousands of Euros	Major shareholders			
	2019		2018	
	Directors	Executives	Directors	Executives
Other transactions				
Dividends and other distributed profit ⁽¹⁾	298	158	482	11

(1) Amounts recognised as dividends and other benefits distributed in the first half of 2019 and 2018 correspond to the Iberdrola flexible remuneration system and the General Shareholders' Meeting attendance fee received if applicable.

51. SUBSEQUENT EVENTS TO 31 DECEMBER 2019

The main events following the closing of the year have been:

Iberdrola flexible remuneration

On 7 January 2020, the facts in relation to the implementation of the second paid-up capital increase (Iberdrola flexible remuneration) approved by the shareholders at their General Meeting held on 29 March 2019, under item 9 of the agenda, were as follows:

- The maximum number of shares to be issued under the capital increase is 117,816,148.
- The number of free allocation rights required to receive one new share is 54.
- The maximum par value of the capital increase amounts to Euros 88,362,111
- Gross dividend amount per share was Euros 0.168.

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

- During the period established for this purpose, the holders of 1,419,991,945 shares of the Company decided to receive interim dividends. Thus, the gross total of distributed interim dividends was Euros 238,559 thousand. As a result, these shareholders have expressly forgone 1,419,991,945 free allocation rights and therefore 26,296,147 new shares.
- Furthermore, the final number of new ordinary shares with a par value of Euros 0.75 to be issued will be 91,520,000, giving a nominal capital increase from this implementation of Euros 68,640 thousand. This will add 1.440% to IBERDROLA's pre-issue share capital.
- As a result of this share capital increase, IBERDROLA's share capital amounts to Euros 4,840,194,000, represented by 6,453,592,000 ordinary shares of Euros 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 have been admitted for trading on the continuous market of the Madrid, Barcelona, Bilbao and Valencia stock exchanges on 6 February 2020. The ordinary trading of new shares started on 7 February 2020.

Banking market and bond issue in the Euromarket

Significant financing transactions carried out by IBERDROLA Group after 31 December 2019 are as follows:

Lessor	Transaction	Amount (millions)	Currency	Maturity
Main new financing transactions				
CELPE	Loan 4131 ⁽¹⁾	62	USD	Jan-25
COELBA	Loan 4131 ⁽¹⁾	62	USD	Feb-25
Neoenergia Jalapão Transmissão de Energia, S.A.	BNDES loan ⁽²⁾	778	BRL	Dec-43
Main transactions for extending existing financing				
Iberdrola, S.A. ⁽³⁾	Sustainable syndicated loan	2,979	EUR	Feb-25
Iberdrola, S.A. ⁽³⁾	Sustainable syndicated loan	2,321	EUR	Feb-25

(1) Currency swap contracts to the company's operating currency (BRL).

(2) Financing executed in 2020 undrawn

(3) 2nd option to extend novated syndicated loans for 1 additional year in January 2018 in the amount of Euros 5,300 million.

Other significant transactions

On 4 February 2020, Iberdrola Participaciones, S.A. (IBERDROLA PARTICIPACIONES), company wholly-owned by Iberdrola, S.A., e IBERDROLA have executed with Siemens Aktiengesellschaft (SIEMENS) an agreement for the sale of IBERDROLA PARTICIPACIONES full investment in Siemens Gamesa Renewable Energy, S.A. (SIEMENS GAMESA), representing 8.07% of its share capital.

The transaction price arose to Euros 1,100 million, equivalent to Euros 20 per share in SIEMENS GAMESA and is not subject to future adjustments. The purchase was finalised on 5 February 2020. The impact of this disinvestment in IBERDROLA Group's Consolidated annual accounts for 2020 implies a gross surplus of Euros 485 million.

52. FEES FOR SERVICES PROVIDED BY AUDITORS

The fees resulted from the services provided in 2019 and 2018 by the statutory auditor are detailed in the chart below:

Year 2019	TO IBERDROLA	To the rest of the Group companies	Total
Auditing services	3,028	20,026	23,054
Other provided services related to auditing	1,359	1,835	3,194
Limited revision interim information services	1,199	80	1,279
Comfort letters debt issue services	145	816	961
Agreed procedure reports services (*)	15	939	954
Total	4,387	21,861	26,248

Year 2018	TO IBERDROLA	To the rest of the Group companies	Total
Auditing services	3,223	22,116	25,339
Other provided services related to auditing	1,459	1,592	3,051
Limited revision interim information services	1,194	144	1,338
Comfort letters debt issue services	205	474	679
Agreed procedure reports services (*)	60	974	1,034
Total	4,682	23,708	28,390

(*) Mainly agreed procedure reports required by the regulator in each country, as well as reports additional to the audit report required by current legislation in certain countries where the Group operates.

In 2019 professional fees for the services provided by KPMG Auditores, S.L. for auditing services and other services provided related to auditing rose to Euros 5,689 thousand and Euros 1,834 thousand, respectively (Euros 5,949 and 2,007 thousand in 2018, respectively). Other services related to auditing correspond mainly to the release of limited review reports, comfort letters and agreed procedures.

53. EARNINGS PER SHARE

The weighted average number of ordinary shares used in the calculation of the basic and diluted earnings per share at 31 December 2019 and 2018 (Note 3.y) is as follows:

	2019		2018 Restated (Note 2.d)	
	Basic	Diluted	Basic	Diluted
Average number of shares during the year	6,584,215,809	6,601,773,703	6,827,529,351	6,831,648,079
Average number of treasury shares held	(88,205,548)	(88,205,548)	(87,682,468)	(87,682,468)
Number of shares outstanding	6,496,010,261	6,513,568,155	6,739,846,883	6,743,965,611

Basic and diluted earnings corresponding to 2019 and 2018 is as follows:

	2019		2018 Restated (Note 2.d)	
	Basic	Diluted	Basic	Diluted
Net profit from continuing operations (*) (thousands of Euros)	3,471,665	3,471,608	3,065,220	3,064,927
Net profit from discontinuing operations (thousands of Euros)	(65,354)	(65,354)	(51,167)	(51,167)
Number of shares outstanding	6,496,010,261	6,513,568,155	6,739,846,883	6,743,965,611
Earnings per share (euros) from continued operations	0.534	0.533	0.455	0.454
Earnings per share (euros) from discontinued operations	(0.010)	(0.010)	(0.008)	(0.008)

(*) Profit for the year from discontinued activities net of tax from non-controlling interests.

54. AUTHORISATION OF THE CONSOLIDATED ANNUAL ACCOUNTS

The Consolidated annual accounts for the year ended on 31 December 2019 have been formally prepared by the directors of IBERDROLA on 24 February 2020.

55. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These Consolidated 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.

APPENDIX I

YEAR 2019 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP

Below is the detail of the proportion of direct or indirect ownership that Iberdrola, S.A. holds in its subsidiaries in its different businesses. The percentage of votes in the decision-making bodies of these subsidiaries, which are controlled by IBERDROLA, essentially corresponds to the percentage of ownership.

(*) The consolidation method by company is detailed as follows:

G Full consolidation

E: Integration by equity method

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
Liberalised Business					
Spain					
Cogeneración Gequisa, S.A.	Spain	Energy	50.00	50.00	E
Enercrisa, S.A.	Spain	Energy	50.00	50.00	E
Energía Portátil Cogeneración, S.A.	Spain	Energy	50.00	50.00	E
Energyworks Aranda, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Carballo, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Cartagena, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Fonz, S.L.	Spain	Energy	100.00	100.00	G
Energyworks Milagos, S.L.	Spain	Energy	100.00	100.00	G
Energyworks Monzón, S.L.	Spain	Energy	100.00	100.00	G
Energyworks San Millán, S.L.	Spain	Energy	100.00	100.00	G
Energyworks Villarrobledo, S.L.	Spain	Energy	99.00	99.00	G
Energyworks Vit-Vall, S.L.	Spain	Energy	99.00	99.00	G
Fudepor, S.L.	Spain	Energy	50.00	50.00	E
Iberdrola Clientes, S.A.U.	Spain	Retailer	100.00	100.00	G
Iberdrola Clientes Internacional, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Cogeneración, S.L.U.	Spain	Holding	100.00	100.00	G
Curenergía Comercializador de Último Recurso, S.A.U. (Formely Iberdrola Comercialización de Último Recurso, S.A.U.)	Spain	Retailer	100.00	100.00	G
Iberdrola Generación España, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Generación Nuclear, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Generación Térmica, S.L.U.	Spain	Energy	100.00	100.00	G
Iberdrola Operación y Mantenimiento, S.A.U.	Spain	Services	100.00	100.00	G
Iberdrola Servicios Energéticos, S.A.U.	Spain	Services	100.00	100.00	G
Iberduero, S.L.U.	Spain	Energy	100.00	100.00	G
Intermalta Energía, S.A.	Spain	Energy	50.00	50.00	E
Nuclenor, S.A.	Spain	Energy	50.00	50.00	E
Peninsular Cogeneración, S.A.	Spain	Energy	50.00	50.00	E
Productos y Servicios de Confort, S.A.	Spain	Services	100.00	100.00	G
Tarragona Power, S.L.U.	Spain	Energy	100.00	100.00	G
Tecnatom, S.A. ⁽⁵⁾	Spain	Other	30.00	30.00	-
Iberdrola Clientes Portugal, Unipessoal Ltda.	Portugal	Retailer	100.00	100.00	G

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
United Kingdom					
Scottish Power Retail Holdings Ltd. (Formerly, Scottish Power Generation Holdings Ltd.)	United Kingdom	Holding	100.00	100.00	G
ScottishPower (DCL), Ltd.	United	Energy	100.00	100.00	G
ScottishPower (SCPL), Ltd.	United	Energy	100.00	100.00	G
ScottishPower Energy Management (Agency), Ltd.	United Kingdom	Services	100.00	100.00	G
ScottishPower Energy Management, Ltd.	United	Energy	100.00	100.00	G
ScottishPower Energy Retail, Ltd.	United	Retailer	100.00	100.00	G
ScottishPower Generation (Assets), Ltd	United	Energy	100.00	100.00	G
SP Dataserve, Ltd.	United	Debt management	100.00	100.00	G
SP Gas Transportation Cockenzie, Ltd.	United	Inactive	100.00	100.00	G
SP Gas Transportation Hatfield, Ltd.	United	Inactive	100.00	100.00	G
SP Smart Meter Assets, Ltd.	United	Other	100.00	100.00	G
Mexico					
Hidro I, S.L.U.	Spain	Holding	100.00	100.00	G
Cinergy, S.R.L. de C.V.	Mexico	Services	100.00	100.00	G
Iberdrola Soporte a Proyectos Liberalizados, S.A. de C.V. (Before, Electricidad de Veracruz, S.A. de C.V.)	Mexico	Services	100.00	100.00	G
Enertek, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Iberdrola Clientes, S.A. de C.V.	Mexico	Retailer	100.00	100.00	G
Iberdrola Cogeneración Altamira, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Cogeneración Bajío, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Cogeneración Ramos, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Altamira de Servicios, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Iberdrola Energía Altamira, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Baja California, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía del Golfo, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Escobedo, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía La Laguna, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Iberdrola Energía Monterrey, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Iberdrola Energía Noroeste, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Energía Tamazunchale, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Iberdrola Energía Topolobampo, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Generación, S.A. de C.V.	Mexico	Holding	100.00	100.00	G
Iberdrola Generación México, S.A. de C.V.	Mexico	Holding	100.00	100.00	G
Iberdrola México, S.A. de C.V.	Mexico	Holding	100.00	100.00	G
Iberdrola Servicios Corporativos, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Servicios Administrativos Tamazunchale, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Servicios de Operación La Laguna, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Servicios Industriales y Administrativos del Noreste, S.R.L. de C.V.	Mexico	Services	51.12	51.12	G
Tamazunchale Energía, S.A.P.I. de C.V.	Mexico	Energy	100.00	-	G
Brazil					
Baguari Geração de Energia Elétrica, S.A.	Brazil	Energy	51.04	52.45	G
Bahia PCH II, S.A. Bahía Pequeña C. Hidroeléctrica	Brazil	Energy	51.04	52.45	G

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
Bahia PCH III, S.A. Bahía Geração de Energia	Brazil	Energy	51.04	52.45	-
Belo Monte Participações, S.A.	Brazil	Holding	51.04	52.45	G
Companhia Hidrelétrica Teles Pires, S.A.	Brazil	Energy	26.03	26.75	E
Elektro Comercializadora de Energia Ltda.	Brazil	Retailer	51.04	52.45	G
Energética Aguas da Pedra, S.A.	Brazil	Energy	26.03	26.75	E
Energética Corumbá III, S.A. ⁽⁴⁾	Brazil	Energy	12.76	13.11	E
Geração Ceu Azul, S.A.	Brazil	Energy	51.04	52.45	G
Geração CIII, S.A.	Brazil	Holding	51.04	52.45	G
Itapebí Geração de Energia, S.A.	Brazil	Energy	51.04	52.45	G
NC Energia, S.A.	Brazil	Retailer	51.04	52.45	G
Neoenergia Operação e Manutenção, S.A.	Brazil	Services	51.04	52.45	G
Norte Energia, S.A. ⁽⁴⁾	Brazil	Energy	5.10	5.25	E
Teles Pires Participações, S.A.	Brazil	Holding	25.81	26.52	E
Termopernambuco, S.A.	Brazil	Energy	51.04	52.45	G
ROW					
Iberdrola Energy Deutschland, GmbH.	Germany	Services	100.00	100.00	G
Iberdrola Canadá Energy Services, Ltd.	Canada	Gas	100.00	100.00	G
Iberdrola Solutions, LLC	USA	Services	100.00	-	G
Iberdrola Energie France, S.A.S.	France	Services	100.00	100.00	G
Iberdrola Clienti Italia, S.R.L.	Italy	Services	100.00	100.00	G
Iberdrola Ireland, Ltd	Ireland	Services	100.00	100.00	G
Renewables Business					
Spain					
Aixeindar, S.A.	Spain	Energy	60.00	-	E
Anselmo León Hidráulica, S.L. ⁽¹⁾	Spain	Energy	100.00	100.00	E
Biocantaber, S.L.	Spain	Energy	50.00	50.00	E
Bionor Eólica, S.A.	Spain	Energy	57.00	57.00	G
Biovent Energía, S.A.	Spain	Energy	95.00	95.00	G
Cantaber Generación Eólica, S.L.	Spain	Energy	69.01	69.01	G
Ciener, S.A.U.	Spain	Energy	100.00	100.00	G
Desarrollo de Energías Renovables de La Rioja, S.A. ⁽²⁾	Spain	Energy	63.55	40.51	E
Ecobarcial, S.A. ⁽²⁾	Spain	Energy	43.78	43.78	E
Electra de Malvana, S.A. ⁽²⁾	Spain	Energy	48.00	48.00	E
Electra Sierra de los Castillos, S.L.	Spain	Energy	97.00	97.00	G
Electra Sierra de San Pedro, S.A.	Spain	Energy	80.00	80.00	G
Eléctricas de la Alcarria, S.L.	Spain	Energy	90.00	90.00	G
Eme Hueneja Cuatro, S.L.	Spain	Energy	100.00	100.00	G
Energía de Castilla y León, S.A.	Spain	Energy	85.50	85.50	G
Energías Ecológicas de Tenerife, S.A. ⁽³⁾	Spain	Energy	50.00	50.00	G
Energías Eólicas de Cuenca, S.A.U.	Spain	Energy	100.00	100.00	G
Energías Fotovoltaicas de Puertollano, S.L.	Spain	Energy	100.00	-	G
Energías Renovables de Belona, S.L.	Spain	Energy	100.00	-	G
Energías Renovables de Circe, S.L.	Spain	Energy	100.00	-	G
Energías Renovables de Febe, S.L.	Spain	Energy	100.00	-	G
Energías Renovables de Hermes, S.L.	Spain	Energy	100.00	-	G
Energías Renovables de Tione, S.L.	Spain	Energy	100.00	-	G
Energías Renovables de la Región de Murcia, S.A.U.	Spain	Energy	100.00	100.00	G

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
Eólica Campollano, S.A. ⁽²⁾	Spain	Energy	25.00	25.00	E
Eólica 2000, S.L.	Spain	Energy	51.00	51.00	G
Eólicas de Euskadi, S.A.U.	Spain	Energy	100.00	100.00	G
Gestión de Evacuación de la Serna, S.L.	Spain	Energy	16.52	-	E
Iberdrola Eólica Marina, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Generación, S.A.U.	Spain	Energy	100.00	100.00	G
Fincalia Agropecuaria, S.L. (formerly, Iberdrola Renewables Solutions, S.A.)	Spain	Energy	100.00	100.00	G
Fincalia Agropecuaria siglo XXI, S.A.	Spain	Energy	100.00	100.00	G
Iberdrola Renovables Galicia, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Renovables Andalucía, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Renovables Aragón, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Renovables Canarias, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Renovables Castilla – La Mancha, S.A.U.	Spain	Energy	100.00	100.00	G
Iberdrola Renovables Castilla y León, S.A.	Spain	Energy	95.00	95.00	G
Iberdrola Renovables Energía, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables Internacional, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Renovables La Rioja, S.A. ⁽²⁾	Spain	Energy	63.55	63.55	E
Iberdrola Renovables La Rioja 2, S.A. ⁽²⁾	Spain	Energy	63.55	-	G
Ibernova Promociones, S.A.U.	Spain	Energy	100.00	100.00	G
Iberjalón, S.A.	Spain	Energy	80.00	80.00	G
ICARO Renovables, S.A.	Spain	Energy	100.00	-	G
Minicentrales del Tajo, S.A.	Spain	Energy	80.00	66.58	G
Molinos de La Rioja, S.A. ⁽²⁾	Spain	Energy	63.55	42.37	E
Molinos del Cidacos, S.A.	Spain	Energy	63.55	31.78	G
Parque Eólico Cruz del Carrutero, S.L.	Spain	Energy	76.00	76.00	G
Parque Eólico Encinillas, S.L.	Spain	Energy	49.00	-	E
Parque Eólico Panondres, S.L.	Spain	Energy	100.00	-	G
Peache Energías Renovables, S.A.	Spain	Energy	95.00	95.00	G
Producciones Energéticas Asturianas, S.L.	Spain	Energy	80.00	80.00	G
Producciones Energéticas de Castilla y León, S.A. ⁽²⁾	Spain	Energy	85.50	85.50	E
Proyecto Nuñez de Balboa, S.L.	Spain	Energy	100.00	100.00	G
Renovables de Buniel, S.L.	Spain	Energy	75.00	-	G
Renovables de la Ribera, S.L.	Spain	Energy	50.00	50.00	E
Sistemas Energéticos Altamira, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos Chandrexa, S.A.	Spain	Energy	96.07	96.07	G
Sistemas Energéticos del Moncayo, S.A.	Spain	Energy	75.00	75.00	G
Sistemas Energéticos La Gomera, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos La Higuera, S.A.	Spain	Energy	55.00	55.00	G
Sistemas Energéticos Jaralón, S.A.	Spain	Energy	100.00	-	G
Sistemas Energéticos de la Linera, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos Loma del Viento, S.A.	Spain	Energy	100.00	-	G
Sistemas Energéticos La Muela, S.A.	Spain	Energy	80.00	80.00	G
Sistemas Energéticos Mas Garullo, S.A.	Spain	Energy	78.00	78.00	G
Sistemas Energéticos Nacimiento, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos Serra de Lourenza, S.A.	Spain	Energy	100.00	-	G
Sistemas Energéticos Tacica de Plata, S.A.U.	Spain	Energy	100.00	100.00	G
Sistemas Energéticos Torralba, S.A.	Spain	Energy	60.00	60.00	G
Sistemas Energéticos Savalla del Comtat, S.A.U.	Spain	Energy	100.00	100.00	G
Sistema Fotovoltaico de Levante, S.A.	Spain	Energy	100.00	-	G
Sociedad Gestora de Parques Eólicos de Andalucía, S.A.	Spain	Energy	63.91	63.91	G

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
Sotavento Galicia, S.A. ⁽⁴⁾	Spain	Energy	8.00	8.00	E
Ibertâmega – Sistema Electroprodutor Do Tâmega, S.A.	Portugal	Energy	100.00	100.00	G
Iberdrola Suporte Projecto Tâmega, Unipessoal Lda.	Portugal	Energy	100.00	100.00	G
United Kingdom					
Celtpower, Ltd.	United Kingdom	Energy	50.00	50.00	E
Coldham Windfarm, Ltd.	United Kingdom	Energy	80.00	80.00	G
Douglas West Extension, Ltd.	United Kingdom	Energy	72.00	-	G
East Anglia Offshore Wind, Ltd.	United Kingdom	Energy	50.00	50.00	E
East Anglia One, Ltd.	United Kingdom	Energy	60.00	100.00	G
East Anglia Three, Ltd.	United Kingdom	Energy	100.00	100.00	G
East Anglia One North Ltd.	United Kingdom	Energy	100.00	100.00	G
East Anglia Two Ltd.	United Kingdom	Energy	100.00	100.00	G
Morecambe Wind, Ltd.	United Kingdom	Energy	50.00	50.00	E
ScottishPower Renewable Energy, Ltd.	United Kingdom	Holding	100.00	100.00	G
ScottishPower Renewables (WODS), Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower Renewables UK, Ltd.	United Kingdom	Energy	100.00	100.00	G
ScottishPower Renewables (UK Assets), Ltd	United Kingdom	Energy	100.00	100.00	G
United States					
Aeolus Wind Power III, LLC	USA	Holding	81.50	81.50	G
Aeolus Wind Power III, LLC	USA	Holding	81.50	81.50	G
Aeolus Wind Power IV, LLC	USA	Holding	81.50	81.50	G
Aeolus Wind Power VII, LLC	USA	Energy	81.50	-	G
Atlantic Renewable Energy Corporation	USA	Holding	81.50	81.50	G
Atlantic Renewable Projects II, LLC	USA	Holding	81.50	81.50	G
Atlantic Renewable Projects, LLC	USA	Energy	81.50	81.50	G
Atlantic Wind, LLC	USA	Holding	81.50	81.50	G
Aurora Solar, LLC	USA	Holding	81.50	81.50	G
Avangrid Arizona Renewables, LLC	USA	Energy	81.50	81.50	G
Avangrid Logistic Services, LLC	USA	Energy	81.50	81.50	G
Avangrid Renewables Holdings, Inc.	USA	Holding	81.50	81.50	G
Avangrid Renewables, LLC	USA	Holding	81.50	81.50	G
Avangrid Texas Renewables, LLC	USA	Energy	81.50	81.50	G
Avangrid Vineyard Wind, LLC	USA	Holding	81.50	81.50	G
Bakeoven Solar, LLC	USA	Energy	81.50	81.50	G
Barton Windpower, LLC	USA	Energy	81.50	81.50	G
Big Horn II Wind Project, LLC	USA	Energy	81.50	81.50	G
Big Horn Wind Project, LLC	USA	Energy	81.50	81.50	G
Blue Creek Wind Farm, LLC	USA	Energy	81.50	81.50	G
Buffalo Ridge I, LLC	USA	Energy	81.50	81.50	G
Buffalo Ridge II, LLC	USA	Energy	81.50	81.50	G
Camino Solar, LLC	USA	Energy	81.50	-	G
Casselman Wind Power, LLC	USA	Energy	81.50	81.50	G
Colorado Green Holdings, LLC	USA	Holding	81.50	81.50	G
Colorado Wind Ventures, LLC	USA	Holding	81.50	81.50	G
Coyote Ridge Wind, LLC	USA	Energy	16.30	16.30	E

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
Deerfield Wind, LLC	USA	Energy	81.50	81.50	G
Desert Wind Farm, LLC	USA	Energy	81.50	81.50	G
Dillon Wind, LLC	USA	Energy	81.50	81.50	G
El Cabo Wind, LLC	USA	Energy	81.50	81.50	G
El Cabo Wind Holdings	USA	Holding	81.50	81.50	G
El Cabo Partners, LLC	USA	Energy	81.50	81.50	G
El Corazon Wind, LLC	USA	Energy	81.50	-	G
Elk River Wind Farm, LLC	USA	Energy	81.50	81.50	G
Elm Creek Wind II, LLC	USA	Energy	81.50	81.50	G
Elm Creek Wind, LLC	USA	Energy	81.50	81.50	G
Farmers City Wind, LLC	USA	Energy	81.50	81.50	G
Flat Rock Windpower II, LLC	USA	Energy	40.75	40.75	E
Flat Rock Windpower, LLC	USA	Energy	40.75	40.75	E
Flying Cloud Power Partners, LLC	USA	Energy	81.50	81.50	G
Flying Cow Wind, LLC	USA	Energy	81.50	-	G
Fountain Wind, LLC	USA	Energy	81.50	-	G
Golden Hills Wind Farm, LLC	USA	Energy	81.50	81.50	G
Goodland Wind, LLC	USA	Energy	81.50	81.50	G
Groton Wind, LLC	USA	Energy	81.50	81.50	G
Hardscrabble Wind Power, LLC	USA	Energy	81.50	81.50	G
Hay Canyon Wind, LLC	USA	Energy	81.50	81.50	G
Heartland Wind, LLC	USA	Energy	81.50	81.50	G
Helix Wind Power Facility, LLC	USA	Energy	81.50	81.50	G
Imperial Wind, LLC (Formely Bakeoven Wind, LLC)	USA	Energy	81.50	81.50	G
Juniper Canyon Wind Power II, LLC	USA	Energy	81.50	81.50	G
Juniper Canyon Wind Power, LLC	USA	Energy	81.50	81.50	G
Karankawa Wind, LLC	USA	Energy	81.50	81.50	G
Kitty Hawk Wind, LLC	USA	Energy	81.50	81.50	G
Klamath Energy, LLC	USA	Energy	81.50	81.50	G
Klamath Generation, LLC	USA	Energy	81.50	81.50	G
Klondike Wind Power II, LLC	USA	Energy	81.50	81.50	G
Klondike Wind Power III, LLC	USA	Energy	81.50	81.50	G
Klondike Wind Power, LLC	USA	Energy	81.50	81.50	G
La Joya Wind, LLC	USA	Energy	81.50	81.50	G
Lakeview Cogeneration, LLC	USA	Energy	81.50	81.50	G
Leaning Juniper Wind Power II, LLC	USA	Energy	81.50	81.50	G
Leipsic Wind, LLC	USA	Energy	81.50	81.50	G
Lempster Wind, LLC	USA	Energy	81.50	81.50	G
Locust Ridge II, LLC	USA	Energy	81.50	81.50	G
Locust Ridge Wind Farms, LLC ⁽³⁾	USA	Energy	37.74	37.74	G
Loma Vista, LLC	USA	Energy	81.50	81.50	G
Loowit Battery Storage, LLC	USA	Energy	81.50	-	G
Lund Hill Solar, LLC	USA	Energy	81.50	81.50	G
Manzana Power Services, Inc.	USA	Services	81.50	81.50	G
Manzana Wind, LLC	USA	Energy	81.50	81.50	G
Midland Wind, LLC	USA	Energy	81.50	81.50	G
Minndakota Wind, LLC	USA	Energy	81.50	81.50	G
Mohawk Solar, LLC	USA	Energy	81.50	81.50	G
Montague Solar, LLC	USA	Energy	81.50	-	G
Montague Wind Power Facility, LLC	USA	Energy	81.50	81.50	G
Moraine Wind II, LLC	USA	Energy	81.50	81.50	G
Moraine Wind, LLC	USA	Energy	81.50	81.50	G
Mount Pleasant Wind, LLC	USA	Energy	81.50	81.50	G
Mountain View Power Partners III, LLC	USA	Energy	81.50	81.50	G
New England Wind, LLC	USA	Energy	81.50	81.50	G
New Harvest Wind Project, LLC	USA	Energy	81.50	81.50	G
Northern Iowa WindPower II, LLC	USA	Energy	81.50	81.50	G
Otter Creek Wind Farm, LLC	USA	Energy	81.50	81.50	G
Pacific Harbor Capital, Inc.	USA	Other	81.50	81.50	G
Pacific Wind Development, LLC	USA	Holding	81.50	81.50	G

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
Patriot Wind Farm, LLC	USA	Energy	81.50	-	G
Patriot Wind Holdings, LLC	USA	Holding	81.50	-	G
Patriot Wind TE Holdco, LLC	USA	Holding	81.50	-	G
Pebble Springs Wind, LLC	USA	Energy	81.50	81.50	G
Phoenix Wind Power, LLC	USA	Energy	81.50	81.50	G
Poseidon Solar, LLC	USA	Energy	40.75	-	E
Poseidon Wind, LLC	USA	Energy	40.75	-	E
PPM Colorado Wind Ventures, Inc.	USA	Holding	81.50	81.50	G
PPM Roaring Brook, LLC	USA	Energy	81.50	81.50	G
PPM Technical Services, Inc.	USA	Services	81.50	81.50	G
PPM Wind Energy, LLC	USA	Holding	81.50	81.50	G
Providence Heights Wind, LLC	USA	Energy	81.50	81.50	G
Rugby Wind, LLC	USA	Energy	81.50	81.50	G
San Luis Solar, LLC	USA	Energy	81.50	81.50	G
ScottishPower Financial Services, Inc.	USA	Other	81.50	81.50	G
ScottishPower Group Holdings Company	USA	Holding	81.50	81.50	G
Shiloh I Wind Project, LLC	USA	Energy	81.50	81.50	G
Solar Star Oregon II, LLC	USA	Energy	81.50	81.50	G
South Chestnut, LLC	USA	Energy	81.50	81.50	G
Start Point Wind Project, LLC	USA	Energy	81.50	81.50	G
Streator Cayuga Ridge Wind Power, LLC	USA	Energy	81.50	81.50	G
Tatanka Ridge Wind. LLC (Formely Buffalo Ridge III, LLC)	USA	Energy	81.50	81.50	G
Trimont Wind I, LLC	USA	Energy	81.50	81.50	G
Tule Wind, LLC	USA	Energy	81.50	81.50	G
Twin Buttes Wind, LLC	USA	Energy	81.50	81.50	G
Twin Buttes Wind II, LLC	USA	Energy	81.50	81.50	G
Vineyard Wind, LLC	USA	Energy	40.75	40.75	E
West Valley Leasing Company, LLC ⁽⁵⁾	USA	Gas	81.50	81.50	-
Winnebago Windpower II, LLC	USA	Energy	81.50	81.50	G
Winnebago Windpower, LLC	USA	Energy	81.50	81.50	G
Wyeast Solar, LLC	USA	Energy	81.50	81.50	G
Mexico					
BII NEE Stipa Energía Eólica, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Corporativo Iberdrola Renovables México, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Energías Renovables Venta III, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Eólica Dos Arbolitos S.A.P.I. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Soporte a Proyectos Renovables, S.A. DE C.V. (Before, Iberdrola Energía Norte, S.A. de C.V.)	Mexico	Services	100.00	100.00	G
Iberdrola Renovables Centro, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Renovables del Bajío, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Iberdrola Renovables México, S.A. de C.V.	Mexico	Holding	100.00	100.00	G
Iberdrola Renovables Noroeste, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Parque de Generación Renovable, S.A. de C.V.	Mexico	Energy	100.00	100.00	G
Parque Industrial de Energía Renovables, S.A. de C.V.	Mexico	Energy	51.00	51.00	G
Parques Ecológicos de México, S.A. de C.V.	Mexico	Energy	99.99	99.99	G
Pier II Quecholac Felipe Ángeles, S.A. de C.V.	Mexico	Energy	51.00	51.00	G
Servicios de Operación Eoloeléctrica de México, S.A. de C.V.	Mexico	Services	100.00	100.00	G
Brazil					
Arizona 1 Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Bonito 1 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Bonito 2 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Bonito 3 Energia Renovável, S.A. (formerly PCH Alto do Rio Grande, S.A.)	Brazil	Energy	51.04	51.04	G

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
Caetité 1 Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Caetité 2 Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Caetité 3 Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Calango 1 Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Calango 2 Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Calango 3 Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Calango 4 Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Calango 5 Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Calango 6 Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Calango Solar 1 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Calango Solar 2 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Canoas Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Canoas 2 Energia renovavel, S.A. (formerly, Tacca RJ Participacoes S.A.)	Brazil	Energy	51.04	52.45	G
Canoas 3 Energia renovavel, S.A. (formerly, Sever RJ Participacoes S.A.)	Brazil	Energy	51.04	52.45	G
Canoas 4 Energia renovavel, S.A. (formerly, Titanum RJ Participacoes S.A.)	Brazil	Energy	51.04	52.45	G
Chafariz 1 Energia renovavel, S.A. (formerly, Meridiano 1 Energia renovavel, S.A.)	Brazil	Energy	51.04	52.45	G
Chafariz 2 Energia renovavel, S.A. (formerly, Meridiano 2 Energia renovavel, S.A.)	Brazil	Energy	51.04	52.45	G
Chafariz 3 Energia renovavel, S.A. (formerly, Meridiano 3 Energia renovavel, S.A.)	Brazil	Energy	51.04	52.45	G
Lagoa 4 Energia renovavel, S.A.	Brazil	Energy	51.04	52.45	G
Lagoa 5 Energia renovavel, S.A.	Brazil	Energy	51.04	52.45	G
Chafariz 6 Energia renovavel, S.A. (formerly, Meridiano 4 Energia renovavel, S.A.)	Brazil	Energy	51.04	52.45	G
Chafariz 7 Energia renovavel, S.A. (formerly, Meridiano 5 Energia renovavel, S.A.)	Brazil	Energy	51.04	52.45	G
Elektro Renováveis do Brasil, S.A.	Brazil	Energy	51.04	52.45	G
Energias Renováveis do Brasil, S.A.	Brazil	Energy	51.04	52.45	G
FE Participações, S.A.	Brazil	Energy	51.04	52.45	G
Força Eolica do Brasil 1, S.A.	Brazil	Energy	51.04	52.45	G
Força Eolica do Brasil 2, S.A.	Brazil	Energy	51.04	52.45	G
Força Eolica do Brasil, S.A.	Brazil	Energy	51.04	52.45	G
Lagoa 1 Energia renovavel, S.A.	Brazil	Energy	51.04	52.45	G
Lagoa 2 Energia renovavel, S.A.	Brazil	Energy	51.04	52.45	G
Lagoa 3 Energia renovavel, S.A. (formerly, Meridiano 6 Energia renovavel, S.A.)	Brazil	Energy	51.04	52.45	G
Lagoa 4 Energia renovavel, S.A. (formerly, Soumaya RJ Participacoes S.A.)	Brazil	Energy	51.04	52.45	G
Luzia 1 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Luzia 2 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Mel 2 Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Oitis 1 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 2 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 3 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 4 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 5 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 6 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 7 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 8 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 9 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 10 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 21 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 22 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 27 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Oitis 28 Energia Renovável, S.A. ⁽⁵⁾	Brazil	Energy	51.04	-	-
Santana 1, Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Santana 2, Energia Renovável, S.A.	Brazil	Energy	51.04	52.45	G
Ventos de Arapuá 1 Energia renovavel, S.A.	Brazil	Energy	51.04	52.45	G

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
Ventos de Arapuá 2 Energia renovavel, S.A.	Brazil	Energy	51.04	52.45	G
Ventos de Arapuá 3 Energia renovavel, S.A.	Brazil	Energy	51.04	52.45	G
ROW					
Baltic Eagle, GmbH.	Germany	Energy	100.00	100.00	G
Iberdrola Renovables Offshore Deutschland, GmbH.	Germany	Energy	100.00	100.00	G
Iberdrola Renovables Deutschland, GmbH.	Germany	Energy	100.00	100.00	G
Iberdrola Renovables Australia PTY, Ltd.	Australia	Energy	100.00	100.00	G
Iberdrola Renovables Bulgaria, EOOD.	Bulgaria	Energy	100.00	100.00	G
Iberdrola Renovables Canadá, Ltd.	Canada	Holding	100.00	100.00	G
Rokas Aeoliki Cyprus, Ltd.	Cyprus	Energy	74.82	74.82	G
Ailes Marine, S.A.S.	France	Energy	70.00	70.00	G
Iberdrola Renovables France, S.A.S.	France	Energy	100.00	100.00	G
C. Rokas Industrial Commercial Company, S.A.	Greece	Holding	99.76	99.76	G
PPC Renewables Rokas, S.A.	Greece	Energy	50.88	50.88	G
Rokas Aeoliki Thraki III, S.A.	Greece	Energy	99.61	99.61	G
Rokas Construction, S.A.	Greece	Energy	99.76	99.76	G
Rokas Hydroelectric, S.A.	Greece	Energy	99.76	99.76	G
Iberdrola Renovables Magyarorszag, KFT.	Hungary	Energy	100.00	100.00	G
Iberdrola Renovables Italia, S.p.A.	Italy	Holding	100.00	100.00	G
Società Energie Rinnovabili 2, S.p.A. (2)	Italy	Energy	50.00	50.00	E
Eoenergi Energia Eolica, S.A.	Portugal	Energy	100.00	100.00	G
Iberdrola Renovables Portugal, S.A.	Portugal	Holding	100.00	100.00	G
Parque Eólico da Serra do Alvao, S.A.	Portugal	Energy	100.00	100.00	G
Eolica Dobrogea One, S.R.L.	Romania	Energy	100.00	100.00	G
Iberdrola Renovables Romania, S.R.L.	Romania	Holding	100.00	100.00	G
Iberdrola Renovables South Africa (PTY), Ltd.	South Africa	Energy	100.00	100.00	G
Networks Business					
Spain					
Anselmo León Distribución, S.L. (1)	Spain	Energy	100.00	100.00	E
Anselmo León, S.A.U. (1)	Spain	Holding	100.00	100.00	E
Distribuidora de Energía Eléctrica Enrique García Serrano, S.L. (1)	Spain	Energy	100.00	100.00	E
Distribuidora Eléctrica Navasfrías, S.L. (1)	Spain	Energy	100.00	100.00	E
Eléctrica Conquense Distribución, S.A.	Spain	Energy	53.59	53.59	G
Eléctrica Conquense, S.A.	Spain	Holding	53.59	53.59	G
Electro-Distribuidora Castellano-Leonesa, S.A. (1)	Spain	Energy	100.00	100.00	E
Empresa Eléctrica del Cabriel, S.L. (1)	Spain	Energy	100.00	100.00	E
Herederos María Alonso Calzada – Venta de Baños, S.L. (1)	Spain	Energy	100.00	100.00	E
San Cipriano de Rueda Distribución, S.L. (1)	Spain	Energy	100.00	100.00	E
I-DE Redes Eléctricas Inteligentes, S.A.U. (Formely Iberdrola Distribución Eléctrica, S.A.U.)	Spain	Energy	100.00	100.00	G
Iberdrola Infraestructuras y Servicios de Redes, S.A.	Spain	Services	100.00	100.00	G
Iberdrola Redes España, S.A.U.	Spain	Holding	100.00	100.00	G
Sociedad Distribuidora de Electricidad de Elorrio, S.A. (1)	Spain	Energy	97.95	97.95	E
United Kingdom					
Manweb Services, Ltd.	United Kingdom	Energy	100.00	100.00	G
NGET/SPT Upgrades, Ltd.	United Kingdom	Energy	50.00	50.00	E
Scottish Power Energy Networks Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	G

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
SP Distribution, Plc.	United Kingdom	Energy	100.00	100.00	G
SP Gas, Ltd.	United Kingdom	Inactive	100.00	100.00	G
SP Manweb, Plc.	United Kingdom	Energy	100.00	100.00	G
SP Network Connections, Ltd.	United Kingdom	General use connections	100.00	100.00	G
SP Power Systems, Ltd.	United Kingdom	Asset Management Services	100.00	100.00	G
SP Manweb, Plc.	United Kingdom	Energy	100.00	100.00	G
United States					
Avangrid, Inc.	USA	Holding	81.50	81.50	G
Avangrid Enterprises, Inc.	USA	Holding	81.50	81.50	G
Avangrid Management Company, LLC	USA	Holding	81.50	81.50	G
Avangrid Service Company	USA	Services	81.50	81.50	G
Avangrid New York TransCo, LLC	USA	Holding	81.50	81.50	G
Avangrid Networks, Inc.	USA	Holding	81.50	81.50	G
Avangrid Solutions, Inc.	USA	Other	81.50	81.50	G
Berkshire Energy Resources	USA	Holding	81.50	81.50	G
Cayuga Energy, Inc.	USA	Holding	81.50	81.50	G
Central Maine Power Company	USA	Energy	81.50	81.50	G
Chester SVC Partnership ⁽³⁾	USA	Energy	40.75	40.75	G
CMP Group, Inc.	USA	Holding	81.50	81.50	G
CNE Energy Services Group, LLC	USA	Services	81.50	81.50	G
CNE Peaking, LLC	USA	Services	81.50	81.50	G
Connecticut Energy Corporation	USA	Holding	81.50	81.50	G
Connecticut Natural Gas Corporation	USA	Gas	81.50	81.50	G
CTG Resources, Inc.	USA	Holding	81.50	81.50	G
GCE Holding, LLC	USA	Holding	40.75	40.75	-
GenConn Devon, LLC	USA	Generation	40.75	40.75	-
GenConn Energy, LLC	USA	Generation	40.75	40.75	-
GenConn Middletown, LLC	USA	Generation	40.75	40.75	-
Maine Electric Power Company, Inc.	USA	Energy	63.80	63.80	G
Maine Natural Gas Corporation	USA	Gas	81.50	81.50	G
Maine Yankee Atomic Power Company ⁽⁵⁾	USA	Other	30.97	30.97	-
MaineCom Services	USA	Telecommunications	81.50	81.50	G
NECEC Transmission, LLC	USA	Holding	81.50	-	G
New York State Electric & Gas Corporation	USA	Electricity and Gas	81.50	81.50	G
NORVARCO	USA	Holding	81.50	81.50	G
Nth Power Technologies Fund I, LP. ⁽⁵⁾	USA	Other	21.92	21.92	-
RGS Energy Group, Inc.	USA	Holding	81.50	81.50	G
Rochester Gas and Electric Corporation	USA	Electricity and Gas	81.50	81.50	G
South Glens Falls Energy, LLC ⁽⁵⁾	USA	Energy	69.28	69.28	-
TEN Transmission Company	USA	Gas	81.50	81.50	G
The Berkshire Gas Company	USA	Gas	81.50	81.50	G
The Southern Connecticut Gas Company (SCG)	USA	Gas	81.50	81.50	G
The Union Water Power Company	USA	Services	81.50	81.50	G
The United Illuminating Company	USA	Energy	81.50	81.50	G
Thermal Energies, Inc. ⁽⁵⁾	USA	Inactive	81.50	81.50	-
Total Peaking Services, LLC	USA	Services	81.50	81.50	G
UIL Distributed Resources	USA	Services	81.50	81.50	G
UIL Group, LLC	USA	Holding	81.50	81.50	G
UIL Holdings Corporation	USA	Holding	81.50	81.50	G
United Capital Investments	USA	Inactive	81.50	81.50	G
United Resources, Inc.	USA	Holding	81.50	81.50	G
WGP Acquisition, LLC ⁽⁵⁾	USA	Inactive	81.50	81.50	-
Xcelcom Inc.	USA	Inactive	81.50	81.50	G
Xcel Services, Inc. ⁽⁵⁾	USA	Inactive	81.50	81.50	-

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
Brazil					
Afluente Geração de Energia Elétrica, S.A.	Brazil	Energy	53.33	54.57	G
Companhia de Eletricidade do Estado do Bahia, S.A.	Brazil	Energy	49.33	50.69	G
Companhia Energética de Pernambuco, S.A.	Brazil	Energy	45.76	47.02	G
Companhia Energetica do Rio Grande do Norte, S.A.	Brazil	Energy	46.70	47.98	G
Neoenergia Jalapão Transmissão de Energia, S.A. (formerly, EKTT 1 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Brazil	Energy	51.04	52.45	G
Neoenergia Santa Luzia Transmissão de Energia, S.A. (formerly, EKTT 2 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Brazil	Energy	51.04	52.45	G
Neoenergia Guanabara Transmissão de Energia, S.A. (formerly, EKTT 3 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Brazil	Energy	51.04	-	G
Neoenergia Itabapoana Transmissão de Energia, S.A. (formerly, EKTT 4 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Brazil	Energy	51.04	-	G
Neoenergia Lagoa dos Patos Transmissão de Energia, S.A. (formerly, EKTT 5 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Brazil	Energy	51.04	-	G
EKTT 6 Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Energy	51.04	-	G
EKTT 7 Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Energy	51.04	-	G
EKTT 8 Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Energy	51.04	-	G
EKTT 9 Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Energy	51.04	-	G
EKTT 10 Serviços de Transmissão de Energia Elétrica SPE S/A	Brazil	Energy	51.04	-	G
Neoenergia Vale do Itajaí Transmissão de Energia, S.A. (formerly, EKTT 11 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Brazil	Energy	51.04	-	G
Neoenergia Dourados Transmissão de Energia, S.A. (formerly, EKTT 12 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Brazil	Energy	51.04	52.45	G
Neoenergia Atibaia Transmissão de Energia, S.A. (formerly, EKTT 13 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Brazil	Energy	51.04	52.45	G
Neoenergia Biguaçu Transmissão de Energia, S.A. (formerly, EKTT 14 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Brazil	Energy	51.04	52.45	G
Neoenergia Sobral Transmissão de Energia, S.A. (formerly, EKTT 15 Serviços de Transmissão de Energia Elétrica SPE, S.A.)	Brazil	Energy	51.04	52.45	G
Elektro Operação e Manutenção, Ltda.	Brazil	Services	51.04	52.45	G
Elektro Redes, S.A.	Brazil	Energy	50.88	52.28	G
Lanmóvil Amara Celular da Bahia Ltd. (Lanmara) ⁽¹⁾	Brazil	Other	65.00	65.00	-
Neoenergia Investimentos, S.A.	Brazil	Holding	51.04	52.45	G
Neoenergia Servicios, Ltd.	Brazil	Services	51.04	52.45	G
Neoenergia, S.A.	Brazil	Holding	51.04	52.45	G
Potiguar Sul Transmissao de Energia, S.A.	Brazil	Energy	51.04	52.45	G
S.E. Narandiba, S.A.	Brazil	Energy	51.04	52.45	G

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
Other businesses					
Engineering					
Adicora Servicios de Intermediación de Ingeniería, S.L.U. (Before, Adicora Servicios de Ingeniería, S.L.U.)	Spain	Engineering	100.00	100.00	G
EA Servicios Explotación Nuclear GNIT, S.L.	Spain	Engineering	25.46	-	E
Empresarios Agrupados Internacional, S.A. (2)	Spain	Engineering	25.46	25.46	E
Ghesa Ingeniería y Tecnología, S.A. (2)	Spain	Engineering	42.15	42.15	E
Iberdrola Ingeniería de Explotación, S.A.U.	Spain	Engineering	100.00	100.00	G
Iberdrola Ingeniería y Construcción, S.A.U.	Spain	Engineering	100.00	100.00	G
Ingeniería, Estudios y Construcciones, S.A.	Spain	Engineering	100.00	100.00	G
Iberdrola Construção e Serviços, Ltd.	Brazil	Engineering	100.00	100.00	G
Iberdrola Energy Projects Canada Corporation	Canada	Engineering	100.00	100.00	G
Iberdrola Ingeniería y Construcción Costa Rica, S.A.	Costa Rica	Engineering	100.00	100.00	G
Iberdrola Energy Project, Inc.	USA	Engineering	100.00	100.00	G
Enermón S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Iberdrola Ingeniería y Construcción México, S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Iberservicios, S.A. de C.V.	Mexico	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction Networks, Ltd.	United Kingdom	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction UK, Ltd.	United Kingdom	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction Ro, SRL.	Romania	Engineering	100.00	100.00	G
Iberdrola Engineering and Construction South Africa	South Africa	Engineering	100.00	100.00	G
Real Property					
Arrendamiento de Viviendas Protegidas Siglo XXI, S.L.	Spain	Real Property	100.00	100.00	G
Camarate Golf, S.A. (2)	Spain	Real Property	26.00	26.00	E
Iberdrola Inmobiliaria Patrimonio, S.A.U.	Spain	Real Property	100.00	100.00	G
Iberdrola Inmobiliaria, S.A.	Spain	Real Property	100.00	100.00	G
Iberdrola Inmobiliaria Real State Investment, EOOD	Bulgaria	Real Property	100.00	100.00	G
Desarrollos Inmobiliarias Laguna del Mar, S.A. de C.V.	Mexico	Real Property	100.00	100.00	G
Promociones La Malinche, S.A. de C.V.	Mexico	Real Property	50.00	50.00	E
Innovation					
Algaenergy, S.A. (5)	Spain	Services	14.84	14.84	-
Arborea Intellbird, S.L. (2) (4)	Spain	Other	18.89	18.89	E
Atten2 Advanced Monitoring Technologies, S.L. (2)	Spain	Other	23.27	23.27	E
Balantia Consultores, S.L. (2)	Spain	Services	20.64	-	E
GDES Technology for services, S.L. (2)	Spain	Other	40.00	40.00	E
Iberdrola Servicios de Innovación, S.L.	Spain	Other	100.00	100.00	G
Inversiones Financieras Perseo, S.L.	Spain	Holding	100.00	100.00	G
Iberdrola QSTP, LLC	Qatar	Services	100.00	100.00	G
Other businesses					
Subgrupo Corporación IBV Participaciones Empresariales	Spain	Holding	50.00	50.00	E
Siemens Gamesa Renewable Energy, S.A. (4)	Spain	Holding	8.07	8.07	E
Iberdrola Inversiones 2010, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Participaciones, S.A.U.	Spain	Holding	100.00	100.00	G

Company	Address	Activity	Percentage of direct or indirect stake		Method (*)
			31.12.2019	31.12.2018	
Corporation					
CarteraPark, S.A.U. ⁽⁵⁾	Spain	Inactive	100.00	100.00	-
Iberdrola Corporación, S.A. ⁽⁵⁾	Spain	Inactive	100.00	100.00	-
Iberdrola España, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Energía, S.A.U.	Spain	Holding	100.00	100.00	G
Iberdrola Financiación, S.A.U.	Spain	Financial	100.00	100.00	G
Iberdrola Finanzas, S.A.U.	Spain	Financial	100.00	100.00	G
Iberdrola International, B.V.	Holland	Financial	100.00	100.00	G
Iberdrola Finance Ireland, DAC	Ireland	Financial	100.00	100.00	G
Iberdrola Re, S.A.	Luxembourg	Insurance	100.00	100.00	G
Iberdrola Energía Internacional, S.A.U. (formerly, Iberdrola Energía Internacional, S.L.)	Spain	Holding	100.00	100.00	G
Scottish Power UK, Plc	United Kingdom	Holding	100.00	100.00	G
Scottish Power, Ltd.	United Kingdom	Holding	100.00	100.00	G
ScottishPower Investments, Ltd.	United Kingdom	Holding	100.00	100.00	G
ScottishPower Overseas Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	G
SPW Investments Ltd.	United Kingdom	Holding	100.00	100.00	G

JOINT OPERATIONS OF THE IBERDROLA GROUP STRUCTURED THROUGH AN INDEPENDENT VEHICLE FOR THE YEARS 2019 AND 2018

Company	Address	Activity	Percentage of direct or indirect stake	
			31.12.2019	31.12.2018
<u>Liberalised Business</u>				
Asociación Nuclear Ascó – Vandellós, A.I.E.	Spain	Energy	14.59	14.59
Centrales Nucleares Almaraz – Trillo, A.I.E.	Spain	Energy	51.44	51.44
<u>Renewables Business</u>				
Infraestructuras de Medinaceli, S.L.	Spain	Energy	39.69	39.69
Sistema Eléctrico de Conexión Hueneja, S.L.	Spain	Energy	47.36	47.36
<u>Other businesses</u>				
Torre Iberdrola, A.I.E.	Spain	Real Property	68.10	68.10

Additionally, the IBERDROLA Group takes part in joint operations through joint ownership and other joint agreements described in Note 45.

GROUP COMPANIES AT 31 DECEMBER 2018 WHICH HAVE LEFT THE PERIMETER IN 2019 AS A RESULT OF DISPOSAL, MERGER OR LIQUIDATION

Company	Address	Activity	Percentage of direct or indirect stake	
			31.12.2019	31.12.2018
<u>Liberalised Business</u>				
Sever RJ Participacoes S.A.	Brazil	Energy	-	51.04
<u>Renewable Business</u>				
Impulsora de Generación Fotovoltaica de México, S.A. de C.V.	Mexico	Energy	-	100.00
Infraestructuras de Generación Eléctrica, S.A. de C.V.	Mexico	Energy	-	100.00
Parque energías Renovables de México, S.A. de C.V.	Mexico	Energy	-	100.00
Pier IV, S.A. de C.V.	Mexico	Energy	-	51.00
Proyecto Alternativa Energética de México, S.A. de C.V.	Mexico	Energy	-	100.00
<u>Other businesses</u>				
Empresarios Agrupados, A.I.E.	Spain	Engineering	-	25.46
Iberdrola Engineering and Construction Poland, SP. Z.O.O W LIKWIDACJI (formerly, Iberdrola Engineering and Construction Poland, SP. Z.O.O.)	Poland	Engineering	-	100.00
Investigación y Desarrollo de Equipos Avanzados, S.A.U.	Spain	Other	-	100.00

- (1) Companies that are controlled by the Group but due to their immateriality have been integrated using the equity method. At 31 December 2019, the total aggregate assets value and the profit for the year corresponding to these companies amounts to Euros 27,307 thousand and Euros 4,133 thousand, respectively. At 31 December 2018, the total aggregate assets value and the profit for the year corresponding to these companies amounts to Euros 40,537 thousand and Euros 5,301 thousand, respectively.
- (2) Companies considered joint ventures, accounted for the equity method, where shareholders' agreements just grant the right to the net assets of the business.
- (3) Companies, where despite holding a percentage of voting rights less than 51%, the Group holds the control through shareholders' agreements.
- (4) Companies where the Group has significant influence despite holding a percentage of voting rights less than 20%, since it is represented these companies' Board of Directors.
- (5) Companies where the Group holds the control, joint control or significant influence, but given its limited relevance, they have not been included in the consolidation scope.

APPENDIX II

INDUSTRY REGULATION AND FUNCTIONING OF THE ELECTRICITY AND GAS SYSTEM

Both IBERDROLA and some of the fully or proportionately consolidated subsidiaries engage in electricity business activities in Spain and abroad (see the Appendix to these Consolidated annual accounts) that are heavily affected by the respective regulatory frameworks. The fundamental regulation affecting the IBERDROLA Group, as well as the most significant developments of 2019, are outlined below.

1. European Union

The aim of the European legislation, applicable to all States that are in the EU where IBERDROLA Group operates, is the implementations of the single gas and electricity markets in order to facilitate the exchange of energy flows and allow any consumer in the European Union to deal freely with any supplier in the EU. In this respect, there are two types of legislation: the directives, which set out common criteria to be observed in internal markets and which the member states should transpose into national legislation; and the Regulations, which establish norms for the supranational issues, especially those related to the transit of gas and electricity, and are applicable directly.

Another set of regulations that indirectly affects the energy sector are those arising from the energy and climate policy. In 2007 the triple objective of reducing emissions of greenhouse gases (GHGs) by 20% was approved, setting a quota of renewable energy of 20% and a target for energy efficiency (reducing consumption by this percentage based on the trend), all by 2020. In 2014, the European Council supported going even further towards decarbonisation by setting an emission reduction target of 40% by 2030. During negotiations for the reform of the Renewable Energy and Energy Efficiency Directives, more ambitious targets were also agreed upon than those initially expected, with 32% and 32.5% being set respectively for 2030.

The Paris Agreement, adopted under the United Nations Framework Convention on Climate Change and signed by the European Union, came into force on 4 November 2016, having been signed by 195 countries. In order to implement this, the European Union is addressing reforms in its energy and climate policy with a view towards 2050.

As early as 2015, the European Commission (EC) implemented a strategic framework to achieve an Energy Union in order to integrate climate action established by the 2030 targets into a reform of the electricity market, while at the same time preserving a safe and competitively priced electricity supply for the industry and affordable prices for consumers.

This was mainly achieved with the submission of several proposals (beginning in 2015), all of which have already been approved: the reform of the European Union Emissions Trading System (EU ETS) to step up emissions reductions from 2021 on (approved in 2018), the Clean Energy legislative package for all Europeans (published in full in 2019) and the Clean Mobility package (approved in 2019). Finally, in December 2019, days after the inauguration of the new College of Commissioners, the Communication on the European Green Deal was published, aimed at achieving neutral emissions in the EU by 2050, strengthening the objectives previously set for 2030 and committing to transition plans in all sectors in order to improve competitiveness.

On 30 November 2016 the EC published the package Clean Energy for all Europeans, setting the framework to complete the implementation of the energy internal market and to achieve the environmental 2030 targets. At 31 December 2019, the DOUE has published all the rules and it is expected that the practical implementation in the market will take place before the end of 2020, with the transposition of the Directives in the Member States. The following are to be highlighted:

- Directive 2018/844 on the Buildings' Energy Efficiency: The directive requires member states to establish long-term renovation strategies for buildings focusing investment on 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.
- Directive (EU) 2018/2001 on Renewable Energy: It sets a general European renewable target of 32% by 2030, as well as a target of 14% in transport (per country) and an annual increase of 1.3% in heating and cooling. It establishes stable (non-retroactive) support schemes for renewables over a period of 5 years. It allows individual and collective self-consumption, ensuring contribution to the costs of using the network. In general, it prohibits charges for self-consumed energy, but allows them for larger installations (>30kW) and puts the sustainability of the system first.
- Directive (EU) 2018/2002/EU on Energy Efficiency: It sets a European energy saving target of 32.5% for 2030 (above the trend horizon), setting annual savings obligations per country for the 2021-2030 period equivalent to 0.8% of the average energy consumption at the end of the 2016-2018 period. It encourages the electrification of heating and cooling systems and transport, and expressly states that Member States may use contributions to the National Efficiency Funds as an alternative to the obligation schemes.
- Regulation (EU) 2018/1999 on Governance of the Energy Union and Climate Action: It sets the rules and timetable for the preparation and reporting to the EC of the Member States' National Plans on Energy Union and Climate Action, in accordance with the 2030 European targets, which should define the national strategy to ensure the achievement of the objectives and the security of supply. Each Member State shall draw up and communicate its long-term strategies to the Commission (a perspective of at least 30 years). Mechanisms for monitoring compliance with the 2030 targets will be established, which allows the EC to impose measures when collective targets are at risk.
- Directive 2019/944/EU and Regulation 2019/943/EU on the internal market for electricity: The following elements have been highlighted:
 - Capacity mechanisms: The emission limit of 550 g CO₂/kWh for new plants was agreed upon. For existing plants, the limit of 550 g CO₂/kWh and 350 kg CO₂ on average per year shall apply from 1 July 2025. At July 2025, no high-emission power plant may receive State aid in the form of a capacity mechanism (except those who have committed to existing capacity contracts before 31 December 2019).
 - Cross-border trade in electricity: 70% of the interconnection capacity for electricity trade should be made available. At January 2026, carriers will be able to use up to 30% of the interconnection capacity for safety margins, loop flows and internal flows.
 - Energy poverty and regulated prices: Member States may temporarily regulate prices to protect vulnerable households, but social protection systems should be given preference as a means of addressing energy poverty. Member States that maintain regulated prices for domestic consumers may continue to do so, but they must notify the European Commission

in advance and justify the need for their implementation. States should also submit market assessment reports between 2022 and 2025. The Commission will carry out its own evaluation of the prices regulated during 2025 and may propose that these prices be eliminated definitively.

In November 2017, the EC published its Clean Mobility package, which outlines measures to reduce emissions from the transport sector during the 2020-2030 period and to adapt the European industry to compliance with the Paris Agreement without losing a share in the global market. The most significant regulations are:

- Regulation (EU) 2019/631 on CO emission standards for new light vehicles: cars and vans registered in 2025 must emit 15% less than those sold in 2021 (revision in 2023). For 2030 the emission reduction goal compared to 2021 is 37.5% for new vehicles and 31% for new vans. Annual emissions targets shall be set by each manufacturer, with fines imposed if these targets are exceeded and incentives given to those who exceed a percentage of zero- and low-emission vehicle sales (<50gCO₂/km, mainly electric, fuel cell and plug-in hybrids).
- Regulation (EU) 2019/1242 on CO₂emission standards for new heavy-duty vehicles: buses and lorries registered in 2025 must emit 15% less than in 2019. For 2030, the reduction target will be 30% compared to 2019 (revision in 2022). Annual emission limits are set by each manufacturer, with fines for manufacturers who exceed them and incentives for those who exceed a percentage of low-emission (those with less than 50% of each category's emissions in 2019) and zero-emission (without an internal combustion engine or that emits <1gCO₂/km) heavy-duty vehicle sales.
- Directive (EU) 2019/1161 on Clean Transport Vehicles for administrations: promotes the acquisition and rental of clean vehicles for public administration, setting minimum targets per country for the 2021-2025 and 2026-2030 periods. For Spain, it will be 36.3% of light vehicles, 10% of trucks and 45% of buses (half of the buses with zero emissions) in the first period.

Within days of its inauguration, the new European Commission, chaired since December 2019 by the German Ursula von der Leyen, published *Communication COM (2019) 640* on the European Green Deal. It consists of a package of measures for the next 5 years of office that will transform the European Union into a competitive and efficient economy through the use of resources as well as net zero emissions by 2050, thereby promoting a fair and inclusive transition process. The Plan is based on 10 general pillars to promote decarbonisation, financing, and sustainable European energy consumption, ensuring an effective CO₂ price across the economy.

The legislative development will take place between 2020 and 2021, starting in March 2020 with the proposal for a European Climate Law, which will secure the goal of carbon neutrality by 2050. Subsequently, in summer 2020, an Impact Analysis will be presented on the 2030 target increase for emissions reductions by 50% or 55% compared to 1990 (currently 40%). This will require a review of all existing regulations (Renewable and Energy Efficiency Directives, EU ETS Reform, the Air Quality and Mobility Directive, the Energy Taxation Directive, European Infrastructure Standards, State Aid Guidelines, etc.), as well as the development of new legislation.

2. Industry regulation in Spain

The National Commission for Market and Competition (CNMC) is a public body attached to the Ministry of Energy, Tourism and Digital Agenda and is subject to parliamentary scrutiny. This body acts as a market regulator and supervisor and under Royal Decree-Law 1/2019 of 11 January, it also has the power to establish the methodology of remuneration, tolls and conditions of access to the transport and electricity and gas distribution networks at the next regulatory period (2020).

• Industry regulation and functioning of the electric system in Spain

The current electricity sector regulation is based on Law 24/2013, of 26 December, of the Electricity Sector (LSE) and its principles are summarised in:

1. Activity separation

It establishes the legal and accounting separation of regulated activities (economic and technical management of the system, transmission and distribution) and liberalised activities (generation, wholesale and retail or other activities unrelated to electricity or activities abroad). However, both types of activities may be carried out in a group of companies, provided they are carried out by different companies.

2. Power generation activity

Generation activity is carried out in free market competition, subject to a schedule of approvals, with its remuneration established in the market:

- The daily hour price for energy is established in the wholesale market by marginalist criteria.
- Additional remuneration for capacity payments, regulated by ITC Order 3127/2011: The investment in new capacity (20 years) or in air quality improvement (10 years) has been paid back. The availability was also paid back during the first half of 2018, although the latter incentive was abolished in 2019.

Renewable generation

Royal Decree 413/2014 on electricity generation by means of renewable, cogeneration and waste facilities establishes the remuneration scheme for existing and new facilities. The remuneration will be on the basis of six-year periods and some of them may be revised every three years. For facilities before July 2013, the remuneration consists of the sum of:

- o Investment remuneration (EUR/MW) to cover, where applicable, the investment costs that cannot be recovered from the sale of electricity in market, based on reasonable profitability (that is, 7.398% before taxes), to be reviewed every six years.
- o Operation remuneration (EUR/MWh) to cover the difference between the operating costs and income obtained in the electricity market. Depends on fuel prices and may be reviewed at least once a year.

On the other hand, the Order IET/1045/2014 established a classification of standard installations in terms of the technology, installed capacity or any another characteristic already in place for the application of this remunerative scheme. These have been revised by Order ETU/130/2017 for the period 2017-2019.

The remuneration for new facilities will be set by a competitive tendering process.

In 2019, the first wind energy auction in the Canary Islands was launched for projects co-financed by the European Regional Development Fund with 184 MW awarded, with the market price plus investment aid being received.

3. Agents that guarantee the proper functioning of the market

- (6) System Operator (SO): Red Eléctrica de España, S.A. carries on the transmission management and system operation activities. The SO is responsible for managing adjustment markets which ensure a continuous balance between demand and power generation.
- (7) Market Operator (MO): Iberian Market Operator (OMI) is responsible for the operation of MIBEL manages Portuguese and Spanish daily, intra-day and forward markets in Spain and Portugal.

4. Transmission and Distribution

The Electric Industry Law [LSE] establishes that distribution and transmission are regulated activities that are classified as low-risk, whose remuneration is determined by six-year regulatory periods.

- The investment with fees corresponding to the State's ten-year obligations with a differential suitable for low-risk activity (200 basis points) has been remunerated.
- The collection of the remuneration generated by new facilities starts in the year n+2.

Orders IET/2659/2015 and IET/2660/2015 determine the type of facilities and unit values to consider when calculating the remuneration between 2016 and 2019.

Remuneration to transmission and distribution for 2016 was published on Order IET/980/2016. However, in September 2017, a case was opened against this Order, declaring it detrimental to the public interest, which has not yet been resolved due to the treatment of amortised assets that are still in use. In turn, the parameters used in the calculation of the 2016 remuneration have been used to ensure that the final amount recognised takes into account the valuation of assets built by third parties, which are subsequently transferred to distribution companies.

Therefore, the final remuneration for the years 2016 to 2019 has not yet been published and an amount equivalent to that of 2016 is being provisionally settled, according to Orders ETU/1976/2016, ETU/1282/2017 and TEC/1258/2019, which maintain the published values for 2016 for distribution remuneration (EUR 5,175 million for the sector and Euros 1,655.5 million for IBERDROLA) and for transport (EUR 1,709 million for the sector).

5. Access tolls

Access tolls are defined as the consideration consumers will pay for use of the networks and other unrelated supply costs included in the invoice, designated as charges. Access tariffs are uniform across the country and are collected by the distributors, which act as the collector agents of the electric system.

Order TEC/1366/2018, of 20 December, establishes the electric power access tolls for 2019, including charges, with values similar to those applied in 2018. This order also:

- Provisionally maintains the transmission and distribution remuneration, until the orders with definitive values for 2019 are published.
- Establishes the use of accumulated surplus funds for the amount that is strictly necessary to balance income and costs. With regard to General State Budget revenues, it includes Euros 750 million for CO₂ auctions, although the Royal Decree-Law on Mining announced credit increases of up to Euros 1,000 million for this concept on the same day.
- It consolidates the repeal of availability payments, while maintaining the current capacity prices paid by customers.
- It establishes the provisional remuneration of the SO and MO,

In turn, Royal Decree-Law 14/2010 of 23 December and Royal Decree 1544/2011 of 31 October 2011 extended the application of access tolls to electricity producers by applying a provisional toll of Euros 0.5 per MWh to the grid.

6. Supply activity

From 1 July 2009 all consumers may freely contract their supply of electricity with a supplier of their choice. The government, however, maintains a Voluntary Price for the Small Consumer (VPSC), a regulated tariff for consumers that have a contracted power rating of less than 10 kW, and for those that do not meet the requirements to sign up for it but who temporarily do not have a valid contract with a free market operator.

Royal Decree 216/2014 establishes the legal regimen for contracting the VPSC and methodology for calculating it, such as sum of energy cost, access tolls and charges, and commercial margin. In addition, as established by Law 3/2014, it provides the option for consumers to contracting an electricity price fixed for a year with the reference trader.

Royal Decree 469/2016 amended the Voluntary Price for the Small Consumer (PVPC) commercial margin by laying out the method for calculating the costs of the three most efficient reference retailers (COR) (excluding the face-to-face channel), plus remuneration for the year of activity (1.05% of the energy price).

Order ETU/1948/2016 set the specific values for the period from April 2014 to 2018, which have been extended for the 2019-2021 period by Order TEC/1366/2018 on access tolls for 2019.

On the other hand, Royal Decree-Law 15/2018 on urgent measures approved a series of measures that affect marketing:

- The prohibition of door-to-door sales of electricity and gas at the customer's home, unless a prior appointment has been requested.
- The COR's must include a calculation of the application of time discrimination rates in the invoice.
- Enables fraudulent retailers to be banned.
- Enables power procurement in multiples of 0.1 kW for supplies below 15 kW.
- Supplies of less than 15 kW are exempted from reactive billing.

7. Social tariff

The Social tariff offers a discount on the regulated rate for certain vulnerable groups and is financed by the parent companies of all Groups with marketing activity according to the distribution calculation method and the settlement procedure outlined in the current regulations. IBERDROLA is responsible for financing 34.62% in 2019.

In 2016, the Royal Decree-law 7/2016, which regulates the mechanism for financing the cost of Social tariff and other measures to protect vulnerable electricity consumers, was published. It was subsequently developed by Royal Decree 897/2017, by Order ETU/943/2017, amended by Royal Decree-Law 15/2018, including urgent measures for energy transition and protections measures for consumers.

Three categories of vulnerable consumers were defined based on criteria entailing income, number of minors in the household and other conditions, and a VPSC discount between 25% and 100% is applied to their bill up to an annual consumption limit.

This regulation also reviews the processes for suspending the supply in the event of non-payment and adds an additional level of protection for households who benefit from the social tariff with minors under 16 years of age or with members who have a disability or are dependant, in which case the supply is considered essential, ruling out a cut in supply in the event of non-payment.

8. Electric mobility

The Royal Decree-law 15/2018 eliminates the figure of the load manager as another agent in the electrical system, which was introduced by Royal Decree-Law 6/2010. In this way, any consumer can provide recharging services, free or for payment on their own account or via third parties.

On the other hand, it enables distributors to develop recharging points when there is no private interest. Later on, if beneficial economic conditions come about, the installations will be transferred to other owners, with adequate compensation, with the process pending regulatory development.

9. Self-consumption

Royal Decree-Law 15/2018 introduces modifications to the LSE in relation to self-consumption. Thus, it eliminates the requirement to install a meter for generation and the limitation of installing less generation power than consumption power. It also eliminates charges and tolls for renewable self-consumed energy, cogeneration or waste and allows for shared self-consumption with the ability to fix quantities through use of the grid. Finally, it allows for surpluses to be remunerated as well as production remainders, and simplified compensation between deficits and surpluses of associated power installations equal to or less than 100 kW.

The above is outlined in Royal Decree 244/2019, which removes all limits to representation (to dominant operators) for any renewable self-consumption facility, develops the definition of nearby installations for the purposes of self-consumption and collective self-consumption, it enables surpluses to be remunerated and allows production and consumption facilities to have different owners.

10. Interruptibility and help for electro-intensive consumers

The interruptibility service for a consumer consists of reducing their power, considering the needs that may arise in the operation of the electrical system, according to technical and economic criteria.

The allocation of the interruptibility service will be carried out through an auction procedure managed by the system operator, as established in the Order IET/2013/2013 and resolution of 12 August 2016. In 2019, two six-monthly interruptibility auctions were held (Resolution of 6 November 2018 and Resolution of 24 May 2019).

11. Cogeneration

Royal Decree 413/2014 establishes the specific pay regime for cogeneration facilities.

For its part, Royal Decree-Law 20/2018 introduced an extension of its economic regime; high-efficiency cogeneration facilities that use renewable fuels or natural gas and that exceed their regulatory life after 1 January 2018 may receive operation remuneration for two years from the entry into force of this Royal Decree-Law, unless a new regulatory regime is developed.

Finally, Order TEC/1303/2018 granted some purine plants the right to an efficiency supplement during the 2007-2010 period, amounting to Euros 11 million, which was taken from the historical surplus. Euros 1 million corresponds to IBERDROLA plants.

12. Economic sustainability of the sector

The difference between collection of tariffs and access tolls and real costs related to the same, produced a revenue shortfall between 2000 and 2013, which was financed by the electric companies. Recovery of this shortfall is deferred through annuities incorporated in the annual tariff.

In order to eliminate the sector's structural deficit, Law 15/2012 established new taxes to finance the electricity sector and Royal Decree-Law 9/2013 amended the methodology for calculating the remuneration of transport, distribution, special arrangements and capacity payments.

In order to consolidate the tariff balance, the LSE of 2014 incorporates the principle of economic and financial sustainability of the electricity system, meaning that any regulatory measure which causes an increase in costs or a reduction in income for the electricity system should incorporate an equivalent reduction of other cost items or an equivalent increase in income that ensures the equilibrium of the system. The possibility of a new accumulation of deficits is ruled out.

The LSE limits the review of charges by stating that while the electrical system cost items reflect payments that correspond to outstanding debts from previous years, the charges cannot be revised downwards. It also sets out the obligation to automatically review tolls and charges if the annual or cumulative adjustment exceeds 2% or 5% respectively of the estimated income for the financial year.

The part of the imbalance that, without exceeding such limits, is not compensated by increases in tolls and fees will be financed by the parties to the settlement system in proportion to the remuneration that corresponds to them for their activities. The amounts thus contributed will be returned in the corresponding settlements during the following five years together with an interest rate equivalent to the market rate.

The excess income that could arise will be used to compensate imbalances from previous years and, additionally, by virtue of the Central State Budgets 2018 and 2019, to compensate companies for the litigation resulting from the electricity regulation. For its part, Royal Decree Law 15/2018 enables the Ministry to also use the accumulated surplus to cover possible deficits from 2018 and 2019 and increases the budgetary credit to transfer revenue from CO₂ auctions.

The Royal Decree 680/2014 regulates the procedure of budgeting, recognition, settlement and control of the surcharges on the production of electric power in the isolated electricity systems of the non-peninsular territories charged to the Central State Budgets, thus developing the provisions of the LSE, which established that from 1 January 2014, 50% of these surcharges would be financed against the Central State Budgets.

Final settlements for 2014, 2015, 2016, 2017 and 2018 were closed with an excess of Euros 550, 469, 421, 150 and 96 million, respectively. Once the return of the social tariff (2014, 2015 and 2016), the purine efficiency supplement and the transfers to the Institute for Diversification and Energy Savings (idea) are subtracted in order to finance investment projects in renewables, the accumulated surplus of Euros 1,039 million will be deposited in a CNMC account.

13. Energy efficiency

The European Union has set itself the target of achieving a 20% improvement in energy efficiency by 2020 and at least of 32.5% in 2030.

Law 18/2014 contains a set of mechanisms designed to achieve the energy saving targets established in the Energy Efficiency Directive. To this end, it created the National Energy Efficiency Fund, managed by the Institute for the Diversification and Saving of Energy (Instituto para la Diversificación y Ahorro de la Energía) and financed by energy traders (gas and electricity, wholesalers of oil products and of liquid petroleum gases), according to their sales.

Order TEC/332/2019, of 20 March, has established contributions to the Fund for 2019.

• Industry regulation and functioning of the gas system in Spain

The natural gas sector has undergone significant changes in its structure and operation in the last ten years, from a monopoly to a fully open market, driven mainly by the deregulation measures about natural gas market in European directives (2009/73/EC Directive is currently in force) aimed at opening up markets and creating a single European gas market.

1. Activity separation

The Hydrocarbon Industry Law of 1998 laid the foundations for the new gas system, particularly with regard to the separation of activities (regulated and liberalised), the introduction of third-party access to the regulated network, the abolition of the former concessions for piped gas supply and their conversion into regulated administrative permits.

Law 34/1998 provided for the legal separation of liberalised and regulated activities and the segregation for accounting purposes of the various regulated activities. Law 12/2007, the functional separation between network activities and liberalised activities and between network activities and technical system management was implemented. In 2012, the Royal Decree-law 13/2012 was approved, establishing further measures of separation in management of the transmission network.

The gas system has been structured around two types of activities: regulated activities (regasification, basic storage, transmission and distribution) and liberalised activities (trading and supply).

2. Liberalisation of the gas sector

The liberalisation of the gas sector was initiated following the Royal Decree 6/2000, establishing firstly the role of the System's Technical Manager, and Royal Decree 949/2001 the specific terms and conditions for third-party network access and, a remuneration system for regulated activities and a cost-based system of tariffs, tolls and fees structured according to pressure levels and consumption bands. The remuneration is updated annually by ministerial orders and resolutions.

The economic system also established a settlement procedure that would allow for redistribution of revenues collected between the various regulated activities.

Other issues related to the regulation of the transmission, distribution and supply businesses, the administrative authorisation procedures for natural gas facilities and the regulation of certain aspects of the supply business are dealt with in the Royal Decree 1434/2002.

The liberalisation process in Spain was completed by Law 12/2007, which transposed Directive 2003/55/EC, eliminating tariff supply and establishing a functional separation between activities.

In the electricity system, the market deregulation process was completed on 1 July 2008 with the elimination of regulated supply for customers and the creation of last-resort supply. Currently, low-pressure customers with annual consumption of less than 50,000 kWh who do not choose another supply option shall be supplied by a last-resort supplier at a price calculated automatically. The price is automatically calculated in an additional way.

3. Technical operation of the system

Order ITC 3126/2005 develops the rules for the gas system technical management rules. Inter alia, these regulations established that each operator is individually responsible for maintaining its liquidity and enacts specific protocols for the conduct of the technical system manager in exceptional operating circumstances.

Despite the sector's progressive deregulation, prevailing regulation upholds the state's obligation to ensure the safety and continuity of supply. The Royal Decree 1766/2007 stipulates that direct market suppliers and consumers must maintain minimum security stocks equivalent to 20 days' consumption.

Additionally, by virtue of the Winter Gas Plan in force published in 2017, retailers are required to maintain an "internal reserve" (November-March) as required in LNG, equal to 3.5 days of the contracted input capacity to the transmission and distribution network.

The state also maintains responsibility for obligatory planning work for certain infrastructures (for example, gas pipelines forming the core transmission network, the secondary transmission network, determining the total liquid natural gas regasification capacity necessary to supply the system and core natural gas storage facilities). For all other infrastructures, the state's planning work is indicative only. The Royal Decree-law 13/2012 enacted a series of measures to halt the construction of new infrastructure in a context of falling demand for gas.

Royal Decree 335/2018 amended several royal decrees concerning the administrative processing of certain facilities, the procedure to be followed in the case of a ban on a retailer and the fixing of tolls and fees. The latter has been pending implementation as powers are being transferred to the CNMC.

4. Remuneration

Law 18/2014, on measures for growth, competitiveness and efficiency, previously the Royal Decree-law 8/2014 established the principle of economic and financial sustainability for the gas system. This principle is reinforced with the obligation to automatically review tolls and fees if the annual imbalance between revenues and costs of the gas system exceeds the following limits 10% of the year's receivables or 15% of the sum of the annual imbalance plus annual payments recognised and pending amortisation.

The part of the imbalance that, without exceeding the above limits, is not compensated by the increase in tolls and fees, will be financed by the parties to the settlement system in proportion to their remuneration. The amounts contributed will be returned in the following five years and will earn an interest rate equivalent to the market rate.

The deficit accumulated as at 31 December 2014 will be financed by the owners of the installations during a period of 15 years.

On the other hand, the remuneration of the regulated activities will be based on the costs necessary for an efficient and well-managed company to carry out the relevant activity, following the principle of performing the relevant activity at the lowest cost for the gas system. In addition, the remuneration of regulated activities will be on the basis of six-year regulatory periods. The first regulatory period ends on 31 December 2020. Every three years' adjustments may be made to the remuneration parameters within the gas system in the event that there are significant changes in revenues or costs.

The remuneration system for distribution is based on the system of the previous year, adjusted to market growth. The remuneration system for transmission, storage facilities and regasification is based on the net value of the assets, plus a complement associated to demand performance. Also, operating and maintenance costs are taken into consideration.

5. Organised gas market

The Hydrocarbon Industry Law has been modified by Law 8/2015, of 21 May. The main aspects introduced by Law 8/2015 regarding the gas system are:

- The creation of an organised wholesale gas market.
- The designation of the operator of the regulated gas market.
- Measures relating to minimum security stock levels
- CORES (*Corporación de Reservas Estratégicas de Productos Petrolíferos*) is enabled to constitute, maintain or manage natural gas and liquefied natural gas strategic stocks.
- Inspections may be carried out by any natural gas installation company (not only distribution companies).

Finally, the Royal Decree 984/2015, of 30 October, regulated the organised wholesale gas market and the third party access to the facilities of the natural gas system. Sets the bases for the development of an organised gas market, including the negotiation of short-term standardised products by an electronic platform managed by the Market Operator (MIBGAS - OMEL), together with a centralised guarantee management system. In addition, this market will centralise the hiring capacity through a technical system manager (ENAGAS), with standardised products and auction procedures.

At the end of 2017, the Resolution was published establishing the conditions for the provision of the mandatory market maker service by the controlling operators of the natural gas market (Endesa and GNF). They are obligated to maintain a minimum volume of purchase and sale offers up to a maximum annual volume of 5.68% of its volume from supplying gas to Spain.

The separation of prices between the purchase and sales offers must be equal to or less than Euros 0.50 per MWh. This measure is complementary to the regular call for voluntary market makers.

3. Industry regulation in the UK

The principal laws that govern Scottish Power Ltd.'s (hereinafter, SCOTTISH POWER) activities are the Electricity Act 1989 (Electricity Act) and the Gas Act 1986 (Gas Act), as substantially amended and supplemented by numerous subsequent enactments, including the Gas Act 1995, the Utilities Act 2000, the Energy Act 2004, the Energy Act 2008, the Energy Act 2010, the Energy Act 2011, the Energy Act 2013, the Energy Act 2016, the Domestic Gas and Electricity (Tariff Cap) Act 2018 and various EU Directives (subject to any changes arising from the UK's forthcoming exit from the EU).

1. The Regulatory Authorities

The principal regulatory authority for utilities is the Gas and Electricity Markets Authority (*GEMA*), comprising a chairman and other members appointed by the Secretary of State for Business, Energy and Industrial Strategy (BEIS). GEMA is backed by the *Office of Gas and Electricity Markets* (OFGEM). The main regulatory instrument used by GEMA is the licensing regime, which encompasses the different activities of the energy industry under one license, to which standard conditions are applied as well as a series of statutory obligations, known as relevant requirements, which are taxed by GEMA as if they were conditions of the license.

GEMA's principal objective is to promote the interests of consumers and promote effective competition. Under the Energy Act 2010, the interests of such consumers must be taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them.

In furthering this objective GEMA must ensure that all reasonable demands for electricity and gas are met, ensure that licence holders are able to finance the activities they are obliged to undertake, and contribute to the achievement of sustainable development. Vulnerable customers should be considered, as well as certain guidelines on social and environmental issues.

GEMA's functions include the granting of licences (and their revocation in certain limited circumstances), the making of changes to licence conditions (including the operation of price controls for the monopoly network functions), the review of industry code modifications, operating schemes for promoting renewable electricity and energy efficiency, and the enforcement of the industry's obligations.

GEMA regulatory activities should be transparent, accountable, proportionate, consistent and focused only on cases where action is needed, as well as being in line with what are considered best regulatory practices.

GEMA has the power to impose monetary penalties for past and ongoing breaches of licence conditions and relevant requirements and it can order that redress is provided to consumers. Fines and redress orders for a particular breach can in aggregate be up to 10% of the licensee's applicable turnover.

The principal Regulatory Authority for competition matters is the Competition and Markets Authority (CMA). They can undertake general market investigations and, working concurrently with GEMA, can investigate potential breaches of competition law in the utility field. Consumer protection matters are enforced by the CMA, OFGEM and Local Authority Trading Standards departments.

2. Licences

Companies within the SCOTTISH POWER Group hold licences for various functions including:

- the supply, generation, transmission and distribution of electricity;

- the shipping of gas (that is, arranging for the insertion, the transmission, and the removal of it from the public network); and
- the transportation of gas to certain specific sites.

The conditions of licences regulate such matters as:

- for network licences: the quality of service and the charges that can be made.
- for supply to domestic consumers: consumer protection provisions including rules on standards of conduct, provision of information, debt and disconnection, cost reflective pricing, in relation to payment methods, information supply to customers and on treating customers fairly.
- for most types of licence: rules requiring adherence to industry codes that set down the detailed technical rules for operating the industry, and providing for OFGEM to determine whether proposed changes to the codes should go ahead.

The Gas Act 1995 and Utilities Act 2000 introduced standard licence conditions to ensure that all holders of a particular licence type are subject to the same conditions. Under the Electricity and Gas Regulations 2011 (Internal Markets), modifications of individual or standard licencing terms no longer require the holders' consent.

On 24 June 2016, the CMA issued a report as a result of an investigation into the supply and acquisition of energy in Great Britain (Energy Market investigation). The report concluded that competition in the wholesale gas and electricity markets works well and that the presence of vertically integrated firms does not have a detrimental impact on competition.

However, a number of adverse effects on competition were identified in the retail market, some due to ill-conceived regulation, but mainly focussed on the 'weak customer response' from the 70% of customers who are on standard variable tariffs (SVT) and who lose out through lack of engagement in the market. Most of the solutions proposed by the CMA (remedies) focused on increasing competition in the SVT segment, except in the particular case of customers with prepaid meters, where the CMA decided to impose a price ceiling, as a transitional safeguard, set above the *efficient* price level.

On 19 July 2018, the law on electricity and gas for domestic clients (the Tariff Cap), which requires OFGEM to temporarily establish a ceiling (cap) for all domestic customers with Standard Variable Rates (SVT) or any other default rate, in addition to ensuring that authorised activities remain bankable. The cap should be maintained until the end of 2020 and, thereafter, can be extended annually up to a maximum of 3 years. OFGEM implemented a default tariff cap from 1 January 2019.

The customers covered by the tariff limit of the prepaid meters proposed by the CMA were not affected by this default tariff cap. After a price ceiling analysis on customer rates with prepaid meters, the CMA decided in July 2019 to review the methodology for establishing this cap and to recommend OFGEM to consider protecting customers with prepaid meters once this cap expires on 31 December 2020.

3. Price controls

As discussed in the previous paragraph, following the energy market investigation (carried out between 2014 and 2016), the CMA introduced a safeguard rate for domestic consumers with prepaid meters, which it would apply from 1 April 2017 to 31 December 2020. Following the publication of the 2018 Tariff Cap Law, customers' electricity and gas rates at standard variable rates or other default rates have been subject to a price limit. The tariff cap is set by OFGEM.

The provisions in Competition Act 1998 and the Transmission Constraint Licence Condition (TCLC) may set a limit on prices charged to commercial customers or on other prices in the wholesale electricity and gas markets. TCLC prohibits electricity generators from making excessive profits resulting from actions in balance markets. OFGEM has published guidelines on the interpretation and application of the TCLC. The condition was renewed and made permanent on 16 July 2017; some elements were removed to address potential overlap with the European Union rules on the integrity of the energy market and transparency (REMIT).

In 2014, OFGEM implemented electricity market liquidity obligations for large integrated retail and generation businesses, including SCOTTISH POWER. These include obligations to facilitate trading with smaller companies and also an obligation to create market in a number of wholesale products during two windows (periods) in each business day. SCOTTISH POWER was exempted from complying with these obligations on 31 January 2019 following the sale of its thermal generation business. OFGEM fully suspended this obligation on 18 November 2019 in view of the drop in the number of companies subject to it.

Networks qualify as a natural monopoly and its income is governed by a defined framework such as RIIO (Income = Incentives + Innovation + Outputs). It sets a revenue profile for a specified period (8 years in the current RIIO-1 with the opportunity for OFGEM to propose a limited revision every four years) which would deliver a target return on investments based on the regulator's assessment of the costs of an efficient network operator and the likely capital programme (aided by a business plan submitted by the Company). The formula also includes various incentives and takes account of inflation. The formula uses a Market Indicator for setting the debt cost, and phases in (for electricity) an asset depreciation period of 45 years.

In the transmission business, the RIIO-T1 framework became effective from April 2013 and will be valid until March 2021. In distribution, RIIO-ED1 for the SCOTTISH POWER network in the South of Scotland and in the Manweb area came into force on 1 April 2015 and will be valid until March 2023.

OFGEM has initiated the process to establish the second part of the RIIO, to commence with RIIO-T2 in April 2021. It has been confirmed that the RIIO-T2 and RIIO-ED2 frameworks will be valid for 5 years. The RPI (Retail Price Index) will be replaced by the CPI (Consumer Price Index) or CPIH (CPI considering the cost of housing) and will introduce a new Return Adjustment Mechanism (RAM) for companies receiving higher returns than expected. The involvement of different stakeholders in the process is being improved through the creation of Stakeholder Challenge and User Groups.

OFGEM is committed to introducing more competition into electrical grids and has confirmed that there will continue to be three options in the RIIO-T2 that would apply to transport projects that are large, new and separable, subject to possible legislative changes. The options are: the CATO model (Competitively Appointed Transmission Owner); the Special Purpose Vehicle (SPV) model, in which projects would be delivered through an SPV that would competitively offer the financing, construction and operation of assets at a supervised OFGEM auction; and a Competitive Proxy Model (CPM) in which the owner of the transport license would develop the project and OFGEM would establish the permitted revenue using competitive benchmarks. OFGEM has also stated its intention to introduce new competitive models for electrical distribution in RIIO-ED2.

4. Other issues

Other key elements of the regulatory regime in the United Kingdom include:

Renewables Obligation (RO)

The United Kingdom Government has set the goal to reach at least 30% of its electricity from renewable sources by 2020. To this end, the RO Orders (which apply separately to different parts of the United Kingdom within a unified scheme) place obligations on suppliers of electricity to source an increasing proportion of their electricity from renewable sources (based on the expected level of renewable energy production in each year plus a 10% spread in order to prevent certificate prices from falling sharply).

Suppliers meet their obligations by presenting sufficient Renewables Obligation Certificates (ROCs) or by paying an equivalent amount into a fund. If suppliers fail to meet their obligations and the total deficit is above a limit amount, the deficit is recovered through the remaining suppliers through a socialisation process.

The proceeds of the fund are paid back to those suppliers that have presented ROCs in proportion to the number of ROCs presented. Since April 2009, the RO has been banded so that differing technologies receive different levels of support depending on the expected costs.

The RO is closed for new projects no later than 31 March 2017 and, to foster renewables, the Government has implemented the Contract for Difference (CFDs) mechanism that was part of Electricity Market Reform (EMR). The RO remains in effect for those facilities that accessed the programme prior to the closing date. SCOTTISH POWER's onshore wind project portfolio that received planning permits on time to enter the grace period have been approved for the RO. Payments will continue until 31 March 2027 for projects that started generating energy before 1 April 2009 and for 20 years after entry into the RO for later dated projects.

Electricity Market Reform (EMR)

The principal elements of the United Kingdom Government's EMR programme are:

- a new incentive scheme, based on CFDs to support low carbon generation; and
- a Capacity Market to support security of supply (market-wide auction mechanism).

The first Allocation Round took place on 4 February 2015 in two "pots"; one for established technologies (mainly onshore wind and solar) and a second one for less established technologies (mainly offshore wind). SCOTTISH POWER's 714 MW East Anglia ONE offshore Wind Farm achieved a contract in the auction at a price of GBP 119.89 per MWh. The second round concluded on 11 September 2017 and procured some 3.2 GW of offshore wind, mostly at a clearing price of GBP 57.50 per MWh. The Government held a third round of CFD allocation for less-established technologies in 2019 (Allocation Round 3) in which more than 5 GW of offshore wind was allocated at GBP 39.65 per MWh for wind farms that started to operate in 2023/2024 and GBP 41.61 per MWh for wind farms that started to operate in 2024/2025. This third round was held subject to a maximum allocation of 6 GW (which was approved under EU State Aid). A budget allocation of GBP 557 million (2011/12 prices) has been made in aggregate for allocation rounds between now and about 2025.

Annual Capacity Market auctions took place in December 2014, 2015, 2016 and 2018, for capacity delivery in winter 2018, 2019, 2020 and 2021, respectively.

On 15 November 2018, the European Court of Justice confirmed Tempus Energy's challenge to the European Commission, annulling its decision not to raise objections to State Aid to the UK'S CM. BEIS announced a waiting period until the Commission could reapprove the mechanism and, on 6 December 2018, it published its plan to hold a T-1 auction in the summer of 2019 for delivery of the capacity in winter 2019/2020, making any agreement conditional on the re-approval of State Aid. This auction was held on 11-12 June 2019 with the allocation of 3.6 GW of capacity at a price of GBP 0.77 per kWh per year. On 22 March 2019, the European Commission began an investigation into CM and on 24 October 2019, this investigation confirmed that the UK Capacity Market complies with State Aid rules. After this confirmation, BEIS ordered the EMR Delivery Body and the Electricity Settlers Company to take steps to restore the CM, including late payments to generators that had been paralysed since November 2018. These payments must be fully settled in January 2020. The EMR Delivery Body plans to hold a T-3 auction (with delivery of the capacity in 2022/2023), a T-1 auction (delivery in 2020/2021) and a T-4 auction (delivery in 2023/2024) during the first quarter of 2020. BEIS has implemented changes in the rules governing participation in these upcoming auctions so that unsubsidised renewables, such as onshore wind, can participate (subject to the appropriate correction or de-rating factors).

EU-ETS and United Kingdom Carbon Price Support

The Climate Change Act 2008 set out targets for the United Kingdom towards reducing greenhouse emissions (compared to 1990 levels) by at least 80% by 2050, with interim reduction targets. In June 2019, the United Kingdom Parliament amended the Climate Change Act to introduce a new legally binding target for net zero GHG emissions by 2050.

The United Kingdom continues to participate in the European emissions market (EU Emissions Trading Scheme - EU-ETS), but it is expected that it will leave this mechanism at the end of 2020 as a result of the departure from the EU on 31 January 2020 and the transition period associated with this exit ending on 31 December 2020.

The Carbon Price Support mechanism is a United Kingdom tax imposed on fossil fuels used for electricity generation at differential rates which simulate a charge on the CO₂ emissions. In recent years, this charge has been set at GBP 18 per tonne and the Government announced in its budgets that it will maintain this value in 2020/2021.

The United Kingdom government is expected to clarify its position on CO₂ pricing starting at the end of 2020, with the possibility of a new Carbon Emission Tax to be added to the existing Carbon Price Support mechanism (this possibility is addressed in parallel with the consideration of a new United Kingdom ETS scheme linked to the European one).

Energy Companies Obligation (ECO)

Energy suppliers who supply over a specific number of domestic customers are required to achieve energy efficiency improvements or heating cost reductions by domestic customers.

As with any other cost, the costs of making those improvements can be incorporated by suppliers into tariffs, subject to the need to remain competitive in the market. These costs will need to be taken into account in any price caps that may be set by OFGEM.

The current ECO Programme (ECO3), which began in October 2018 and will continue until 31 March 2022, is focused on vulnerable clients. Under ECO3, the established limit in the number of customers below which a small supplier is exempt from joining the programme is reduced in phases. In 2019/2020, suppliers with less than 200,000 customers are exempt, and in 2020/2021, those with less than 150,000 customers (instead of the original 250,000).

Coal plants closure

In November 2015, the British government announced plans to consult on requirements for all coal power stations without carbon capture and storage (CCS) to close by 2025 (subject to any security of supply issues). In January 2018 the Government confirmed its intention of eliminating coal generation from the system in 2025.

Pollution Control

European pollution control directives are: The Integrated Pollution Prevention and Control (IPPC), the Large Combustion Plant Directive (LCPD) and the Industrial Emissions Directive (IED) impose limits on various categories of emissions transposed into United Kingdom law through amendments to the Environmental Permitting (England and Wales) Regulations 2010 and the Pollution Prevention and Control (Scotland) Regulations 2012. These controls are enforced by the Environment Agency or, in Scotland, by the Scottish Environmental Protection Agency.

The Medium Combustion Plants Directive places emission limits on smaller generating and other combustion plants. As part of the implementation of this, DEFRA (*Department for Environment, Food & Rural Affairs*) is expected to impose NO_x limits on diesel generators, which could reduce the air quality implications of allowing such plants to participate in the capacity mechanism.

Moreover, following the entry into force of the EU Clean Energy Package, the United Kingdom government is implementing provisions on new CO₂ emission limits for new and existing generation plants that want to participate in the next Capacity Market auctions.

4. Industry regulation in USA

1. Electricity and natural gas distribution

Some of the most important specific regulatory processes that affect AVANGRID Networks, Inc. (hereinafter, AVANGRID NETWORKS) include the New York rate settlement for NYSEG and RG&E, the Connecticut United Illuminating distribution rate case decision, the Maine and Connecticut transmission Federal Energy Regulatory Commission (FERC) Return on Equity (ROE) case and the Reforming Energy Vision (REV) process of New York.

The revenues of AVANGRID NETWORKS are essentially regulated, being based on tariffs established in accordance with administrative procedures set by the various regulatory bodies. The tariffs applied to regulated activities in the United States are approved by the regulatory commissions of the different States and are based on the cost of providing service. Energy, financial and capital costs are included (capital costs show the Company's capital index and legitimate capital profitability).

Energy costs that are set on the New York and New England wholesale markets are passed on to consumers. The difference between energy costs that are budgeted for and those that are actually incurred by the utilities is offset by applying compensation procedures that result in either immediate or deferred tariff adjustments.

These procedures apply to other costs, which are in most cases exceptional (effects of extreme weather conditions, environmental factors, regulatory and accounting changes, treatment of vulnerable customers, etc.) that are offset in the tariff process.

Each of the eight supply companies in AVANGRID NETWORKS must comply with regulatory procedures that differ in form but in all cases conform to the basic framework outlined above.

As a general rule, tariff reviews cover various years (three in New York and Connecticut) and provide reasonable returns on equity, protection and automatic adjustments for exceptional costs incurred and efficiency incentives.

2. New York

- **NYSEG and RG&E rates**

On 20 May 2019, NYSEG and RG&E presented the new rates (rate cases) before the New York State Department of Public Service (NYDPS). The effective date of the new rates, assuming a suspension period of approximately 11 months, will be 17 April 2020. The proposed rates facilitate the transition of companies to a cleaner energy future while allowing important initiatives such as vegetation management, resilience and emergency preparedness. Companies are requesting delivery revenues to be based on an ROE of 9.50% and a capital index of 50%. The following table provides a summary of the proposed increases in the delivery rate, delivery income percentages, and total revenue percentages for the four companies:

Utility	Income increase (Millions USD)	Income increase (%)	Total income (%)
NYSEG Electric	156.7	20.4	10.4
NYSEG Gas	6.3	3.0	1.4
RG&E Electric	31.7	7.0	4.1
RGE Gas	5.8	3.3	1.4

NYPSC and other parties testified on 15 September 2019. The NYPSC recommended an 8.2% ROE and a 48% capital. NYPSC recommended the following rate increases/reductions: for NYSEG Electricity, a rate increase of USD 76.7 million; for NYSEG Gas, a rate decrease of USD 15.9 million; for RG&E Electricity, a rate increase of USD 0.68 million; and for RG&E Gas, a rate decrease of USD 22.5 million. NYPSC also recommends that NYSEG credit the environmental reserve with USD 30.7 million and USD 0.42 million due to the Company's legal decisions in 2017 and 2018 that denied insurance claims against OneBeacon and Century in an insurance lawsuit.

Talks between NYSEG, RG&E, NYPSC and approximately 20 other parties began in October 2019 and will continue during the first quarter of 2020. A decision on the rate cases is expected during the second quarter of 2020.



- **New York storm in March 2017**

On 11 March 2017 the New York State Department of Public Service (NYPSC) commenced an investigation of NYSEG's and RG&E's preparation for and response to the March 2017 wind storm, which affected more than 219,000 customers. On 16 November 2017, the NYPSC issued a staff report on the findings of the investigation with several recommendations for future responses to storms, and alleged that NYSEG and RG&E had breached their own emergency response plan in several respects.

Moreover, on 16 November 2017, the NYPSC issued an Institution Procedure and to Show Cause Order, consulting the companies on whether or not the NYPSC should take into account the recommendations of the staff report.

On 18 May 2018, the NYSEG and RG&E filed two Joint Settlement Proposals before the NYPSC. These Proposals reflect the Companies' agreement to make resilience and emergency response investments totalling USD 3.9 million, which will not be reflected in the Company's rate base or operating expenses. On 18 April 2019 NYPSC approved the proposals.

- **New York storms in March 2018**

In March 2018, following the two winter storms that impacted more than one million customers in New York, including 520,000 NYSEG and RG&E customers, NYPSC commenced an investigation of these utilities preparation for and response to these events. The investigation was expanded to include New York's spring storms in 2018.

On 18 April 2019, the NYPSC issued the 2018 Staff Report on the findings of its investigation, identifying 94 recommendations to be implemented in the Emergency Response Plans (ERPs) for utilities. The report also identified possible violations by several utilities, including NYSEG and RG&E.

Also on 18 April 2019, the NYPSC issued an Instituting Procedure and to Show Cause Order for the major utilities in New York, including NYSEG and RG&E. The order requires utilities to demonstrate why NYPSC should not pursue civil and/or administrative sanctions for the apparent non-compliance with their respective ERPs as approved and ordered by NYPSC. The NYPSC also orders the utilities to address, within 30 days, whether the NYPSC should order, reject, or partially modify the 94 recommendations contained in the 2018 staff report. NYSEG and RG&E responded to the Order by accepting, with minor modifications, most of the recommendations.

On 17 December 2019, an Agreement on the 2018 Storm Investigation was submitted to the NYPSC. The Agreement establishes a fine of USD 10.5 million (after taxes) for infractions; NYSEG will hire and maintain 20 additional employees to fulfil line or construction and maintenance (UCM) positions with storm restoration responsibilities; NYSEG will maintain 175 employees trained in damage assessment, excluding employees performing restoration work during an emergency; NYSEG agrees to hire an external consultant to audit and evaluate storm response training programmes. The Agreement document is pending approval by NYPSC and a decision is expected in the first quarter of 2020.

- **The NYPSC requires the Council to initiate proceedings against the NYSEG**

On 18 April 2019, the NYPSC issued an Order Directing Counsel to the Commission to initiate a special proceeding or lawsuit in the New York State Supreme Court to stop and prevent future violations by NYSEG of the NYPSC orders and regulations.

3. Maine

- **CMP Distribution Rate**

On 29 May 2018, the Maine Public Utilities Commission (MPUC) received a complaint from ten people requesting an investigation to determine whether CMP (Central Maine Power) and its parent companies are obtaining excessive profits. The lawsuit also requests that CMP be denied cost recovery due to the October 2017 storm. CMP responded on 8 June by arguing the lack of grounds for the claim and requesting its dismissal. On 24 July 2018, the MPUC issued a complaint dismissal order in relation to the CMP parent companies and October 2017 storm costs.

However, MPUC calculated CMP profits and found that the profits in 2016 and 2017 exceeded the reasonable permitted range and, therefore, opened an investigation and ordered CMP to present a rate case by 15 October 2018.

On 15 October 2018, CMP presented its rate case, where it proposes to maintain the same rates that are currently in effect and to use savings derived from changes in federal tax laws to keep its distribution prices stable and at the same time, make its electrical system more resilient. CMP plans to use the savings from the Tax Cut and Jobs Act, approved in December 2017, to pay for the costs of resilience programmes and other investments.

On 22 February 2019, the MPUC issued its Analysis and the Office of the Maine Public Advocate (OPA) presented testimony in response to CMP's rate case. The MPUC recommended a reduction in CMP's distribution rates of USD 2.0 million – USD 3.6 million, a base ROE of 9.35% and a capital ratio of 50%, prior to the management efficiency adjustment. The MPUC recommended a management efficiency adjustment to reduce the allowed ROE of 9.35% by 75-100 basis points due to the low performance of CMP customer service. The OPA recommended an ROE of 9.33% and a capital index of 55%.

On 9 January 2020, the MPUC issued its Examiner's Report recommending an increase in the distribution rate of 20.5 million or 8.1% starting 1 March 2020, based on a base ROE of 9.25% and an equity of 50%. The base ROE of 9.25% is reduced by 75 basis points to 8.50% for a management efficiency adjustment due to low customer service performance following the implementation of the Company's new billing system in October 2017. The Commissioners plan to decide whether to accept, reject or modify the report on 30 January 2020.

- **CMP SmartCare Investigation**

On 1 March 2018 MPUC initiated an investigation on metering and billing problems related to CMP's new billing system (SmartCare) and proceed to a forensic audit. In December 2018, the Audit concluded that the systems had worked as expected, but that there was an unnecessary large amount of errors and delays in bills during the initial stage of the operation.

Another subsequent audit carried out by the Office of the Main Public Advocate (BerryDunn) found no systematic use errors, although it did find billing errors that did not imply errors in the amounts billed.

In January 2020, the MPUC released its Examiners Report included the final investigation conclusions and insisted for the third time that CMP's billing and metering systems works well and that no systematic errors had been detected. CMP will implement: (i) an independent audit program to solve pending complaints, and (ii) a SmartCare supervision and testing programme carried out by an independent third-party.

It is expected that in 2020 MPUC commissioners will make a final decision.

4. Connecticut

- **UI Rate**

On 15 December 2016, the Connecticut Public Utilities Regulatory Authority (PURA) issued its final resolution, by which it authorised a rate of USD 57 million (compared to the USD 98.3 million requested by UI during the process) distributed over three years (2017, 2018 and 2019). The rate increase in 2017 was set at USD 43.0 million, with an additional USD 11.5 million and USD 2.9 million in 2018 and 2019, respectively. PURA established an ROE of 9.10% and an equity ratio of 50%.

The three-year rate plan retains the existing earnings sharing level whereby earnings above the allowed ROE are shared equally between customers and shareholders. The Company's revenue decoupling mechanism continues. The PURA did reduce the residential basic service charge to USD 9.65 per month.

- **SCG Rate**

On 30 June 2017, Southern Connecticut Gas Company (SCG) submitted a request to PURA to apply new rates at 1 January 2018.

On 13 December 2017, PURA approved the amended settlement agreement and the new rates are effective at 1 January 2018 the DIMP as proposed by SCG, the amortization of certain regulatory liabilities and rate increases based on an ROE of 9.25% and approximately 52% equity level.

The parties also agreed on a three-year rate plan with rate increases of USD 1.5 million, USD 4.7 million and USD 5 million in 2018, 2019, and 2020, respectively. The new rates are effective at 1 January 2018.

- **CNG Rate Agreement**

On 30 June 2018, Connecticut Natural Gas (CNG) submitted a request to PURA to apply new rates at 1 January 2019. CNG requested a three-year rate plan for 2019, 2020 and 2021 and a proposed ROE of 10.20%. On 30 August 2018, the parties submitted a three-year agreement, which includes rate increases based on an ROE of 9.30% and 54%, 54.5% and 55% equity during years 1, 2 and 3. The parties agreed to rate increases of USD 9.9, 4.6 and 5.2 million in 2019, 2020 and 2021, respectively.

On 19 December, PURA approved the new rates that entered into force on 1 January 2019.

5. Massachusetts

On 17 May 2018, Berkshire Gas Company (BGC) submitted a request to the Massachusetts Department of Public Utilities (MDPU) requesting approval for an increase in the distribution rate of approximately USD 3.3 million, an ROE of 10.35% and 61.5% equity, as well as a revenue dissociation mechanism.

On 4 December 2018, BGC and the Office of the Attorney General submitted a Resolution Agreement, which provides for an increase in the base distribution rate of USD 1.6 million from 1 January 2018 and an additional increase of USD 0.7 million from 1 November 2019, conditional upon certain investments being made. The rate increase is based on an ROE of 9.70% and 55% equity. The Agreement provides for the implementation of a Revenue Decoupling Mechanism and a pension expenditure tracker, and also establishes that BGC shall not request changes that take effect before 1 November 2021. The DPU approved the agreement on 18 January 2019.

6. FERC

FERC Rates: CMP and UI transport rates are regulated by FERC and managed by ISO New England (ISO-NE). The rates are calculated annually according to a formula authorised by FERC that allows for operating and maintenance cost recovery, as well as obtaining profit on the invested assets. Before 16 October 2014, FERC proposed a base ROE of 11.14% and additional incentives on ROE, applicable to assets, based on length of service, voltage and other factors.

On 30 September 2011, a complaint (Complaint I) was filed requesting FERC to reduce the ROE to 9.2% for the calculation of the ISO-New England transmission rate.

On 16 October 2014, FERC issued its final decision on Complaint I, in which it established a base ROE of 10.57% and a maximum total ROE (including incentives) of 11.74% for the period between October 2011 and December 2012 and, prospectively, from 16 October 2014.

In June 2015, the parties concerned filed an appeal with the Court of Appeals, which annulled the decision on Complaint I and referred it to FERC for a second review. The Court ruled that FERC should have determined the unjust and unreasonable nature of the base ROE of 11.14% before establishing a new base ROE of 10.57%.

On 26 December 2012, a second complaint regarding the ROE (Complaint II) was filed for a later rate period, in which a reduction of the ROE to 8.7% was requested. On 19 June 2014, FERC accepted Complaint II and established a 15-month refund effective date of 27 December 2012.

On 31 July 2014, a third complaint (Complaint III) was filed for a subsequent rate period in which a reduction was requested for the current ROE from 11.14% to 8.84%. On 29 April 2016, a fourth complaint (Complaint IV) was filed for a period after the previous complaints, in which a reduction of the existing base ROE from 10.57% to 8.61% and the establishment of a maximum ROE of 11.24% was requested.

CMP and UI prepared sufficient funds to handle refunds from Complaints I, II and III, in accordance with FERC's 2015 decision on Complaint I, and reimbursements were made to customers in relation to Complaint I. The provision of CMP and UI for Complaints I, II and III At 30 September 2017 was USD 22.2 million and USD 4.4 million, respectively.

On 5 October 2017, the New England Transmission Owner's (NETO) transportation companies submitted a request to dismiss all the ROE complaints, given that the complainants had failed to demonstrate the unjust and unreasonable nature of the existing ROE of 11.14% as required by the Court's decision. The NETO also stated that Complaints II, III and IV should also be dismissed due to an error in estimating the claims in relation to Article 206 of the Federal Energy Act. In the event that FERC did not underestimate the claims, the NETOs requested FERC to consolidate the claims and issue a final decision on the matter.

On 16 October 2018, FERC issued an Order Directing Briefs with respect to claims I - IV on the ROE. FERC sent to the United States Court of Appeals (D.C. Circuit) Opinion No. 531-A, issued on 16 October 2014, concerning the ROE of Complaint I. FERC proposes a methodology, including the New ROE Method, which results in a base ROE of 10.41% and a maximum ROE of 13.08% for Complaint I. The order is not final and requires the Paper Hearing on the proposed new ROE method.

The initial Briefs and responses were presented in January and March 2019. There is no decision due date. FERC order applies to Complaint I. If adopted, the new ROE method should apply to the periods of Complaints II, III and IV. At the same time, in March 2019, FERC initiated a separate general information collection procedure to consider new ROE methods, which is in progress. In addition, in December 2019, FERC issued an order establishing the ROE for transport owners in the MISO (Midcontinent Independent System Operator) region, using a methodology that differed somewhat from the method proposed in the Order Directing Briefs.

CMP and UI have made a provision for a base ROE of 10.57% and a cap of 11.74%, amounting to USD 26.4 million. If the new ROE proposed by FERC (base ROE of 10.41% / ROE cap of 13.08%) is adopted for all complaint periods, the preliminary impacts would be: single payment of USD 24 million (regularisation of the past) and an annual profit increase of USD 3.4 million.

FERC Rate Calculation Procedure: in February 2018, an agreement was reached providing the calculation of regional and local transport rates for periods consistent with most rate periods for transport throughout the country.

The new formula will enter into force on 1 January 2020.

7. Electricity generation from renewable energy resources

In addition to the federal government, many state governments have taken measures to promote the development of electricity production from renewable sources. Typically, state programmes tend to be: 1) An obligation for public services to generate or acquire a minimum amount of electricity generated from renewable sources, or Renewable Portfolio Standards (RPS) and 2) Tax incentives. So far, the federal government has mainly supported renewable development through tax credits for production and investment, as well as accelerated tax depreciation.

State Law

Nearly 30 states have implemented mandatory requirements according to RPS regulations that typically range from 15% to 33% of production by 2025, with several states, including New York and California, establishing even higher long-term requirements. Requirements are normally implemented through a system of negotiable renewable energy certificates that verify that a kWh has been generated from a renewable source.

Several state legislative assemblies have discussed the repeal or delay of their RPS requirements. In 2014, Ohio enacted a law to stop the programme until 2017, and in 2019, it set 2026 as the date to completely repeal the law. In 2015, Kansas replaced its mandatory RPS with a 20% voluntary standard as part of a compromise that retained existing property tax exemptions. By contrast, in 2018, California established a 60% RPS requirement for 2030, while in 2019, the states of New York, Nevada, New Mexico, Maryland and Maine have imposed 50-80% RPS for the next 10-25 years.

Several states have also established CO₂ emission reduction policies that should result in further development of renewable energy, according to California's 2006 state greenhouse gas emissions law. In 2019, Washington enacted a law to ban coal generation in any utility by 2025, with zero net CO₂ emissions standards for subsequent years. Also in 2019, New York, New Mexico and Nevada have established long-term CO₂ emission reduction requirements.

Several east coast states have also established mandates for offshore wind power acquisition, including Massachusetts, Connecticut, New York, New Jersey and Maryland.

Most states offer tax incentives to promote investment in renewable sources. For example, in Washington and Colorado, the sale and use of renewable energy equipment is tax-exempt. Several states have reduced capital gains taxes in renewable energy plants, while Minnesota has imposed a capital gains tax instead of a fixed production tax. Other states, such as Texas, encouraged the construction of electrical infrastructure (competitive renewable energy zones, CREZ) to facilitate the transport of electricity from renewable energy to charging points. The Texas CREZ is now complete.

Federal Law

In 1992, the United States Congress enacted a law that approved a Production Tax Credit (PTC) of USD 15 per MWh (revised with inflation) for the generation of electricity in wind farms during the first ten years of operation of the projects.

This programme has been renewed on numerous occasions and has been expanded to include electricity generation from other renewable sources, such as biomass, geothermal energy, urban solid waste and hydropower.

In 2005, Congress approved a 30% Investment Tax Credit (ITC) for solar energy projects.

On 18 December 2015, Congress extended and established the progressive withdrawal from the PTC, now USD 24 per MWh. Wind projects that were launched before 2017 could qualify for full credit, while those that started construction between 2017 and 2019 would opt for reduced credit. These qualifying facilities could also opt for a 30% ITC rather than the PTC.

It should be noted that in December 2019, Congress approved an extension of the PTC and ITC for wind power. Instead of the gradual elimination of the credit in 2019, Congress extended it to projects implemented in 2020 to a higher level of credit (60% for PTC; 18% for ITC).

In 2015, Congress also initiated the progressive withdrawal from the ITC for solar energy projects. Projects that were launched before 2020 will be eligible for a 30% ITC, but those whose construction begins after 2019 will opt for a lower ITC.

The 2019 tax law has not included an extension of the solar ITC or other clean tax credits, such as a 30% offshore wind ITC, 30% for storage or a tax credit for the purchase of electric vehicles.

FERC

In terms of generation, FERC has focused on two areas.

- The resilience of the system. Following FERC's decision not to adopt the proposal submitted by the Department of Energy, which would have directed payments to generation with its fuel supply stored at the plant, FERC initiated a new procedure to collect information on the matter. This matter remains open at FERC. The president of the Commission has stated that he would take resilience measures if all commissioners agree, but consensus seems unlikely in the short term.
- Eligibility requirements. FERC, together with some of the Regional Transport Organisations, has approved or is considering changes in the eligibility requirements of the capacity markets. In December 2019, FERC issued its last set of directives aimed at the PJM capacity market. FERC has ordered the PJM to establish several minimum capacity market offer price for resources receiving income in accordance with state laws (aid or subsidies), such as renewable or zero-emission credit programmes. FERC believes that the minimum offer price will exclude certain resources from participating in the capacity market, thereby increasing the offsetting price of the capacity market, which would benefit certain existing resources, such as natural gas generators. In 2020, FERC will continue to consider these issues.

5. Industry regulation in Mexico

Mexico's Energy Reform began in late 2013 with the modification of three articles of the Mexican Constitution, introducing a profound transformation of the electricity and hydrocarbons sector, with the creation of a new regulatory framework and the promotion of competition that was non-existent until then. As a result of this reform, 21 laws were enacted and/or amended during 2014 and 2015, and 25 regulations were created or amended.

Besides having an impact on the hydrocarbons sector, the Proposal also introduced new business opportunities in the generation, transmission, distribution and management of electricity infrastructure. This transformation opens the energy sector to private investment in activities previously reserved for the State.

One of the goals of the industry restructuring is to improve the power generation, promoting the use of renewable sources or low carbon emissions. Thus, the Government introduced Clean Energy Certificates (CECs) through the Electricity Industry Law (Ley de la Industria Eléctrica - LIE).

The previous regulatory framework respects and maintains the conditions and rights for existing businesses and facilities prior to the reform.

1. Post-Energy Reform Competencies

The State is exclusively responsible for the planning and control of the National Electrical System (SEN), as well as the public service for the transport and distribution (T&D) of electrical energy, the latter being the regulated activities. The legislation provides for the possibility of entering into service contracts with private companies, and creating opportunities to participate in the construction, operation and maintenance of T&D infrastructures.

Power generation, excluding nuclear, is open to private investment, as well as power sales to the end users.

The LIE regulates the activities of the electricity sector in Mexico and allows private companies to generate and sell electricity in the wholesale market, as well as to invest in transport and distribution networks through Public-Private Associations and other legal structures included in the legislation.

From the regulatory side, three agencies have primary responsibility for the sector. The Energy Secretariat ("SENER") has the policy function; the Energy Regulatory Commission ("CRE") has the regulatory function; and the National Energy Control Centre ("CENACE"), a new decentralised agency, manages the power grid and the wholesale electric market.

2. Public Policy on Energy

In June 2019, SENER published the annual update of the National Electrical Sector Development Programme (PRODESEN). It includes projections of energy generation, demand and infrastructure requirements for the next 15 years (2019-2033).

On 12 July 2019, the 2019-2024 National Development Plan was published in the Official Gazette of the Federation, containing the elements of public policy to be followed by the federal government during the six-year period ending in 2024. With regard to the energy sector, the federal government proposes the recovery of State Production Enterprises, the Federal Electricity Commission (CFE) and Petróleos Mexicanos. In addition, it highlights the need to install 30 GW by 2024. The proportion defined by the President of the Republic is maintained in terms of participation in private sector power generation (54% CFE and 46% private).

On 26 November 2019, the National Agreement on Investment in Private Sector Infrastructure was approved to reaffirm the confidence of domestic and foreign investors creating a scenario of macroeconomic stability, announcing an investment of MXN 859,022 million over the six-year period in 147 private investment projects. In February 2020, the energy sector projects will be announced, of which 6 are Electric Energy projects, with an investment equivalent to MXN 63,560 million.

3. Energy Secretariat

As part of the Energy Reform, the Energy Secretariat (Secretaría de Energía - SENER) has been empowered to plan and coordinate the energy policy, both for hydrocarbon and electric sectors.

In 2017, SENER published the requirements for Clean Energy Certificates for the years 2018 to 2022, setting them at 5% of total consumption for 2018, 5.8% for 2019, 7.4% for 2020, 10.9% for 2021 and 13.9% for 2022. In 2019, it published an agreement ratifying these requirements.

In relation to the promotion of clean energy, the mechanism for the sale of Clean Energy Certificates (CEL) to encourage new clean energy generation projects remains in force. However, in October 2019, SENER approved modifications to the guidelines for granting CEL, in order for the CFE clean generation plants existing prior to the Reform to be able to accredit CEL for their generation. This measure in practice eliminates the need for the CFE Basic Supply to buy CEL in long-term auctions, with the aim of not increasing the Basic Supply fees for domestic customers.

4. Regulatory Body

As a key part of the reform, in August 2014, the new Co-ordinated Energy Regulatory Bodies Act was issued, which sets out the operating guidelines and responsibilities of the National Hydrocarbons Commission (CNH) and the Energy Regulatory Commission (CRE). The CRE, as a Coordinated Energy Regulatory Body, has technical, operational and management autonomy. It is authorised to issue regulation and rates for the activities of the electricity and hydrocarbons industry, as well as to manage and supervise permits in this area.

5. National Agency for Energy Control

The National Agency for Energy Control (CENACE) is a decentralised public body with the authority to exercise operational control of the SEN and operate in the wholesale electricity market, as well as the other powers identified in the Electricity Industry Law and other applicable provisions. In addition, it guarantees open access to the National Transmission Network and the General Distribution Networks to all public and private market participants.

Like it does every year, in February 2019 it issued the results of the Power Balance Market for the year 2018, which sets the price to the capacity available during the 2018 year. This availability is recognised for the 100 critical hours of the system.

On 31 January 2019, the new government cancelled the fourth long-term energy auction, clean energy certificates (CEL) and power certificates.

6. Federal Electricity Commission Act

The Federal Electricity Commission (CFE) Act of August 2014 establishes that the CFE becomes a State Production Company (EPE) exclusively owned by the federal government, with budgetary and government autonomy, with the Board of Directors composed of members of the competent secretariats (SENER, Treasury, etc.) and independent directors. The CFE will operate through its affiliates and subsidiaries and will participate in the generation, transmission, distribution and marketing of electricity.

On 25 March 2019, SENER published the amendment of the Terms of the strict legal separation of the CFE. In addition to the above, on 25 November 2019, the reallocation of assets and contracts for generation to CFE affiliates and subsidiaries was published.

7. Transmission and Distribution

According to the LIE, the State will carry out the electric power transmission and distribution activities as a public service through State Production Companies (EPE) or its subsidiaries.

The Reform introduces the possibility for the State to conclude contracts with individuals for the implementation of activities related to this public service, such as financing, installation, maintenance, management, operation, expansion, modernisation, monitoring and maintenance of the infrastructure necessary for the provision of this service. However, the first two tenders called in order for private companies to participate jointly with SENER and the CFE for the construction and operation of high voltage direct current transmission lines were cancelled in January 2019.

8. Generation and Retail

The LIE sets forth that the generation and sale of electric power can be developed by public or private companies subject to compliance with permits and market rules. When the power of a generation plant is equal to or greater than 0.5 MW will require a CRE permit.

There are three types of permits to supply electrical power: 1) basic supply with a regulated rate (for consumers with a demand of less than 1 MW), 2) supply qualified under liberalised conditions for consumers with a demand of 1 MW or greater, and 3) last resort supply, for temporary use when qualified consumers have not chosen a supplier or they are no longer supplied by a particular supplier.

SENER can review the 1 MW threshold to choose the qualified supply. However, becoming a qualified consumer is optional, only mandatory for new costumers.

In this line, several Qualified Service Provider (QSP) permits have been issued, competing since 2016 with the CFE subsidiary dedicated to that service and which are key to market liberalisation.

9. Wholesale electricity market

The wholesale electric market (WEM) began operations in early 2016. This is a local marginal price market operated by CENACE, where generators, retail companies and qualified consumers can carry out transactions for energy, power, related services, CEL and Financial Rights of Transmission in the Daily Market, Hourly Market and Real-Time Market.

10. Respect for the generation permits granted under the Public Power Service Law (LSPEE)

The LIE established a transitional regime for permits under the repealed Public Power Service Law (LSPEE). In particular, the permits and contracts for self-sufficiency, co-generation, independent production, small production, import, export and continuous own use granted under this law will continue to be governed by it as long as it is not opposed under the LIE. The new government undertook, in principle, to respect the Contracts granted under said Law and to not modify the applicable legal framework for a period of three years.

11. Electricity tariffs

On 16 December 2019, the methodology was approved that determines the values of the electricity tariff without any changes. Thus, rate stability is expected in relation to the values of 2019. In this way, the Federal Government can fulfil its commitment to not increase electricity tariffs in real terms (considering inflation).

12. Natural Gas System

As part of the Energy Reform, Petróleos Mexicanos (PEMEX) became a Productive State Company with budgetary and government autonomy. It also has a Board of Directors, composed of members of the competent secretariats (SENER, Treasury, etc.) and independent directors. It currently operates through its subsidiaries and affiliates. Concurrently with this transformation, the natural gas transportation system was transferred from PEMEX to CENAGAS, the National Operator of the Natural Gas Pipeline Grid in order to promote an open market for its transportation, distribution and commercialisation.

CENAGAS has issued the 2015-2019 5-year programme for the Expansion of the National Natural Gas Transmission and Storage System governing its operation, of which two revisions have been issued. As part of this programme, CFE called for several bidding processes to contract natural gas transportation services from pipelines to be owned by private companies. The contractual terms of the pipelines in question were renegotiated in 2019 to facilitate the payment of CFE for their use. In the second half of 2019, the first, the South Texas Gas Pipeline – Tuxpan, began operations.

6. Industry regulation in Brazil

1. Generation

The Brazilian system

Although hydroelectric generation's share has decreased in recent years, Brazil's generation system is predominantly hydraulic. In terms of contribution to the generation mix, from 2000 to 2019, hydraulic capacity has been reduced from 83% to 60%. Wind participation, for its part, has increased to 9%. In the coming years, the government expects the system to expand mainly with wind, solar and natural gas.


The Brazilian system is interconnected, but split into four electrical regions: Southeast, South, Northeast and North. These regions have distinct hydrology and the synergies between them can be used. That is why the National System Operator (ONS) performs centralised electrical dispatch based on the optimisation of the audited costs of the generation plants. This is based on a number of software programmes to determine which generation assets (hydro and thermal power plants) will be dispatched, considering hydrological uncertainty, reserve storage capacity, thermal power plant costs (both fuel and operation and maintenance) and the estimated generation of unmanageable resources (wind and solar). In addition to defining the dispatch of plants, these programmes calculate the energy price from the marginal operating cost (MOC) of the system. The market price is known as the Dispatch Settlement Price (DSP), which corresponds to the MOC, limited by a set minimum and maximum price.

Guaranteed Energy (physical guarantee)

Since the system is predominantly hydraulic, the installed capacity is insufficient to measure the supply guarantee. Therefore, each plant has an associated guaranteed energy (physical guarantee), calculated by the Brazilian Government, which represents its contribution to the system in terms of reliability. The physical guarantee of thermal power plants and hydroelectric plants (dispatchable generation) is calculated by computer programmes at the time the plant participates in the auction. The physical guarantee for unmanageable resources is calculated by considering their long-term generation expectations.

The regulation states that the physical guarantee of hydroelectric plants must be reviewed every five years. However, the first revision was made in 2017 and only for power plants that had been in operation for a minimum of five years.

The following table shows the physical guarantee (in average MW) of the plants in which NEOENERGIA has a stake:



Utility	Avg MW	
	Physical Guarantee	NEOENERGIA interest
Baguari	84.7	51%
Corumbá III	49.3	70%
Itapebi	209.1	100%
Dardanelos	154.9	51%
Teles Pires	930.7	51%
Baixo Iguaçu	172.4	70%
Belo Monte	4,571	10%

Energy Reallocation Mechanism (MRE)

The financial mechanism that allows for centralised dispatching and mitigates the hydrological risk of power plants is called the energy reallocation mechanism (MRE), and all hydroelectric plants are obliged to participate in it. For the MRE, the important factor is total hydropower generation, not the individual generation of each plant. According to this mechanism, the total hydroelectric generation between each plant is allocated each month in proportion to its fraction of the total physical guarantee of the system. The total hydroelectric generation of the MRE generator set divided by the total physical guarantee of the generators is called the Generation Scaling Factor (GSF) and its monthly calculation is used for accounting operations. The energy allocated to each generator is the GSF applied to its physical guarantee.

Recent hydrology and litigation

The MRE worked well until 2012. Since then, hydrological conditions and the incorporation of the non-hydrological risks mechanism have reduced the GSF and caused a significant financial impact on hydroelectric plants. This led to a short-term market judicialisation process that forced regulatory improvements in order to prevent the allocation of non-hydrological risks to hydroelectric generators, such as, for example, compensation for thermal dispatch outside the merit order, as well as the possibility of renegotiating the hydrological risk for generators with contracts in the regulated market (ACR). This renegotiation transfers the risk of GSF below certain indices (89 to 100%) to regulated consumers in exchange for a risk premium paid periodically by generators. This premium may be reduced if the generator chooses to cede its secondary energy (GSF > 1) to consumers, known as SP products. If the generator also wants to be covered against the risk of reducing its physical guarantee, it has what is called the SPR product at its disposal.

NEOENERGIA plants were renegotiated according to the following table:

Utility	GSF product
Corumbá III	SP90
EAPSA	SP90
Itapebi ⁽²⁾	SP100
Baguari	SP91
Teles Pires	SP92
Belo Monte	SPR100
Baixo Iguaçu	SP89

(2) Since the terms of renegotiation were conditional on being energy contracts in the regulated market, which in the case of Itapebi ended in 2017, the renegotiation of that plant is no longer in force.

However, most litigation by generators that had contracts in the free market remains in effect. In October 2018, the courts overturned a precautionary measure that protected certain generators from GSF payment, but the amounts to be paid from 2015 to February 2018 remain under legal dispute.

The present value of the pending hydrological risk of the legal decision amounts to BRL 7,930 million and the final resolution depends on the publication of a specific law regulating the GSF. During 2020, it is expected that the parliamentary procedure of a bill (PL 3975/2019) will continue, which seeks to eliminate all factors not related to the hydrological situation from the GSF calculation.

Generation assets

In the generation business, NEOENERGIA manages about 4 GW of installed capacity between hydroelectric, wind and natural gas plants. Of these, a total of 1 GW is under construction.

The most relevant hydraulic projects are: Itapebi (100% of NEOENERGIA), Teles Pires (50.1% stake); Belo Monte (10% stake) and Baixo Iguaçu (70% stake).

NEOENERGIA has 100% of its wind power production contracted in the long-term PPA in the free and regulated markets. The expansion potential and recent wind awards of the group are summarised as follows:

- Nine wind farms in the Chafariz Complex (state of Paraíba) that sold their energy at the A-6 auction in 2017. According to the auction rules, these wind farms will begin commercial operations on 1 January 2023.
- Six wind farms also in the Chafariz Complex (state of Paraíba) that will sell their energy in the free market and whose construction authorisations were issued in January 2019. The works began in October 2019 and are scheduled to begin commercial operations by the end of 2022.
- Two wind farms (Oitis 1 and 8) that sold their energy at the A-4 auction in 2019 and whose authorisations were approved in November 2019. According to the auction rules, these wind farms will begin commercial operations on 1 January 2023, with 30% of their energy being sold on the regulated market (ACR).
- Ten wind farms (Oitis Complex) to be built in the states of Piauí and Bahia, whose construction authorisations were obtained in December 2019, are scheduled to start commercial operations by the end of 2022.

Regarding thermal generation, NEOENERGIA owns the Termopernambuco gas plant, which emerged from the Thermal Generation Priority Programme (PPT), established by the Ministry of Mines and Energy in 2000. This plant has energy sales contracts with Celpe and Coelba in force until 2024.

Generation auctions

On 1 March 2019, the Ministry of Mines and Energy (MME) published the indicative schedule of auctions for the purchase of Electricity from New Ventures and Existing Generation Ventures for the 2019-2021 three-year period:

Auction	Indicative date
A-4 Auction (New)	28 June 2019
A-6 Auction (New)	18 October 2019
A-4 Auction (New)	28 May 2020
A-4 and A-5 Auction (Thermal)	30 April 2020
A-6 Auction (New)	24 September 2020
A-1 and A-2 Auction (Existing)	4 December 2020
A-4 Auction (New)	29 April 2021
A-6 Auction (New)	30 September 2021
A-1 and A-2 Auction (Existing)	3 December 2021

In addition, on 16 October, the Ministry of Mines and Energy (MME) released the guidelines for the upcoming A-4 and A-5 auctions for the purchase of Electricity from Existing Generation Ventures with the possibility of the participation of New Generation Ventures. It will take place on 30 April 2020 and national coal or gas thermal power stations can participate exclusively. This is an unprecedented initiative in which, in addition to maintaining those plants whose energy and fuel sales contracts are close to expiry, the aim is to replace diesel thermal power stations with more efficient and cleaner gas plants.

At the new A-4 energy auction in 2019, held on 28 June, an average of 81.1 MW were contracted at an average price of BRL 151.15 per MWh. This involves the incorporation into the system of 401.6 MW of power and an average of 165 MW of physical guarantee from 15 projects: six solar, three wind farms, five mini-hydroelectric and one biomass. The NEOENERGIA Group was awarded two wind farms, Oitis 1 and Oitis 8 (an average of 11.9 MW), with a price of BRL 80 per MWh.

At the A-6 auction on 18 October, an average of 1,155.2 MW were contracted at a price of BRL 176.09 per MWh. NEOENERGIA was not awarded any project. By technology:

Technology	Installed capacity (MW)	Contracted capacity (average MW)	Number of Projects	Price (BRL per MWh)
Hydroelectric	445	172	27	206
Wind	1,040	181	44	99
Solar	530	60	11	84
Natural gas	734	673	3	189
Biomass	230	70	6	188
Total	2,979	1,156	91	-

In December, two auctions were held for electricity from existing plants to adjust the demand needs of distributors over the next two years.

- At the A-1 auction, an average of 29 MW was awarded at a price of BRL 158.37 per MWh. The resulting supply contracts will last from 1 January 2020 until 31 December 2021.
- At the A-2 auction, an average of 279 MW was awarded at a price of BRL 171.52 per MWh. The resulting supply contracts will last from 1 January 2021 until 31 December 2022.

Regulatory laws published in 2019

On 6 June, ANEEL published Order No. 1.635 modifying the Electricity Marketing Rules to correct the unavailability discount of thermal power plants used to calculate compensation to hydroelectric generators for drawing their generation from the merit order. The order also determined the recounting of operations since April 2017, when the payment of such compensation to hydroelectric generators began.

On 29 December, CNPE Resolution No. 29 of the *Conselho Nacional de Política Energética* was published defining the general supply guarantee criterion to be applied to generation expansion studies and operation planning, as well as the calculation of the physical guarantees of energy and power of the generation projects. The criterion for assessing the suitability of the energy supply will be based on (i) the conditional expected value of the energy not supplied and (ii) the conditional expected value of the marginal operating cost. With respect to power, it will be based on (i) the explicit risk of insufficient power supply and (ii) the conditional expected value of insufficient power supply. The parameters and limits must still be defined by the MME through an order.

2. Distribution

Distribution activities are regulated under a monopoly and are carried out within the framework of a 30-year concession which can be extended during the same period at the discretion of the granting authority (Union). At the end of the concession period, the assets will revert to the Union and the concessionaire must be compensated for the investments made that have not depreciated or amortised.

The Brazilian regulatory framework is based on a maximum price system that is revised every four to five years, depending on each concession contract, known as a rate revision, in which the main rate parameters are defined. COELBA and COSERN have a rate cycle of five years, while CELPE and ELEKTRO have a four-year cycle.

In addition, ANEEL annually updates the rates with the intention of ensuring that the cost of energy acquisition, the charges and the costs of transmission (known as parcel A) are transferred to the rate, as well as updating the costs of distribution (known as parcel B) with inflation, discounting a predetermined efficiency factor (factor X).

An annual tracking mechanism called the CVA (*Account to Offset the Variation of the Values of the Items of Parcel "A"*) is used to record the imbalances in Parcel A, which must be transferred to the rates in the next rate review process.

Rate revisions and adjustments

On 20 August 2019, ANEEL approved the fifth rate revision of ELEKTRO, reducing its rates by an average of 8.31%. It entered into force on 27 August with a Parcel A reduction of 7.3%, while Parcel B increased by 2.3%.

In addition, during 2019, the annual rate adjustments of CELPE, COSERN and COELBA took place:

- On 16 April, ANEEL approved COSERN's annual rate adjustment, increasing its rates on average by 4.73% and entering into force on 22 April 2019. The highlight was a 7.59% increase in Parcel B as a result of the update with IGP-M inflation minus factor X.

- On 16 April, ANEEL approved COELBA's annual rate adjustment, increasing its rates on average by 6.22% and entering into force on 22 April 2019. The highlight was an 8.28% increase in Parcel B as a result of the update with IGP-M inflation minus factor X.
- On 23 April, ANEEL approved CELPE's annual rate adjustment, increasing its rates by 5.04% on average, entering into force on 29 April 2019. The highlight was a 7.9% increase in Parcel B as a result of the update with IGP-M inflation minus factor X.

	COELBA	ELEKTRO	CELPE	COSERN
2019 Measurement System	Change	Change	Change	Change
Variation Parcel A	(2.68%)	(7.30%)	1.75%	(0.77%)
Variation Parcel B	8.28%	2.30%	7.90%	7.59%
Economic adjustment index	1.33%	(4.99%)	3.57%	1.84%
Parcel A Monitoring Account/Other Financial Components	5.31%	7.44%	6.51%	6.48%
Total	6.64%	2.45%	10.08%	8.32%
Removal of previous year's financial components	(0.42%)	(10.77%)	(5.05%)	(3.60%)
Consumer impact	6.22%	(8.32%)	5.03%	4.72%

Demand coverage

According to the current regulation, distributors must sign a PPA with the generators in order to guarantee the supply of their demand. The cost that distributors assume for the purchase of this energy is transferred to the final rate, provided that it covers between 100% and 105% of the estimated consumption. If the distributor buys energy below 100% of its estimated demand, it may be sanctioned. On the contrary, if it has contracts above 105% of its demand, the distributor is exposed to short-term price risk.

Among the reasons that can lead to surplus energy contracted by distributors, the following are the most notable: (i) the migration of consumers to the free market (without distributors being able to reduce the quantities contracted with generators); (ii) market retraction due to economic crisis; (iii) energy contracting above the need stated by the distributor in the auction, to allow the contracting of all the energy of the marginal power plant that wins the auctions, in order to make its construction viable.

In order to solve the problem of over-contracting, the Surplus Selling Mechanism (MVE) was created in 2019, which was previously regulated by Regulation Resolution No. 824/2018. It is an optional mechanism where the distributor can sell its contractual surplus to the free market. In principle, it is a risk mechanism, since distributors define a sales price and the financial result will depend on the Cash Settlement Price (CSP), as well as the average purchase price of the distributor and its contractual position. Moreover, it is an asymmetric mechanism, since the proceeds from the sale of the surplus will be shared with consumers, while the losses are assumed by the distributor. Only in the case of being above 105% and if over-contracting cannot be considered involuntary, both profits and losses will be entirely for the distributor.

Tariff Flags System

Since 2015, energy tariffs are complemented by the Tariff Flags System, which currently has the following modalities: green, yellow and red, levels 1 and 2, indicating whether the cost of the energy transferred to the rates will be maintained or increased, depending on the electricity generation conditions. The green flag is activated when the rate, defined in the rate adjustment or revision, is sufficient to cover the cost of purchasing energy from distributors. The yellow and red colours (levels 1 and 2) increasingly mean a higher energy cost expectation than what the rate covers.

Therefore, by the adding flag value to the consumer's final rate, Tariff Flags essentially seek: (i) to ensure coverage, in the period between tariff processes, for the additional costs of purchasing energy from distributors; and (ii) to inform the sector and consumers of the actual generation costs in the system.

In 2019, the flag values were defined according to the following table based on the resolutions in effect during each period:

Flag	Brazilian Reals/MW		
	From May 2018 REH No 2.392/2018	From June 2019 REH No 2.551/2019	From November 2019 REH No 2.628/2019
Green	-	-	-
Yellow	10	15	13.43
Red - level 1	30	40	41.69
Red - level 2	50	60	62.43

In 2019, the green flag was set for January, February, March, April and June, the yellow flag for May, July, October and December and the level 1 red flag for August, September and November.

Remuneration parameters

Some important parameters involved in the periodic tariff reviews of distributors, such as the weighted average cost of capital (WACC), regulatory operating costs and factor X, have been reviewed through public consultations in 2019. However, no final decision on any of these parameters has yet been published.

The weighted average cost of capital (WACC) is used to define the remuneration of investments made by power distributors. On 6 March, ANEEL decided to maintain the weighted average cost of regulatory capital (WACC) at 8.09% for distribution activities. Following this decision, the methodology used in 2015 will be maintained and the current percentage will be applied until December 2019. In October 2019, ANEEL published Public Consultation No. 026/2019 with the aim of obtaining proposals on the methodology for calculating and updating the rate of remuneration of regulatory capital.

Tariff benefit review

According to Regulatory Resolution No. 800/2017, the distributor must promote the periodic review of the consumer register with tariff aids. One third of consumers listed in the register should be reviewed in 2019, one third in 2020 and the remaining third in 2021. In accordance with the established timetable, distributors notified consumers of the need to submit the supporting documentation justifying their entitlement to the aid over the course of 2019. Once the minimum notification period of 6 months had elapsed, in cases where the notified consumer had not submitted the required information or had not complied with the established criteria, the tariff aid was cancelled and the consumer was reclassified. Therefore, At January 2020, these consumers will receive their energy bills without tariff benefits.

3. Transmission

In the electric transmission business, NEOENERGIA has five concession contracts between 2009 and 2013, which include transmission lines and substations, as well as reinforcements. They generate an annual allowed profit (RAP in Portuguese) of approximately BRL 83 million.

Company	Annual allowed profit (Millions of Brazilian Reals)
Afluente T	42.7
SE Narandiba	9.6
SE Extremoz II	3.2
SE Brumado II	2.0
Potiguar Sul	25.8
Total	83.3

These assets are subject to tariff reviews every five years, in addition to annual adjustments for currency corrections. In 2019, SE Narandiba and Potiguar Sul underwent a tariff review process and the tariff for Afluente T will be reviewed in 2020.

Also, as a result of the transmission auctions in 2017 and 2018, NEOENERGIA has the following concessions, whose projects are in the development phase and will come into operation in the coming years (RAP in accordance with REH No. 2.565/2019):

Concession	Receita Anual Permitida (RAP) (Millions of Brazilian Reals)
EKTT 1	135.6
EKTT 2	61.7
EKTT 3	120.9
EKTT 4	71.4
EKTT 5	125.0
EKTT 11	200.7
EKTT 12	72.0
EKTT 13	14.6
EKTT 14	14.3
EKTT15	13.3
Total	829.5

A transmission auction was held in 2019. The 30-year concession for 12 lots in 12 Brazilian states was auctioned, with a total of 2,380 km of lines and 18 substations with a transformation capacity of 7,900 MVA and an estimated total investment of BRL 4,200 million. With the highest discount levels on the starting price in history (60.30% on Total RAP), NEOENERGIA was awarded Lot 9, a project to construct 210 km of 230 kV transmission lines and the new 230/138 kV Rio Formoso II SE substation with 1,000 MVA of transformation capacity, as well as the expansion of the existing Rio das Éguas SE substation. The contracted RAP was BRL 18 million, which represents a 64.04% discount in relation to the initial RAP. The deadline for the project's construction has been set at 48 months and the estimated investment is BRL 300 million.

4. Other regulatory changes

Deregulation of the electricity market

In December 2018, the Ministerial Order announcing the deregulation of the electricity market was published, establishing that from July 2019, consumers with a capacity of over 2.5 MW may migrate to the free market and from January 2020, consumers with a capacity of over 2 MW may also do the same. In order to ensure continuity in this process, on 16 December 2019, the Ministry approved three additional stages of the deregulation time line: from 1 January 2021, consumers with a capacity of $\geq 1,500$ kW; from 1 January 2022, consumers with a capacity of $\geq 1,000$ kW and from 1 January 2023, consumers with a capacity of ≥ 500 kW.

Modernisation of the electricity sector

On 4 April 2019, the Ministry of Mines and Energy created the Working Group for the Modernisation of the Sector under Ordinance No. 187. Several working meetings and public consultations were held on various topics throughout 2019. On 29 October 2019, Ordinance No. 403 was published, establishing the Implementation Committee for the Modernisation of the Electricity Sector. Fifteen action fronts were identified, under the co-ordination of the Ministry, with the participation of the regulator ANEEL, the system operator ONS, the Chamber of Commerce for Electric Energy (CCEE), Empresa de Pesquisa Energética (Energy Research Company - EPE) and industry associations. The committee will be in place for two years, with the possibility of an extension for a further year.

Meanwhile, two proposals to reform the electricity sector are being considered in parliament, PL 1.917/2015 in the Chamber of Deputies and PLS 232/2016 in the Federal Senate. The texts are similar, containing proposals discussed at Public Consultation No. 33, initiated by MME in 2017, and which were also discussed in 2019 in the Working Group for the Modernisation of the Sector.

Hourly price in the short-term market

As established by Order No. 301 of 31 July 2019, the hourly price will be implemented in 2021. However, in 2020 the system operator will start using the *Modelo de Despacho Hidrotérmico de Curto Prazo* DESSEM computer model as a guideline for the dispatch of generation plants. This model will be used in the future to calculate the hourly price.

New CSP limits

On 1 October 2019, Regulatory Resolution No. 858 was published, with the new criteria for calculating the CSP limits. The minimum value will be the highest value between the regulatory variable costs (Energy Optimisation Tariff, EOT) of Itaipu and the EOT of all other power plants. With respect to the maximum value, two values are established: a structural maximum limit and an hourly maximum limit, the latter being valid only when the implementation of the hourly CSP is completed (2021). If the daily average of the CSP exceeds the structural value, an adjustment will be made throughout the daily curve so that it does not exceed that value. The values for 2020 were published on 17 December 2019: the minimum CSP will be BRL 39.68 per MWh and the maximum structural CSP will be BRL 559.75 per MWh. A maximum hourly CSP of BRL 1,148.36 per MWh was also published, but only for use in the shadow operation of the new DESSEM computer system.

Extension of the Electricity for Everyone programme until December 2022 (Decree No. 9.357/2018)

In October 2019, COELBA signed the contract for the tenth phase of the Electricity for Everyone programme, with an investment of BRL 1,052,914.19 for the execution of the works included in the Universalisation Plan. The *Electricity for Everyone* programme was created in 2003 and aims to provide electricity to 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. This programme is funded jointly with: 1) sectoral funds such as the *Conta de Desenvolvimento Energético* (CDE) and the *Reserva Global de Reversão* (RGR), 2) by State Governments and 3) by distribution companies (which subsequently recover investments in the corresponding tariff reviews).

New resolution on sanctions imposed on electricity sector agents

In June 2019, ANEEL published Regulatory Resolution No. 846/2019, in force since December 2019 and which approves the procedures, parameters and criteria for the imposition of sanctions on electricity sector agents and establishes general guidelines for inspection. Amendments have been made to the framework of offences by creating new types of sanctions. In addition, the limit for the payment of fines has been increased to 20 days, and the maximum percentage of fines within the penalty groups has also been amended. It also establishes the possibility of suspending the right to participate in tenders, to enter into contracts with ANEEL and to receive authorisations, when the technical/commercial indicators are not met, the deadline for the commissioning of the facilities is not respected and the obligations arising from the inspections are not fulfilled, among other things.

CONSOLIDATED DIRECTORS' REPORT 2019

This directors' report has been prepared taking into consideration the "Guide of recommendations for the development of directors' reports of listed companies", published by the CNMV in July 2013.

1. COMPANY'S POSITION

I. IBERDROLA's identity and its triple dimension: business, corporate and institutional

IBERDROLA heads a leading global group in the energy sector. Its activities are focused on the production, transportation, distribution and supply of electricity, which is essential for millions of users and customers. IBERDROLA relies on environmentally friendly and highly innovative sources of energy and technologies to remain at the forefront of digital transformation.

IBERDROLA pursues its corporate interests by observing best corporate governance practices and taking into consideration all stakeholders affected by its business activities and influence as an institution. It therefore seeks to build a relationship framework based on continuous dialogue and active listening, as well as on the principles of transparency and equal treatment, thus enabling stakeholders to become part of its successful business enterprise and allowing to create strong ties with them that foster trust and instil a sense of belonging to a great company. In particular, IBERDROLA has been a pioneer in enhancing the effective engagement and involvement of shareholders in the life of the company. It considers this to be of paramount importance to remain a leader in this area.

Acutely aware of the clear economic, social and environmental impacts of all of its activities, IBERDROLA maintains a constant two-way dialogue with its stakeholders and has accepted the mandate of its shareholders, by undertaking various reforms of its by-laws, to protect the communities in which it operates and help them prosper, including the most fragile or vulnerable groups.

IBERDROLA therefore views this mandate as an opportunity to work together in building a healthier, more accessible energy model based on electricity, while observing human rights and championing initiatives that help achieve a more just, egalitarian and healthy society. In doing so, it focuses on accomplishing the Sustainable Development Goals (SDGs) approved by the United Nations, most notably those relating to universal access to electricity and the fight against climate change, but also others such as promoting innovation, improving levels of education, protecting biodiversity, gender equality, and the empowerment of women, as well as the protection of disadvantaged groups. Ultimately, it seeks to make all stakeholders part of the social dividend—or shared value—generated by its activities, meaning the sum of all the economic, social and environmental values that a company generates through its activities across the communities in which it operates.

II. The IBERDROLA Group

IBERDROLA is the parent and holding company of a large group of enterprises present in Spain, Portugal, the United Kingdom, the United States, Mexico and Brazil, among other countries. IBERDROLA is structured into three levels to segregate the functions of strategy, supervision and control of the overall group (entrusted to the holding company); those of organising and coordinating the businesses of each country (entrusted to the sub-holding companies); and those involving the day-to-day administration and effective management of each of those businesses (the purview of the companies heading each business unit).

The corporate and governance structure of the IBERDROLA Group works in conjunction with the business model, which allows the businesses to be globally integrated, helps achieve the maximum operational efficiency of the various units and ensures the effective dissemination, implementation and monitoring of the general strategy, the basic management guidelines established for each business, and best practices.

The business model combines a decentralised decision-making structure, inspired by the principle of "subsidiarity", with robust coordination mechanisms to ensure that all of the Group's businesses are globally integrated; all on the basis of an effective system of checks and balances to prevent management power from becoming centralised in a single governance body or person.

The IBERDROLA Group has minority shareholders in both the holding company and in certain sub-holding companies, such as the Brazilian company Neoenergia, S.A. or the North American company Avangrid, Inc., which is also listed on the stock market. Through a special framework to strengthen the autonomy and independence of its listed sub-holding companies, IBERDROLA ensures that the legitimate interests of the shareholders of such companies other than those of IBERDROLA are protected and harmoniously co-exist with the wider interests of the Group and of the shareholders of the main holding company.

The company has undergone a major transformation over the last 15 years, staying clearly ahead of the energy transition in order to tackle the challenges posed by climate change and the need for a clean, trustworthy smart business model.

Boasting a track record that spans over 170 years, today Iberdrola is a multinational group leading the energy sector. It is the top wind producer and one of the largest utilities in stock market capitalisation worldwide. The Group supplies electricity to some 100 million people in the countries in which it operates.

We lead energy transition towards a sustainable model through investments in renewables, smart networks, large-scale energy storage and digital transformation to offer advanced products and services to our customers.

As a result of our commitment towards the environment and our support to the decarbonisation of the economy, we stand out as a leading electricity company in renewables and we have reduced our emissions in Europe in 75% since 2000, reaching levels that are 70% below the average of European sector companies.

The IBERDROLA Group is today present in the following countries and geographical areas, where we hold a leading position and are a benchmarking reference due to our sustainable energy model.

- Spain: first energy company and first wind producer.
- International: present in Portugal, France, Italy, Germany, Greece, Hungary, Romania, Cyprus, etc.
- United Kingdom: 100% renewable producer, transmission and distribution networks in Scotland, Wales and England.
- United States: Electricity and gas distributor in New York, Maine, Connecticut and Massachusetts and third wind producer.
- Brazil: one of the energy leaders.
- Mexico: first private electricity producer.

1.1. Business model

The current trends in the energy sector — the decarbonisation and electrification of the economy, technological advances and customers' increased connectivity — confirm the focus of our three global businesses: networks, renewables and generation and retail, and all of them centred on the customer.

The IBERDROLA Group accelerates value creation through five strategic pathways: profitable growth, operational excellence, a customer-focused approach, optimisation of capital, and finally digitisation and innovation.

To make its business model as competitive as possible, IBERDROLA has organised the management of its activities into three global businesses:

Renewable Business: The renewables area is tasked with generating and marketing electricity from renewable sources: wind (onshore and offshore), hydroelectric and mini-hydroelectric, solar thermal, photovoltaic, biomass, etc.

Networks business: the networks area is responsible for the construction, operation and maintenance of power lines, substations, transformer substations and other facilities for delivering power from the production centres to the end user.

Generation and Retail businesses: The generation and retail area focuses on the production of electricity through the construction, operation and maintenance of generation plants and the sale and purchase of energy in wholesale markets. It also supplies energy and additional products and services to end customers.

1.2 Purpose and Values of the IBERDROLA Group

The Group's purpose, or reason for being, is none other than to continue working together to build a healthier and more accessible energy model increasingly based on electricity. In response to recent developments and best practices in the realm of corporate governance, this purpose —now part of the company— replaces the mission and vision that the IBERDROLA Group had until now been pursuing, while also identifying its ultimate objective; the one that steers its business, corporate and institutional reality and makes it a major player in ensuring the sustainable economic and social progress of all its stakeholders and all communities in which it operates. This very purpose generates the social and the economic dividend embodied in the by-Laws, which represent the Group's real and effective contribution to the different economic and social environments in which it is present.

The Group's purpose is based on three corporate values: sustainable energy, integrating force and driving force, all of which express its desire to engage with and commit to the social reality in which its business activities unfold, with all the demands, challenges and opportunities this entails.

The corporate purpose and values, embodied in the Purpose and Values of the IBERDROLA Group, are the general principles comprising the corporate governance system, and are also the basis for the Code of Ethics; a binding and mandatory set of commitments that all directors, managers, employees and suppliers of the Group have embraced as part of their pledge to implement and achieve these goals and values.

The Group's purpose

The Group's purpose and therefore our reason for being is to continue working together to build a healthier and more accessible energy model increasingly based on electricity.

This purpose, focused on the well-being of people and the preservation of our planet, reflects the strategy that the Group has been pursuing for years and its commitment to continue fighting for:

- a) A real and global energy transition which, based on the decarbonisation and electrification of the energy sector in particular and of the economy as a whole, contributes to the fight against climate change and generates new opportunities for economic, social and environmental development and progress.
- b) An energy model that is more electric, forsaking the use of fossil fuels to make wider use of renewable energy sources, efficient energy storage systems, smart grids and digital transformation.
- c) An energy model that is healthier for people, whose short-term health and well-being depend on the quality of their environment.
- d) An energy model that is more accessible for all, favouring inclusiveness, equality, equity and social development.
- e) An energy model that is built on collaboration with all of the agents involved and with society as a whole.

The Group's values

To achieve the Group's purpose, the Group strategy and all of its actions are inspired by and based on three core values:

- a) Sustainable energy: we aim to inspire while creating economic, social and environmental value for all the communities in which we operate, with our sights firmly set on the future.

We act responsibly toward people, communities and the environment and we are fully committed to the sustainable development strategy defined by the Company's Board of Directors, which seeks to maximise the social dividend generated by the Group's activities and businesses, from which all of our stakeholders will ultimately benefit.

To achieve this, all Group employees work in accordance with the ethical principles enshrined in our Code of Ethics.

More precisely, they seek to ensure transparency, the safety of people, sustainable value creation for the Company and its surrounding environment, while striving to identify and understand the expectations of all stakeholders and working to ensure the well-being of both present and future generations.

- b) Integrating force: we possess great strength and a deep sense of responsibility and we therefore work together and combine our talents towards a purpose that will benefit everyone involved.

The Group's employees make up a diverse team that is ready to achieve the success of our business project. To this end, the Group seeks to ensure that its professionals work without geographic, cultural or operational barriers, share talent, knowledge and information, and adopt a global and long-term vision.

In building this team, the Group drives the development of its professionals and helps train future generations in order to improve levels of enthusiasm, empathy, creativity and initiative at work, while making them better people and ensuring their respect for human relations. The Group also fosters and encourages genuine and constructive dialogue between its human team and its other stakeholders.

- c) Driving force: we make small and large changes while being efficient and self-demanding, always in pursuit of continuous improvement.

We innovate and instigate large and small changes that make life easier for people.

We expect our professionals to adopt a non-conformist attitude, to constantly seek excellence and opportunities for improvement, to embrace change and new ideas, to learn from mistakes, to evolve with feedback on their actions and to anticipate the needs of stakeholders. To achieve this, we favour simple, agile and efficient processes that feature the latest technology for organising work and sharing information.

1.3. IBERDROLA's corporate governance model

Corporate governance system

The Corporate Governance System constantly updates its corporate governance system, consisting of By-Laws, the Purpose and Values of the IBERDROLA Group and the Code of Ethics, the Corporate Policies, the governance rules of the corporate decision-making bodies and other internal committees, and compliance. The Company promotes the creation of working groups composed of authorised representatives of the stakeholder group(s) affected in each case, Company employees and top-level external experts in the field concerned.

IBERDROLA develops its strategy in accordance with the purpose and values to which all Group entities and people are committed. Its common element is the creation of sustainable value, seeking social dividend and leadership in the development of its activities.

The general corporate governance policy contains a summary of the basic principles regulating the corporate governance of the Company and of the Group and of its most important components. They are all available on www.iberdrola.com.

1.4 Corporate structure and Governance and Business model of the Group

Given the nature of the activities carried out by the IBERDROLA Group, its organization responds to the strategic business units, rather than product and service lines. These businesses are managed independently, as they respond to different technologies, regulations, and geographic markets (Note 7).

The IBERDROLA Group has a decentralised structure and management model to approximate the decision-making to places where they should have effect, through the subholding companies and parent companies of the businesses. In addition, the independence and listed subholding companies reinforced autonomy are guaranteed.

The corporate structure encompasses the Company (IBERDROLA, S.A.), subholding companies and business parent companies.

- IBERDROLA, S.A. (Parent company)

The Board of Directors of the Company defines and supervises the Group's policies, strategies and general guidelines for the management thereof and adopts strategic decisions.

The chairman of the Board of Directors and chief executive officer of the Operating Committee, with the technical support of the Operating Committee, the Group's Business CEO and the rest of the management team, assumes the duty of organisation and strategic coordination of the Group through the dissemination, implementation and monitoring of the overall strategy and of the basic management guidelines established by the Board of Directors.

- Subholding companies

The subholding companies, which group investments of the head of business companies that develop the activities in the different countries where the Group operates.

They contribute to organisation and strategic coordination in their respective countries, disseminating and implementing the Group's guidelines and management policies.

They centralise common services provided to those head of business companies, always in accordance with the provisions of the applicable law and, in particular, the regulations on the separation of activities.

The subholdings have boards with independent directors, and their own chief executive officer, Audit and Compliance Committees, Internal Audit departments and Compliance units or departments.

On the other hand, companies that are not wholly-owned by the Group keep their own corporate and governance structure in order to comply with all the contractual obligations undertaken with other external shareholders.

- Listed subholding companies

Listed subholding companies have a special framework of reinforced autonomy projected in the scope of regulations, related transactions and management.

- Head of business companies

The head of business companies assume decentralised executive responsibilities and they carry out the day-to-day administration and effective management of each of the businesses, and are responsible for the day-to-day control thereof.

They are organised through their Boards of Directors, which may include independent directors, and their own governing bodies; they may also have their own audit committees, internal audit areas, and compliance departments.

Simplified scheme of the corporate structure of the Group



¹ Avangrid, Inc. is 81.50% owned by Iberdrola, S.A.

² Neoenergia, S.A. is 50% + 1 share indirectly owned by Iberdrola, S.A.

This corporate set-up seeks to ensure agile and rapid decision-making in the day-to-day management of the companies that head the various businesses, while at the same time ensuring proper levels of coordination at the Group level, as a result of the supervisory functions performed by the Company's sub-holding companies.

Based on this corporate structure, the Group's governance model is determined by the following principles, which duly distinguish between supervisory and control functions on the one hand, and the effective day-to-day management of the Group on the other:

- Vesting of powers in the Board of Directors to approve the Group's strategic objectives, define its organisational model and supervise and enforce its effective implementation and compliance.
- The organisation and strategic coordination of the Group is entrusted to the chairman of the Board of Directors and chief executive officer (with the technical support of the Operating Committee), the Managing Director of Business, who has overall responsibility for all of the Group's businesses, and the rest of the management team.
- The strategic organisation and coordination function is further strengthened through the sub-holding companies for those countries and businesses decided by the Board of Directors.

- d) The head of business companies of the Group assume decentralised executive responsibilities. They carry out the day-to-day administration and effective management of each of the businesses, and are responsible for the day-to-day control thereof.

Within the Group's corporate and governance structure, the Operating Committee is an internal committee of the Company whose core remit is to provide technical, information and management support to the chairman of the Board of Directors and chief executive officer, in order to facilitate the development of the Group's business model. The composition and duties of the committee are described in the Internal Regulations on the Composition and Duties of the Operating Committee.

1.5. Organisation of the Board, or bodies in which it delegates its decision, including control functions and the policy followed with minority interests.

A comprehensive description of the governance structure of the Company, functions and internal regulations of the committees can be seen in Appendix C of the Annual Corporate Governance Report, which forms part of this directors report.

1.6. Regulatory framework of the activities

A comprehensive description of sector regulation and operation of electric and gas system in the markets in which the Group operates can be seen in Appendix II "Sector regulation and functioning of the electricity and gas system" of these annual accounts.

1.7. Main products and services, production processes

The main products that IBERDROLA offers to its customers are power and natural gas, both in the wholesale and retail markets reaching the final consumer. Also offers a wide range of products, services and solutions in the fields of:

- Improving the quality of life, calm and safety of the consumer.
- Efficiency and energy services.
- Caring for the environment: renewable energy and sustainable mobility.
- Power quality and safety of the facilities.
- Installation of electrical infrastructure.
- Global management of facilities and energy supplies.

Through its subsidiaries it also provides engineering and construction services of power generation facilities, distribution and control; operation and maintenance of power generation facilities, management and promotion of the ground; and sale and rental of housing, offices and commercials. More detailed information can be found in www.iberdrola.com, in "customers" section.

As a general rule, companies directly manage the activities that belong to its core business, and outsource other estimated to be developed more efficiently by other specialized companies, which IBERDROLA requires certain quality standards and responsible behaviour in environmental, social and labour fields.

This information can be extended with corresponding indicators described in the Sustainability Report.

1.8. Strategic principles for the 2018-2022 period

Twenty years ago, IBERDROLA anticipated climate change would be one of the most significant challenges of our time and adapted its business model to this reality. Ever since, IBERDROLA has invested more than Euros 100,000 million in order to achieve a safe, efficient decarbonised energy model. The energy scenario on which Iberdrola will be operating in the years ahead is based in three pillars:

- The need to decarbonise the global economy.
- Technological advances, continuing the trend toward increased efficiency in terms of the sources of renewable energy and electricity grids.
- New demands from consumers, who will need new energy services possible thanks the possibilities offered by digitalisation.

All this will imply an increase in electricity demand, which is at the core of energy transition, substantially increasing its participation in the total consumption of end energy¹, highlighting the importance of electrifying other uses of energy, such as, for example, transport or cold and heat industry.

To satisfy this growing demand of electricity it will be essential to increase investment in renewable energies, which, in accordance with the International Energy Agency, could attain two thirds of total electricity generation in 2040 and also in efficient, smart and flexible transmission and distribution electricity infrastructures.

In face of this scenario, IBERDROLA will continue developing its strategy in the different markets where it is present, consolidating its position in renewable generation, networks and storage:

- In Spain, IBERDROLA will continue reinforcing its leading position in networks and renewable energies making the most of the visibility resulting from the Energy and Climate Integrated National Plan. Also, the company will also continue to develop its renewable energy portfolio through wind and solar power projects, to set the grounds for future growth.
- In the United States, through its subsidiary company AVANGRID, it has eight regulated transmission and distribution companies in New York, Connecticut, Maine and Massachusetts and is among the country's three largest wind energy producer, the Group will continue investing in energy infrastructures and renewables through the platform and will continue its growth strategy in offshore and onshore wind, as well as photovoltaic power.

¹ According to the International Energy Agency, the contribution of electricity to the final demand of energy could increase from 19% in 2018 to 31% in 2040 (World Energy Outlook 2019, Sustainable Development Scenario).

- In the United Kingdom, where IBERDROLA has become the first 100% renewable utility, its commitment to renewable energy will continue to be underlined, especially that of offshore wind power. The development of the “East Anglia One” offshore wind farms in the North Sea, of 714 MW, which will be in full operation in 2020, stands out. Moreover, the Group will continue to develop transmission and network infrastructures.
- In Mexico, where it will consolidate its position as the second largest producer in the country through the construction of several efficient renewable generation projects.
- In Brazil, through NEONERGIA, one of the country’s largest electricity. The company is present in 18 states and has growth opportunities in the fields of renewable energy and transmission and distribution networks.
- In other countries such as Germany, France, Portugal, Italy or Ireland.

Operating efficiency

IBERDROLA will continue to boost its operating efficiency on the strength of technical progress in digitalisation of all its synergies resulting from the homogenization of processes through the implementation of the best practices of the group in all its businesses.

This profitable growth strategy will lead to sustainable growth of profit, allowing the company to improve remuneration to shareholders in a growing sustainable manner in line with profit, as well as maintaining a strong financial position.

This caption of the directors’ report of IBERDROLA contains forward-looking information, including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, capital expenditures, synergies, products and services and statements regarding future performance or administrators estimates which are based on assumptions that are considered reasonable by them.

Although IBERDROLA believes that the expectations reflected in such forward-looking statements are reasonable, investors are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of IBERDROLA, risks that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Forward-looking statements are not guarantees of future performance and have not been reviewed by the auditors of IBERDROLA. You are cautioned not to place undue reliance on the forward-looking statements, which speak only at the date they were made. All subsequent oral or written forward-looking statements included in this report are expressly qualified in their entirety by the cautionary statement above. All forward looking statements included herein are based on the information available on the date hereof. Except for required by applicable law, IBERDROLA undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

2. BUSINESS EVOLUTION AND RESULTS

2.1 Global environment

In 2019, the average evolution of IBERDROLA's currencies against the euro was: the US dollar and sterling pound went up 5.5% and 0.7%, respectively, whereas the Brazilian reals went down 2.5%.

With regard to trends in terms of demand and electrical output during the period in the main activity areas of the company, it is worth mentioning that:

- The energy balance in the peninsular system in the first half of 2019 has been characterised by an increase in combined cycles (+93%), nuclear (+5%), solar (+19%) and wind (+8%) production, whereas there was a decrease in coal (-69%) and hydroelectric energy (-27%), compared to same period last year.

Moreover, in terms of demand, it increased by 2% with respect to 2018, while in terms adjusted for work and temperature, it grew by 0.3%.

- In the United Kingdom, electricity demand dropped by 9.7% compared to 2018, whereas gas demand dropped by 7%.
- In the area where Avangrid operates on the east coast of the United States, electricity and gas demand increased by 1.9% and 2.2%, respectively, compared to 2018.
- On the other hand, in the Iberdrola area in Brazil, electricity demand rose by 3.9% compared to 2018.

2.2 Basic indicators

At the end of 2019, the IBERDROLA Group had 48,922 MW installed, of which 66% produce emission-free energy while operating at a very low variable cost. In the table below distribution classified by countries and technologies is shown:

Power per countries (MW)	2019	2018	MW change
Spain	26,203	25,574	629
United Kingdom	2,506	2,086	420
United States	7,900	7,180	720
Mexico	9,463	6,592	2,871
Brazil	1,885	1,640	245
IEI	965	961	4
Total	48,922	44,033	4,889

Power per technology (MW)	2019	2018	MW change
Renewables	29,113	26,908	2,205
Onshore wind	16,417	15,251	1,166
Offshore wind	964	544	420
Hydroelectric	10,666	10,421	245
Mini hydroelectric	303	300	3
Solar and other	763	392	371
Nuclear	3,166	3,166	–
Gas combined cycles	15,124	12,440	2,684
Cogeneration	645	645	–
Coal	874	874	–
Total	48,922	44,033	4,889

The IBERDROLA Group's total production in this period rose by 4,6% to 143,004 GWh (136,737 GWh in 2018). The distribution by geographical areas and technologies is the following:

Net production per country (GWh)	2019	2018	% charge
Spain	57,492	56,636	1.5
United Kingdom	4,617	10,576	(56.3)
United States	20,506	19,462	5.4
Mexico	51,068	41,323	23.6
Brazil	6,656	6,560	1.5
IEI	2,665	2,180	22.2
Total	143,004	136,737	4.6

Net production per technology (GWh)	2019	2018	% charge
Renewables	50,770	53,684	(5.4)
Onshore wind	36,591	35,711	2.5
Offshore wind	2,211	1,642	34.7
Hydroelectric	10,615	15,711	(32.4)
Mini hydroelectric	340	279	21.9
Solar and other	1,013	341	197.1
Nuclear	23,630	23,419	0.9
Gas combined cycle	65,825	55,910	17.7
Cogeneration	2,453	2,108	16.4
Coal	326	1,616	(79.8)
Total	143,004	136,737	4.6

In the Renewables business, the greater contribution of offshore wind from Wikinger (it was commissioned progressively during the first half of 2018) and the beginning of operations of East Anglia 1, as well as the contribution of new photovoltaic capacity installed in Mexico, offset the lower hydroelectric output.

2.3 Business evolution

2.3.1 Analysis of the profit and loss account

The key figures for the financial year 2019 are as follows:

Millions of Euros	2019	2018	% change
Revenue	36,438	35,076	3.9
Gross margin ⁽¹⁾	16,263	15,435	5.4
EBITDA ⁽²⁾	10,104	9,349	8.1
EBIT ⁽³⁾	5,877	5,439	8.0
Net profit for the period attributable to the parent	3,406	3,014	13.0

(1) Gross Margin: Revenue – Procurements

(2) EBITDA: Operating profit+ Amortisation and provisions + Valuation adjustments, trade and contract assets

(3) EBIT: Operating profit

In 2019, the IBERDROLA Group attained a record-breaking EBITDA of Euros 10,104 million, exceeding for the first time the amount of Euros 10,000 million, representing a growth of 8.1%.

Profit for the year overpassed the goals initially set. All countries had a positive performance thanks to the growth of the Networks and Generation and Retail businesses, which has resulted in the parent company's profit for the year rising Euros 392 million, up 13% compared to 2018 to reach Euros 3,406 million.

The IBERDROLA Group adopted on 1 January 2019 IFRS 16 “Leases” (Note 2.a).

2.3.1.1 Gross Margin


The gross margin stood at Euros 16,263 million, increasing Euros 828 million, up 5.4% compared to 2018, supported by the contribution of all countries. The improvement of reference currencies improves Gross Margin in Euros 215 million.

Gross margin by business is as follows:

Millions of Euros	2019	2018	% change
Networks business	8,131	7,641	6.4
Liberalised business	4,688	4,168	12.5
Renewables business	3,446	3,611	(4.6)
Other businesses	44	58	(24.1)
Corporation and adjustments	(46)	(43)	(7.0)
Gross Margin	16,263	15,435	5.4

– Networks Business

The Networks business improves its contribution by Euros 490 million, 6.4%, and reached Euros 8,131 million (Euros 7,641 million in 2018). The contribution by geographies is as follows:



Millions of Euros	2019	2018	% charge
Spain	2,117	2,109	0.4
United Kingdom	1,311	1,222	7.3
United States	2,875	2,780	3.4
Brazil	1,828	1,530	19.5
Total	8,131	7,641	6.4

As notable events in the evolution of Networks' gross margin during the period we can highlight the following:

- Gross margin in Spain reached Euros 2,117 million, Euros 8 million higher than the previous year, mainly explained by the assignment of the optic fibre network in Euros 49 million. Said effects have been offset by recognising in 2018 a positive extraordinary impact of Euros 53 million. Other effects offset among each other rose gross margin in Euros 12 million.
- The United Kingdom contributes Euros 1,311 million, up by Euros 89 million compared to 2018 (7.3%). The revaluation of the Sterling Point implies Euros 10 million. The better income from transmission and distribution due to the larger asset portfolio explains this increase.
- The contribution of the United States in the period stands at Euros 2,875 million, Euros 95 million higher than in the previous year (3.4%), mainly due to a greater contribution of New York and Connecticut rate cases, the recovery of expenses from the previous years storms and the impact of exchange rates (Euros 150 million). On the negative side, rate adjustment stands out. It took place from the third quarter of 2018, when the impact of the tax reform (Euros 69 million) was transferred onto customers, which had no impact on net profit due to lower taxes as a result, as well as the adjustment of the Revenue Decoupling Mechanism, consisting in the return to customers of previous year's volumes exceeding those recognised by the rate regulator.
- In Brazil gross margin reaches Euros 1,828 million (19.5%), Euros 298 million more than in 2018, despite the negative impact of the devaluation of the Brazilian real (Euros 46 million), due to positive tariff reviews for COELBA and COSERN from April 2018 and for ELEKTRO from August 2019, the greater contribution of transmission assets and the increase in demand (3.9%).

- Renewables business

The Renewables business decreased its gross margin by 4.6% to Euros 3,446 million (Euros 3,611 million in 2018), Euros 165 million lower than 2018.

The contribution by geographies to gross margin by the Renewables Business is:

Millions of Euros	2019	2018	% charge
Spain	1,251	1,580	(20.8)
United Kingdom	678	644	5.3
United States	852	835	2.0
Brazil	174	178	(2.2)
Mexico	113	88	28.4
IEI	378	286	32.2
Total	3,446	3,611	(4.6)

Below, the evolution of the Renewables Business's gross margin is explained:

- In Spain, gross margin reached Euros 1,251 million, down by 20.8%, compared to the same period in 2018, due to lower wind and hydroelectrical power output in 7.2% and 34.8% and prices in wholesale markets.
- The United Kingdom's gross margin increased by Euros 34 million to Euros 678 million (5.3%). The revaluation of the Sterling Pound implies Euros 5 million, as well as better prices, which offset the sale of hydroelectric power assets at the end of 2018.
- The contribution of the United States for the period totalled Euros 852 million (2%), up by Euros 17 million more compared to the previous year. The revaluation of the US dollar has a positive impact of Euros 45 million since the local currency goes down due to the fact that the greater installed power has not been able to compensate low wind conditions and the maturity of PPA agreements.
- Mexico improved its contribution by Euros 25 million and reached Euros 13 million in 2019. The revaluation of the US dollar improves this margin on Euros 6 million and the increase in output up by 50.7% in Euros 19 million due to the increase of solar capacity, which compensates lower wind output.
- Brazil contributes Euros 4 million less compared to 2018 due to the depreciation of the Brazilian reals resulting from lower wind output (-6.0%), partially offset by an increase in hydroelectrical power commissioned in Baixo Iguazú.
- Iberdrola Energía Internacional (IEI), improves Euros 92 million, reaching Euros 378 million driven by the contribution of the Wikinger offshore wind farm, which was progressively commissioned in 2018 and whose output went up to 1,277 GWh (887 GWh in 2018) improving its contribution in Euros 75 million. Better output in rest of the world, better prices and exchange rates explain the Euros 7 million.

- Liberalised business

The Liberalised business (Generation and Supply) increased its contribution to gross margin in Euros 520 million reaching Euros 4,688 thousand (Euros 4,168 million in 2018), broken down by countries as follows:

Millions of Euros	2019	2018	% charge
Spain	2,932	2,396	22.4
United Kingdom	684	863	(20.7)
Mexico	935	756	23.7
Brazil	92	134	(31.3)
IEI	45	19	136.8
Total	4,688	4,168	12.5

- In Spain gross margin reaches Euros 2,932 million, up Euros 536 million (22.4%) compared to 2018, mainly due to higher output, better margins, active management of retail's portfolio (energy and smart solutions) and the impact of recognising the assignment of long-term LNG supply agreements at fair value, resulting in Euros 87 million.

- The UK's gross margin stood at Euros 684 million (-20.7%) due to the impact of lower margins as a result of price cap and the market environment recording less sales both in electricity (9.7%) and gas (7%).
 - Mexico contributes Euros 935 million to gross margin (23.7%), Euros 179 million more than in 2018 due to an increase in capacity during 2018 which became fully operating in 2019 (combined cycle of Escobedo, cogeneration of Bajío and repowering of Monterrey IV) and the commissioning of the combined cycle of El Carmen in September 2019 and Topolobampo II in October 2019. The appreciation of the US dollar amounts to Euros 49 million.
 - Brazil's gross margin went down Euros 42 million to Euros 92 million due to the non-recurring impact of the retail business and lower margins.
 - Iberdrola Energía Internacional (IEI), formerly Rest of the World, grouping retail activity in Europe, contributes Euros 45 million to gross margin, up Euros 26 million compared to 2018.
- **Other businesses**

The contribution of other businesses amounted to Euros 44 million, a decrease of Euros 14 million compared to 2018 (Euros 58 million in 2018), due to the sale of the trading and gas storage business in the United States in 2018.

2.3.1.2 Gross Operating result – EBITDA

Consolidated EBITDA increased by Euros 755 million, 8.1%, to Euros 10,104 million (compared to Euros 9,349 million in 2018). The impact of variations in exchange rates imply Euros 123 million. Notwithstanding these effects, EBITDA would improve in 6.8% amounting to Euros 632 million.

Contributions are detailed in the following table:

Millions of Euros	2019	2018	% charge
Networks Business	5,262	4,915	7.1
Liberalised business	2,469	2,038	21.1
Renewables business	2,385	2,445	(2.5)
Other businesses	28	29	(3.4)
Corporation and adjustments	(40)	(78)	48.7
EBITDA	10,104	9,349	8.1

The EBITDA performance variables are explained as follows:

- Net operating expenses

Net operating expenses go up Euros 175 million (4.2%) to Euros 4,330 million (Euros 4,155 million in 2018). The impact of exchange rates increases net operating expenses in Euros 64 million. Without taking this into account, the increase would be of Euros 111 million, up 2.7%, including Euros 50 million for efficiency measures, recognised mainly in the fourth quarter. They will have a positive income in upcoming years.

Millions of Euros	2019	2018	% charge
Networks Business	2,184	2,079	5.1
Liberalised business	1,411	1,328	6.3
Renewables business	719	698	3.0
Other businesses	15	28	(46.4)
Corporation and adjustments	1	22	(95.5)
Net operating expenses	4,330	4,155	4.2

- Taxes

Taxes decrease in Euros 102 million, down 5.3% compared to 2018, to reach Euros 1,829 million due to lower taxes in Spain as a result of lower hydroelectrical power output and lower prices.

2.3.1.3. Net Operating result – EBIT

EBIT totalled Euros 5,877 million, 8.0% lower in comparison with 2018 (Euros 5,439 million), and the breakdown by businesses is:

Millions of Euros	2019	2018	% charge
Networks business	3,296	3,034	8.6
Liberalised business	1,492	1,139	31.0
Renewables business	1,222	1,397	(12.5)
Other businesses	17	20	(15.0)
Corporation and adjustments	(150)	(151)	0.7
EBIT	5,877	5,439	8.1

- Valuation adjustments, trade and contract assets

- Trade payable provisions totalled Euros 297 million increasing Euros 44 million compared to 2018.


- Amortisation, depreciation and provisions

- Amortisations and depreciation record a rise of 7.5% to Euros 3,929 million due to a greater asset portfolio and an increase in the Group's activity, as well as the impact of IFRS 16 (Euros 127 million). These were partially offset by a lower amortisation and depreciation resulting from the nuclear plants (Euros 111 million) and the sale of generation assets in the United Kingdom (Euros 70 million).
- Provisions represent Euros 55 million due to lower reversals of provisions of the Renewables business project portfolio in the US.

2.3.1.4. Financial Result

Negative financial result increases in Euros 144 million to Euros 1,300 million (Euros 1,156 million in 2018). Therefore, the average cost of debt stands at 2.92% (2.97% in 2018).

The breakdown of items in said variation is as follows:



Millions of Euros	2019	2018	Change
Debt	(1,239)	(1,175)	(64)
Capitalised finance costs	223	193	30
Derivative financial instruments	(120)	(46)	(74)
Update financial provisions	(164)	(146)	(18)
Other	–	18	(18)
Total	(1,300)	(1,156)	(144.0)

This variation is explained by:

- debt grows Euros 64 million due to an increase in average balance, as a result of investment efforts and the application of IFRS 16 despite interest costs going down 5 basis points;
- more assets in progress, improving the comparison in Euros 30 million, and
- Derivatives go down Euros 74 million mainly due to the effect of exchange rate hedges in Mexico, offset by other headings in profit.

2.3.1.5 Results of Companies Consolidated by the Equity Method

“Profit/loss of equity-accounted investees” amounted to Euros 14 million

2.3.1.6 Income from non-current assets

Gains on disposal of non-current assets amounted to Euros 203 million, up Euros 194 million compared to 2018 (Euros 9 million).

In 2019 the most significant transactions have been the assignment of long-term use of exceeding capacity of the optic fibre (Euros 114 million) and the sale of the 50% stake in the companies Dry Lake II, LLC., and Cooper Crossing, LLC (Euros 53 million). Additionally, there have been gains on the sale of La Joya North (Euros 9 million), due to the sale of real property (Euros 22 million) and the sale of other (Euros 5 million).

2.3.1.7 Net profit for the period attributable to the parent

Net income rose to Euros 3,406 million, Euros 392 million more than in the previous year, as a result of corporate income tax in the amount of Euros 914 million going down in Euros 45 million compared to 2018. Taxes are positively affected by the amendment of the Double Taxation Treaty between Spanish and the USA, eliminating US tax on dividends if the investment is higher than 80% (before they were subject to a tax rate of 10%). Since the amendment was approved several years following the execution of the agreement, IBERDROLA Group has removed deferred tax liabilities currently recognised under non-distributed earnings, resulting in an extraordinary impact of Euros 123 million.

Moreover, non-controlling interests rose 26.3% to Euros 408 million, mainly due to profit in Brazil.

2.4 Operative evolution of the period

2.4.1 Networks business

A. Spain

The IBERDROLA Group has approximately 11.1 million managed supply points and total distributed energy reaching 93,509 GWh, a decrease of 0.4% compared to the same period of the previous year (93,897 GWh in 2018).

The TIEPI (continuity of supply indicator) for 2019 was 45.1 minutes, an improvement of 1.12% on the previous year (44.6 minutes in 2018).

The table shows the values of the TIEPI (interruption time in minutes), and NIEPI (number of interruptions in number) in relation to the previous year:

	2019	2018
Accumulated TIEPI	45.1	44.6
Accumulated NIEPI	1.0	0.9

B. United Kingdom

The IBERDROLA Group has more than 3.5 million supply points in the United Kingdom. The volume of energy distributed during 2019 was 31,451 GWh (32,460 GWh in 2018), a decrease of 3% compared to 2018.

All quality of service indicators, the average Customer Minutes Lost (CML) and the number of consumers affected by interruptions per every 100 customers (Customer Interruptions, CI) have been as follows:

	2019		2018	
	CML	CI	CML	CI
Scottish Power Distribution (SPD)	32.4	43.4	35.9	49.4
Scottish Power Manweb (SPM)	34.8	34.2	34.7	35.4

Service quality indicators have been affected by the storms Erik in February, Gareth in March and Hannah in April. They affected Scottish Power Manweb (SPM) more particularly, resulting in average interruption time slightly going down compared to the previous year.

In August 2019, Scottish Power Energy Networks (SPEN) joined Low Carbon Strategic Partnership with the Scottish Government and Scottish Southern Energy Networks. This association is focused on the role of electrical networks in favouring energy transition towards a zero-emission economy in Scotland and dedicate its efforts to the roll-out of electric vehicles and the electrification of heating systems.

C. United States

- Distribution

In the United States IBERDROLA has 2.2 million electricity supply points. The volume of energy distributed in the year was 36,615 GWh, which represents a drop of 1.9% compared to 2018 (37,336 GWh).

The System Average Interruption Frequency Index (SAIFI) and the Customer Average Interruption Duration Index (CAIDI) are as follows:

	2019		2018	
	SAIFI	CAIDI	SAIFI	CAIDI
Central Maine Power (CMP)	1.53	2.07	1.24	2.14
NY State Electric & Gas (NYSEG)	1.35	1.93	0.84	2.07
Rochester Gas & Electric (RG&E)	0.72	1.84	0.54	1.85
United Illuminating Company (UI)	0.50	1.29	0.50	1.54

Avangrid's distribution area was impacted by the storm Quiana in February, which affected the State of New York more in particular. In the last quarter, in October, the storm Nor'Easter hit the State of Maine specifically and in November, new wind and snow storms affected service in the states of New York and Maine.

Despite these and other climate events, Avangrid increased its global customer average interruption duration index (CAIDI) and the average number of interruptions per customer (SAIFI) in 6.7 and 4.3% respectively.

- Gas

At the end of 2019 there are slightly more than million gas users in the United States who have been supplied with 60,581GWh, a 2.2% increase compared to the previous year (59,301 GWh).

D. Brazil

The evolution of demand for Brazil's distribution companies in 2019 rose by 3.9% reaching 58,991 GWh (56,760GWh in 2018), due to a better performance of economy, larger number of customers and temperatures higher than those in 2018.

Energy distributed (GWh) 100% of business	2019	2018	% Change
COELBA	21,272	20,133	5.7
COSERN	5,782	5,704	1.4
CELPE	14,263	13,777	3.5
ELEKTRO	17,674	17,146	3.1
Total	58,991	56,760	3.9

At the end of the year, the number of customers served by the distributors at the end of the year amounts to 14 million.

Number of customers (million) 100%	2019	2018
COELBA	6.1	5.9
COSERN	1.5	1.5
CELPE	3.7	3.7
ELEKTRO	2.7	2.7
Total	14.0	13.8

In 2019 the construction of the transmission projects awarded in the bids in 2017 and 2018 moved forward as expected and the commissioning of a static compensator of 500kV in São Paulo was completed.

Additionally, in December 2019, Neenergia was awarded a project in the bid organised by the Brazilian regulator ANEEL. The project consists in the construction of 210-km transmission line and of a substation of 1,000 MVA.

2.4.2 Liberalised business

A. Spain and Portugal

A.1. Generation

Installed capacity in Spain (not considering renewables) totals 10,032 MW, with no variations compared to 2018. The breakdown by technologies is:

Power per technology (MW)	2019	2018	Change
Nuclear	3,166	3,166	–
Gas combined cycles	5,694	5,694	–
Cogeneration	298	298	–
Coal	874	874	–
Total	10,032	10,032	–

In 2019 nuclear production stands at 36,031 GWh, up 15.7%. The evolution of the year by technologies is as follows:

Net Production (GWh)	2019	2018	% Change
Nuclear	23,630	23,419	0.9
Gas combined cycle	9,622	3,996	140.8
Cogeneration	2,453	2,108	16.4
Coal	326	1,616	(79.8)
Total	36,031	31,139	15.71

A.2 Retail

Supplied energy (electricity and gas) in Spain amounted to 66,825 GWh (66,836 GWh in 2018), 56,408 GWh of electricity and 10,417 GWh of gas.

Electricity sales on the free market in 2019 increased by 1.3% to 49,088 GWh compared to 48,448 GWh supplied in the same period of 2018. Electricity supplied at the voluntary price for small consumers ("PVPC") amounted to 7,320 GWh (7,435 GWh in 2018).

Gas supplied in the free market in 2019 decreased by 5.1% to 10,308 GWh compared to 10,867 GWh supplied in 2018.

International retail (Portugal, Italy, France and Germany, mainly) IBERDROLA supplied 9,702 GWh during 2019, compared to the 9,225 GWh supplied in 2018, and was the second-ranking seller in the medium voltage industrial clients segment.

B. United Kingdom

Retail

Regarding sales, during 2019 customers were supplied with 18,072 GWh of electricity and 25,835 GWh of gas (20,008 GWh of electricity and 27,773 GWh of gas supplied during 2018). SCOTTISH POWER had 3 million electricity customers and 2 million gas customers at 31 December 2019. Furthermore, the roll-out of smart meters continues and at the end of the year reached 1.5 million.

C. Mexico

IBERDROLA is the leading private electricity producer in Mexico. Installed capacity rose to 8,599 MW (5,914 MW in 2018). The commissioning of the combined cycles of El Carmen (866 MW), Escobedo (892 MW) and Topolobampo II (911 MW) stand out.

Currently, the combined cycle of Topolobampo III (779 MW) is under construction and it is expected to be commissioned in 2020.

The electricity supplied from combined cycle and cogeneration plants amounted to 49,417 GWh (40,227 GWh in 2018), representing a load factor of 79%, as generation with natural gas is the basis of electricity generation in Mexico. Cumulative availability of the plants in Mexico has been 93%.

D. Brazil


Brazil's generation power corresponding to the gas combined cycles Termopernamebuco is 533 MW, whose production peaked in 2019 to 3,309 GWh.

2.4.3. Renewables business

At the end of 2019, the Renewables business had an installed capacity of 28,998 MW (26,794 MW in 2018).

Renewable production decreased by 5.4% to 50,770 GWh (53,684 GWh in 2018).

In the last 12 months, IBERDROLA Group has increased its capacity in 2,204 MW, following this breakdown:



MW installed	2019	2018	MW change
Onshore wind	16,417	15,251	1,166
Spain	5,762	5,526	236
United Kingdom	1,891	1,891	–
United States	7,045	6,305	740
Mexico	594	408	186
Brazil	516	516	–
IEI	609	605	4
Offshore wind	964	544	420
United Kingdom	614	194	420
IEI	350	350	–
Hydroelectric (*)	10,854	10,607	247
Spain	10,018	10,016	2
Brazil	836	591	245
Other technologies	763	392	371
Total	28,998	26,794	2,204

(*) Additionally, the Networks business in the US has 115 MW of hydro power.

A. Onshore wind energy

In the last 12 months, IBERDROLA Group's installed capacity by country is as follows:

- In Spain, the following wind farms were added: Pradillo (22 MW), Ballestas (42 MW) and Casetonas (28 MW). Moreover, the Group has taken control over Molinos del Cidacos (144 MW);
- In the US, the following wind farms were added: Karankawa (307 MW), Patriot (226 MW), Montague (201 MW) and Otter Creek (78 MW). Moreover, the following wind farms have been derecognised, due to loss of control, as is the case with the 65 MW in Dry Lake II, and due to the removal of machines, 2 MW in three wind farms, which are Locust Ridge II, South Chestnut and Leaning Juniper II;
- In Mexico the 100 MW of PIER II were added and 86 MW of the Santiago wind farm were commissioned, and
- In Greece, 4 MW of the Sarakatsaneika I wind farm were added.

Regarding ongoing and approved projects:

- In Spain, the construction of the wind farm of Cavar (111 MW), in Navarra, is going on.
- In the US, the construction of other projects with an aggregate capacity of more than 250 MW continues and another more than 500 MW are at their early construction stages also.
- In Brazil, adding to the approval in 2018 of the 15 projects in the state of Paraiba, totalling 472 MW, a total of another 12 projects, totalling 566.5 MW of wind energy, will be built in the state of Piauí.

B. Offshore wind energy

IBERDROLA Group has three offshore wind farms in operation totalling 964 MW: West of Duddon Sands in the United Kingdom, located in the Irish Sea, with an attributable installed capacity of 194 MW, Wikinger in Germany, 350 MW, and East Anglia 1, 420 MW.

Currently, offshore wind projects mainly in the United Kingdom, the United States, Germany and France are being developed.

- In the United Kingdom, the East Anglia projects in the North Sea. The East Anglia 1 (714 MW) project is under construction and 420 MW have already been commissioned.
- In the United States, with the acquisition of 50% of the company Vineyard Wind, owner of the rights to a wind farm off the coast of Massachusetts, with a generation potential of 3 GW. The wind farm will start its construction phase in 2019 and it is expected that 400 MW will come into operation by the end of 2021 and the remaining 400 MW by the second half of 2022. This way Vineyard Wind will become the first large scale US offshore wind farm.
- Also in the United States, with the award of the rights to develop another project under the name Kitty Hawk, off the coast of North Carolina, with a potential generation capacity of 2.5 GW.
- In Germany, in April 2018, IBERDROLA Group took part in the offshore wind tender and submitted offers for its projects Baltic Eagle, Wikinger Süd and Windanker. IBERDROLA Group was awarded 476 MW in Baltic Eagle and 10 MW in Wikinger Süd, whose commissioning is expected in 2023.
- In France, the offshore wind farm Saint-Brieuc, of 496 MW of capacity. The project has stated its geotechnical studies which are currently under way as the first construction milestone.

C. Hydroelectrical power

IBERDROLA Group has 836 MW of wind power. In 2019, 245 MW of the Brazilian plant Baixo Iguaçu were commissioned.

In Portugal, the works in the Tâmega hydroelectric power complex go on and Daivões (118 MW) and Gouvães (880 MW) are expected to be commissioned in 2021. In Alto Tâmega (160 MW) the excavation works are being finishing in order to start the concrete works in the dam next year.

D. Other technologies

The Renewables business has facilities of other renewable technologies in various countries whose breakdown is presented in the following table:

MW installed	2019	2018	MW change
Mini-hydraulic special regime	130	130	-
Mini-hydraulic ordinary regime	173	171	2
Photovoltaic	763	392	371
Spain	391	-	391
United States	96	116	(20)
Mexico	270	270	0
Greece	6	6	0
Total	1,066	693	373

These variations are due to the commissioning in Spain of the photovoltaic plant of Núñez de Balboa of 391 MW in Badajoz and the derecognition of 20 MW in the solar plant of Copper Crossing in the United States.

Regarding on-going projects, in Spain more than 400 MW of solar photovoltaic power are under construction in projects located mainly in Castilla-La Mancha, Castilla León and Extremadura.

3. LIQUIDITY AND EQUITY RESOURCES

3.1. Leverage

Gross financial debt at 31 December 2019 increased by Euros 4,172 million to 38,371 million compared to Euros 34,199 million at 31 December 2018, mainly as a result of the implementation of IFRS 16 (Euros 1,767 million) and the strong investment process the Group is undergoing. As a result, financial leverage rose to 44.8% compared to 43.7% for the previous year (see Note 20). For comparison purposes, if in 2019 IFRS 16 Leases had not been applied, leverage in 2019 would have been 43.76%.

Net adjusted debt (net financial debt minus the value of the maximum number of treasury shares potentially cumulative in the amount of Euros 602 million (Note 20), at 31 December 2019 reached Euros 37,769 million, up Euros 3,602 million from the Euros 34,149 million compared to December 2018.

3.2 Credit rating of IBERDROLA's senior debt

Agency ratings are:

Agency	Long-term ⁽¹⁾	Outlook
Moody's	Baa1 (15/06/2012)	Stable (05/11/2012)
Fitch	BBB+ (02/08/2012)	Stable (25/03/2014)
Standard & Poor's	BBB+ (22/04/2016)	Stable (22/04/2016)

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

3.3 Debt structure

At 31 December 2019 the Company's borrowings costs stood at 2.92% compared to 2.97% in the same period of the previous year (Note 27).

The debt structure by interest rate and currency is presented in Notes 4 and 27 of the Consolidated annual accounts.

In accordance with the policy of minimizing the financial risks of the Company, 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).

IBERDROLA has a strong liquidity position at the end of 2019 exceeding Euros 14,300 million (Note 4).

IBERDROLA presents a comfortable profile of debt maturities, with more than six years of average debt life. IBERDROLA's debt maturity profile at the end of 2019 can be seen in Note 27 of the Consolidated annual accounts.

3.4. Working capital

Working capital increased in Euros 254 million from December 2018 mainly as a result of an increase in inventories (Euros 368 million) due to the construction of the evacuation line of East Anglia 1 OFTO (*Offshore Transmission Owner*).

	31.12.2019	31.12.2018	Ch
Assets held for sale	–	62	(62)
Nuclear fuel	306	273	33
Inventories	2,542	2,174	368
Commercial debtors and other accounts receivable	6,675	6,099	576
Other current financial investments	693	572	121
Asset derivative financial instruments ⁽¹⁾	156	225	(69)
Tax receivables and payables	825	756	69
CURRENT ASSETS ⁽¹⁾	11,197	10,161	1,036
Liabilities linked to assets held for sale	–	1	(1)
Provisions	660	580	80
Liability derivative financial instruments ⁽²⁾	370	209	161
Trade payables, other current financial liabilities and other current liabilities	7,755	7,087	668
Tax receivables and payables	1,263	1,389	(126)
Current Liabilities	10,048	9,266	782
NETWORKING CAPITAL	1,149	895	254

⁽¹⁾ Not including cash and cash equivalents or debt derivative assets related to financial transactions (Note 20).

⁽²⁾ Not including cash and cash equivalents or debt derivative liabilities related to financial transactions (Note 20).

4. MAIN RISKS AND UNCERTAINTIES

4.1 Risk management system

The IBERDROLA Group is exposed to various inherent risks in the different countries, industries and markets in which it operates and through the businesses it carries out, which could prevent it from achieving its objectives and executing its strategies successfully.

The Company's board of directors, aware of the importance of this matter, has undertaken to develop its capabilities to ensure that the risks relevant to all of the Group's activities and businesses are appropriately identified, measured, managed and controlled, and has established, through the Group's general risk control and management policy, the basic mechanisms and principles necessary for the appropriate management of risk-opportunity with a level of risk that enables it to:

- attain the strategic objectives formulated by the Group with controlled volatility,
- provide the maximum level of assurance to the shareholders,

- contribute to the attainment of the Sustainable Development Goals (SDGs) approved by the UN, with a special focus on goals seven and thirteen,
- protect the results and reputation of the Group,
- defend the interests of customers, shareholders, other groups interested in the progress of the Company, and society in general, and
- ensure corporate stability and financial strength in a sustained fashion over time.


In the implementation of the aforementioned commitment, the Board of Directors and its Executive Committee have the cooperation of the Audit and Risk Supervision Committee, which, as a consultative body, monitors and reports upon the appropriateness of the system for assessment and internal control of significant risks, acting in coordination with the audit committees existing at other subholding companies of the Group.

Every action aimed at controlling and mitigating risks will consider the following basic action principles:

- a) Integrate the risk-opportunity vision into the Company's management, through a definition of the strategy and the risk appetite and the incorporation of this variable into strategic and operating decisions.
- b) Segregate functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control, and monitoring of such risks, ensuring an appropriate level of independence.
- c) Guarantee the proper use of risk-hedging instruments and the maintenance of records thereof as required by applicable law.
- d) Inform regulatory agencies and the principal external players, in a transparent fashion, regarding the risks facing the Group and the operation of the systems developed to monitor such risks, maintaining suitable channels that favour communication.
- e) Ensure appropriate compliance with the corporate governance rules established by the Company through its Corporate Governance System and the update and continuous improvement of such system within the framework of the best international practices as to transparency and good governance, and implement the monitoring and measurement thereof.
- f) Act at all times in compliance with the law and the Company's corporate governance system and, specifically, with due observance of the values established in the *Code of Ethics* and under the principles of zero tolerance for the commitment of illicit acts and fraud situations included in the *Prevention of Fraud and Crimes Policy*.

The *General Risk Control and Management Policy* and the basic principles underpinning it are implemented by means of a comprehensive risk control and management system, supported by a Corporate Risk Committee of the Group and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon suitable supporting procedures, methodologies, and tools, including the following stages:

- a) The establishment of a structure of policies, guidelines, and limits, as well as the corresponding mechanisms for the approval and implementation thereof, which effectively contribute to risk management being performed in accordance with the Company's risk appetite.

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- b) The ongoing identification of significant risks and threats based on their possible impact on key management objectives and the accounts (including contingent liabilities and other off-balance sheet risks).
 - c) The analysis of such risks, both at each corporate business or function and taking into account their combined effect on the Group as a whole.
 - d) The measurement and controlling of risks by following procedures and standards which are homogeneous and common to the Group as a whole.
 - e) The analysis of risks associated with new investments, as an essential element of decision-making based upon profitability/risk.
 - f) The maintenance of a system for internal controlling of compliance with policies, guidelines and limits, by means of appropriate procedures and systems, including the contingency plans needed to mitigate the impact of the materialisation of risks.
 - g) The periodic monitoring and control of profit and loss account risks in order to control the volatility of the annual income of the Group.
 - h) The ongoing evaluation of the suitability and efficiency of applying the system and the best practices and recommendations in the area of risks for eventual inclusion thereof in the model.
 - i) The audit by the Internal Compliance Division of the comprehensive risk control and management system.

In addition, the General Risk Control and Management Policy is further developed and supplemented through the policies listed below which are also subject to approval by the Company's Board of Directors:

- a) Corporate risk policies:
 - Corporate Credit Risk Policy.
 - Corporate Market Risk Policy.
 - Operational Risk Market Transactions Policy.
 - Insurance Policy.
 - Investment Policy.
 - Financing and Financial Risk Policy.
 - Treasury Share Policy.
 - Risk Policy for Equity Interests in Listed Companies.
 - Procurement Policy.
 - Information Technology Policy.

- Cybersecurity Risk Policy.
 - Health and Safety Risks Policy.
 - Reputational Risk Framework Policy.
- b) Risk policies and limits of the various businesses of the Group:
- Risk policy for the liberalised business of the IBERDROLA Group.
 - Risk policy for the renewables business of the IBERDROLA Group.
 - Risk policy for the network business of the IBERDROLA Group.
 - Risk Policy for the Real Estate business of the IBERDROLA Group.

The *General Risk Control and Management Policy*, as well as a *Summary of the Corporate Risk Policies* and a *Summary of the Specific Risk Policies* for the various Group businesses, are available on the corporate website (www.iberdrola.com).

In order to align the risk impact with the established risk appetite, the Executive Committee of the Board of Directors, acting at the proposal of the business or corporate divisions involved and upon a prior report from the Group's Risk Committee, annually reviews and approves specific guidelines regarding the Group's risk limits.

Subholding companies are responsible for adopting the group's risk policies and specifying their application, approving the guidelines regarding specific risk limits, addressing the characteristics and unique features businesses in each country. They shall also implement the control systems required for their compliance.

Listed subholding companies and those with significant minority interests, by virtue of their own special autonomy framework have their own risk policies approved by the competent bodies, aligned with those of IBERDROLA group.

The risk factors to which the Group is generally subject are listed below:

- a) Corporate Governance Risks: the Company assumes the need to safeguard the interests of the Company and the strategy of sustained maximisation of the economic value of the Company and its long-term success, in accordance with the Group's corporate interest, culture, and corporate vision, taking into account the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders and communities and regions in which the Company and its employees act.
- b) Market risks: defined as the exposure of the Group's results and equity to changes in market prices and variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO2 emission rights, other fuel, etc.), prices of financial assets and others.
- c) Credit risks: defined as the possibility that a counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties can be final customers, counterparties in financial or energy markets, partners, suppliers, or contractors.

- d) Business risks: defined as the uncertainty regarding the performance of key variables inherent to the business, such as the characteristics of demand, weather conditions, the strategies of different players, and others.
- e) Political and Regulatory risks: defined as those arising from regulatory changes made by the various regulators, such as changes in compensation of regulated activities or in the required conditions of supply, or environmental or tax regulations, including risks related to political changes that could affect the legal security and to the legal framework applicable to the Group's businesses in each jurisdiction, the nationalization or expropriation of assets, the operating licenses cancellation and the previous end of the contracts of the administration.
- f) Operational risks: defined as those related to direct or indirect economic losses resulting from inadequate internal procedures, technical failures, human error, or as a consequence of certain external events, including the economic, social, environmental, and reputational impact, as well as legal and fraud risks.
- g) Reputational risks: potential negative impact on the value of the Company resulting from the conduct of the Company that is below the expectations created among various stakeholders: shareholders, customers, media, analysts, Government, employees, and society in general.

The Audit and Risk Supervision Committee of the Board of Directors periodically monitors the evolution of the Company's risks:

- It reviews the Group's risk quarterly reports, which include monitoring compliance with risk limits and indicators and updated key risk maps, submitted by the Group's director of corporate risks.
- It coordinates and reviews risk reports sent periodically, at least semi-annually, by the audit and compliance committees of the main subsidiaries of the Group, being included the subholding companies of the main countries where the Group operates that, along with the Risk Corporate Director's appearances are used to prepare a risk report for the Board of Directors at least semi-annually.

For further details, see the section E "Control systems and risk management" of the Corporate Governance Report 2019 and the risks section of the Integrated report February 2020.

4.2. Credit risk

The IBERDROLA Group is exposed to the credit risk arising from the possibility that counterparties (customers, suppliers, financial institutions, partners, etc.) might fail to comply with contractual obligations.

Risk is properly managed and limited, depending on the type of transaction and the creditworthiness of counterparties. In particular, there is a *Corporate credit risk policy* setting the framework and action principles for a correct risk management, developed at business and country level (admission criteria, approval flows, authority levels, rating tools, exposure measurement methodologies, etc.) through procedures.

With regard to credit risk on trade receivables from electricity and gas trade in the liberalised area, the historical cost of defaults has remained moderate, below 1% of total turnover of this activity at global level.

4.3 Financial risks

4.3.1. Interest rate risk

The IBERDROLA Group is exposed to the risk of fluctuations in interest rates affecting cash flows and market value in respect of items in the balance sheet (debt and derivatives). In order to adequately manage and limit this risk, the IBERDROLA Group manages annually the proportion of fixed and variable debt and establishes the actions to be carried out throughout the year: new sources of financing (at a fixed, floating or indexed rate) and/or the use of interest rate derivatives.

Floating rate borrowings and cash placements are basically pegged to market rates (mainly Euribor, Libor-pound sterling, Libor-dollar and the CDI in the case of the debt of Brazilian subsidiaries).

Additionally, at 31 December 2019, the IBERDROLA Group has arranged derivatives to cover the interest rate risk of the future financing for a nominal amount of Euros 4,551,000 thousand, which help to mitigate the interest rate risk.

The debt structure at 31 December 2019, once considered the hedge provided by the derivatives traded, is included in the Note 4 of the Consolidated annual accounts.

4.3.2. Foreign currency risk

The exchange rate risk resulting from oscillations in currency rates compared to the reporting currency may take place under the following scenarios:

- Collections and payments for supplies, services or equipment acquisition in currencies other than operating currencies.
- Income and expenses incurred by certain foreign subsidiaries indexed to currencies other than operating currencies.
- Debt and financial expense denominated in currencies other than operating currencies.
- Profit or loss in consolidation of the foreign subsidiaries (mainly US dollar, Sterling Pound and Brazilian reals), since the Group's reporting currency is the Euro.
- Consolidated carrying amount of investments in foreign subsidiaries.
- Expense for taxes in Mexico because the functional currency (United States dollar) differs from the currency for calculation purposes of corporate taxes (Mexican peso).

The IBERDROLA Group reduces this risk by:

- Ensuring that all its economic flows are carried out in the currency of each Group company, provided that this is possible and economically viable and efficient, through the use of derivatives if not.
- As far as possible, this covers the risk of transfer of earnings scheduled for the current year, thereby limiting the ultimate impact on Group earnings.

- As far as possible, this covers the expense of the exchange rate risk in the Mexican corporate taxes, limiting the overall impact on the earnings of Mexico and of the Group.
- Mitigating the impact on the consolidated net asset value of a hypothetical depreciation of currencies due to Group's investment in foreign subsidiaries by maintaining foreign currency debt, as well as through financial derivatives.

The sensitivity of the consolidated profit and equity to changes in the dollar/euro, sterling pound /euro and Brazilian real/euro exchange rate are described in Note 4. The figures relating to exchange rates are included in Note 27 of the Consolidated annual accounts.

4.3.3. Liquidity risk

Exposure to adverse situations in the debt or capital markets or the IBERDROLA Group's economic and financial situation can hinder or prevent the IBERDROLA Group from obtaining the financing required to properly carry on its business activities.

Group's liquidity policy is designed to ensure that it can meet its payment obligations without having to obtain financing under unfavourable terms. For this purpose, various management measures are used, such as the arrangement of committed credit facilities of sufficient amount, term and flexibility, diversification of the hedge of financing needs through access to different markets and geographical areas, and diversification of the maturities of the debt issued.

The balances for cash, liquid assets and available committed credit facilities are sufficient for meeting the liquidity needs for more than 18 months, not including the new financing facilities.

The figures relating to changes in the Company's debt are included in Notes 27 and 51 of the Consolidated annual accounts and additional information is presented in Note 4 of the Consolidated annual accounts.

4.3.4. Liquidity risk

IBERDROLA Group faces the risk of its financial situation getting worse and leading to a review downwards of the credit rating assigned by rating agencies, which may make financing more expensive or hinder it.

In order to mitigate this risk, IBERDROLA Group permanently follows up solvency and equity ratios most commonly followed by rating agencies as well as those risks that may have an impact on those ratios in order to anticipate or undertake actions aimed at correcting possible lack of compliance.

Moreover, communication is active with investors and rating agencies in order to explain the performance of financial magnitudes and their deviations, if any.

4.4. Country risk

The activities of the different businesses that the IBERDROLA Group developed are submitted, in greater or lesser extent depending on their characteristics, to various risks inherent to the country where they operate:

- Imposition of monetary limitations and other restrictions on the movement of capital.

- Changes in the trade environment and administrative policies.
- Economic crisis, political instability and social riots affecting operations.
- Nationalisation or expropriation of assets.
- Exchange rate fluctuations.
- Cancellation of operating licenses.
- Anticipated termination of Government contracts.
- Changes in tax rates in fees and taxes and/or new taxes.
- Other regulatory changes.

The results of our international subsidiaries, their market value and their contribution to the Group may be affected by such risks.

The IBERDROLA Group's main operations are concentrated in Spain, the United Kingdom, the United States, Brazil and Mexico, countries with low or moderate risk, whose credit ratings at 31 December 2019 are as follows:

Country	Moody's	S&P	Fitch
Spain	Baa1	A	A-
United Kingdom	Aa2	AA	AA
United States	Aaa	AA+	AAA
Brazil	Ba2	BB-	BB-
Mexico	A3	BBB+	BBB

The IBERDROLA Group has a significant presence in countries such as Germany, France and Portugal. The presence in countries other than the ones mentioned above is not significant at Group level from an economic point of view.

Note 4 of these Consolidated annual accounts includes information on the potential impact of the Brexit on the IBERDROLA Group.

4.5 Activity risks for IBERDROLA Group's business

The Group has presence in the regulated businesses of electricity transmission and distribution in Spain, the United Kingdom, the United States (through AVANGRID) and Brazil (through NEOENERGIA). In the United States, the Group also has presence in the natural gas distribution sector.

IBERDROLA operates in the renewables industry sector carried out in Spain, the United States (through AVANGRID), the United Kingdom, Mexico and Brazil (through NEOENERGIA) and other countries.

Finally, the IBERDROLA Group maintains the Generation and Supply business, and operates in the thermal generation sector in Spain, Mexico and Brazil (through NEOENERGIA) and electricity and gas retail in Spain, the United Kingdom and to a lesser degree in Brazil (through NEOENERGIA), Italy, France, Germany, Ireland and the United States (not included in AVANGRID in the latter case).

Operating details shown in this section show the situation at 31 December 2019, unless stated otherwise. Sensitivities are shown in annual terms (following 12 months).

The strategy and investments for 2018-2022, which set the Group's growth lines, were presented to investors on 26 February 2019, is expected to be updated in May 2020.

Regulatory and political risks

Companies in the IBERDROLA Group are subject to laws and regulations concerning tariffs and other regulatory aspects of their activities in each of the countries in which they operate. The introduction of new laws and regulations or amendments to the already existing ones may have an adverse effect on the Group's operations annual results and economic value of businesses.

The following sections summarise the regulatory frameworks in force in the main markets where the Group operates, as well as the array of new regulatory measures approved in 2019 or expected to be developed in 2020.

A detailed description of the electricity and gas regulatory frameworks in the main countries where the Group operates is included in Annex II.

4. 5. 1. Networks business risk

The regulations of each country in which the IBERDROLA Group's network businesses operate establish regularly revised frameworks, guaranteeing that these businesses will receive reasonable and predictable returns. These frameworks include incentives and penalties for efficiency, service quality and, where applicable, for default management, which have a minor, immaterial impact overall. Any structural and significant changes to the aforementioned regulation may represent a risk for said businesses.

In general, the profitability of the IBERDROLA Group's network businesses is not exposed to demand risk, except for the Brazilian subsidiaries.

The IBERDROLA Group's network businesses in Spain and in the United Kingdom are not exposed to any market risk associated with energy prices.

The network businesses in Brazil and some of the businesses in the USA sell energy to regulated customers at a price determined by certain previously approved tariffs. In the case of a prudent procurement management and as established by the regulator, the regulatory frameworks in both countries guarantee sums will be collected in subsequent tariff readjustment reviews for possible purchase price deviations from those previously recognised in the tariff.

Given the above, in the case of extraordinary events (extreme drought in Brazil, catastrophic storms in the USA, etc.), occasional temporary imbalances between payments and collections may arise with an impact on the cash flows of some of these businesses and potentially on profits recognised under IFRS.

- **Networks - Spain**

The present regulatory model is based on the Electricity Industry Law 24/2013 of 26 December 2013 and its development in the form of royal decrees and ministerial orders. The model is based in recognised historical investment (RAV at 31 December 2014) remunerating capital, depreciation and some operation and maintenance costs. In addition, each year RAV is increased with recognised investments made. Quality incentives and losses (technical and commercial) are added to this. Also, a retribution to other regulated activities required for the activity are also set, such as for example reading, subscription, structure, etc., not just to distribution.

On 20 November 2019 the retribution rate applicable in the upcoming six-year regulatory period 2020-2025 was set and published on the BOE (Official Spanish Gazette) (WACC 5.58%). On 19 December 2019 the applicable methodology was set and published on the BOE.

Some remuneration elements of the previous period still pending of review should be highlighted:

- Remunerations for 2017, 2018 and 2019 that are being applied are provisional since the final remunerations have not yet been published.
- Before the Spanish Supreme Court, a proceeding was initiated declaring it detrimental to the public interest which may entail a recalculation of the RAV used as reference.

- **Networks – United Kingdom**

The group operates in the United Kingdom through its subsidiary Scottish Power Ltd and the following licences:

- SP Distribution PLC (SPD) and SP Manweb PLC (SPM).
- SP Transmission PLC (SPT).

The framework of remuneration for the electricity transmission and distribution activities in the UK is in accordance with a price control model using a recognised cost of capital (WACC), depreciation of assets and operating and maintenance costs plus an incentive which is obtained if management is better than the regulatory standard, and which the companies retain (in part) in the following tariff revision.

The current regulatory model for SPD and SPM is based on the RIIO ED1 framework, and on the RIIO T1 framework in the case of SPT. The latest tariff review for electricity distributors (RIIO ED1), including SPD and SPM, is valid from April 2015 to April 2023. The SPT review (RIIO T1) is valid from April 2013 to April 2021. Recognised ROE after tax (in real terms) is 6% for SPD and SPM, whereas for SPT it is 7%.

The regulator (OFGEM) also establishes incentives/penalties for safety, environmental impact, consumer satisfaction, social obligations, connections and quality, which may have an effect on the income statement.

In July 2018 the OFGEM published its preliminary report included some of the hypothesis proposed for the next regulatory revision, pointing at a preliminary ROE of 4.8% compared to the current 7.0%. For the end of 2020, OFGEM is expected to publish the final methodology and retribution rate.

- **Networks - United States**

The IBERDROLA Group operates in the US through its listed subsidiary Avangrid, which in turn has the following subsidiary networks companies (which manage 2.2 million electricity supply points and 0.9 million natural gas supply points):

- New York State Electric & Gas (NYSEG), New York, with a 3-year Rate Case in force since 20 April 2016 (base ROE 9% for electricity distribution).
- Rochester Gas and Electric (RG&E), New York, with a 3-year Rate Case in force since 30 April 2016 (base ROE 9% for distribution Electricity).

In 2019 the process to review NYSEG and RG&E rate case was launched. This process is expected to conclude at the beginning of 2020.

- Central Maine Power (CMP), Connecticut, whose annual rates are in force since 1 July 2014. They may be extended for its electricity distribution businesses (base ROE 9.45%) and transmission business (base ROE 10.57%). The ROE calculation method for the transmission business is under review by the FERC and an Order in that regard is expected in 2020.

In October 2018, CMP, following the instructions provided by Maine's utilities regulatory commission, started a rate case review.

- United Illuminating (UI), Connecticut, with rates in force since 1 January 2017 for its electricity distribution business (base ROE 9.1%) and transmission business (base ROE 10.57%). The ROE calculation method for the transmission business is under review by the FERC and an Order in that regard is expected in 2020.
- As well as the following natural gas distribution companies: Maine Natural Gas Corporation (MNG), Connecticut Natural Gas (CNG), Southern Connecticut Gas (SCG) and Berkshire Gas (BG).

Companies carrying on regulated business in the US are exposed to risks associated with the regulations of a number of federal regulatory bodies (FERC, CFTC, DEC) and state commissions, responsible for establishing the regulatory frameworks of the companies regulated (tariffs and other conditions).

The distributors' tariff plans have been designed to reduce the risk to which business is exposed through mechanisms for deferral, reconciliation and provisions for costs. Regulated distributors pass on the costs of gas and electricity to end customers, thereby mitigating any impacts of fluctuations in demand.

- **Networks - Brazil**

The IBERDROLA Group operates in the Brazil through its listed subsidiary Neenergia, which in turn has the following subsidiary network companies:

- Elektro Redes, S.A. (Elektro), operating in the states of Sao Paulo and Mato Grosso do Sul, with 2.7 million points of supply. Rates in force until August 2023 and WACC of 8.09%;
- Companhia de Eletricidade do Estado do Bahia (Coelba), operating in the state of Bahia, with 6 million supply points. Rates in force until April 2023 and WACC of 8.09%;

- Celpe Energetica de Pernambuco S.A. (Celpe), operating in the state of Pernambuco, with 3.7 million supply points. Rates in force until April 2021 and WACC of 8.09%;
- Companhia Energética do Rio Grande do Norte (Cosern), operating in the state of Rio Grande do Norte, with 1.4 million supply points. Rates in force until April 2023 and WACC of 8.09%;
- Several transmission assets with their specific regulation.

The Brazilian regulatory framework is based on a system of price cap that is revised every four or five years, depending on each company's concession contract and is updated annually by the regulator based on predetermined parameters. COELBA and COSERN have a five-year term and CELPE and ELEKTRO have a four-year term.

Brazilian legislation applicable to regulated electricity distribution business establishes two types of costs: i) "Plot A", which includes the costs of energy, transmission and other obligations and regulatory charges, which can be recovered through tariffs ("pass through") as part of the conditions and limits imposed by ANEEL, and ii) "Plot B", which includes remuneration for investment and the costs of operation and maintenance (calculated using a reference model that compares all distribution companies in the country and determines efficient cost levels, which generates either an incentive or a risk for the investor).

ANEEL also acknowledges other smaller incentives to minimise default and impairment of quality and customer satisfaction that can affect the income statement.

Pursuant to current legislation, electricity distribution companies transfer the cost of supplying electricity to the end customer through the regulated tariff, provided the energy contracted is between 100% and 105% of the demand required.

4.5.2. Renewables business

The Group's Renewable business includes hydroelectric, wind (onshore and offshore) and photovoltaic generation, as well as storage (pumping and batteries) technologies.

The regulations of each country in which the Group operates establish regulatory frameworks aimed at promoting the development of renewable energies based on formulas which may include premiums, green certificates, tax or regulated tariff deductions, which allow investors to obtain sufficient and reasonable return. Any structural and significant changes to the aforementioned regulation may represent a risk for said businesses.

In addition to the aforementioned regulatory risk, the Group's renewable energy businesses may be exposed to a greater or lesser extent, among other, to source (hydraulic, wind and solar) risk and market risk:

- In the medium to long term, years with lower than average water and/or wind resources are offset by years with above-average overall resources.
- The risk of water resources in a given year basically affects the Renewables business in Spain, and to a lesser extent Brazil.
- The risk of wind resources in any given year affects the Renewable Energy Businesses of all countries in which the Group operates. At global level, the Group considers that the wind resource risk is mitigated by the large number of wind farms available and their geographical diversification.

- Management of market risk of the Renewables Businesses in Spain, the UK, Brazil and Mexico is transferred to the Generation and Retail Businesses of those countries so that it can be integrated into a single risk position. Management of market risk of the Renewables Business in the US is integrated within the business itself.

The Group has important renewable projects under construction and development in the different countries where it operates. In the particular case of offshore wind projects, it must be highlighted that they require large investments subject to complex proceedings and entail other risks such as long construction deadlines, operating difficulties and technology risks.

- **Renewables – Spain**

The Group currently has an installed capacity of renewable energy in Spain of: 6,005 MW of wind power, 9,715 MW of hydroelectric plants, 500 MW of photovoltaic plants and 306 MW of mini hydroelectric plants.

The output of hydroelectrical plants not governed by RD 413/2014) is transferred to the Generation and Supply business for its marketing to end users and/or sale to the market. The lesser or greater availability of hydro resources has an impact on the marginal hour prices of the Spanish electricity system.

Despite having a large water storage capacity Spain, IBERDROLA Group's annual results depend significantly on the rainfall contributions. The changes in output from a dry year to a wet year with respect to the average value can be up to -4,000 GWh in a dry year and +5,000 GWh respectively in Spain, and the variability would be between an estimated Euros -150 million and Euros +190 million. In the mid and long-term dry years are offset by wet years.

The capacity installed by the Group before 2013 was subject to the Specific Retribution Regime in accordance with Law 24/2013 and RD 413/2014. Said regime, combining market income and a supplement per MRC, guarantees reasonable profitability before taxes to plants, which was set at 7.398%. At the end of 2019, RDL 17/2019, whereby the value of reasonable profitability was extended until 2031, was approved Facilities before 2004 had no retribution to investment. In accordance with RD 413/2014 i) at the end of each regulatory half-period of three years several retribution parameters for model facilities are revised, among them price estimates for the following three years, as well as past prices. To do so it is calculated if in the last three years the set limits (bands) have been exceeding and ii) the existing plants were segments based on several criteria such as commissioning year and size, and they are assigned standard CAPEX values, useful regulatory life, peak factor, O&M expenses and hours.

Those renewable plants commissioning after 2013 or which only receive income from market income (or PPA agreements), or to access the Specific Remuneration Regime previously described must participate in bids (which took place in 2016 and 2017).

With regards to wind output, as well as photovoltaic generation, they have also been transferred to the Generation and Supply business to be sold to end customers and/or the market.

- **Renewables – United Kingdom**

The Group currently has an installed capacity of renewable energy in the UK of 1,906 MW in onshore wind farms and 194 MW in offshore wind farms, operational (West of Duddon Sands) and an interest of 60% in the offshore wind farm of East Anglia (420 MW installed at the end 2019), which is in the commissioning stage.

The onshore wind farms and West of Duddon Sands were developed under current “Renewables Obligation” legislation. Under such legislation, revenues are partially exposed to the risk of the market price for electricity in the UK, as the revenues obtained reflect the price of the energy produced and the sale of Renewables Obligation Certificates (ROCs).

UK regulations impose minimum ROC requirements per MWh sold on electricity suppliers, 10% more than the system envisages producing, and determine the price at which the rest must buy, which in practice amounts to a floor price equal to the price of the ROCs.

Renewable technology plants implemented from 1 April 2017 (those implemented at 12 May 2016 in the case of onshore wind farms) may avail of the new “Contract for Difference” (CfD) remuneration scheme, which eliminates market risk for 15 years. Such is the case of the East Anglia 1.

The fixed prices for these projects are established on a project-by-project basis through public tenders. The counterparty guaranteeing this price, “The Low Carbon Contracts Company”, finances its potential payments by imposing a levy on suppliers in accordance with their market share, and therefore credit risk vis-à-vis the counterparty is practically zero.

- **Renewables United States**

The IBERDROLA Group conducts its renewables business in the US through its listed company Avangrid, which has an installed capacity of 7,259 MW in onshore wind farms, 118 MW in hydroelectric plants and 143 MW in operational photovoltaic plants.

Approximately 71% of the energy produced is sold on fixed-price long-term contracts with third parties. If hedges of some type are considered, this percentage rises up to 79%. The remaining 21% of the energy produced is sold to the market in more or less short terms.

With electricity prices around USD 25MWh, a 5% change in prices could give rise to an impact of Euros ±6 million on operating results.

Avangrid has very relevant offshore wind project portfolio, among them Vineyard.

- **Renewables Mexico**

In Mexico the business currently has an installed capacity of 595 MW in wind farms and 368 MWdc in solar plants, with two sale schemes: a) fixed-price sale to the CFE under a long-term contract (La venta III, 103 MW) and b) sale to third parties with a discount on the official price published by the CFE, under the self-supply regime or sale to the free market.

Mexican legislation requires electricity retailers in the free market to present Certificates of Clean Energy (CEL in the Spanish abbreviation) at the end of each year for a percentage which increases over time of their energy sales for the year. The Group’s renewable production for the market in Mexico gives rise to these certificates, which are sold, at market prices, to the Group’s Generation and Supply business.

- **Renewables Brazil**

In Brazil the business, through Neenergia, currently has an installed capacity of 516 MW in onshore wind farms, all operating under long-term contracts (PPAs) with a fixed price for the country’s distributors. Excesses and shortages in the production contracted with the distributor are settled over periods of four years, and excesses must be offered and shortages purchased at market prices.

Also in Brazil the Group has 3,031 MW in hydroelectric plants, of which 60% is sold to electricity distribution companies under PPAs.

- **Renewables International**

In Germany, the Group has and operates the Wiking offshore wind farm of 350 MW. Pursuant to German regulations, Wiking plant will have a fixed price for the energy it produces over the first 12 years of operation on a CfD contract, similar to the aforementioned setup for East Anglia 1.

In other European countries, IBERDROLA Group currently has an onshore installed capacity of 609 MW in wind farms and 6 MW in photovoltaic facilities. Regulations in these countries make a distinction between two energy sale schemes: sales at the tariff (Portugal, Greece, Cyprus and Hungary), or sales at market price (Romania).

The Group has been selected, and is already developing, for several significant offshore wind farm projects in Europe, which are expected to be brought into operation throughout 2023-2024.

- Germany: Wiking Süd (10 MW) and Baltic Eagle (476 MW).
- France: Saint Briec project, with an expected total capacity of 496 MW, in which the Group has a 70% stake in the promoting company.

4.5.3. Generation and Retail Businesses

The IBERDROLA Group has a wide array of thermal generation plants in Spain and Mexico, a single thermal plant in Brazil and another in the US. A significant number of the plants in Mexico and the Brazilian plant have long-term PPAs (power purchase agreements) with the CFE (Mexican state electricity company) and the electricity distributors Coelba and Cosern in Brazil respectively.

Management of the risk of the energy produced for the market by the Group's thermal and renewable plants and surplus production of plants with PPAs is transferred to the Energy Management unit of each country where the Group operates, taking as a reference the wholesale market prices.

The various Energy Management units supply electricity and gas to the Retail Business at wholesale market prices (hourly or forward) in accordance with the usual practices of each of the countries in which the Group operates, and manage the sale and purchase of surpluses and shortfalls.

The Retail Businesses sell energy to end customers at fixed or indexed prices, together with other services, at such terms as may be customary in the retail markets of the countries in which they operate (Spain, the UK, Mexico, Brazil, Italy, France, Germany, Ireland and the USA).

Main risks:

- Market prices for electricity, both wholesale and retail, are closely correlated with prices of fuel (oil and gas) and of the emission allowances needed to produce electricity.
- Spot prices in the wholesale electricity market exhibit marked volatility as a result of: 1) the volatility of spot prices of fuels and emission allowances, 2) fluctuating demand, 3) availability of wind or water and 4) possible operational problems in networks or power plants.

- Forward electricity prices are further influenced by projections of new generation plants coming on stream and of increases or decreases in future reserve capacity.
- In general terms: 1) margins of the generation business (thermal and renewable to market) are subject to the risk of the differential between the wholesale spot price and the cost of production, and 2) margins of the retail business are subject to i) the risk of the price differential between the wholesale spot market and forward retail prices, ii) the degree of competition among retailers and iii) the risk of possible regulatory intervention in the form of regulated tariffs, taxes or other obligations (i.e. Energy anti-poverty measures, maximum prices regulated in the UK, etc.).

The offsetting of risk positions between the generation business (thermal and renewable) and the retail business largely reduces the Group's market risk, in particular in Spain and Mexico. The sensitivities shown below cover the exposures of both activities.

- **Liberalised and retail businesses in Spain**

In Spain the Group has 10,099 MW of installed capacity in conventional generation, of which 3,177 MW are of nuclear power, 5,695 MW of combined cycles, 353 MW co-generation and 874 MW coal.

Sales of the free-market retail electricity business in Spain amounted to nearly 49 TWh in 2019. Additionally, the Last Resort Tariff retail subsidiary supplied just over 7 TWh in 2019.

Commodities' price risk

Given current market conditions, the production price of the coal-fired power plants defines, to a large extent, the price of electricity in Spain since coal is the marginal technology necessary to cover electricity demand. Consequently, the price of coal conditions revenues from the other less expensive technologies which are used to cover demand. With electricity prices around Euros 52/MWh, a 5% change in prices could give rise to an impact of Euros ± 13 million on operating results.

The price of CO₂ influences the cost of production in coal-fired power plants. With CO₂ prices of Euros 24 per tonne, a 5% change in the prices could give rise to an impact of Euros ± 2 million on operating results.

In 2019, IBERDROLA Group sold its LNG sale/purchase activity, including long-term supply contracts in Spain and LNG contracts with third parties. From 2020 Iberdrola will supply gas at indexed prices to European markets. The uncertainty associated to the difference between purchase price and sale price to customers or price of gas consumed by combined cycle power plants is Euros ± 20 million.

Demand risk

Given the current market condition, where price is primarily determined by the generation cost at coal-fired plants, which make up around 22% of the generation mix, demand fluctuations are not deemed to impact on marginal technology in the market. The impact on the market price of a 1% change in demand is therefore minimal, amounting to approximately Euros 0.25 per MWh.

A moderate drop in demand in Spain does not affect the scheduled output of the Group's nuclear, hydroelectric and wind power plants, since there is a mandatory electricity market in Spain guaranteeing the efficient dispatch of output from all technologies.

Nevertheless, there could be an impact if a drop in electricity demand entails an equivalent reduction in the Group's retail sales and consequent narrowing of margin. This is mitigated to some extent by increasing sales of own energy on the wholesale market. This same effect of loss of margin on retail sales is seen in demand for gas.

Taking both effects into account, it is estimated that a 1% fluctuation in demand would have an impact of around Euros ± 11.9 million overall.

Nuclear plants risk

From the perspective of its impact on business results, the main risk arises from the combined cycle power plants outages (partially covered by a loss of profits insurance policy over and above an excess).

Nuclear power plants are also exposed to specific risks derived from the operation, storage and manipulation of radioactive materials. Constitutional Spanish law caps the liability of nuclear power plant operators in the event of a nuclear accident at Euros 700 million. This liability for a nuclear accident must be compulsorily insured by the operator of Spanish nuclear power plants. The IBERDROLA Group meets this obligation by taking out Nuclear Civil Liability insurance policies for each plant. However, Law 12/2011, of 27 May, concerning civil liability for nuclear damage or damage caused by radioactive materials, will increase the operator's liability ceiling and the consequent ceiling on mandatory insurance to Euros 1,200 million for nuclear power plants. The law will enter into force when all signatories of the Paris and Brussels Agreements ratify the 2004 Amendment Protocols, as established in these agreements.

In 2019 the Administration and nuclear generators have agreed a schedule closure plan for Spanish nuclear plants. The agreements provide guarantees on the recoverability of investments required until the last day of useful life of the plants and allows a rational safe operation of the plants until the end of the next decade.

- **Liberalised and retail businesses in Mexico**

The Group has 8,223 MW in combined cycle plants and 346 MW in cogeneration plants in Mexico.

Approval of the Energy Regulatory Commission's Agreement A/064/2018, which defines the methodology to determine the calculation and adjustment of the final tariff and the operations tariffs that will apply to the subsidiary production company CFE Suministrador de Servicios Básicos from 1 January 2019.

Commodities' price risk

Electricity generation at IBERDROLA Generación México is gas-intensive. Gas prices are therefore an essential component of this risk. In 2019, approximately 75% of the electricity generated in Mexico was sold under long-term sales agreements (to CFE and, to a lesser extent, other major industrial customers), whereby the risk associated with the price of gas used in generating this electricity is passed on.

The remaining energy is sold to customers (either under self-provision or the free market) at a price linked to the official tariffs published by CFE. The Group's competitiveness in this case relies on its obtaining a better input price for gas than the cost used to define the CFE's basic supply tariff. In the event of an adverse scenario (high cost of gas relative to other energy commodities), the impact would be slightly above Euros 12.5 million in the 95 percentile.

Demand risk

The structure of the agreements IBERDROLA has entered into in Mexico largely shields business results from electricity demand fluctuations. Revenues come mainly from plant availability and only the sales indexed to the official Mexican tariff are exposed to a certain extent to fluctuations in demand. Nonetheless, most of the plants have no firm sales commitments exceeding their production capacity and therefore a shift in demand would not have an impact on their operations or results as the electricity generated would be sold to another customer. For this reason, changes in electricity demand in Mexico therefore have no effect on results.

Operational risk

From the perspective of its impact on business results, the main risk arises from the combined cycle power plants outages (partially covered by a loss of profits insurance policy over and above an excess). In the case of the contracts with the CFE, non-availability leads to a penalty, whereas the contracts with private sector customers would oblige the Group to acquire the missing energy in the market.

- **Generation and Supply businesses in Brazil**

The Generation business has a combined cycle power plant of 533 MW in Brazil (Pernambuco) at the end of 2019 with long-term sale agreements with Coelba and Celpe.

Renewable energy without PPA and thermal generation excess will be traded through the Group's retail company in the free market. With market prices in the area of R\$ 205 MWh, a price fluctuation of 30% would affect the results by some Euros 2.5 million.

- **Retail business in the United Kingdom and other countries**

Sales of the IBERDROLA Group's retail business in 2019 amounted to 20 TWh of electricity and 27 TWh of gas.

Following the entry into force of the Domestic Gas and Electricity Tariff Act 2018, OFGEM publishes on a half year basis the new maximum prices that suppliers may charge to end customers under the "Standard Variable Tariff". The desirability of maintaining this system of price caps will be reviewed in 2020; it may be extended to 2023.

The structure of the rates applied, both those defined freely and those fixed by the regulator, imply that the IBERDROLA Group's margin is affected by changes in demand. In the UK, the impact of temperature on energy demand is important, mainly for household customers who use gas to warm their homes. In this regard, it is estimated that on a warm year, the actual customers' demand would be 2.1% lower for electricity and 9.8% lower in gas compared to average values. This year's hot temperatures have had a negative impact on results amounting to Euros 44 million.

Other countries

IBERDROLA Group carries out or has started carrying out in 2019 retail activities in Italy, France, Germany, Ireland and the United States, although its dimension is not relevant with the Group's results.

- **Unhedged energy transactions (discretionary trading)**

Discretionary trading of electricity, gas, emissions allowances and other fuels and associated products performed by some of the Group's businesses is residual and the overall risk thereof is mitigated using individual stop-loss limits, the aggregate sum of which may never exceed 2% of consolidated net profit forecast for the period, pursuant to the Market risk policy approved by IBERDROLA, S.A.'s Board of Directors.

IBERDROLA has reduced discretionary trading in recent years in line with the widespread move away from market speculation. In December 2018, the notional value of derivatives used in speculative trading (calculated in accordance with the criteria set forth in the European Market Infrastructure Regulation (EMIR)) was Euros 135 million for commodity derivatives. This value is much lower than the Euros 3,000 million threshold set for non-financial companies in the European regulation (EMIR).

4.5.4. Group's business operating risks

During all of the IBERDROLA Group's activities, direct or indirect losses may arise as a result of inadequate internal procedures, technical failures, human error or external factors (such as climate factors).

The IBERDROLA Group is also exposed to the following operational risks, among others:

- Malfunctions, explosions, fire, toxic spillages or polluted emissions in gas and electricity distribution networks and in both traditional and renewable generating plants.
- Force majeure cases.
- Sabotage and/or terrorism.
- Operational risk of operations in markets.
- Physical security and cybersecurity.
- Operations in treasury and energy markets.
- System failures.
- Hazards at work and third-party accidents in own facilities.

Any of these risks could cause damage or destruction to the IBERDROLA Group's facilities and financial losses, as well as injuries to third parties or damage to the environment, along with the ensuing lawsuits, especially in the event of power outages caused by accidents at our distribution networks and possible penalties imposed by the authorities.

Although many of these risks are unpredictable, the IBERDROLA Group mitigates them by carrying out the necessary investments, implementing operation and maintenance procedures and programmes (supported by quality control systems), planning appropriate employee training, and taking out the required insurance covering both material damages and civil liability.

In relation to insurance cover, IBERDROLA Group has international insurance programmes to cover equity (insurance for material damage, machinery breakdowns, loss of profits, damage due to natural disasters and risks arising from construction work) and third-party liabilities (general public liability, liability for environmental risks, professional public liability, etc.).

However, this insurance does not completely eliminate operational risk, since it is not always possible, or it is not in its interest to pass such risk on to insurance companies. In addition, cover is always subject to certain limitations.

Given the configuration of the electricity sector's chain value, IBERDROLA Group's activities may be affected by failures in third-party infrastructures and equipment, as well as transmission networks, competitors' generation plants, communications networks, etc.

- **Cybersecurity risks**

The IBERDROLA Group companies may be affected by threats and vulnerabilities in connection with information, control systems or information and communications systems used by the Group, or by any consequences of unauthorised access to or the use, disclosure, degradation, interruption, modification or destruction of information or information systems, including the consequences of acts of terrorism.

The main risks are:

- Risks related to Operations Technology (OT), such as IT and communications systems used to manage industrial operations (production, management and distribution of energy) or physical safety systems (fire protection, CCTV, alarm reception centres).
- Risks related to admin or customer interfaces (TI), in particular violation of information in them, under the umbrella of General Data Protection Rules (GDPR) in Europe and other countries.
- Other cybersecurity risks having an impact on reputation.

The OT cyberinfrastructure of the thermal generation business and Renewables' large hydroelectrical power plants is set up to control and manage the operation of each plant from the Despacho Central de Generación (DCG) in Spain any other local generation dispatch office. The potential impact of a cyber-attack could put the generation and the safety of the whole country's electrical system at risk.

The operating management of the Group's Networks Business supports itself in cyber infrastructures to supervise and monitor physical electricity and gas transmission and distribution networks (with offices located in the Group's facilities) and the associated field devices. These devices may be located in IBERDROLA Group's facilities (substations, transformation centres, other) or in customer facilities (meters). The potential impact of a cyber-attack could put the energy supply to whole IBERDROLA Group's distribution areas and/or borderline areas operated by other suppliers at risk.

In the particular case of wind farms (onshore or offshore) and photovoltaic plants, said facilities are connected to Supervision, Control and Data Acquisition systems ("SCADA") that communicate with Control Centres (CORE), from which said facilities can be monitored and controlled remotely. The global impact of a cyber-attack would affect said remote control capacity, putting operating safety at risk.

These risks are managed in accordance with the basic principles defined in internal rules promoting the safe use of IT and communications systems and other cyber assets, reinforcing detection, prevention, defense and response abilities before possible attacks.

IBERDROLA Group currently has a specific insurance against cyber risks, under the terms allowed by the insurance market, which is revised and updated periodically in view of the quick evolution and wide variety of cyber risks.

The different Generation and Retail, Renewables and Networks businesses in the Group have appointed specific cyber security managers and defined plans and processes for their internal networks and cyber infrastructures, aligned with the Group's global framework, but adapted to their specific requirements (Industrial Control Systems of ICS, SCADA, Advanced Measuring Infrastructure or AMI, etc.).

IBERDROLA Group complies with local rules on critical infrastructures protection in the countries where it operates, which guarantees the highest level of protection against these type of threats. In the case of Spain, the nuclear plant of Cofrentes has the highest requirements in terms of physical and cyber security within the Group. It has its own Cybersecurity Plan, in order to comply with the Spanish Act on Critical Infrastructures (Act 8/11) and the Nuclear Safety Council, as well as its Additional Technical Guidelines (in Spanish, Instrucciones Técnicas Complementarias or ITC), and collaborates in the exchange of information through the Spanish cybersecurity plan.

From the commercial operation perspective, IBERDROLA Group has implemented a global model to guarantee compliance with all obligations in force in each country. In Europe, the Group is subject to the GDPR. The Personal Data Protection Policy is implemented in each Group subholding and is developed through local rules and procedures adapted to the relevant provisions in each country.

4.5.5 Climate change risks

IBERDROLA has a Policy against climate change (available from www.iberdrola.com) and is clearly committed to the investor community's growing interest in the risks of climate change, which is why we are working to implement the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) initiative of the Financial Stability Board.

The identification, analysis and management of risks resulting from climate change has been integrated, with a global focus, in the ERM (COSO) philosophy, under which IBERDROLA has oriented its risk management since last decade. The identification, analysis and management of risks is approached from a multidepartment perspective, in which both the Corporation and the Businesses take part.

The risks related to climate change require in certain cases strategic management. In this regard, the growth policy followed by Iberdrola throughout its recent history has proven to be a success story, given the strong bet on the development of renewable energies and flexible smart networks. In any case, the opportunities that for the Company arise from the decarbonisation of the global economy weigh more than its risks.

We are facing a systemic global risk. Companies, governments and individuals can reduce their emissions (mitigation) and/or adapt to the new future (resilience).

Climate change compromises several long-term risks which, to a greater or lesser extent are not new to the sector. Risks may be grouped in the following categories:

- Physical risks due to potential material impact on facilities due to the effects resulting from climate change (raise in temperatures, rise of sea level, variations in rainfall, increase both in frequency and intensity of extreme meteorological phenomena, etc.).
- Transition risks, linked to risks arising from global decarbonisation, such as regulatory, market price, technological, reputational, and demand changes, penalties and variations in demand, inter alia).

- Other risks, i.e. credit impairment of counterparties (suppliers, banks, etc.), social phenomena (humanitarian crises, impact on crops and fishing, refugee crises, epidemics, etc.) and larger competition for financial resources.

It is worth mentioning that the impact of climate change, despite being perceivable already in the short-term (i.e. Higher intensity and frequency of climate events in certain geographical areas), are progressive and act over relatively long periods of time. This mainly implies that it will be the Group's future assets and not current assets the ones more severely impacted, since assets are progressively renewed when they reach the end of their useful life. Additionally, the following risk mitigation measures are to be highlighted:

- The design and specifications of new equipment will take into account more severe climate scenarios.
- The best technologies will allow to obtain more economic value for new projects.
- Taking this risk into consideration in new investments.
- The Group's accumulated experience on the management of climate events.
- Insurance cover.
- Diversification of assets (by geography, technology, age, etc.).

Regulated business

Given the geographical spread of our networks assets in Spain, the United Kingdom, the United States and Brazil, and in accordance with already existing studies, the potential increase in sea level in coast areas will have a reduced impact on the regulatory conditions of our Group's assets.

Increases in temperature and greater frequency of extreme weather events may imply a very moderate gradual increase in operation and maintenance costs (associated with various phenomena such as bigger technical losses and reduced useful life of assets) and in annual capital expenditure, although in perfectly manageable amounts given the multi-annual tariff revisions of these regulated businesses. Additionally, the investment and response plans already in force, accumulated experience and the design of networks (meshed) would act as mitigating factors.

In terms of risks of transition, we would highlight that of large-scale development of distributed generation, whose impact would be partly offset by the growing electrification of the economy (electric vehicles for example) and investment in smart grids.

Renewables business

The main risk is potential negative future performance of hydroelectric, solar and wind resources, the key elements having a financial impact on this activity. Added to the uncertainty associated with long-term global climate projections is the need to specify the impact on the geographical regions where our generating assets are located. Nowadays there are no conclusive reports by third parties enabling reasonable predictions on the potential positive or negative variation of said resources at assets level.

In the case of hydraulic resources, a potential decrease in annual rainfall average could lead to a negative impact on the output of hydraulic plants, especially visible in flow plants. Additionally, climate change could affect seasonal rainfall.

- In Spain, for illustrative purposes, a drop of 5% in production would have an estimated mid-term impact on gross margin (net of taxes and rights) of approximately Euros 20 million.
- In Spain, for example, a drop of 5% in production would have an estimated impact for the Group of Euros 10 million (as a result of its stake in Neenergia).

In terms of transition risks, potential cuts to remuneration to renewable energies and a drop in wholesale marginal market prices due to a higher renewable production should be noted. To face this risks, potential technology improvements which would predictably improve the performance of wind farms and solar plants in the future, the inclusion of climate change risks in the assessment of new investments and alternative ways to market sale (such as PPAs or tariff agreements) should be highlighted.

Generation and Supply businesses

The long-term impact of climate change on the thermal generation business is not expected to be material, since the Group's assets in this area will be substantially reduced in the next few decades as they reach the end of their useful life, and will essentially be concentrated in Mexico.

The impact on the pure retail business is considered minor, since any possible negative impacts deriving from efficiency measures and changes in temperature could be offset by the increased growth that the electrification of the economy is expected to produce.

By way of conclusion, and in accordance with the forecast effects alluded to and the mitigating factors to hand, we estimate that the physical risks of climate change will not have a disastrous or lasting impact on the Group's consolidated figures, the Group being resilient overall, and in any case the opportunities deriving from the decarbonisation of the global economy (growth in renewables, investment in integrating smart grids, electrification of transport, etc.) outweigh the risks. In terms of transitional risks, the Group's current positioning, as a result of its focus as an investor on energy from renewable sources and networks, places it in a position of leadership to face these risks.

Apart from this we should highlight the fact that the Group continues to make progress with in-depth climate analysis with a view to improving its forecasting and establishing the most appropriate measures in order to adapt.

For further information on this risk, please refer to the Integrated Report of February 2020, as well as the Sustainability 2019.

4.6 Legal and tax risks

The IBERDROLA Group companies are part of a certain in-court and out-of-court disputes within the ordinary course of their activities, the final result of which, in general, is uncertain. An adverse result, or an out-of-court resolution thereof or other proceedings in the future could have a material adverse effect on our business, financial situation, operating results and cash flows. However, the Group's legal advisers consider that the outcome of the aforementioned disputes will not have a significant effect.

Notes 33 and 44 of the Consolidated annual accounts include a more detailed description of the most significant matters.

4.7 Other IBERDROLA Group risks

The Group has policies and procedures to monitor and mitigate these risks to which it is subject, under the supervision of the Board of Directors, the support of its different Committees and the management of the appropriate corporate divisions.

The comprehensive risk control and management system therefore observes the continuous follow-up and detection of emerging risks and risks of not a strict financial nature which the investors' community has been monitoring in the last years, such as environmental aspects, the impact on society and on the Group's corporate governance ("ESG"). The impacts said risks may have, which are conveniently reported both internally and externally, are of a varied nature, both in economic terms and reputational terms.

In terms of fraud and corruption risks, IBERDROLA Group has a Compliance system consisting of a set of substantive rules, formal procedures and material actions aimed at guaranteeing its intervention in compliance with ethical principles and the applicable legal provisions, preventing, avoiding and mitigating risks resulting from irregular, unethical or illegal behaviours from IBERDROLA Group's professionals within the organisation. Bodies and divisions which have been directly assigned their execution and development are also part of said system.

As part of the Compliance System the Code of Ethics (applicable to all Group's professionals, directors and supplies) and the Compliance Unit, an internal permanent collegiate body, linked to the Sustainable Development Committee within IBERDROLA' Board of Directors, disseminating a preventive culture based on the principle of zero tolerance to illegal or irregular behaviours, stand out. The system has been developed following the best domestic and international practices in terms of compliance, fraud prevention and fight against corruption.

For greater detail on these risks, please check the Sustainability Report 2019, as well as the Integrated Report February 2020 and the Annual Corporate governance report 2019.

Among the Policies approved by the Board, the following stand out:

Environmental, social and corporate governance risks ("ESG")

- Environmental policy, General sustainable development policy, Policy against climate change.
- Human resources framework policy, Health and safety risks policy and Equal opportunities and life-work balance policy.
- General Corporate Governance Policy, Board of Directors Diversity and Member Selection Policy, Senior Management Remuneration Policy.
- Stakeholder Relations Policy and Policy on Respect for Human Rights.

Fraud and corruption risks

- Anti-corruption and anti-fraud policy
- Crime prevention policy
- Code of Ethics

- Ethical mailboxes

Reputation risk

- Reputational risk framework policy.

Other sources of uncertainty

The risks associated to pension plans are analysed in Note 25 of these financial statements.

Note 44 shows the detail of contingent liabilities.

4.8. Risks materialised during the year

See section E.5 of the corporate governance report for 2019.

5. SIGNIFICANT SUBSEQUENT EVENTS TO YEAR END

Events after the reporting period are described in Note 51 to the annual accounts.

6. RESEARCH AND DEVELOPMENT ACTIVITIES

IBERDROLA is today the Utility of the future due to its innovative strategy, extended to all its businesses and activity fields. Thanks to a constant commitment to innovation, Iberdrola is the most innovative Spanish utility, the second at European level and the third at worldwide level, in accordance with the European Commission's classification. This position was reached thanks to the talent, experience and effort of 34,000 people in more than 40 countries.

In 2019, IBERDROLA invested more than Euros 280 million to R+D+i activities, up 5% compared to the previous year. IBERDROLA Group's R+D+i are based on five pillars:

- **Disruptive technologies** that are increasingly efficient, sustainable and respectful of the environment, enabling the functioning of facilities and processes to be optimised
- **Competitive new products and services** that meet customers' needs with a greater degree of personalisation of contents and offers.
- **Digitisation and automation** in all business and processes, introducing new technologies such as blockchain, big data, IoT, virtual reality, artificial intelligence, etc., at all company levels.
- **Innovation with start-ups, entrepreneurs and suppliers** with the goal of developing new disruptive business models, favouring the exchange of know-how and having a driving effect on collaborators.
- **Culture of innovation and talent.** Iberdrola fosters a culture of innovation by means of knowledge transfer, attracting talent and promoting the entrepreneurial spirit. Within the Universities Programme, several initiatives are developed in the academic word, such as Chairs, R&D projects, training of students, in-house training and young entrepreneurs.

For recognition purposes, in 2019 the Spanish Ministry of Science, Innovation and Universities granted the National Innovation award, in the Innovating trajectory category, to the IBERDROLA Group's Chairman, Ignacio Galán.

Some of the most notable innovative initiatives, classified by broad area, are:

6.1 Renewable energies

In 2019, Innovation activities in Renewables have focused primarily on:

- Efficiency improvements in wind farms, photovoltaic plants and hydroelectric facilities. The European project ENERXICO has started. Its aim is to adapt flows dynamic models to future exascale supercomputers. The projects following projects have continued being developed: ROMEO, to improve operating and maintenance cost efficiency of wind farms; ASPA, to develop new models and tools for the early detection of defects based on AI/big data techniques, and Doctor PV, to reduce the costs in photovoltaic plants. The YO SOY INNOVADOR (I AM AN INNOVATOR) initiative has been launched, to promote internal and external challenges, and we have continued working on the *Renewables Digital Evolution Plan (2018-2022)*, and the *Renewables Accelerator* project, to promote new ideas fostering efficiency increase and global competitiveness in renewable energies.
- In the field of hydroelectric power, the projects HIDRODEMAND, for implementing operating efficiencies, and HIDROSMART, for developing new technologies to operate Watersheds Operating Centres (COCs, in Spanish) are to be highlighted.
- Regarding innovation in offshore wind projects, the construction of the East Anglia One offshore wind farm in the United Kingdom is being completed. There several initiatives such as the development of tools to model and foresee movements in the sea bed have been carried out. The proceedings for constructing East Anglia Hub, grouping three projects with a total installed capacity of 3,100 MW, in the upcoming years have been initiated. *East Anglia One North*, *East Anglia Two* and *East Anglia Three*. In the Baltic Sea, the upcoming construction of the Baltic Eagle offshore wind farm stands out, for which a new design of monopiles is being done given the circumstances of the sea bed. In the offshore wind farm of Saint Brieuc a new innovative onshore pilons projects is being carried out. It will serve to increase efficiency during its future installation in the sea. In Wikingier Sud, the installation of a new type of jackets is being assessed to reduce installation times and costs. Last, the FLAGSHIP project is worth highlighting. It is an initiative within the *Programa H2020*, to design, manufacture and operate a new floating half-immersed platform in Norwegian waters.

6.2. Clean generation technologies

During 2019, efforts in the area of generation focused on operating efficiency and flexibility, reducing environmental impact, and the improvement of plant safety.

- In the nuclear field, the completion of the OPD project stands out, thanks to which an open phase detection system for start-up transformers in nuclear power stations has been successfully developed

- In the thermal generation field, the OCTAVE project has been completed. It is continuation of the ambitious open phase detection system for start-up transformers in nuclear power stations. The initial goals set in terms of flexibility have been successfully met and have contributed to the integration of intermittent renewable generation in the energy mix. Moreover, the REDEMIS project has commenced to improve environmental performance at start-up and shut-down phases of the plant and in variations of load of combined cycles.

6.3. Retail Area - New projects and services

Innovation is essential in retail activity, in order to offer customers the products and services best suited to their needs. Thus in 2019 IBERDROLA launched the following:

- New initiatives to boost the customer experience.

A new app has been launched in Spain with a more innovative modular design, easier and more intuitive to use, and Bizum has been implemented as a payment method. In the apps for Italy, France and Portugal several functionalities have been added, such as the management of the fixed rate, the self-reading of electricity and gas, wire payments, etc. In addition, the web site has been restructured and now has a more innovative design, offering customers an excellent experience despite the device from which they access it and the information they want to check.

- New products and functionalities

In 2019 an innovative product for home energy management has been launched: the Iberdrola Smart Assistant (*Asistente Smart Iberdrola*), which allows to disaggregate the consumption of household appliances.

Regarding Smart Home, this year a new product has been launch to manage heat and cold air conditioning and the sale of smart led lights has been promoted. We have continued developing the product Energy Wallet, through which customers may select the renewable generation plant from which they receive their supply from a list of wind and hydroelectric al plants available.

In relation to the self-consumption solution for distributed generation, Smart Solar, in 2019, the product was launched in Italy and its product functionalities have continued to be improved in Spain and Portugal. Now, customers may monitor generation, self-consumption and the injection to the grid of their solar panels.

As part of the Smart Mobility, the roll-out of charging stations, integrating third-party equipment (interoperability), accessible through the Iberdrola Public Charge App (*App Recarga Pública Iberdrola*) stands out. On the other hand, the Smart functionalities of home charging equipment have been integrated in the Iberdrola Customers App (*App de Iberdrola Clientes*), so user may manage their home charging points from the app. In Brazil and the United Kingdom there are several on-going initiatives to foster the roll-out of electrical vehicles (new charging stations, 100% renewable rates, etc.).

Moreover, IBERDROLA takes part in R+D+i projects in the field of electric mobility, such as REMOURBAN, developing a public charging network in the city of Valladolid, or the CIRVE project in which Iberdrola assists with the development of rapid-recharge infrastructure corridors for electric cars, to boost electric mobility and connect Spain to France and Portugal and the interoperability among charging stations of different companies. Moreover, IBERDROLA takes part in a work group to create a state interoperability platform of public charging stations.

6.4. Smart grids

The Group's R+D+i activities in electrical energy distribution is specially aimed at improving customer services, maintaining and extending the smart digital grid model, and advancing towards a larger integration of renewables in the grid, electrical vehicles and storage systems, both in Spain and abroad.

- In Europe, the project COORDINET has given its first steps. Several agents in the electricity sector involved in the electricity sector chain value take part in it in order to offer a favourable framework to facilitate the participation of all agents. Furthermore, in 2019, the European Commission approved the project ATELIER, whose purpose is to develop Positive Energy Districts (PED) in eight European cities, Bilbao being among them.
- In Spain, the execution of the LAYCA project has gone on. This project, which received the Quality Innovation Award, develops a system to locate breakdowns and characterise failures of medium voltage networks. Additionally, the roll-out of a new system to inspect aerial lines in Spain developed by LIDAR project has been completed.
- In the United Kingdom, the launch of Comunidades de Cero Carbono stands out. It is the first detailed work plan to show how local communities may have a role in attaining zero emissions. The campaign was started in Liverpool and will be extended to other areas with different energy needs like Edinburgh and Glasgow or the rural communities of Angleshey and Cheshire.
- In Brazil, innovation projects are leading in five main directions: smart grids, quality and reliability of the grid, safety in facilities, recoverability of energy and sustainability. Among the initiatives carried out the project DSO Atibaia stands out. It is expected to install a new automation system, smart meters and a telecommunications network, and the Transmission Grids project, where new mixes, fibres, structures and digital solutions will be explored.
- In the United States, the project ARIES stands out. It offers a solution to assess damages during weather events using LiDAR technology. It will significantly reduce diagnosis time and offer better customer service. As part of the Energy Smart Community programme, several fast load pilot projects for electric vehicles are being carried out, as well as battery storage projects for the grid.
- Regarding Iberdrola Innovation Middle East, a technological centre IBERDROLA has in Qatar, several R+D+i projects with a high level of digitisation and great retail potential have been implemented in different areas: smart grids, integration of renewables and energy management.

6.5. IBERDROLA Ventures – PERSEO

Iberdrola Ventures – PERSEO is IBERDROLA's start-up programme created in 2008 to foster creation and develop a dynamic start up and entrepreneurship ecosystem in the electricity sector. The programme focuses on technologies and business models through greater electrification and decarbonisation of the economy. From its inception, more than Euros 65 million have been invested in energy start-ups worldwide. Among the main milestones achieved in 2019, the following stand out:

- The recognition by the European Commission within the Start-up Europe Partnership initiative, including IBERDROLA among the top 12 European companies that work best with start-ups for the third year in a row. IBERDROLA was also handed the special award Start-up Procurement Award.
- More than 15 pilot projects with start-ups in technological areas such as IA, Big Data, IoT, robotics and Blockchain, aiming at improving both asset planning and management and optimising operation and maintenance. The Iberdrola Challenges programme has been launched to attract innovative solutions that may be applied in IBERDROLA to face the company's challenges.
- The investment in Wallbox, dedicated to developing electric mobility solutions, and Balantia, developing solutions for improvement in the field of energy efficiency. These investments entail an important contribution towards IBERDROLA's support in the fields of electric mobility and energy efficiency.

7. ACQUISITION AND DISPOSAL OF TREASURY SHARES

The Group's treasury share policy establishes the following:

Treasury share transactions are considered those transactions carried out by the Company, whether directly or through any of the Group's companies, the object of which are Company shares, as well as financial instruments or agreements of any type, traded or not in the stock market or other organised secondary markets, which grant the right to acquire from, or the underlying security of which are, Company shares.

Treasury share transactions will always have legitimate purposes, such as, among others, to provide investors with liquidity and sufficient depth in the trading of Company shares, to execute treasury share purchase programmes approved by the Board of Directors or General Shareholders' Meeting resolutions, to fulfil legitimate commitments undertaken in advance or any other acceptable purposes in accordance with applicable regulations. Under no circumstances shall the purpose of the treasury share transaction be to interfere with the free establishment of prices. In particular, any conduct referred to in article 83.ter.1 of the Securities Market Law and article 2 of the Royal Decree 1333/2005, of 11 November, implementing the Securities Market Law related to matters of market abuse.

The Group's treasury share transactions will not be carried out, under any circumstances, based on insider information.

Treasury shares will be managed providing full transparency as regards relationships with market supervisors and regulatory organisations.

Note 20 of the Consolidated annual accounts presents the movements of IBERDROLA's shares in the Group companies' portfolios in the last years. Likewise, other information on transactions in 2019 and 2018 is presented in the following chart:

Treasury Stock	No. of shares	thousands of Euros	Thousands of Euros treasury shares cost	Average price (euros)	Total shares	% of capital
Balance at 01.01.2018	75,710,149	56,782	507,175	6.70	6,317,515,000	1.20
Additions	266,442,793	199,832	1,672,087	6.28	–	–
Capital reduction	(198,374,000)	(148,781)	(1,245,420)	6.28	–	–
Iberdrola scrip dividend ⁽¹⁾	5,117	4	–	–	–	–
Iberdrola scrip dividend ⁽²⁾	–	–	(11,044)	–	–	–
Disposals (3)	(7,798,715)	(5,849)	(49,733)	6.38	–	–
Balance at 31.12.2018	135,985,344	101,988	873,065	6.42	6,397,629,000	2.13
Additions	172,369,618	129,277	1,402,123	8.13	–	–
Capital reduction	(280,457,000)	(210,343)	(2,015,182)	7.19	–	–
Iberdrola scrip dividend ⁽¹⁾	3,039,564	2,280	–	–	–	–
Disposals (3)	(6,561,151)	(4,921)	(42,141)	6.42	–	–
Balance at 31.12.2019	24,376,375	18,281	217,865	8.94	6,362,072,000	0.38

(1) Shares received.

(2) Free of charges allocation rights disposed.

(3) Includes awards to employees.

Treasury shares of Scottish Power	No. of shares	thousands of Euros	Thousands of Euros treasury shares cost	Average price (euros)	Total shares	% of capital
01.01.2018	1,156,863	868	8,417	7.28	6,317,515,000	0.02
Additions	362,108	272	2,393	6.61	–	–
Iberdrola scrip dividend ⁽¹⁾	144,747	109	–	–	–	–
Disposals (3)	(613,079)	(460)	(2,734)	4.46	–	–
31.12.2018	1,050,639	789	8,076	7.69	6,397,629,000	0.02
Additions	256,592	192	2,193	8.55	–	–
Iberdrola scrip dividend ⁽¹⁾	110,714	83	–	–	–	–
Disposals (3)	(504,226)	(378)	(2,330)	4.62	–	–
31.12.2019	913,719	686	7,939	8.69	6,362,072,000	0.01

During 2019 and 2018, treasury shares held by the IBERDROLA Group were below the legal limit.

Finally, the conditions and time periods of the current mandate of the Board of Directors to acquire or transfer treasury shares are detailed below.

At their General Meeting held on 13 April 2018, the shareholders expressly agreed to delegate powers to the board of directors, with powers of substitution, pursuant to the provisions of the Spanish Companies Act, to carry out derivative acquisition of shares in Iberdrola, S.A. under the following conditions:

- Acquisitions may be made directly by Company or indirectly through their subsidiary companies under the same terms and conditions as this agreement. The subsidiary companies which develop regulated activities as prescribed in Law 24/2013 of 26 December on the Electricity Sector and Law 34/1988 of 7 October on the Hydrocarbon Sector.
- Acquisitions may be made by purchase transactions, swaps or any other form permitted by law.
- Acquisitions may be made up, at all times, to the maximum legal threshold.
- Such acquisitions may not be made at a price higher than the market price or lower than the par value of the share.
- This authorization is granted for a maximum period of five years since the adoption of the agreement.
- As a result of the acquisition of shares, including those in which the Company or the person acted on its own name and behalf but on behalf of the Company it had previously required and already had in stock, resulting net equity could not be reduced under its share capital plus unavailable legal or statutory reserved, as provided in section 146.1.b) of the Spanish Companies Act.

Shares acquired under these powers can be transferred or cancelled or used for the compensation systems as provided for in paragraph 3.a) in section 146.1 of the Spanish Companies Act. They may also be used to develop programmes that encourage participation in the Company's share capital such as the dividend reinvestment plan, loyalty bonuses and other similar instruments.

- Stock market data

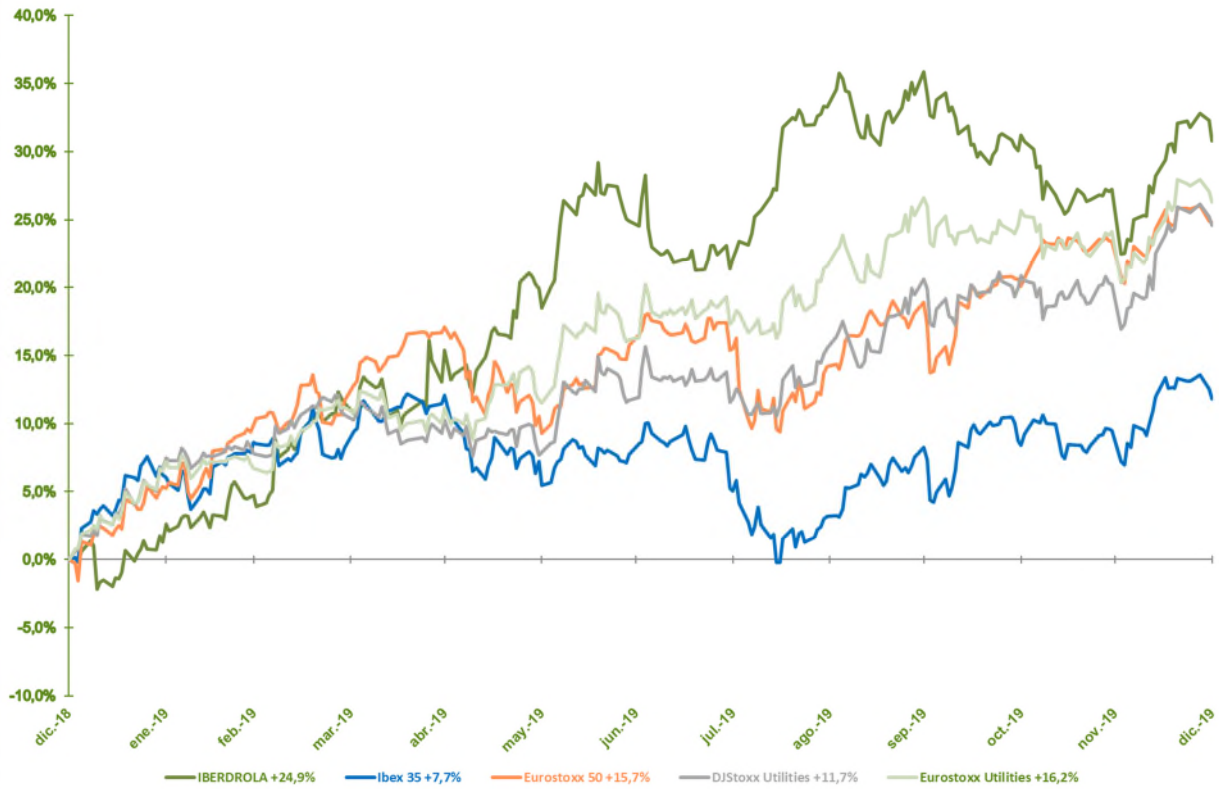
		2019	2018
Stock market capitalisation ⁽¹⁾	Millions of Euros	58,404	44,899
Earnings per share continuing operations	Euros	0.534	0.455
P.E.R. (share price at year end/profit per share)	Times	17.190	15.420
Price / Carrying amount (capitalisation on carrying amount at year end) ⁽²⁾	Times	1.550	1.227

(1) 6,362,072,000 and 6,397,629,000 shares at 31 December 2019 and 2018, respectively.

(2) Capitalisation at 31 December 2019 (58,404) / Parent company equity (37,678). Capitalisation at 31 December 2018 (44,899) / Parent company equity (36,582).

- The IBERDROLA share

Stock market performance of IBERDROLA compared to the indexes:



	2019	2018
Number of shares outstanding	6,362,072,000	6,397,629,000
Share price at period end	9.18	7.02
Average share price for the year	8.42	6.43
Average daily volume	16,320,416	18,167,584
Maximum volume (19/01/2018 - 06/04/2017)	57,528,271	62,436,659
Minimum volume (24/12/2018 - 28/08/2017)	2,303,761	4,680,119
Shareholder remuneration (Euros)	0.356	0.331
Gross interim dividend (29/01/2019 - 29/01/2018) ⁽¹⁾	0.151	0.140
Gross complementary dividend (01/08/2019 - and 25/07/2018) ⁽²⁾	0.200	0.186
Attendance fees	0.005	0.005
Shareholders' profitability ⁽³⁾	3.88%	4.72%

- (1) Purchase price of rights guaranteed by IBERDROLA in 2018 equivalent to interim dividend in accordance with "Iberdrola flexible remuneration" in 2019.
- (2) Complementary dividend Iberdrola flexible remuneration (Iberdrola retribución flexible).
- (3) Complementary dividend and attendance bonus for attending the General Shareholders' Meeting/share price at period end.

8. OTHER INFORMATION

8.1 Non-financial information and diversity

The statement on non-financial information, referred to in sections 262 of the Companies Act and 49 of the Code of Commerce, are presented in a separate report titled Statement of non-financial information. The consolidated sustainability report for IBERDROLA, S.A., and its subsidiary companies for 2019, expressly indicates the information contained there is part of IBERDROLA Group's consolidated directors' report. This document will be verified by an external verification services supplier and will be subject to the same requirements in terms of approval, deposit and publication as the consolidated management report.

8.2. IBERDROLA Foundation

In 2019, the Group allocated Euros 10,309 thousand to financing the various foundations.

The main recipient of the funding was Iberdrola Foundation, which received Euros 6,904 thousand. Information on its goals and activities is available at: www.fundacioniberdrola.org. IBERDROLA Foundation is a private, non-profit, cultural foundation, founded by the Company. Its mission is to develop initiatives which effectively contribute to improving the quality of life of the people in the regions and countries where the Group acts, especially in the areas of energy sustainability, art and culture, as well as solidarity and social initiatives. The foundation may act independently to achieve its goals and is fully functional and autonomous. Without prejudice to its collaboration with other entities, Iberdrola Foundation coordinates and executes the Group's corporate social responsibility strategy, so that it is in line with the purpose for which it was created and as assigned there to by the Board of Directors.

Iberdrola Foundation coordinates its welfare work in the United Kingdom through the Scottish Power Foundation, which was granted Euros 1,332 thousand. In the United States, this work is carried out through the Avangrid Foundation, allocating Euros 1,031 thousand. In Brazil through the Instituto Iberdrola Brasil, earmarking Euros 498 thousand. In Mexico, through the Fundación Iberdrola México, receiving Euros 544 thousand.

ANNUAL CORPORATE GOVERNANCE REPORT 2019

**ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED
COMPANIES**

ISSUER IDENTIFICATION

YEAR-END DATE: 31/12/2019

Tax Identification No. (C.I.F.) A-48010615

Company Name: **IBERDROLA, S.A.**

Registered Office: Plaza Euskadi número 5
48009 Bilbao - Biscay - Spain

ANNUAL CORPORATE GOVERNANCE REPORT OF LISTED COMPANIES

A CAPITAL STRUCTURE

A.1 Complete the table below with details of the share capital of the company:

Date of last change	Share capital (Euros)	Number of shares	Number of voting rights
25/07/2019	4,771,554,000.00	6,362,072,000	6,362,072,000

Remarks
On 30 January 2020, the share capital was increased to 4,840,194,000.00 euros, represented by 6,453,592,000 ordinary shares having a nominal value of 0.75 euro each, belonging to a single class and series, which are fully subscribed and paid up.

Please state whether there are different classes of shares with different associated rights:

Yes No

Class	Number of shares	Par value	Number of votes	Associated rights

Remarks
All shares are of the same class and carry the same rights.

A.2 Please provide details of the company's significant direct and indirect shareholders at year end, excluding any directors:

Name of shareholder	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights
	Direct	Indirect	Direct	Indirect	
BLACKROCK, INC,	0.00	5.10	0.00	0.06	5.16
NORGES BANK	3.43	0.00	0.00	0.00	3.43
QATAR INVESTMENT AUTHORITY	0.00	8.69	0.00	0.00	8.69

Remarks
Data at 31/12/2019.

Breakdown of the indirect holding:

Name of indirect shareholder	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights
BLACKROCK INC	BLACKROCK GROUP	5.10	0.06	5.16
QATAR INVESTMENT AUTHORITY	QATAR HOLDING LUXEMBOURG II, S.A R.L.	8.69	0.00	8.69

Remarks
<p>According to available information, the approximate breakdown of the interests in the share capital by type of shareholder is as follows:</p> <ul style="list-style-type: none"> - Foreign investors 69.70% - Domestic entities 7.74% - Domestic retail investors 22.56%

State the most significant shareholder structure changes during the year:

Name of shareholder	Date of transaction	Description of transaction
NORGES BANK	08/01/2019	Its interest has decreased to below 3%
NORGES BANK	16/01/2019	Its interest has increased to above 3%
NORGES BANK	17/01/2019	Its interest has decreased to below 3%
NORGES BANK	18/01/2019	Its interest has increased to above 3%

Most significant movements
The sources of the information provided are the notices sent by the shareholders to the CNMV and to the Company itself, the information contained in their respective annual reports and press releases, and the information that the Company obtains from Iberclear.

Pursuant to the provisions of section 23.1 of Royal Decree 1362/2007 of 19 October, further developing Law 24/1988 of 28 July on the Securities Market, in connection with the transparency requirements relating to the information on issuers whose securities have been admitted to trading on an official secondary market or other regulated market in the European Union, it is deemed that the holder of a significant interest is a shareholder controlling at least 3% of voting rights.

On 7 January 2020, the Qatar Investment Authority reported that Qatar Holding Luxembourg II, S.à r.l transferred its direct interest in the company to Qatar Holding LLC, both entities being controlled by Qatar Investment Authority.

On 7 January 2020, Norges Bank reported that its percentage voting rights in the Company decreased to below 3%.

On 14 January 2020, Norges Bank reported that its percentage voting rights in the Company increased to above 3% on 13 January 2020.

A.3 In the following tables, list the members of the Board of Directors (hereinafter “directors”) with voting rights in the company:

Name of director	% of shares carrying voting rights		% of voting rights through financial instruments		% of total voting rights	% of total voting rights that can be transmitted through financial instruments	
	Direct	Indirect	Direct	Indirect		Direct	Indirect
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	0.11	0.06	0.03	0.00	0.20	0.00	0.00
MS INÉS MACHO STADLER	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR IÑIGO VÍCTOR DE ORIOL IBARRA	0.02	0.00	0.00	0.00	0.02	0.00	0.00
MS SAMANTHA BARBER	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MS MARÍA HELENA ANTOLÍN RAYBAUD	0.00	0.00	0.00	0.00	0.00	0.00	0.00

MS GEORGINA KESSEL MARTÍNEZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MS DENISE MARY HOLT	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR JOSÉ WALFREDO FERNÁNDEZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR MANUEL MOREU MUNAIZ	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR XABIER SAGREDO ORMAZA	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MR JUAN MANUEL GONZÁLEZ SERNA	0.00	0.01	0.00	0.00	0.01	0.00	0.00
MR FRANCISCO MARTÍNEZ CÓRCOLES	0.01	0.00	0.01	0.00	0.01	0.00	0.00
MR ANTHONY L. GARDNER	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MS SARA DE LA RICA GOIRICELAYA	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Total percentage of voting rights held by the Board of Directors	0.24
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Remarks
<p>The data reflected in this section is at the date of approval of this report.</p> <p>Pursuant to the provisions of the 2017-2019 Strategic Bonus approved at the General Shareholders' Meeting, the chairman & CEO may receive up to a maximum of 1,900,000 shares based on the performance evaluation for the 2017-2019 period, which, if awarded will be paid in three equal parts in 2020, 2021 and 2022.</p> <p>Furthermore, pursuant to the provisions of the 2017-2019 Strategic Bonus, the Business CEO may receive up to a maximum of 300,000 shares based on the performance evaluation for the 2017-2019 period, which, if awarded will be paid in three equal parts in 2020, 2021 and 2022.</p> <p>Each of the deliveries of shares is subject to confirmation by the Board of Directors, after a report from the Remuneration Committee, that the</p>

circumstances on which the performance evaluation was based remain in effect.

As at the date of this Report, the Remuneration Committee has not yet evaluated performance during the 2017-2019 period.

Breakdown of the indirect holding:

Name of director	Name of direct shareholder	% of shares carrying voting rights	% of voting rights through financial instruments	% of total voting rights	% of voting rights that can be transmitted through financial instruments
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	Royal Park 2000, S.L.	0.06	0.00	0.06	0.00
MR JUAN MANUEL GONZÁLEZ SERNA	Grupo Siro Corporativo, S.L.	0.01	0.00	0.01	0.00

A.4 If applicable, state any family, commercial, contractual or corporate relationships that exist among significant shareholders to the extent that they are known to the company, unless they are insignificant or arise in the ordinary course of business, except those that are reported in Section A.6:

Name of related party	Nature of relationship	Brief description
No data		

A.5 If applicable, state any commercial, contractual or corporate relationships that exist between significant shareholders and the company and/or group, unless they are insignificant or arise in the ordinary course of business:

Name of related party	Nature of relationship	Brief description
No data		

A.6 Describe the relationships, unless insignificant for the two parties, that exist between significant shareholders or shareholders represented on the Board and directors, or their representatives in the case of legal-person directors.

Explain, as the case may be, how the significant shareholders are represented. Specifically, state those directors appointed to represent significant shareholders, those whose appointment was proposed by significant shareholders and/or companies in its group, specifying the nature of such relationships or ties. In particular, mention the existence, identity and post of directors, or their

representatives, as the case may be, of the listed company, who are, in turn, members of the Board of Directors or their representatives of companies that hold significant shareholdings in the listed company or in group companies of these significant shareholders.

Name or company name of related director or representative	Name or company name of related significant shareholder	Company name of the group company of the significant shareholder	Description of relationship/post
No data			

Remarks
There are no directors appointed on behalf of significant shareholders or directors connected thereto or proposed by them for appointment.

A.7 State whether the company has been notified of any shareholders' agreements that may affect it, in accordance with Articles 530 and 531 of the Ley de Sociedades de Capital ("Corporate Enterprises Act" or "LSC"). If so, describe these agreements and list the party shareholders:

Yes No

State whether the company is aware of any concerted actions among its shareholders. If so, provide a brief description:

Yes No

If any of the aforementioned agreements or concerted actions have been modified or terminated during the year, please specify expressly:

A.8 State whether any individual or company exercises or may exercise control over the company in accordance with Article 5 of the Ley de Mercados de Valores ("Spanish Securities Market Act" or "LMV"). If so, please identify them:

Yes No

A.9 Complete the following table with details of the company's treasury shares:

At the close of the year:

Number of direct shares	Number of indirect shares (*)	Total percentage of share capital
24,376,375		0.38

(*) through:

Name of direct shareholder	Number of direct shares

No data	
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Explain any significant changes during the year:

Explain significant changes
<p>The Company sent to the CNMV three updates to its treasury share position in 2019 as a result of a change in the number of voting rights arising from corporate transactions:</p> <ul style="list-style-type: none"> • On 5 February 2019 notices were provided of direct acquisitions of a total of 3,617,643 shares (representing 0.055% of voting rights on that date), coinciding with the increase in capital resulting from the “Iberdrola Flexible Remuneration” programme. • On 26 June 2019 notices were provided of direct acquisitions of a total of 235,024 shares (representing 0.004% of voting rights on that date), coinciding with the reduction in capital; and • On 2 August 2019 notices were provided of direct acquisitions of a total of 379,515 shares (representing 0.006% of voting rights on that date), coinciding with the increase in capital resulting from the “Iberdrola Flexible Remuneration” programme. <p>During financial year 2019 the Company also provided two more notices arising from consecutive direct acquisitions of own shares due to said acquisitions exceeding 1% of voting rights since the preceding notice:</p> <ul style="list-style-type: none"> • On 22 June 2019 notices were provided of direct acquisitions of a total of 66,286,268 shares (representing 1.017% of voting rights on that date). • On 17 June 2019 notices were provided of direct acquisitions of a total of 81,529,569 shares (representing 1.250% of voting rights on that date). • In addition, on 18 February 2020 the Company notified the CNMV of direct acquisitions of own shares in the total amount of 75,462,635 shares (1.169%).

A.10 Provide a detailed description of the conditions and terms of the authority given to the Board of Directors to issue, repurchase, or dispose of treasury shares.

<p>The shareholders acting at the General Shareholders’ Meeting held on 13 April 2018 resolved to expressly authorise the Board of Directors, with the power of substitution, pursuant to the Companies Act (<i>Ley de Sociedades de Capital</i>), to carry out the derivative acquisition of shares of Iberdrola on the following terms:</p> <ol style="list-style-type: none"> a) Purchases may be made by Iberdrola directly, or indirectly through its subsidiaries. Subsidiaries carrying out regulated activities are excluded pursuant to the provisions of the Electricity Industry Act (<i>Ley del Sector Eléctrico</i>) and the Hydrocarbons Act (<i>Ley de Hidrocarburos</i>). b) Purchases will be made using purchase/sale or swap transactions or any other means allowed by law. c) Purchases may be made up to the maximum sum permitted by law (i.e. 10% of the share capital). d) Purchases may not be made at a higher price than that quoted on the Stock Exchange or at a price lower than the share’s nominal value. e) The authorisation was granted for a period not to exceed five years as from the approval of the resolution.
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- f) As a result of the acquisition of shares, including those that the Company or the person acting in their own name but on behalf of the Company has previously acquired and held in treasury, the resulting shareholders' equity cannot decrease to below the amount of the share capital plus the restricted reserves required under law or the by-laws.

The shares, if any, purchased as a result of the aforementioned authorisation could be used for either transfer or retirement or could be applied to the remuneration systems provided for in the Companies Act; added to the foregoing alternatives was the possible development of programmes fostering the acquisition of interests in the Company, such as, for example, dividend reinvestment plans, loyalty bonuses or similar instruments.

Furthermore, at the General Shareholders' Meeting held on 8 April 2016, the shareholders resolved to authorise the Board of Directors to increase share capital upon the terms and within the limits set forth in section 297.1.b) of the Companies Act, with the power to exclude preemptive rights, limited to a maximum nominal amount of 20% of the share capital.

A.11 Estimated working capital:

	%
Estimated working capital	82.13

A.12 State whether there are any restrictions (article of associations, legislative or of any other nature) placed on the transfer of shares and/or any restrictions on voting rights. In particular, state the existence of any type of restriction that may inhibit a takeover attempt of the company through acquisition of its shares on the market, and those regimes for the prior authorisation or notification that may be applicable, under sector regulations, to acquisitions or transfers of the company's financial instruments.

Yes

No

Description of restrictions
<p>Those having an interest equal to or greater than 3% of the capital or voting rights of two or more companies that have the status of principal operator in certain markets or sectors (including the generation and supply of electricity) may not exercise rights in excess of such percentage in more than one entity. Article 29.2 of the By-Laws provides that no shareholder may cast a number of votes greater than those corresponding to shares representing 10% of the share capital.</p> <p>According to article 28, a shareholder may not exercise their right to vote at the General Shareholders' Meeting if the resolution to be approved is intended to: (a) relieve the shareholder of an obligation or grant the shareholder a right; (b) provide the shareholder with any kind of financial assistance, including the provision of guarantees in favour thereof; or (c) release the shareholder, if a director, from obligations arising from the duty of loyalty as provided by law.</p>

Article 50 of the By-Laws provides that the by-law restrictions against the exercise of voting rights by shareholders affected by conflicts of interest established in article 28 above and the limitation on the maximum number of votes that may be cast by a single shareholder contained in sections 2 and 4 of article 29 above shall be deprived of effect upon the occurrence of certain circumstances in the case of a takeover bid.

Furthermore, section 527 of the Companies Act provides that at listed companies (sociedades anónimas cotizadas), the by-law provisions that directly or indirectly set, as a general rule, the maximum number of votes that may be cast by a single shareholder, by the companies belonging to the same group or by those acting in concert with the foregoing shall be of no effect when, following a takeover bid, the bidder has reached a percentage that is equal to or greater than 70% of the voting share capital, unless such bidder is not subject to equivalent breakthrough measures or has not adopted them.

Pursuant to U.S. law, due to the business carried out by Avangrid, Inc. (a company belonging to the Iberdrola group) in that country, the acquisition of an interest giving rise to the holding of 10% or more of the share capital of Iberdrola will be subject to the prior approval of certain U.S. regulatory authorities.

A.13 State if the shareholders have resolved at a meeting to adopt measures to neutralise a take-over bid pursuant to the provisions of Act 6/2007.

Yes No

If so, please explain the measures approved and the terms under which such limitations would cease to apply:

A.14 State if the company has issued shares that are not traded on a regulated EU market.

Yes No

If so, please list each type of share and the rights and obligations conferred on each.

B GENERAL SHAREHOLDERS' MEETING

B.1 State whether there are any differences between the quorum established by the LSC for General Shareholders' Meetings and those set by the company and if so, describe them in detail:

Yes No

	% quorum different from that contained in Article 193 LSC for general matters	% quorum different from that contained in Article 194 LSC for special resolutions

Quorum required at 1st call	0.00	66.67
Quorum required at 2nd call	0.00	60.00

Description of differences
Article 21.2 of the By-Laws increases the quorum required to hold a valid meeting “in order to adopt resolutions regarding a change in the object of the Company, transformation, total split-off, dissolution of the Company, and the amendment of this section 2”, in which case “shareholders representing two-thirds of subscribed share capital with voting rights must be in attendance at the first call to the General Shareholders’ Meeting, and shareholders representing sixty per cent of such share capital must be in attendance at the second call”.

B.2 State whether there are any differences in the company’s manner of adopting corporate resolutions and the manner for adopting corporate resolutions described by the LSC and, if so, explain:

Yes No

	Qualified majority different from that established in Article 201.2 LSC for Article 194.1 LSC matters	Other matters requiring a qualified majority
% established by the company for adoption of resolutions	75.00	75.00

Describe the differences
Article 52 of the By-Laws provides that all resolutions intended to eliminate or amend the provisions contained in title IV (breakthrough of restrictions in the event of takeover bids), in article 28 (conflicts of interest), and in sections 2 to 4 of article 29 (limitation upon the maximum number of votes that a shareholder may cast) shall require the affirmative vote of three-fourths (3/4) of the share capital present in person or by proxy at a General Shareholders’ Meeting.

B.3. State the rules for amending the company’s Articles of Association. In particular, state the majorities required for amendment of the Articles of Association and any provisions in place to protect shareholders’ rights in the event of amendments to the Articles of Association.

In addition to the provisions of section 285 <i>et seq.</i> of the Companies Act, the By-Laws of Iberdrola contain articles 21.2 (qualified quorum) and 52 (qualified majority) mentioned in sections B.1 and B.2 above.
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B.4 Give details of attendance at General Shareholders' Meetings held during the year of this report and the two previous years:

Date of General Meeting	Attendance data				
	% physically present	% present by proxy	% distance voting		Total
			Electronic voting	Other	
31/03/2017	0.40	71.92	0.17	4.71	77.20
Of which, free float:	0.32	60.43	0.17	4.71	65.63
13/04/2018	0.33	71.44	0.27	4.05	76.09
Of which, free float:	0.23	62.90	0.27	4.05	67.45
29/03/2019	9.00	61.40	0.33	3.39	74.12
Of which, free float:	0.55	61.17	0.33	3.39	65.44

Remarks
<p>The "Other" column reflects the percentage of share capital of all absentee votes issued at each Meeting through depositaries and custodians, cards received at shareholder information desks, cards received by post and the telephone channel (started in 2018). Adding all votes and proxies received through the corporate website, electronic participation reached a percentage of share capital equal to 0.82% in 2017, 1.03% in 2018 and 1.11% in 2019.</p> <p>Free float percentages have been calculated by dividing the shares represented in person and by proxy less those belonging to significant shareholders and directors participating at each Meeting, according to the information available in the list of attendees, by the total shares outstanding as at the date of the Meeting. For these purposes, significant interests deposited in omnibus accounts (not opened in the name of the owners of such interests) are not subtracted from the shares present in person or by proxy, except in cases in which the significant shareholder notified the Company of the shareholder's participation in the Meeting.</p>

B.5 State whether any point on the agenda of the General Shareholders' Meetings during the year has not been approved by the shareholders for any reason.

Yes No

B.6 State if the Articles of Association contain any restrictions requiring a minimum number of shares to attend General Shareholders' Meetings, or on distance voting:

Yes No

B.7 State whether it has been established that certain decisions other than those established by law exist that entail an acquisition, disposal or contribution to another company of essential assets or other similar corporate transactions that must be subject to the approval of the General Shareholders' Meeting.

Yes No

Explain the decisions that must be subject to the General Shareholders' Meeting, other than those established by law

Sections s), t) and u) of article 17 of the By-Laws provide that the shareholders acting at a General Shareholders' Meeting will decide the following issues, among others:

s) The transfer to controlled entities of core activities that were previously carried out by the Company itself, while maintaining full control thereof.

t) The acquisition, transfer or contribution of key assets from or to another company.

u) The approval of transactions having an effect equivalent to liquidation of the Company.

B.8 State the address and manner of access to the page on the company website where one may find information on corporate governance and other information regarding General Shareholders' Meetings that must be made available to shareholders through the company website.

<https://www.iberdrola.com/corporate-governance>

C

COMPANY ADMINISTRATIVE STRUCTURE

C.1 Board of Directors

C.1.1 Maximum and minimum number of directors established in the Articles of Association and the number set by the general meeting:

Maximum number of directors	14
Minimum number of directors	9
Number of directors set by the general meeting	14

Remarks

C.1.2 Please complete the following table on directors:

Name of director	Representative	Director category	Position on the Board	Date first appointed to Board	Last re-election date	Method of selection to Board
Mr José Ignacio Sánchez Galán		Executive	Chairman & CEO	21/05/2001	29/03/2019	Resolution of General Shareholders' Meeting
Ms Inés Macho Stadler		Other external	Vice Chair	07/06/2006	08/04/2016	Resolution of General Shareholders' Meeting
Mr Íñigo Víctor de Oriol Ibarra		Other external	Director	26/04/2006	08/04/2016	Resolution of General Shareholders' Meeting
Ms Samantha Barber		Independent	Director	31/07/2008	08/04/2016	Resolution of General Shareholders' Meeting
Ms María Helena Antolín Raybaud		Independent	Director	26/03/2010	29/03/2019	Resolution of General Shareholders' Meeting
Ms Georgina Kessel Martínez		Independent	Director	23/04/2013	13/04/2018	Resolution of General Shareholders' Meeting
Ms Denise Mary Holt		Independent	Director	24/06/2014	29/03/2019	Resolution of General Shareholders' Meeting
Mr José Walfredo Fernández		Independent	Director	17/02/2015	29/03/2019	Resolution of General Shareholders' Meeting
Mr Manuel Moreu Munaiz		Independent	Director	17/02/2015	29/03/2019	Resolution of General Shareholders' Meeting
Mr Xabier Sagredo Ormaza		Independent	Director	08/04/2016	29/03/2019	Resolution of General Shareholders' Meeting
Mr Juan Manuel		Independent	Lead Independent	31/03/2017	31/03/2017	Resolution of General

González Serna			Director (independent)			Shareholders' Meeting
Mr Francisco Martínez Córcoles		Executive	Director	31/03/2017	31/03/2017	Resolution of General Shareholders' Meeting
Mr Anthony L. Gardner		Independent	Director	13/04/2018	13/04/2018	Resolution of General Shareholders' Meeting
Ms Sara de la Rica Goiricelaya		Independent	Director	29/03/2019	29/03/2019	Resolution of General Shareholders' Meeting

Total number of directors	14
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State if any directors, whether through resignation, dismissal or any other reason, have left the Board during the period subject to this report:

Name of director	Director type at time of leaving	Date of last appointment	Date director left	Specialised committees of which he/she was a member	Indicate whether the director left before the end of the term
Mr Ángel Jesús Acebes Paniagua	Independent	27/03/2015	28/03/2019	Executive Committee and Appointments Committee	No

Reason for leaving and other remarks
End of term.

C.1.3 Complete the following tables regarding the members of the Board and their categories:

EXECUTIVE DIRECTORS

Name of director	Post in organisational chart of the company	Profile

Mr José Ignacio Sánchez Galán	Chairman & CEO	<p>Salamanca, Spain, 1950.</p> <p><u>Other current positions and professional activities</u></p> <p>He is the chairman of the boards of directors of the country subholding companies of the Iberdrola group in the United Kingdom (Scottish Power Ltd.), the United States (Avangrid, Inc., a NYSE-listed company) and Brazil (Neoenergia, S.A., a company listed on the BOVESPA in Brazil).</p> <p>He is a member of the group of top utility executives of the World Economic Forum (Davos), which he has chaired, and of the Steering Committee of the European Round Table of Industrialists and of the J.P. Morgan International Council.</p> <p><u>Academic training</u></p> <p>He graduated as an Industrial Engineer from the Technical Engineering School of Universidad Pontificia Comillas (Madrid).</p> <p>He has received honorary doctorate degrees from the universities of Salamanca, Edinburgh, and Strathclyde (Glasgow). He has been on the faculty of Escuela Técnica Superior de Ingeniería (ICAI), and is currently a visiting professor at the University of Strathclyde, chairman of the Social Council of the University of Salamanca, a member of the Dean's Advisory Council of the Massachusetts Institute of Technology (MIT) and a trustee of the Comillas-ICAI University Foundation.</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>He has served as chief operating officer of Industria de Turbo Propulsores, S.A. (ITP) and as chairman of the European aerospace consortium Eurojet, headquartered in Germany. He has also held various positions at Sociedad Española del Acumulador Tudor, S.A. (now, Exide Group), engaged in the manufacture and sale of batteries.</p>
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		<p><u>Noteworthy experience in other industries</u></p> <p>He has been chief executive officer of Airtel Móvil, S.A. (now, Vodafone España, S.A.U.) and a member of the Supervisory Board of Nutreco Holding N.V., a listed company in The Netherlands, active in the food industry.</p> <p><u>Other information</u></p> <p>Amongst other recognitions, in 2019 he was selected as one of the five best-performing CEOs in the world and the top in the utilities sector by Harvard Business Review, and he was recognised by Bloomberg as one of the 30 most influential leaders in the fight against climate change.</p> <p>That year he also received the National Innovation and Design Award in the Innovative Career category from the Spanish Ministry of Science, Innovation and Universities, an Honourable Mention for his professional career from the Colegio Oficial de Ingenieros Industriales de Madrid, and the designation of Universal Spaniard by Fundación Independiente.</p> <p>In 2018 he was appointed as an Honorary Member of the Spanish Institute of Engineering.</p> <p>In 2017 he was named Best Chief Executive Officer (CEO) within the utilities category (for the eleventh time) by the Institutional Investor Research Group.</p> <p>In 2014 he was distinguished by Queen Elizabeth II with the title Commander of the Most Excellent Order of the British Empire and received the international Responsible Capitalism award from the First Group.</p> <p>In 2011 he was named Best CEO of European utilities and of Spanish listed companies in investors relations, according to the Thomson Extel Survey.</p> <p>In 2008 he was named Business Leader of the Year by the Spain-U.S. Chamber of</p>
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		<p>Commerce and was awarded the 2008 International Economy Prize by Fundación Cristóbal Gabarrón.</p> <p>In 2006 he was named Best CEO of the Year at the Platts Global Energy Awards.</p> <p>He was given the Award for Best CEO in Investor Relations by IR Magazine for three years in a row (2003-2005).</p>
Mr Francisco Martínez Córcoles	Business CEO	<p>Alicante, Spain, 1956.</p> <p><u>Other current positions and professional activities</u></p> <p>He is the Business CEO of the Iberdrola group, chair of Iberdrola España, S.A. and of Iberdrola Energía Internacional, S.A.U. and a member of the board of the country subholding company in Mexico, Iberdrola México, S.A. de C.V.</p> <p>He is also a member of Merit of the National Association of Engineers of the Escuela Técnica Superior de Ingeniería (ICAI).</p> <p><u>Academic training</u></p> <p>Industrial Engineer specialising in Electricity from the ICAI (Universidad Pontificia Comillas, Madrid) and Master in Business Management from IESE Business School (Universidad de Navarra).</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>He worked at Compañía Sevillana de Electricidad, S.A. before joining Hidroeléctrica Española, S.A. and (after the merger with Iberduero, S.A.) Iberdrola, S.A., where he has been director of the Production Market, director of the Wholesale Energy Markets Business Unit, and general director of the Liberalised Energy business of the Group, with overall responsibility for all of the Wholesale, Retail and Energy Management businesses of the Iberdrola group.</p> <p>In June 2014 he was appointed Business CEO of the Iberdrola group, with overall</p>

		<p>responsibility for all of the group's businesses throughout the world.</p> <p>He has also held the position of chair of Elektro Holding, S.A., of Iberdrola Generación, S.A.U., of Iberdrola Generación México, S.A. de C.V. and of Scottish Power Generation Holdings Ltd. and has been a member of the board of Compañía Operadora del Mercado Eléctrico Español, S.A., Elcogas, S.A. and Iberdrola Ingeniería y Construcción, S.A.U.</p> <p>He was also a member of the Board of Directors of the Spanish Electric Industry Association (<i>Asociación Española de la Industria Eléctrica</i>) (UNESA).</p> <p><u>Noteworthy experience in other industries</u></p> <p>He began his professional career at the Systems Division of Arthur Andersen.</p> <p>He has been a member of the advisory board of the International University of Bremen (Germany) and vice president of the Energy and Natural Resources Committee of the Spanish Institute of Engineering.</p> <p><u>Other information</u></p> <p>He was awarded the XVII Annual Javier Benjumea Prize of the National Association of Engineers of ICAI Technical Engineering School and the Gold Medal of the Spanish Nuclear Society.</p>
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Total number of executive directors	2
Percentage of the Board	14.29

PROPRIETARY DIRECTORS

Name of director	Name or company name of the significant shareholder represented or that has proposed their appointment	Profile
No data		

INDEPENDENT DIRECTORS

Name of director	
Ms Samantha Barber	<p>Dunfermline, Scotland, 1969.</p> <p><u>Other current positions and professional activities</u></p> <p>She is the chair of Scottish Ensemble, member of the Board of Scottish Water and chair of its Remuneration Committee, mentor member of Critical Eye, and member of the GlobalScot Network and of the Advisory Board for the Imperial College London MBA. She also performs advisory and business coaching work.</p> <p>She is Vice Chair of the 2020 Group on Climate Change.</p> <p><u>Academic training</u></p> <p>Bachelor of Arts in Applied Foreign Languages and European Politics from the University of Northumbria, Newcastle (England) and Post-Graduate degree in EU Law from the University of Nancy (France).</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>She has been a member of the Advisory Council of Scottish Power Ltd. following the integration of the Scottish company into the Iberdrola group.</p> <p><u>Noteworthy experience in other industries</u></p> <p>She has been a consultant within the European Parliament, where she provided support to the Economic and Monetary Affairs Committee, a board member of Business for Scotland, and the chief executive of Scottish Business in the Community.</p> <p>She has also been a member of the Advisory Board of Breakthrough Breast Cancer and of the Board of Directors of Right Track Scotland, an organisation dedicated to advancing educational, training and employment opportunities for youths at risk of social exclusion.</p> <p><u>Other information</u></p> <p>She was chosen as one of the “Top 100 Women to Watch” according to the FTSE list and Cranfield University, and was a finalist and earned second place in the annual Director of the Year Awards 2012 of IoD Scotland NED.</p>

<p>Ms María Helena Antolín Raybaud</p>	<p>Toulon, France, 1966.</p> <p><u>Other current positions and professional activities</u></p> <p>She is vice-chair of the Board of Directors and member of the Management Committee of Grupo Antolín Irausa, S.A. She is also the president of the Spanish Association of Automotive Equipment and Component Manufacturers (<i>Asociación Española de Fabricantes de Equipos y Componentes para Automoción</i>) (Sernauto), vice president of the Excellence in Management Club (<i>Club de Excelencia en la Gestión</i>), a member of the Advisory Board of Sabadell Urquijo Banca Privada, a member of the Executive Committee of the Spanish Confederation of Business Organisations (<i>Confederación Española de Organizaciones Empresariales</i>) (CEOE), a board member of France Foreign Trade (<i>Comercio Exterior de Francia</i>), Spain section, and a member of the Plenary Committee of the Chamber of Commerce of Spain.</p> <p><u>Academic training</u></p> <p>Degree in International Business and Business Administration from Eckerd College, St. Petersburg, Florida (United States of America), and a Master of Business Administration from Anglia University, Cambridge (United Kingdom) and from Escuela Politécnica de Valencia (Spain).</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>She has served as an external independent director of Iberdrola Renovables, S.A. and a member of its Related-Party Transactions Committee.</p> <p>She has been in charge of the corporate Industrial and Strategy Divisions of Grupo Antolín Irausa, S.A., where she has also been a director of Human Resources and the head of Total Quality for the Group.</p>
<p>Ms Georgina Kessel Martínez</p>	<p>Mexico City, Mexico, 1950.</p> <p><u>Other current positions and professional activities</u></p> <p>She is an independent director of Fresnillo plc and of Grupo Financiero Scotiabank Inverlat, S.A. de C.V., as well as the chair of the latter's Audit Committee, a partner of Spectron E&I and a member of the Business Board of Universidad de las Américas Puebla (UDLAP).</p> <p><u>Academic training</u></p>

	<p>Holder of a degree in Economics from Instituto Tecnológico Autónomo de México and of a Master's and Doctor's degree in Economics from Columbia University (New York).</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>She has been chair of the Audit and Risk Supervision Committee of Iberdrola, S.A., chair of the Energy Regulatory Commission (<i>Comisión Reguladora de Energía</i>) and Energy Secretary of the Government of Mexico.</p> <p>She has also been chair of the Board of Directors of Pemex (Petróleos Mexicanos) and of the Board of Directors of the Federal Electricity Commission (<i>Comisión Federal de Electricidad</i>) (CFE).</p> <p>She has participated in the Energy Council of the World Economic Forum and in the United Nations Organization Secretary General's advisory group (Sustainable Energy for All).</p> <p><u>Noteworthy experience in other industries</u></p> <p>She has been an adviser to the chair of the Federal Competition Commission (<i>Comisión Federal de Competencia</i>), head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit (<i>Unidad de Inversiones y Desincorporación de Entidades Paraestatales</i>) of the Office of the Secretary of Finance and Public Credit of Mexico, general manager of the National Mint of Mexico (<i>Casa de Moneda de México</i>), member of the boards of Nacional Financiera (Nafinsa) and of Banco Nacional de Comercio Exterior (Bancomext), and general manager of Banco Nacional de Obras y Servicios Públicos.</p> <p>In the academic field, she has been a professor in the Economics Department of Instituto Tecnológico Autónomo de México, deputy chair of the course towards a Degree in Economics, and chair of the Alumni Association. She has also been holder of the Quintana Chair for Research in International Trade and is the author of many papers and specialised articles.</p>
Ms Denise Mary Holt	<p>Vienna, Austria, 1949.</p> <p><u>Other current positions and professional activities</u></p> <p>She is an independent director and member of the Audit Committee of HSBC Bank plc, chair of the Board of the University of Sussex and President of Cañada Blanch Centre for Contemporary Studies of the London School of Economics and Political Science (LSE).</p>

	<p><u>Academic training</u></p> <p>Degrees in Spanish philology, French philology and political sciences from the University of Bristol and Doctor of Laws from the same university (England, United Kingdom).</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>She has been a director of Scottish Power Renewable Energy Ltd. and of Scottish Power Energy Networks Holdings Ltd.</p> <p><u>Noteworthy experience in other industries</u></p> <p>In her diplomatic career, she has been first secretary of the Embassy of the United Kingdom in Brazil, director of Human Resources, of Migration and of the Overseas Territories at the UK Foreign and Commonwealth Office, and ambassador of the United Kingdom to Mexico, Spain and Andorra. For her contribution to the British diplomatic service, she was elevated to Dame Commander of the Order of St Michael and St George (DCMG).</p> <p>She has also been chair and an independent director of Mark & Spencer Financial Services, Ltd., an independent director and member of the Risk Committee of HSBC Bank plc, an independent director and member of the Quality and Safety and Remuneration Committees of the Board of Directors of Nuffeld Health, chair of the Anglo-Spanish Society and of the Institute of Latin American Studies at the University of London, and has chaired the Nominations Committee of the Alzheimer's Society.</p>
Mr José Walfredo Fernández	<p>Cienfuegos, Cuba, 1955.</p> <p><u>Other current positions and professional activities</u></p> <p>He is a partner of Gibson, Dunn & Crutcher and a member of the board of directors of the Council of the Americas and the Center for American Progress.</p> <p><u>Academic training</u></p> <p>Degree in History from Dartmouth College (New Hampshire, United States of America), and Juris Doctor from Columbia University (New York, United States of America).</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p>

	<p>He has been Assistant Secretary of State for Economic, Energy and Business Affairs for the United States of America. He has also been an independent director of Iberdrola USA, Inc.</p> <p><u>Noteworthy experience in other industries</u></p> <p>He has served on the boards of Dartmouth College, NPR Station WBGO-FM, the Middle East Institute and Ballet Hispánico of New York and of non-governmental institutions such as Acción Internacional. He has also been the State Department's representative on the Committee on Foreign Investment in the United States.</p> <p><u>Other information</u></p> <p>He was named one of the "World's Leading Lawyers" by Chambers Global for his M&A work, an "Expert" by the International Financial Law Review, one of the "World's Leading Privatization Lawyers" by Euromoney, and "Embajador de la Marca España" (Ambassador of the Spain Brand).</p>
Mr Manuel Moreu Munaiz	<p>Pontevedra, Spain, 1953.</p> <p><u>Other current positions and professional activities</u></p> <p>He is president of the Seaplace, S.L., sole director of H.I. de Iberia Ingeniería y Proyectos, S.L. and of Howard Ingeniería y Desarrollo, S.L., a director of Tubacex, S.A. and a member of the Spanish Committee of Lloyd's Register EMEA.</p> <p>He is a professor of the Master's Programme in Oil at Universidad Politécnica de Madrid (ETSIM), of the Maritime Master's Programme of Instituto Marítimo Español and of Universidad Pontificia Comillas.</p> <p><u>Academic training</u></p> <p>Doctorate in naval engineering from Escuela Técnica Superior de Ingenieros Navales (ETSIN) of the Universidad Politécnica de Madrid, and Master's degree in Oceanic Engineering from the Massachusetts Institute of Technology (MIT).</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>He has been a member of the Corporate Social Responsibility Committee of Iberdrola, S.A., of the Board of Directors of Iberdrola Renovables, S.A., and a director and member of the</p>

	<p>Audit and Compliance Committee of Gamesa Corporación Tecnológica, S.A. (now Siemens Gamesa Renewable Energy, S.A.).</p> <p><u>Noteworthy experience in other industries</u></p> <p>He has been a member of the board of Metalships and Docks, S.A., Neumáticas de Vigo, S.A. and Rodman Polyships, S.A., dean of the Colegio Oficial de Ingenieros Navales y Oceánicos de Madrid y de España, president of the Spanish Institute of Engineering, and a professor of the Escuela Técnica Superior de Ingenieros Navales of the Universidad Politécnica de Madrid and for the Repsol's Masters programme in oil.</p>
Mr Xabier Sagredo Ormaza	<p>Portugalete, Spain, 1972.</p> <p><u>Other current positions and professional activities</u></p> <p>He is chair of the Board of Trustees of Bilbao Bizkaia Kutxa Fundación Bancaria-Bilbao Bizkaia Kutxa Banku Fundazioa, of BBK Fundazioa and of Fundación Eragintza. He is also a trustee of Biocruces Sanitary Research Institute, of the Bilbao Museum of Fines Arts and of the Guggenheim Foundation, at which he also serves as member of the Executive Committee.</p> <p>He is a member of the Board of Directors of the Orkestra Basque Institute of Competitiveness and of the Management Council of Universidad de Deusto, and is a visiting professor at various institutions.</p> <p><u>Academic training</u></p> <p>Degree in Economics and Business from Universidad del País Vasco, with a major in Finance, and holder of postgraduate degrees in various areas.</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>He has been a director of Iberdrola Generación, S.A. (Sociedad Unipersonal) and a member of its Audit and Compliance Committee.</p> <p>He was a director of Iberdrola Distribución Eléctrica, S.A. (Sociedad Unipersonal), at which he has held the position of chair of the Audit and Compliance Committee.</p> <p><u>Noteworthy experience in other industries</u></p> <p>He has been the director of the Expansion and Assets area of the credit institution Ipar Kutxa, managing director of the</p>

	<p>concessionaire Transítia and a member of the Board of the Bilbao Port Authority.</p> <p>In addition, he has been chair and vice-chair of the Board of Directors of Caja de Ahorros Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea (BBK), and chair of its Audit Committee.</p>
<p>Mr Juan Manuel González Serna</p>	<p>Madrid, Spain, 1955.</p> <p><u>Other current positions and professional activities</u></p> <p>He is the chairman of Ceralto Spain Foods, S.A., the parent company of the Siro Group, a business group in the food sector, and a member of the Governing Board of the Spanish Commercial Coding Association (<i>Asociación Española de Codificación Comercial</i>) (AECOC).</p> <p>He is a founding trustee and chairman of Fundación Grupo SIRO as well as a member of the Executive Committee and trustee of Fundación SERES, an honorary member of the General Assembly of the Spanish Paralympics Committee, a trustee of the Fundación Casa Ducal de Medinaceli, and honorary president of Empresa Familiar de Castilla y León.</p> <p><u>Academic training</u></p> <p>Degree in Law, Economics and Business Studies from the Instituto Católico de Administración y Dirección de Empresas (ICADE) of Universidad Pontificia Comillas (Madrid) and Masters in Business Administration (MBA) from the Escuela de Dirección del Instituto de Estudios Superiores de la Empresa de la Universidad de Navarra (IESE Business School) in Barcelona.</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>He has been an independent director of Iberdrola España, S.A. (Sociedad Unipersonal) and of Iberdrola Renovables, S.A., as well as chair of the Appointments and Remuneration Committee of the latter company.</p> <p><u>Noteworthy experience in other industries</u></p> <p>Apart from the food sector, he also has extensive experience in the finance, venture capital and health sectors. He is a member of the advisory board of Rabobank in Spain and Europe and has been a member of the board of Banco Urquijo Sabadell Banca Privada, S.A. and of Sociedad para el Desarrollo Industrial de Castilla y León, Sociedad de Capital Riesgo, S.A. (SODICAL, now Ade Capital Social, Sociedad de Capital Riesgo de Régimen Común, S.A.).</p>

	<p>He is also a member of the board of directors of the HM Hospitales Group.</p>
Mr Anthony L. Gardner	<p>Washington D.C., United States of America, 1963.</p> <p><u>Other current positions and professional activities</u></p> <p>He is a member of the board of directors of Brookfield Business Partners LP, senior adviser at the consulting firm Brunswick Group, LLP and senior counsel in the law firm Sidley Austin LLP, where he works in the International Trade and Privacy and Cybersecurity areas. He is also an adviser to the Bill and Melinda Gates Foundation and a member of the advisory boards of the Centre for European Reform, the German Marshall Fund and the European Policy Centre.</p> <p><u>Academic training</u></p> <p>He studied Government at Harvard University and International Relations at the University of Oxford. He holds a Juris Doctor degree from Columbia Law School and a Masters in Finance from London Business School.</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>He was an independent director of Scottish Power, Ltd and a member of that company's Audit and Compliance Committee.</p> <p><u>Noteworthy experience in other industries</u></p> <p>He was the US ambassador to the European Union from 2014 to 2017. Prior to that appointment, for six years he was the managing director at Palamon Capital Partners, a private equity firm based in London. He was also the director of one of the finance departments of Bank of America and of GE Capital, as well as director in the international acquisitions group of GE International. He has also worked as an attorney at international law firms in London, Paris, New York and Brussels.</p> <p>He has dedicated more than twenty years of his career to US-European affairs, as a government official, lawyer and investor. As Director for European Affairs on the National Security Council (1994-1995), he worked closely with the US Mission to the European Union to launch the Transatlantic Free Trade Agreement.</p> <p>He previously worked with the Treuhandanstalt (German Privatisation Ministry) in Berlin, with the Stock Exchange Operations Committee in Paris and as secondee for the European Commission in Brussels.</p>

	<p><u>Other information</u></p> <p>He is the author of “A New Era in US-EU Relations? The Clinton Administration and the New Transatlantic Agenda” and numerous articles on EU affairs.</p>
Ms Sara de la Rica Goiricelaya	<p>Bilbao, Spain, 1963.</p> <p><u>Other current positions and professional activities</u></p> <p>She is director of Fundación ISEAK (Initiative for socio-economic analysis and knowledge), a member of the Scientific Advisory Board of Fundación Gadea, of the Scientific Committee of the Basque Institute for the Evaluation of the Educational System (IVEI-ISEI), an honorary member of the Spanish Economics Association (<i>Asociación Española de Economía</i>).</p> <p>She is an associate researcher for CreAM (Centre for Research and Analysis of Migration - London) and IZA (Institute for the Study of the Labour Market - Bonn). She is also a member of the Board of Directors of Basquetour, Turismoaren Euskal Agentzia, Agencia Vasca de Turismo, S.A., the government-owned company of the Department of Tourism, Trade and Consumption of the Basque Government, created to lead the promotion and implementation of the competitiveness strategy of Basque tourism.</p> <p><u>Academic training</u></p> <p>PhD in Economics from the University of the Basque Country and a professor at this institution. She has dedicated a large portion of her professional life to the study of and search for solutions on issues such as immigration, the labour market, gender equality and poverty.</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>She has been an independent director of Iberdrola España, S.A.U.</p> <p><u>Noteworthy experience in other industries</u></p> <p>She has been president of the European Society for Population Economics and a member of its Executive Committee, chair of the Committee on the Situation of Women in Economics (COSME), and a member of the Economic and Social Council (CES). She has also been the secretary of the Spanish Economics Association (AEE).</p>

	<p>She has worked on editorial boards and/or research project review boards.</p> <p><u>Other information</u></p> <p>In 2018 she was given the “2018 Basque Economist Award” (<i>Ekonomistak Saria 2018</i>) by the Basque Association of Economists (<i>Colegio Vasco de Economistas</i>).</p> <p>She regularly publishes academic articles in domestic and international magazines dealing with economic subjects, mainly related to labour, and participates in conferences and seminars and supervises graduate students in their dissertations.</p>
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Number of independent directors	10
Percentage of the Board	71.43

State whether any independent director receives from the company or any company in the group any amount or benefit other than compensation as a director, or has or has had a business relationship with the company or any company in the group during the past year, whether in his or her own name or as a significant shareholder, director or senior executive of a company that has or has had such a relationship.

In this case, include a statement by the Board explaining why it believes that the director in question can perform his or her duties as an independent director.

Name of director	Description of the relationship	Statement of the Board
No data		

OTHER EXTERNAL DIRECTORS

Name of director	Reason	Company, director or shareholder to whom the director is related	Profile
Ms Inés Macho Stadler	More than 12 years have passed since appointment.	IBERDROLA	<p>Bilbao, Spain, 1959.</p> <p><u>Other current positions and professional activities</u></p> <p>She is a professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona and a professor of the</p>

		<p>Barcelona Graduate School of Economics. She is also an honorary member of the European Economic Association and of the Spanish Economic Association (<i>Asociación Española de Economía</i>) as well as a member-elect of The Academy of Europe.</p> <p><u>Academic training</u></p> <p>Degree in Economics from the University of the Basque Country. She has a Master's degree in Economics from l'École des Hautes Études en Sciences Sociales, and a doctorate in Economics (Ph.D.) from the same academic institution and from l'École Nationale de la Statistique et de l'Administration Économique (ENSAE) (Paris, France).</p> <p>Noteworthy experience in the energy and industrial engineering sector She has served as lead independent director (<i>consejera coordinadora</i>) of Iberdrola, S.A.</p> <p><u>Noteworthy experience in the energy and industrial economy sector</u></p> <p>She has been a member of the International Scientific Advisory Committee of the Basque Centre for Climate Change (bc3) and has served as chair of the Scientific Committee of the 2011 Conference of the Spanish Association for Energy Economics (<i>Asociación Española para la Economía Energética</i>).</p> <p><u>Noteworthy experience in other industries</u></p> <p>She has been president of the Spanish Economic Association, coordinator of the National Agency for Quality Evaluation and Accreditation (<i>Agencia Nacional de Evaluación y Prospectiva</i>), and representative at the European Science Foundation, as well as a</p>
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			<p>member-elect of the Council of the European Economic Association and a member of the Executive Committee of the European Association for Research in Industrial Economics. She has been a member of the Advisory Board of the Research Service of Caja de Ahorros y Pensiones de Barcelona, “la Caixa”. She has taught at universities in Germany, Belgium, Brazil, Denmark, France, Portugal and Spain.</p>
Mr Íñigo Víctor de Oriol Ibarra	More than 12 years have passed since appointment.	IBERDROLA	<p>Madrid, Spain, 1962.</p> <p><u>Academic training</u></p> <p>Bachelor of Arts in International Business from Schiller International University (Madrid), a graduate of the Executive Corporate Management Programme of IESE Business School, and Certified European Financial Analyst (CEFA) from Instituto Español de Analistas Financieros.</p> <p><u>Noteworthy experience in the energy and industrial engineering sector</u></p> <p>He has been chair of Electricidad de La Paz, S.A. (Bolivia), of Empresa de Luz y Fuerza Eléctrica de Oruro, S.A. (Bolivia), and of Iberoamericana de Energía Ibener, S.A. (Chile), as well as a member of the board of Neoenergia, S.A. (Brazil), of Empresa Eléctrica de Guatemala, S.A. and of Empresa de Alumbrado Eléctrico de Ceuta, S.A.</p> <p>He has also been a director of Corporate Governance for the Americas, director of Management Control at Amara, S.A., and a financial analyst in the Financial Division and the International Division of Iberdrola, S.A.</p> <p><u>Noteworthy experience in other industries</u></p> <p>He has been chair of Empresa de Servicios Sanitarios de Los Lagos, S.A. (ESSAL) in Chile.</p>

Total number of other external directors	2
Percentage of the Board	14.29

State any changes in status that have occurred during the period for each director:

Name of director	Date of change	Previous Status	Current status
Mr Xabier Sagredo Ormaza	29/03/2019	Other external	Independent

Remarks
The shareholders acting at the General Shareholders' Meeting held on 29 March 2019 ratified his interim appointment (co-option) and re-elected him as an independent director.

C.1.4 Complete the following table with information relating to the number of female directors at the close of the past 4 years, as well as the category of each:

	Number of female directors				% of directors for each category			
	Financial Year 2019	Financial Year 2018	Financial Year 2017	Financial Year 2016	Financial Year 2019	Financial Year 2018	Financial Year 2017	Financial Year 2016
Executive	-	-	-	-	0.00	0.00	0.00	0.00
Proprietary	-	-	-	-	0.00	0.00	0.00	0.00
Independent	5	4	5	5	50	44	50	50
Other external	1	1			50	50	0.00	0.00
Total:	6	5	5	5	42.86	35.71	35.71	35.71

C.1.5 State whether the company has diversity policies in relation to the Board of Directors of the company on such questions as age, gender, disability and training and professional experience. Small and medium-sized enterprises, in accordance with the definition set out in the Accounts Audit Act, will have to report at least the policy they have implemented in relation to gender diversity.

Yes

No

Partial policies

Should this be the case, describe these diversity policies, their objectives, the measures and way in which they have been applied and their results over the year. Also state the specific measures adopted by the Board of Directors and the appointments and remuneration committee to achieve a balanced and diverse presence of directors.

In the event that the company does not apply a diversity policy, explain the reasons why.

Description of policies, objectives, measures and how they have been implemented, including results achieved
<p>The Company's Corporate Governance System, and particularly the <i>Board of Directors Diversity and Member Selection Policy</i>, provides that any type of bias entailing any kind of discrimination, including for reasons of gender, ethnic origin, age or disability, shall be avoided in the candidate selection process. In particular, it provides that any bias that hinders the appointment of female directors and that might impede achieving the Company's goal that the number of female directors continues to account for at least thirty per cent of the total number of members of the Board of Directors in the year 2020, shall be avoided.</p> <p>The <i>Regulations of the Appointments Committee</i> give this committee the duty to ensure compliance with the above-described goal.</p> <p>Six of the fourteen members of the Board of Directors are currently women. One of them holds the position of vice chair of the Board of Directors and another two chair two of the four consultative committees.</p> <p>On 7 June 2006 the Board of Directors appointed Ms Inés Macho Stadler as independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 29 March 2007. On 22 September 2009 Ms Inés Macho Stadler was appointed as independent director with special powers (<i>consejera independiente especialmente facultada</i>), the name of which was later changed to lead independent director (<i>consejera coordinadora</i>), in which position she was replaced by Mr Juan Manuel González Serna by resolution of the Board of Directors on 21 June 2018 upon Ms Stadler losing the status of independent director required for this position. Ms Inés Macho Stadler was appointed vice chair of the Board of Directors on this same date.</p> <p>On 31 July 2008 the Board of Directors resolved to appoint Ms Samantha Barber as an independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 20 March 2009. Ms Barber has also chaired the Sustainable Development Committee since 24 April 2012.</p> <p>The shareholders at the General Shareholders' Meeting held on 26 March 2010 approved the appointment of Ms María Helena Antolín Raybaud, with the classification of external independent director.</p> <p>On 23 April 2013, Iberdrola's Board of Directors approved the interim appointment of Ms Georgina Kessel Martínez as an external independent director, which appointment was subsequently ratified by the shareholders at the General Shareholders' Meeting held on 28 March 2014. Ms Kessel Martínez was appointed chair of the Audit and Risk Supervision Committee on 17 February 2015, which position has been held by the director Mr Xabier Sagredo Ormaza since 19 February 2019.</p>

On 24 June 2014, the Board of Directors approved the interim appointment of Ms Denise Mary Holt as an external independent director. This appointment was ratified by the shareholders at the General Shareholders' Meeting held on 27 March 2015.

The Appointments and Remuneration Committee was split into two separate committees on 25 March 2015. The appointment of Ms María Helena Antolín Raybaud and of Ms Inés Macho Stadler as chairs of the Appointments Committee and the Remuneration Committee, respectively, was approved for these purposes. Ms Antolín continues to be the chair of the Appointments Committee while the Remuneration Committee has been chaired by Mr Juan Manuel González Serna since 21 June 2018.

The shareholders acting at the General Shareholders' Meeting held on 29 March 2019 approved the appointment of Ms Sara de la Rica Goiricelaya in order to fill the vacancy occurring due to the end of the term of Mr Ángel Jesús Acebes Paniagua.

At 31 December 2019 the women represented 50% of the external directors on the Board of Directors.

C.1.6 Describe the means, if any, agreed upon by the appointments committee to ensure that selection procedures do not contain hidden biases which impede the selection of female directors and that the company deliberately seeks and includes women who meet the target professional profile among potential candidates and which makes it possible to achieve a balance between men and women:

Explanation of means
<p>The Board of Directors Diversity and Member Selection Policy ensures that the proposed appointments of directors are based on a prior analysis of the needs of the Board of Directors. In particular, the candidates must be respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability and commitment to their duties. In particular, they must be irreproachable professionals, whose conduct and professional track record is aligned with the principles set forth in the Code of Ethics and with the corporate values contained in the Purpose and Values of the Iberdrola group.</p> <p>In the selection of candidates, it also endeavours to ensure a diverse and balanced composition of the Board of Directors overall, such that decision-making is enriched and multiple viewpoints are contributed to the discussion of the matters within its purview. To this end, the selection process shall promote a search for candidates with knowledge and experience in the main countries and sectors in which the group does or will do business. The directors must also have sufficient knowledge of the Spanish and English languages to be able to perform their duties.</p>

In turn, the *Regulations of the Appointments Committee* give this committee the responsibility of ensuring that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, from any bias that might hinder the selection of female directors.

In the event that there are few or no female directors in spite of any measures adopted, please explain the reasons that justify such a situation:

Explanation of reasons
Not applicable.

- C.1.7 Describe the conclusions of the appointments committee regarding verification of compliance with the selection policy for directors; in particular, as it relates to the goal of ensuring that the number of female directors represents at least 30% of the total membership of the Board of Directors by the year 2020.

The Appointments Committee believes that Iberdrola is developing the *Board of Directors Diversity and Member Selection Policy* in a fully consistent manner and that the objectives for 2020 were met significantly in advance, as shown in section C.1.4 of this Report.

- C.1.8 If applicable, please explain the reasons for the appointment of any proprietary directors at the request of shareholders with less than a 3% equity interest:

Name of shareholder	Reason
No data	

State whether the Board has failed to meet any formal requests for membership from shareholders whose equity interest is equal to or higher than that of others at whose request proprietary directors have been appointed. If this is the case, please explain why the aforementioned requests were not met:

Yes

No

- C.1.9 State the powers delegated by the Board of Directors, as the case may be, to directors or Board committees:

Name of director or committee	Brief description
Mr José Ignacio Sánchez Galán	The chairman & CEO, as an individual decision-making body, has all the

	powers that may be delegated under the law and the By-Laws.
Executive Committee	All the powers inherent to the Board of Directors, except for those powers that may not be delegated pursuant to law or the Corporate Governance System.

C.1.10 Identify any members of the Board who are also directors, representatives of directors or officers in other companies in the group of which the listed company is a member:

Name of director	Name of group member	Position	Does the director have executive powers?
Mr José Ignacio Sánchez Galán	SCOTTISH POWER LTD.	Chair	No
Mr José Ignacio Sánchez Galán	AVANGRID, INC.	Chair	No
Mr José Ignacio Sánchez Galán	NEOENERGIA, S.A.	Chair	No
Mr Francisco Martínez Córcoles	IBERDROLA ESPAÑA, S.A.U.	Chair	No
Mr Francisco Martínez Córcoles	IBERDROLA MÉXICO, S.A. DE C.V.	Director	No
Mr Francisco Martínez Córcoles	IBERDROLA ENERGÍA INTERNACIONAL, S.A.U.	Chair	No

C.1.11 List any directors or representatives of legal person-directors of your company who are members of the Board of Directors of other companies listed on official securities markets other than group companies, and have communicated that status to the Company:

Name of director	Name of listed company	Position
MS GEORGINA KESSEL MARTÍNEZ	GRUPO FINANCIERO SCOTIABANK INVERLAT, S.A. DE C.V.	Director
MS GEORGINA KESSEL MARTÍNEZ	FRESNILLO, PLC	Director
MS DENISE MARY HOLT	HSBC BANK, PLC	Director

MR MANUEL MOREU MUNAIZ	TUBACEX, S.A.	Director
MR ANTHONY L. GARDNER	BROOKFIELD BUSINESS PARTNERS, LP.	Director

C.1.12 State whether the company has established rules on the number of boards on which its directors may hold seats, providing details if applicable, identifying, where appropriate, where this is regulated:

Yes No

Explanation of the rules and identification of the document where this is regulated
Pursuant to the Regulations of the Board of Directors, individuals or legal entities serving as directors in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges, may not be appointed as directors. Positions within holding companies are excluded from the calculation. Furthermore, companies belonging to the same group shall be deemed to be a single company.

C.1.13 State total remuneration received by the Board of Directors:

Board remuneration in financial year (thousand euros)	18,186
Amount of vested pension interests for current members (thousand euros)	
Amount of vested pension interests for former members (thousand euros)	

Remarks
This amount includes the remuneration received (5,562 thousand euros) by all of their directors for their performance as such during financial year 2019 (fixed remuneration, attendance fees and other items) as well as salaries, annual variable remuneration and the shares received by the executive directors in payment of the third period of the 2014-2016 Strategic Bonus, all of which is duly described in the Annual Director Remuneration Report.

C.1.14 Identify senior management staff who are not executive directors and their total remuneration accrued during the year:

Name	Position
Mr José Sainz Armada	Chief Financial Officer (CFO)
Mr Juan Carlos Rebollo Liceaga	Corporation Administration and Control Director
Mr Pedro Azagra Blázquez	Corporate Development Director
Mr Santiago Martínez Garrido	Director of Legal Services

Ms Sonsoles Rubio Reinoso	Internal Audit Director
Mr Xabier Viteri Solaun	Director of the Renewable Energy Business
Mr Armando Martínez Martínez	Director of the Networks Business
Mr Aitor Moso Raigoso	Director of the Liberalised Business
Mr Asís Canales Abaitua	Director of Procurement and Insurance

Total senior management remuneration (thousand euros)	19,520
Remarks	
The amount of the fixed and variable remuneration of the officers of the Iberdrola group (147 people) was 48,537 thousand euros. This figure does not include the shares delivered for the third and final payment of the 2014-2016 Strategic Bonus.	

C.1.15 State whether the Board rules were amended during the year

Yes

No

Description of changes
Within the process of ongoing review of Iberdrola's Corporate Governance System, apart from certain technical improvements, there have been amendments of the <i>Regulations of the Board of Directors</i> in order to reflect the recommendations included in the National Securities Market Commission's <i>Technical Guide 1/2019 on Nomination and Remuneration Committees</i> .

C.1.16 Specify the procedures for selection, appointment, re-election and removal of directors: the competent bodies, steps to follow and criteria applied in each procedure.

1. APPOINTMENT AND RE-ELECTION OF DIRECTORS

The appointment, re-election, and removal of directors is within the purview of the shareholders at the General Shareholders' Meeting.

Vacancies that occur may be filled by the Board of Directors on an interim basis until the next General Shareholders' Meeting.

The Appointments Committee must advise the Board of Directors regarding the most appropriate configuration thereof and of its committees as regards size and equilibrium among the various classes of directors existing at any time. This is in

any event based on the conditions that candidates for director must meet pursuant to the Board of Directors Diversity and Member Selection Policy.

The following may not be appointed as directors or as individuals representing a corporate director:

- a) Domestic or foreign companies competing with the Company in the energy industry or other industries, or the directors or senior officers thereof, or such persons, if any, as are proposed by them in their capacity as shareholders.
- b) Individuals or legal entities serving as directors in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges. Positions within holding companies are excluded from the calculation. Furthermore, companies belonging to the same group shall be deemed to be a single company.
- c) Persons who, during the two years prior to their appointment, have occupied high-level positions in Spanish government administrations that are incompatible with the simultaneous performance of the duties of a director of a listed company under Spanish national or autonomous community law, or positions of responsibility with entities regulating the energy industry, the securities markets or other industries in which the group operates.
- d) Individuals or legal entities that are under any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the group.

The Board of Directors and the Appointments Committee, within the scope of their powers, shall endeavour to ensure that the candidates proposed are respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability, and commitment to their duties.

It falls upon the Appointments Committee to propose the independent directors, as well as to report upon the proposals relating to the other classes of directors.

If the Board of Directors deviates from the proposals and reports of the Appointments Committee, it shall give reasons for so acting and shall record such reasons in the minutes.

2. REMOVAL OF DIRECTORS

Directors shall serve in their position for a term of four years, so long as the shareholders acting at the General Shareholders' Meeting do not resolve to remove them and they do not resign from their position.

The Appointments Committee shall inform the Board of Directors regarding proposed removals due to breach of the duties inherent to the position of director

or due to a director becoming affected by supervening circumstances of mandatory resignation or withdrawal. It may also propose the removal of directors in the event of disqualification, structural conflict of interest or any other reason for resignation or cessation of office, pursuant to law or the Corporate Governance System.

The Board of Directors may propose the removal of an independent director before the passage of the period provided for in the By-Laws only upon sufficient grounds, evaluated by the Board of Directors after a report from the Appointments Committee, or as a consequence of takeover bids, mergers or other similar corporate transactions resulting in a significant change in the structure of the Company's share capital, as recommended by the Good Governance Code of Listed Companies.

C.1.17 Explain how the annual evaluation of the Board has given rise to significant changes in its internal organisation and to procedures applicable to its activities:

Description of changes
<p>The Iberdrola group has an ongoing commitment to the development of its corporate governance. Along these lines, Iberdrola evaluates the operation of its governance bodies on an annual basis, and based on the conclusions obtained, identifies the principal areas of work for the coming year.</p> <p>The Regulations of the Board of Directors were amended in March 2019 in order to reflect the recommendations included in the National Securities Market Commission's <i>Technical Guide 1/2019 on Nomination and Remuneration Committees</i>.</p> <p>More than 90% of the work areas defined in the evaluation process from the prior year were met during 2019.</p> <p>Other milestones that took place during financial year 2019 include the following:</p> <p>Composition of the governance bodies:</p> <ul style="list-style-type: none"> - Continuation of the process of regular and staggered renewal of the Board of Directors with the appointment of Ms Sara de la Rica Goiricelaya, increasing the number of women to approximately 43% of the total number of members on the Board of Directors. <p>Development of competencies:</p> <ul style="list-style-type: none"> - Definition of the Purpose and update of the Values of the Iberdrola group. - Review of alternatives for comprehensive analysis of the group's risks (combined assurance). - Expansion of the competencies of the Appointments Committee. - Expansion of the competencies of the Remuneration Committee.

Operation:

- Half-yearly review of the annual work plan of the consultative committees.
- Digitisation of the orientation programme on the directors' website and adaptation to the technical guides published by the CNMV.

Describe the evaluation process and the areas evaluated by the Board of Directors with the help, if any, of external advisors, regarding the function and composition of the board and its committees and any other area or aspect that has been evaluated.

Description of the evaluation process and evaluated areas

The Appointments Committee will coordinate the evaluation of the operation of the Board of Directors and of the committees thereof on an annual basis, and will submit to the full board the results of said evaluation together with a proposed action plan or with recommendations to correct any potential detected deficiencies or to improve the operation of the Board of Directors or the committees thereof.

The evaluation of the chairman & CEO will be led by the lead independent director.

The process of evaluation of the Board of Directors, its committees, the chairman & CEO and each of the other directors of the Company will include the following aspects: (i) the operation and quality of the work of the Board of Directors and its committees; (ii) the size, composition and diversity of the Board of Directors and of its committees; (iii) the performance of duties by the chairman of the Board of Directors & CEO; (iv) the performance and contribution of each director, paying special attention to those responsible for the various committees; (v) the frequency and duration of the meetings; (vi) the contents of the agenda and the sufficiency of the time dedicated to dealing with the various issues based on the importance thereof; (vii) the quality of the information received; (viii) the broadness and openness of debates, avoiding group-think; and (ix) whether the decision-making process within the Board of Directors or any of its committees was dominated or strongly influenced by a member or a small group of members.

The evaluation for financial year 2019 used PricewaterhouseCoopers Asesores de Negocios, S.L. (PwC) as an external adviser in the process.

The scope of the process in 2019 included the evaluation of the Board of Directors, of its committees, of the chairman & CEO and of each of the other directors of the Company from the viewpoint of the following dimensions of the study: (i) compliance with internal rules and with the *Good Governance Code of Listed Companies*, (ii) monitoring of corporate governance trends, and (iii) analysis of achievement of potential areas of progress defined in evaluations from prior years.

More than 370 indicators of good practices with verifiable evidence were used. All of this was supplemented with interviews of the directors by the lead independent director in line with the recommendations of the

Good Governance Code of Listed Companies and of *Technical Guide 1/2019 on Nomination and Remuneration Committees* published by the National Securities Market Commission.

The process concluded with a Continuous Improvement Plan, with indicators that are evaluated for compliance the following financial year. The conclusions of the evaluation process reflect compliance with practically all of the indicators, with an alignment of more than 95% in the application of the latest international trends and in the development of the areas for improvement identified during prior financial years.

The Continuous Improvement Plan 2020 deriving from the 2019 evaluation process focuses on advancing in the following areas, among others:

- Monitoring of the changes made to be made to the recommendations of the *Good Governance Code of Listed Companies*.
- Deepening the supervision of critical issues like climate change, the energy transition and emerging risks.
- Continued improvement of training and initial orientation plans, including new issues and new formats.

On 24 February 2020 the Board of Directors approved the results of the evaluation of financial year 2019 and the Continuous Improvement Plan for financial year 2020.

C.1.18 Describe, in those years in which the external advisor has participated, the business relationships that the external advisor or any group company maintains with the company or any company in its group.

Iberdrola has been assisted by an outside consultant for the last ten years. In 2019 PwC's business relations with the Iberdrola group worldwide were approximately 23 million euros (a large portion of this figure is due to the recent outsourcing of tax services by Avangrid, Inc.). The total amount of billing by PwC for consulting services provided to the Board of Directors and the Office of the Secretary thereof in 2019 was 373,000 euros.

C.1.19 State the situations in which directors are required to resign.

Directors must submit their resignation from the position and formally resign from their position upon the occurrence of any of the instances of disqualification, lack of competence, structural and permanent conflict of interest or prohibition against performing the duties of director provided by law or Iberdrola's Corporate Governance System.

In this connection, the Regulations of the Board of Directors provide that the directors must submit their resignation to the Board of Directors in the following cases:

- a) When, due to supervening circumstances, they are involved in any circumstance of disqualification or prohibition provided by law or

- the Corporate Governance System.
- b) When, as a result of any acts or conduct attributable to the director, serious damage is caused to the value or reputation of the Company or there is a risk of criminal liability for the Company or any of the companies of the group.
 - c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability or commitment to their duties required to be a director of the Company.
In particular, when the activities carried out by the director, or the companies directly or indirectly controlled by the director, or the individuals or legal entities that are shareholders of or related to any of them, or the individual representing a corporate director, may compromise the competence of the director.
 - d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.
 - e) When their continuance in office on the Board of Directors may for any reason, either directly, indirectly, or through persons related thereto, jeopardise the faithful and diligent performance of their duties in furtherance of the corporate interest.
 - f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
 - g) When an independent director unexpectedly falls under supervening circumstances that prevent the director from being considered as such pursuant to the provisions of law.

The resignation provisions set forth under f) and g) above shall not apply when, after a report from the Appointments Committee, the Board of Directors believes that there are reasons that justify the director's continuance in office, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

C.1.20 Are qualified majorities other than those established by law required for any specific decision?

Yes

No

If so, please describe any differences.

Description of differences
<p>The Regulations of the Board of Directors require a majority of at least two-thirds of the directors present at the meeting in person or by proxy to approve the amendment thereof.</p> <p>The Regulations of the Board of Directors also state that directors must tender their resignation to the Board of Directors if they are seriously reprimanded thereby because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.</p>

C.1.21 Explain whether there are any specific requirements, other than those relating to directors, to be appointed as chairman of the Board of Directors.

Yes No

C.1.22 State whether the Articles of Association or the Board Rules establish any limit as to the age of directors:

Yes No

Remarks
<p>The Regulations of the Board of Directors provide that the standards to take into account for selecting candidates for the position of director shall include, by way of guidance only, the appropriateness of the directors generally not exceeding the age of seventy years.</p> <p>Each of the non-executive directors has undertaken to tender their resignation to the Board of Directors at the first meeting it holds after they reach seventy years of age.</p>

C.1.23 State whether the Articles of Association or the Board Rules establish any term limits for independent directors or other more stringent requirements in addition to those established by law:

Yes No

C.1.24 State whether the Articles of Association or Board Rules establish specific rules for granting proxies to other directors at Board meetings, how they are to be delegated and, in particular, the maximum number of proxies that a director may have, as well as if there is any limit regarding the category of director to whom a proxy may be granted beyond the limitations imposed by law. If so, please briefly describe the rules.

Pursuant to the *By-Laws*, all of the directors may cast their vote and give their proxy in favour of another director, provided, however, that non-executive directors may only do so in favour of another non-executive director.

The *Regulations of the Board of Directors* require that directors attend the meetings of the Board of Directors and when they cannot do so personally they must grant their proxy to another director, to whom they must give the appropriate instructions.

Directors may not grant a proxy in connection with matters in respect of which they have any conflict of interest.

The proxy granted shall be a special proxy for the Board meeting in question and may be communicated by any means allowing for the receipt thereof.

There is no maximum number of proxies provided per director.

C.1.25 State the number of meetings held by the Board of Directors during the year, and if applicable, the number of times the Board met without the chairman present. Meetings where the chairman sent specific proxy instructions are to be counted as attended.

Number of Board meetings	8
Number of Board meetings without the chairman	0

State the number of meetings held by the coordinating director with the other directors, where there was neither attendance nor representation of any executive director:

Number of meetings	1
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Remarks
<p>Pursuant to the provisions of art. 45 of the By-Laws, the lead independent director coordinates, meets with and reflects the concerns of the non-executive directors, and also directs the periodic evaluation of the chairman of the Board of Directors and leads any process for the succession thereof.</p> <p>In the exercise of these powers, the lead independent director has held meetings with all of the non-executive directors, which meetings dealt with the evaluation of the chairman & CEO as well as initiatives to improve the performance of each of the directors.</p>

Please specify the number of meetings held by each committee of the Board during the year:

Number of meetings held by the Executive Committee	15
Number of meetings held by the Audit and Risk Supervision Committee	12
Number of meetings held by the Appointments Committee	9
Number of meetings held by the Remuneration Committee	7
Number of meetings held by the Sustainable Development Committee	9

C.1.26 State the number of meetings held by the Board of Directors during the year and information regarding the attendance of its members:

Number of meetings with the attendance of at least 80% of the directors	8
% personal attendance of total votes during the year	98.21
Number of meetings with all directors attending in person or by proxy with specific instructions	8
% of votes cast in person and by proxy with specific instructions of all votes cast during the year	100.00

Remarks

The attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2019 is detailed in the Annex to this Report.

C.1.27 State if the individual and consolidated financial statements submitted to the Board for preparation were previously certified:

Yes No

Identify, if applicable, the person/s who certified the individual and consolidated financial statements of the company for preparation by the Board:

Name	Position
Mr José Ignacio Sánchez Galán	Chairman & CEO
Mr José Sainz Armada	CFO
Mr Daniel Alcaín López	Corporation Administration and Control Director

Remarks
<p>The Iberdrola group has established a certification process by which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and the financial condition within their area of responsibility, and (ii) they are responsible for establishing the Internal Control Over Financial Reporting (ICFR) system within their area of responsibility and have found, upon evaluation, that the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.</p> <p>The culmination of the process is a joint certification that the chairman & CEO, the CFO and the Corporation Administration and Control Director submit to the Board of Directors.</p> <p>The process is carried out by means of electronic signature in a software application which manages the areas of responsibility and time periods and which serves as a repository of all the documentation generated, allowing for periodic review by the supervision and control bodies of the group.</p>

C.1.28 Explain any measures established by the Board of Directors to prevent the individual and consolidated financial statements prepared by the Board from being submitted to the General Shareholders' Meeting with a qualified audit opinion.

The *Regulations of the Audit and Risk Supervision Committee* provide that it shall have the following duties, among others:

- Supervise (on an ongoing basis and specifically at the request of the Board of Directors) the process of preparing and presenting regulated financial information relating to the Company, both individual and consolidated with its subsidiaries, reviewing compliance with legal requirements, the proper delimitation of the scope of consolidation and the correct application of accounting standards, and submit recommendations or proposals to the Board of Directors to safeguard the integrity thereof.
- Supervise the clarity and integrity of the economic/financial information regarding the Company and its group and, based on available sources of internal information (including reports from the Internal Audit Area, reports from other areas or departments, or the analysis and opinion of the Company's management team itself) and external information (including reports from experts or information received from the statutory auditor), reach its own conclusion as to whether the Company has properly applied the accounting policies.
- Establish appropriate relationships with the statutory auditor to receive information regarding matters that might entail a threat to the independence thereof, for examination by the committee, and any other information related to the development of the audit procedure, as well as such other communications as are provided for in the laws on statutory audit and in other legal provisions on auditing.
- The committee must receive written confirmation from the statutory auditors on an annual basis of their independence in relation to the Company or entities directly or indirectly related thereto, as well as a detailed breakdown of information on additional services of any kind provided to and the corresponding fees received from such entities by such statutory auditors or by persons or entities related thereto, pursuant to the legal provisions governing the auditing of accounts.
- On an annual basis, prior to the audit report, issue a report containing an opinion on whether the independence of the statutory auditors is compromised, which shall be made available to the shareholders upon the terms set forth in the *Regulations for the General Shareholders' Meeting*. This report shall contain a reasoned assessment of the provision of each and every one of the additional services other than the legal audit referred to in the preceding point, considered individually and as a whole, and in relation to the rules on independence or the legal provisions regarding the statutory audit.
- Report in advance to the Board of Directors regarding the financial information that the Company must disclose on a regular basis because of its status as a listed company; the committee shall make sure that the interim statements are prepared in accordance with the same accounting standards as the annual accounts and, for such purpose, it shall consider the appropriateness of a limited review by the statutory auditor.
- Review the contents of the audit reports on the accounts and of the reports on the limited review of interim accounts, if any, as well as other

mandatory reports to be prepared by the statutory auditor, prior to the issuance thereof, in order to avoid qualified reports.

- Assess the results of each audit of accounts and supervise the response of the members of senior management to the recommendations made therein.
- Act as a channel of communication between the Board of Directors and the statutory auditors, causing them to hold an annual meeting with the Board of Directors to report thereto on the work performed and the accounting status and risks of the Company.
- Evaluate any proposal made by the members of senior management regarding changes in accounting practices.
- Obtain information on significant adjustments identified by the statutory auditor or that result from revisions made by the Internal Audit Area and the position of the management team regarding said adjustments.
- Timely and properly attend to, answer and take into account any requests sent thereto by the National Securities Market Commission during the current financial year or in prior years, ensuring that the same types of incidents previously identified in said requests are not repeated in the financial statements.

In turn, the *Regulations of the Board of Directors* provide that:

- The Board of Directors shall meet with the statutory auditors at least once per year in order to receive information regarding the work performed and regarding the accounting status and risks of the Company.
- The Board of Directors shall use its best efforts to definitively prepare the accounts such that there is no room for qualifications by the statutory auditors. However, if the Board of Directors believes that its opinion must prevail, it shall provide a public explanation of the content and scope of the discrepancy.

Pursuant to the above-cited rules, the Audit and Risk Supervision Committee reports on the economic/financial information of the Company throughout the financial year and prior to the approval thereof by the Board of Directors and its submission to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*). The reports of the committee, which the chair thereof presents to the full Board of Directors, are mainly intended to disclose such aspects, if any, as may give rise to qualifications in the audit report of Iberdrola and its consolidated group, making the appropriate recommendations to avoid any such qualifications.

Accordingly, the committee submitted to the Board of Directors the following reports regarding the annual and half-yearly financial reports and the *Interim Management Statements* of the Company for financial year 2019:

- Report dated 23 April 2019 on the *Interim Management Statement* for the first quarter of 2019.
- Report dated 22 July 2019 on the economic/financial information for the first half of 2019.
- Report dated 28 October 2019 on the *Interim Management Statement* for the third quarter of 2019.
- Report dated 24 February 2020 regarding the annual accounts of Iberdrola and its consolidated group for financial year 2019.

As disclosed in the information about Iberdrola posted on the website of the National Securities Market Commission (www.cnmv.es), the audit reports on the individual and consolidated annual accounts prepared by the Board of Directors have historically been issued without qualifications.

C.1.29 Is the secretary of the Board also a director?

Yes No

If the secretary is not a director, please complete the following table:

Name of the secretary	Representative
Mr Julián Martínez-Simancas Sánchez	

C.1.30 State, if any, the concrete measures established by the entity to ensure the independence of its external auditors, financial analysts, investment banks, and rating agencies, including how legal provisions have been implemented in practice.

MECHANISMS TO PRESERVE THE INDEPENDENCE OF THE AUDITOR.

The *Regulations of the Audit and Risk Supervision Committee* and the *Statutory Auditor Contracting and Relations Policy*, included within the Company's Corporate Governance System, provide that:

- The relations of the committee with the statutory auditor of the Company shall respect the independence thereof, in accordance with the provisions of the Corporate Governance System.
- The Audit and Risk Supervision Committee must discuss with the statutory auditor any circumstance that might give rise to a threat to the independence thereof and evaluate the effectiveness of the protective measures adopted, as well as understand and evaluate the set of relationships between the Iberdrola group and the statutory auditor and its network that entail the provision of non-audit services or any other type of relationship.
- The committee shall ask the statutory auditor to provide an annual certification of independence of the firm as a whole and of the members of the team participating in the process of auditing the annual accounts of the Iberdrola group from the Company or entities directly or indirectly connected thereto, as well as a detailed breakdown of information regarding additional services (other than auditing) of any kind provided by the statutory auditor or by persons connected thereto, pursuant to the law on statutory audit. In addition, the statutory auditor shall include in such certification a statement in which it reports on compliance with the application of the internal procedures of quality assurance and protection of independence that have been implemented.
- The statutory auditor shall provide to the committee annual information regarding the profiles and the track record of the persons making up the audit teams of the Company and of the Iberdrola group, stating the changes in the composition of such teams compared to the immediately preceding financial year.
- On an annual basis and prior to the issuance of the audit report, the committee shall issue a report setting forth an opinion on the independence of the statutory auditor. This

report must contain an assessment of the possible impact on the independence of the statutory auditor of each and every one of the additional services (other than the legal audit) of any kind provided by the statutory auditor or by persons connected thereto, considered individually and as a whole.

- The committee shall monitor the quality assurance and independence safeguarding internal procedures implemented by the statutory auditor.
- The committee shall not submit a proposal to the Board of Directors, and the Board of Directors shall not submit a proposal to the shareholders at the General Shareholders' Meeting, for appointment as statutory auditor of firms for which it has evidence that they are affected by any circumstance of lack of independence, prohibition or disqualification pursuant to the legal provisions governing the audit of accounts, and in any event if the fees that the Company intends to pay it for any and all services are greater than five percent of its total domestic income during the last financial year.
- The committee shall receive information on the hiring by any of the companies of the Iberdrola group of professionals coming from the statutory auditor.

The Audit and Risk Supervision Committee has also established a restrictive policy on the non-audit services by the statutory auditor to the Iberdrola group that can be authorised. Likewise, pursuant to the *Regulations of the Audit and Risk Supervision Committee*, in order for the committee to authorise the provision of said services, it must assess whether the audit firm is the most appropriate firm to provide them based on its knowledge and experience, and in this case shall analyse: (i) the nature thereof and the circumstances and context in which it occurs, (ii) the status, position or influence of the provider of the service and other relations thereof with the Company; (iii) the effects thereof; and (iv) whether said services could threaten the independence of the auditor and, if applicable, the establishment of measures eliminating or reducing these threats to a level that does not compromise the independence thereof.

As regards financial year 2019:

- Iberdrola's statutory auditor, "KPMG Auditores, S.L." ("KPMG") appeared on fifteen occasions before the Audit and Risk Supervision Committee and on one occasion before the Board of Directors to report on various matters relating to the audit process. During these appearances, the statutory auditor did not report issues that might put its independence at risk.
- On 18 February 2019 KPMG sent to the committee written confirmation of its independence with regard to the audit of the economic/financial information for financial year 2018.
- On 16 July 2019 KPMG sent to the committee written confirmation of its independence with regard to the limited review of the economic/financial information as at 30 June 2019.

- On 19 February 2020 KPMG sent to the committee written confirmation of its independence with regard to the audit of the economic/financial information for financial year 2019.
- In the letters described above, the statutory auditor represents that it has implemented internal policies and procedures designed to reasonably ensure that KPMG and its personnel maintain their independence when so required by applicable legal provisions.
- The hiring of the statutory auditor for services other than auditing is approved in advance by the committee. Furthermore, prior to approval thereof, the director of Internal Audit, and if necessary the audit committee and internal audit division of the group company receiving the services, must state that the provision thereof does not generate threats to the independence of the statutory auditor. In requests for services directed by the committee, the statutory auditor must confirm that there are no restrictions on independence for the performance of the work in question.
- In its statement of independence of 24 February 2020, KPMG reported that it had no evidence that any member of the teams participating in the audit of the financial statements for financial year 2019 had joined as an employee of Iberdrola or of its related companies.
- On 24 February 2020 the committee submitted its report to the Board of Directors regarding the independence of the Company's statutory auditor. The committee concluded that the statutory auditor performed its audit work with independence from Iberdrola or entities related thereto.

MECHANISMS TO PRESERVE THE INDEPENDENCE OF FINANCIAL ANALYSTS, INVESTMENT BANKS, AND RATING AGENCIES.

The principles which form the basis of the relations of the Company with financial analysts, investment banks, and rating agencies are contained in the *Policy regarding Communication and Contacts with Shareholders, Institutional Investors and Proxy Advisors* and are transparency, non-discrimination, truthfulness, and trustworthiness of the information supplied.

The Finance and Resources Division, through the Investor Relations and Communication Division, manages their requests for information and requests submitted by institutional or retail investors (in the case of retail investors, through the Office of the Shareholder). The Finance and Resources Division gives mandates to investment banks. The Corporate Development Division gives the appropriate advisory mandates to investment banks within the scope of its activities, in coordination with the Finance and Resources Division.

The independence of financial analysts is protected by the Investor Relations and Communications Division, which ensures the objective, fair, and non-discriminatory treatment thereof.

To actualise the principles of transparency and non-discrimination, always in strict compliance with regulations regarding the securities market, the Company has a number of communication channels:

- Personalised assistance for analysts, investors and rating agencies.
- Publication of the information relating to quarterly results and other specific events, such as those relating to the submission of the Business Prospects or to corporate transactions.
- E-mail through the corporate website (accionistas@iberdrola.com) and a toll-free line for shareholders (+34 900 100 019).
- In-person and broadcasted presentations.
- Release of announcements and news.

Visits to Company facilities.

C.1.31 State whether the company changed its external auditor during the year. If so, please identify the incoming and outgoing auditor:

Yes No

If there were any disagreements with the outgoing auditor, please provide an explanation:

Yes No

C.1.32 State whether the audit firm provides any non-audit services to the company and/or its Group and, if so, the fees paid and the corresponding percentage of total fees invoiced to the company and/or Group:

Yes No

C.1.33 State whether the auditors' report on the financial statements for the preceding year contains a qualified opinion or reservations. If so, please explain the reasons given to the shareholders at the General Meeting by the chairman of the audit committee to explain the content and extent of the aforementioned qualified opinion or reservations.

Yes No

C.1.34 State the number of consecutive years the current audit firm has been auditing the financial statements of the company and/or group. Furthermore, state the number of years audited by the current audit firm as a percentage of the total number of years that the financial statements have been audited:

	Individual	Consolidated
Number of consecutive years	3	3

	Individual	Consolidated

Number of years audited by the current audit firm/number of fiscal years the company or its group has been audited (by %)	11.11%	11.11%
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C.1.35 State whether there is a procedure whereby directors have the information necessary to prepare the meetings of the governing bodies with sufficient time and provide details if applicable:

Yes

No

Explanation of procedure
<p>The <i>Regulations of the Board of Directors</i> provide that the required support shall be provided for new directors to become rapidly and adequately acquainted with the Company and its group, such that they can actively perform their duties as such and, if so appointed, as members of any of the committees of the Board of Directors as from their appointment as such. To this end, an <i>Orientation Programme</i> shall be made available to them through the directors' website.</p> <p>They shall also be provided with the information needed to perform their duties, and access to training materials and sessions that allow them to continuously update their knowledge shall be encouraged.</p> <p>The regulations of the consultative committees also provide that they shall have a periodic training plan that ensures the refreshment of knowledge relating to the purview of each of them.</p> <p>In order to improve their knowledge of the group, presentations are made to the directors regarding the businesses thereof. In addition, a portion of each meeting of the Board of Directors tends to be dedicated to a presentation on economic, legal or political/social issues of importance to the group.</p> <p>The directors have access to a specific application, the directors' website, that facilitates performance of their duties and the exercise of their right to receive information. This website includes information deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof in accordance with the agenda, as well as the <i>Orientation Programme</i> and the training materials intended for the directors and presentations made to the Board of Directors.</p> <p>In addition, the directors are given access through the directors' website to the minutes of the meetings of the Board of Directors and the committees thereof, as well as to any other information that the Board of Directors approves or that the chairman or the secretary of the Board of Directors deems appropriate to include.</p>

Pursuant to the Regulations of the Board of Directors, there shall be an inclusion on the directors' website of such information as is deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof, in accordance with the agenda included in the calls to meeting.

In addition, the Regulations of the Board of Directors provide that a director is specifically required to properly prepare the meetings of the Board of Directors and, if applicable, the meetings of the Executive Committee or of the committees of which the director is a member, for which purposes the director must diligently become apprised of the running of the Company and the matters to be discussed at such meetings.

C.1.36 State whether the company has established rules whereby directors must provide information regarding and, if applicable, resign, in circumstances that may damage the company's standing and reputation. If so, provide details:

Yes

No

Explain the rules

The *Regulations of the Board of Directors* set out the obligations and duties of the directors, including, as an expression of the duty of loyalty, the duty to submit their resignation to the Board of Directors in the event that supervening circumstances mean they are involved in an instance of disqualification or prohibition, loss of suitability, respectability, capability, expertise, competence, availability or commitment to their duties required to be a director and the other instances provided for in the Company's Corporate Governance System.

As provided by the Regulations of the Board of Directors, the director must inform the Company of any judicial, administrative or other proceedings instituted against the director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company. In particular, every director must inform the Company, through the secretary of the Board of Directors, in the event that the director is subject to an investigation, is arrested, or an order for the commencement of an oral criminal trial is issued against the director for the commission of any crime, and of the occurrence of any significant procedural steps in such proceedings. In such instance, the Board of Directors shall review this circumstance as soon as practicable and, following a report of the Appointments Committee, shall adopt the decisions it deems fit taking into account the interests of the Company.

In addition, the director must inform the Company of any fact or event that may be relevant to the holding of office as a director.

Directors must also submit their resignation to the Board of Directors and formally resign from their position in the events set forth in the Regulations of this body, particularly:

- a) When, due to supervening circumstances, they are involved in any circumstance of disqualification or prohibition provided by law or the Corporate Governance System.
- b) When, as a result of any acts or conduct attributable to the director, serious damage is caused to the value or reputation of the Company or there is a risk of criminal liability for the Company or any of the companies of the Group.
- c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability, or commitment to their duties required to be a director of the Company.

In particular, when the activities carried out by the director, or the companies directly or indirectly controlled by the director, or the individuals or legal entities that are shareholders of or related to any of them, or the individual representing a corporate director, may compromise the competence of the director.

- d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.
- e) When their continuance in office on the Board of Directors may for any reason, either directly, indirectly, or through persons related thereto, jeopardise the faithful and diligent performance of their duties in furtherance of the corporate interest.
- f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
- g) When an independent director unexpectedly falls under supervening circumstances that prevent the director from being considered as such pursuant to the provisions of law.

In any of the aforementioned instances, the Board of Directors shall request the director to resign from such position and, if applicable, shall propose the director's removal from office to the shareholders at the General Shareholders' Meeting.

By way of exception, the resignation provisions set forth in letters f) and g) above shall not apply if the Board of Directors believes that there are reasons that justify the director's continuance in office, after a report of the Appointments Committee, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

C.1.37 State whether any member of the Board of Directors has notified the company that he or she has been tried or notified that legal proceedings have been filed against him or her, for any offences described in Article 213 of the LSC:

Yes

No X

State whether the Board of Directors has examined the case. If so, explain in detail the decision taken as to whether the director in question should continue in his or her post or, if applicable, describe any actions taken by the Board up to the date of this report, or which it intends to take.

Yes

No X

C.1.38 Detail any material agreements entered into by the company that come into force, are modified or are terminated in the event of a change in control of the company following a public takeover bid, and their effects.

Not applicable.

C.1.39 Identify individually for directors, and generally in other cases, and provide detail of any agreements made between the company and its directors, officers or employees providing severance payments or golden parachutes in the event of resignation or unfair dismissal or termination of employment due to a takeover bid or any other type of transaction.

Number of beneficiaries	28
Type of beneficiary	Description of agreement
Executive directors and officers	1. EXECUTIVE DIRECTORS Pursuant to the provisions of his contract, the chairman & CEO has the right to receive a severance payment in the event of termination of his relationship with the Company, provided that such termination is not the consequence of a breach attributable thereto or exclusively due to his own decision to withdraw. The amount of the severance payment is three times annual

	<p>salary. Since 2011, contracts with new executive directors and with senior management include maximum severance pay equal to two times annual salary in the event of termination of their relationship with the Company, provided that termination of the relationship is not the result of a breach attributable thereto or solely due to a voluntary decision thereof. This is the system applicable to the Business CEO, who was appointed by the shareholders at the General Shareholders' Meeting held on 31 March 2017.</p> <p>Furthermore, in consideration for the executive directors' non-compete commitment for a period of between one and two years, they shall be entitled to severance pay equal to the remuneration for such period.</p> <p>2. OFFICERS</p> <p>Some employment contracts with officers of Iberdrola include specific severance clauses. The purpose of such clauses is to obtain an effective and sufficient level of loyalty for the management of the Company and thus avoid a loss of experience and knowledge that might jeopardise the achievement of strategic objectives, more so for positions deemed to decisively contribute to the creation of value due to the responsibilities entailed thereby. The amount of the severance pay is determined based on length of service and the reasons for the officer's withdrawal from office, up to a maximum of five times annual salary.</p> <p>Notwithstanding the foregoing, the Senior Management Remuneration Policy provides since 2011 that the limit on the amount of the severance pay under new contracts with the members of senior management shall be two times their annual salary.</p>
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State if these contracts have been communicated to and/or approved by management bodies of the company or of the Group. If they have, specify the procedures, events and nature of the bodies responsible for their approval or for communicating this:

	Board of Directors	General Shareholders' Meeting
Body authorising the severance clauses	X	

	YES	NO
Are these clauses notified to the General Shareholders' Meeting?	X	

C.2 Committees of the Board of Directors

C.2.1 Provide details of all committees of the Board of Directors, their membership, and the proportion of executive, proprietary, independent and other external directors that comprise them:

EXECUTIVE COMMITTEE

Name	Position	Category
Mr José Ignacio Sánchez Galán	Chair	Executive
Ms Inés Macho Stadler	Member	Other external
Mr Manuel Moreu Munaiz	Member	Independent
Ms Samantha Barber	Member	Independent

% of executive directors	25
% of independent directors	50
% of other external directors	25

Explain the duties exercised by this committee, other than those that have already been described in Section C.1.10, and describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed thereto by law, the Articles of Association or other corporate resolutions.

The Executive Committee is assigned all the powers of the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions. The chairman of the Board of Directors and the chief executive officer, if any, are members in all cases. The secretary of the Board of Directors acts as secretary of the Committee.

The Executive Committee shall meet as many times as deemed necessary by the chair thereof. It shall also meet when so requested by a minimum of two of the directors forming part thereof.

Resolutions of the Committee shall be adopted by absolute majority of its members who are present at the meeting in person or by proxy.

The duties of this Committee consist of making proposals to the Board of Directors regarding strategic decisions, investments and divestitures that are significant for the Company or the group, assessing their conformity to the current budget and strategic plans and analysing and monitoring business risks. It also provides assistance to the Board of Directors in the ongoing supervision of compliance with the principles governing the organisation and the coordination of the group and the strategic goals thereof.

The most relevant activities performed by this Committee during financial year 2019 are described in the *Activities Report of the Board of Directors and of the Committees thereof 2019*, available at www.iberdrola.com.

AUDIT AND RISK SUPERVISION COMMITTEE

Name	Position	Category
Mr Xabier Sagredo Ormaza	Chair	Independent
Ms Denise Mary Holt	Member	Independent
Ms Georgina Kessel Martínez	Member	Independent
Mr José Walfredo Fernández	Member	Independent

% of independent directors	100
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Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The Audit and Risk Supervision Committee is an internal informational and consultative body.

The Audit and Risk Supervision Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee from among the non-executive directors who are not members of the Executive Committee. A majority of its members shall be independent,

and at least one of them shall be appointed taking into account the knowledge and experience thereof in the areas of accounting, audit and risk management.

Without prejudice to the foregoing, the Board of Directors and the Appointments Committee shall endeavour to ensure that all members of the Audit and Risk Supervision Committee, and especially the chair thereof, have the expertise, qualifications and experience appropriate for the duties they are called upon to perform in the area of accounting, auditing or risk management, that at least one of them has experience in information technology, and that as a whole the members of the Audit and Risk Supervision Committee have relevant technical knowledge in the finance and internal control area, as well as in relation to the energy sector.

The Board of Directors shall appoint a chair of the Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The members of the Audit and Risk Supervision Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length. The chair shall hold office for a maximum period of four years, after which period the director who has held office as such may not be re-elected until the passage of at least one year from ceasing to act as such.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided and are further developed in the Regulations of the Board of Directors, as well as in the Regulations of the Audit and Risk Supervision Committee.

The most relevant activities performed by this Committee during financial year 2019 are described in the *Activities Report of the Board of Directors and of the Committees thereof 2019*, available at www.iberdrola.com.

Identify the directors who are member of the audit committee and have been appointed taking into account their knowledge and experience in accounting or audit matters, or both, and state the date that the Chairperson of this committee was appointed.

Name of directors with experience	Mr Xabier Sagredo Ormaza and Ms Georgina Kessel Martínez
Date of appointment of the chairperson	19/02/2019

APPOINTMENTS COMMITTEE

Name	Position	Category
Ms María Helena Antolín Raybaud	Chair	Independent
Mr Íñigo Víctor de Oriol Ibarra	Member	Other external
Mr Anthony L. Gardner	Member	Independent

% of independent directors	66.67
% of other external directors	33.33

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercise in practice each of the functions attributed thereto by law, in the Articles of Association or other corporate resolutions.

The Appointments Committee is an internal informational and consultative body.

The Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors from among the non-executive directors.

A majority of the members of the Appointments Committee must be classified as independent. The Board also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The Board of Directors shall endeavour to ensure that the members of the Committee have such expertise, qualifications and experience as are required by the duties they are called upon to perform, particularly in the following areas: corporate governance, strategic human resources analysis and evaluation, selection of directors and management personnel, and performance of senior management duties.

The members of the Appointments Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and

resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are further developed in the Regulations of the Board of Directors, as well as in the Regulations of the Appointments Committee.

The most relevant activities performed by this Committee during financial year 2019 are described in the *Activities Report of the Board of Directors and of the Committees thereof 2019*, available at www.iberdrola.com.

REMUNERATION COMMITTEE

Name	Position	Category
Mr Juan Manuel González Serna	Chair	Independent
Ms Inés Macho Stadler	Member	Other external
Mr Manuel Moreu Munaiz	Member	Independent

% of independent directors	66.67
% of other external directors	33.33

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed thereto by law, the Articles of Association or other corporate resolutions.

The Remuneration Committee is an internal informational and consultative body.

The Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors. A majority of the members of the Remuneration Committee must be classified as independent. The Board also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The Board of Directors shall endeavour to ensure that the members of the Committee have such expertise, qualifications and experience as are required by the duties they are called upon to perform, and particularly regarding corporate governance, policy design and remuneration plans for directors and senior management.

The members of the Remuneration Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are further developed in the Regulations of the Board of Directors, as well as in the Regulations of the Remuneration Committee.

The most relevant activities performed by this Committee during financial year 2019 are described in the *Activities Report of the Board of Directors and of the Committees thereof 2019*, available at www.iberdrola.com.

SUSTAINABLE DEVELOPMENT COMMITTEE

Name	Position	Category
Ms Samantha Barber	Chair	Independent
Mr Íñigo Víctor de Oriol Ibarra	Member	Other external
Ms Sara de la Rica Goiricelaya	Member	Independent

% of independent directors	66.67
% of other external directors	33.33

Explain the duties exercised by this committee, describe the rules and procedures it follows for its organisation and function. For each one of these functions, briefly describe its most important actions during the year and how it has exercised in practice each of the functions attributed thereto by law, the Articles of Association or other corporate resolutions.

The Sustainable Development Committee is an internal informational and consultative body.

The Committee shall be composed of a minimum of three and a maximum of five directors appointed by the Board of Directors upon a proposal of the Appointments Committee, from among the non-executive directors.

A majority of the members of the Sustainable Development Committee must be classified as independent. The Board of Directors

shall appoint a chair of the Committee from among the members forming part thereof, as well as its secretary, who need not be a director.

The members of the Sustainable Development Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are set out in the Regulations of the Board of Directors, as well as in the Regulations of the Sustainable Development Committee.

The most relevant activities performed by this Committee during financial year 2019 are described in the *Activities Report of the Board of Directors and of the Committees thereof 2019*, available at www.iberdrola.com.

C.2.2 Complete the following table with information regarding the number of female directors who were members of Board committees at the close of the past four years:

	Number of female directors			
	FY 2019 Number %	FY 2018 Number %	FY 2017 Number %	FY 2016 Number %
Executive Committee	2/50	2/40	2/40	1/20
Audit and Risk Supervision Committee	2/50	2/50	2/50	2/50
Appointments Committee	1/33.33	1/33.33	1/33.33	1/33.33
Remuneration Committee	1/33.33	1/33.33	1/33.33	1/33.33
Sustainable Development Committee	2/66.67	1/33.33	1/33.33	1/33.33

C.2.3 State, where applicable, the existence of any regulations governing Board committees, where these regulations may be found, and any amendments

made to them during the year. Also state whether any annual reports on the activities of each committee have been voluntarily prepared.

Each of the committees has its own regulations, available at www.iberdrola.com, where one can also find the Activities Report of the Board of Directors and of the Committees thereof.

Within the process of ongoing review of the Corporate Governance System, apart from technical improvements, there have been amendments of the Regulations of the Appointments Committee and of the Remuneration Committee in order to reflect the recommendations included in the National Securities Market Commission's Technical Guide 1/2019 on Nomination and Remuneration Committees.



RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Describe, if applicable, the procedure and competent bodies for approval of related-party and intragroup transactions.

Article 48 of the Regulations of the Board of Directors provides that:

1. Any transaction by the Company or the companies forming part of its group with directors, with shareholders that directly or indirectly own a shareholding interest that is equal to or greater than that legally regarded as significant at any time or that have proposed or caused the appointment of any of the directors of the Company, or with the respective related persons ("Related-Party Transactions"), shall be subject to the approval of the Board of Directors, or in urgent cases, of the Executive Committee, following a report from the Appointments Committee.
2. In the event that authorisation has been granted by the Executive Committee due to the urgency of the matter, the Executive Committee shall give notice thereof to the Board of Directors at its next meeting in order for it to be ratified.
3. The authorisation of Related-Party Transactions must be approved by the shareholders at the General Shareholders' Meeting in the instances provided by law, and particularly if it relates to a transaction having a value of more than ten per cent of the corporate assets.
4. As an exception, Related-Party Transactions with any of the listed companies of the group (as is the case of Avangrid, Inc. and Neoenergia, S.A.) or with the subsidiaries thereof shall not be subject to the rules on Related-Party Transactions, provided that they have corporate governance rules similar to those of the Company.
5. The execution of a Related-Party Transaction puts the director engaging in said transaction or who is related to the person engaging in the transaction in a conflict of interest, for which reason the provisions of the Regulations of the Board of Directors in this area shall apply, to the extent applicable. This particularly includes the duties of communication and abstention.

6. The Board of Directors, through the Appointments Committee, shall ensure that Related-Party Transactions are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders in the same situation. In the case of transactions to be carried out by companies of the Group, the scope of authorisation of the Board of Directors, or that of the Executive Committee, if applicable, referred to in the preceding sections, shall be limited to the verification of compliance with such particulars.
7. In the case of customary and recurring Related-Party Transactions in the ordinary course of business, it shall be sufficient for the Board of Directors to give prior generic approval of the kind of transaction and of the conditions for performance thereof, following a report from the Appointments Committee.
8. If a Related-Party Transaction entails the successive performance of different transactions, of which the second and subsequent transactions are mere acts of execution of the first transaction, the provisions of article 48 of the *Regulations of the Board of Directors* shall only apply to the first transaction carried out.
9. The authorisation shall not be required in connection with transactions that simultaneously satisfy the following three conditions: that they are conducted under contracts whose terms and conditions are standardised and apply on an across-the-board basis to a large number of customers; that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question, and that the amount thereof does not exceed one per cent of the consolidated annual income of the Group.
10. The Company shall report Related-Party Transactions in the Half-Yearly Financial Report and in the Annual Corporate Governance Report, in the cases and to the extent provided by law. Likewise, the Company shall include in the notes accompanying the annual accounts information regarding the transactions by the Company or by the companies of the Group with the directors and with those persons who act for the account of the latter when such transactions are conducted other than in the ordinary course of the Company's business or other than under normal arm's length conditions.

To this end, the directors must give written notice to the secretary of the Board of Directors, on a semi-annual basis, within the first week of January and July of each year, regarding the Related-Party Transactions that they have engaged in. If they are not carried out, the directors shall so report. The secretary of the Board of Directors shall send a notice to the directors on a semi-annual basis requesting the appropriate information that must be sent to the Company.
11. The notice must include the following information: the nature of the transaction; the date on which the transaction originated; the conditions and periods for payment; the name of the person who carried out the transaction and the relationship, if any, with the director; the amount of the transaction; and other aspects, such as pricing policies, guarantees given and received, and any other feature of the transactions that allows for a proper assessment thereof, particularly such information as allows for verification that it has

been carried out on arm's length conditions and in compliance with the principle of equal treatment.

12. The secretary of the Board of Directors shall prepare a register of Related-Party Transactions. The information set forth in such register shall be made available to the Compliance Unit when it so requests, and shall also periodically be made available to the Audit and Risk Supervision Committee through the Management of the Internal Audit Area.

D.2 Describe any transactions which are significant, either because of the amount involved or subject matter, entered into between the company or entities within its group and the company's significant shareholders:

Name of significant shareholder	Name of company or entity within the group	Nature of the relationship	Type of transaction	Amount (thousand euros)
QATAR INVESTMENT AUTHORITY	IBERDROLA, S.A.	Corporate	Dividends and other distributed profits	2,766
QATAR INVESTMENT AUTHORITY	IBERDROLA Group	Corporate	Other	248

Remarks
<p>Transactions by shareholders exercising a significant influence on participation in the entity's financial and operating decisions, with significant influence being understood as having a member of the Board of Directors, are deemed to be related-party transactions.</p> <p>Shareholders who are able to exercise the proportional representation system due to their interest in the capital of the Company are also considered to have such influence.</p> <p>As of the date of this report, only Qatar Investment Authority meets this condition, for which reason the amounts reflected in the period refer to transactions with this shareholder.</p> <p>The amount allocated for "dividends and other distributed profits" corresponds to the bonus for attending the General Shareholders' Meeting and "other" corresponds to the income from treasury placements made with Qatar National Bank by Scottish Power Ltd.; there was no outstanding amount at 31 December.</p>

D.3 Describe any transactions which are significant, either because of the amount involved or subject matter, entered into between the company or entities within its group and the directors or officers of the company:

Name of director or manager	Name of related party	Relationship	Type of transaction	Amount (thousand euros)
No data				

D.4 Report any material transactions carried out by the company with other entities belonging to the same group, provided that these are not eliminated in the preparation of the consolidated financial statements and do not form part of the company's ordinary business activities in terms of their purpose and conditions. In any event, note any intragroup transaction conducted with entities established in countries or territories which are considered tax havens:

Name of entity within the group	Brief description of the transaction	Amount (thousand euros)
No data		

Remarks
Transactions with subsidiaries and companies in which the Company has an interest that have not been eliminated in the process of consolidation were made in the ordinary course of business of the Company, were carried out under arm's-length conditions, and are of little significance to accurately reflect the assets, financial condition and results of operations of the Company.

D.5 Describe significant transactions conducted with other related parties that have not been reported in the previous sections.

Name of the related party	Brief description of the transaction	Amount (thousand euros)
SIEMENS GAMESA GROUP	PURCHASE OF MATERIAL ASSETS	698,463
SIEMENS GAMESA GROUP	RECEIPT OF SERVICES	42,978
SIEMENS GAMESA GROUP	PURCHASE OF GOODS (FINISHED OR IN PROGRESS)	1,995

SIEMENS GAMESA GROUP	SALES	1,201
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D.6 Describe the mechanisms in place to detect, determine and resolve potential conflicts of interest between the company and/or its group and its directors, senior management or significant shareholders.

Pursuant to the Regulations of the Board of Directors, a conflict of interest shall be deemed to exist in those situations provided by law, particularly when the interests of the director, either for their own or another's account, directly or indirectly conflict with the interest of the Company or of companies within the group and their duties to the Company. An interest of a director shall exist when a matter affects the director or a person related thereto or, in the case of a proprietary director, when it also affects the shareholder or shareholders that proposed or caused the appointment thereof or persons directly or indirectly related thereto.

The *Regulations of the Board of Directors* contain a list of persons deemed to be related for such purposes, distinguishing between an individual and a corporate director.

Conflicts of interest shall be governed by the following rules, without prejudice to the general duty imposed on all directors to take the measures necessary to avoid engaging in these situations:

- a) Communication: once a director becomes aware of being in a situation of conflict of interest, the director must give written notice of the conflict to the Board of Directors, in the person of the secretary thereof. The secretary shall periodically submit a copy of the notices received to the Appointments Committee, in the person of the secretary thereof.

The notice shall contain a description of the situation giving rise to the conflict of interest, with a statement as to whether it is a direct conflict or an indirect conflict through a related person, in which case the latter person must be identified.

The description of the situation must include, as applicable, the subject matter and the principal terms of the transaction or the planned decision, including the amount thereof or an approximate financial assessment thereof. If the situation giving rise to the conflict of interest is a Related-Party Transaction (as this term is defined in article 48 of the *Regulations of the Board of Directors*), the notice shall also identify the department or person of the Company or of any of the companies of the Group with which the respective contacts were made.

Any question as to whether a director might be involved in a conflict of interest must be forwarded to the secretary of the Board of Directors, and the director must refrain from taking any action until it is resolved.

- b) Abstention: if the conflict arises from an operation, transaction, or circumstance that requires any kind of operation, report, decision, or acceptance, the director must refrain from taking any action until the Board of Directors studies the case and informs the director of the appropriate decision.

To this end, the director shall leave the meeting during the deliberation and voting on those matters in which the director is affected by a conflict of interest, and shall not be counted in the number of members attending for purposes of the calculation of a quorum and majorities. At each meeting of the Board of Directors and of the committees thereof, the secretary reminds the directors, before dealing with the agenda, of this abstention rule.

- c) Transparency: whenever required by law, the Company shall report any cases of conflict of interest in which the directors have been involved during the financial year in question and of which the Company is aware by reason of notice given thereto by the director affected by such conflict or by any other means.

If the conflict of interest is, or may reasonably be expected to be, of a structural and permanent nature, it shall be deemed that there is a loss of the suitability required to hold office, which constitutes an event requiring the resignation, separation and removal of the director.

Conflicts of interest with officers are subject to the same rules of communication, abstention and transparency.

The Code of Ethics, which dedicates a specific section to conflicts of interest, applies to all professionals within the group, regardless of rank.

Furthermore, transactions between companies forming part of the group with significant shareholders or shareholders that have proposed the appointment of any of the directors and their respective related persons are also dealt with in the Regulations of the Board of Directors as explained in section D.1. They must be carried out on arm's-length conditions and be previously approved by the Board of Directors (or, in urgent cases, by the Executive Committee) or approved by the shareholders at a General Shareholders' Meeting if the value of the transaction exceeds 10% of the corporate assets. All transactions will be reported in the Annual Corporate Governance Report and in the Annual Financial Report.

D.7 Is there more than one company in the group listed in Spain?

Yes

No

Identify the other companies that are listed in Spain and their relationship to the company:

E RISK MANAGEMENT AND CONTROL SYSTEMS

E.1. Explain the scope of the company's Risk Management and Control System, including tax compliance risk.

Iberdrola's *General Risk Control and Management Policy* and the *Risk Policies* (corporate and those specific to the businesses) in development thereof are implemented within a comprehensive risk control and management system, supported by a Risk Committee of the group and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon supporting procedures, methodologies and tools, suitable for the various stages and activities within the system, including:

- a) The establishment of a structure of risk policies, guidelines, limits and indicators, as well as of the corresponding mechanisms for the approval, implementation and monitoring thereof, which effectively contributes to risks being managed in accordance with the Company's risk appetite.
- b) The ongoing identification of significant risks and threats, taking into account their possible impact on key management objectives and the accounts (including contingent liabilities and other off-balance sheet risks).
- c) The analysis of such risks, both at each corporate business or function and taking into account their combined effect on the group as a whole.
- d) The measurement and control of risks following homogeneous procedures and standards common to the entire group.
- e) The analysis of risks associated with new investments, as an essential element in risk/return-based decision-making, including physical and transition risks related to climate change.
- f) The maintenance of a system for monitoring and control of compliance with policies, guidelines and limits, by means of appropriate procedures and systems, including the contingency plans needed to mitigate the impact of the materialisation of risks.
- g) The periodic monitoring and control of profit and loss account risks in order to control the volatility of the annual income of the group.
- h) The ongoing evaluation of the suitability and efficiency of applying the system and the best practices and recommendations in the area of risks for eventual inclusion thereof in the model.
- i) The audit of the comprehensive risk control and management system by the Internal Audit Division.

The foregoing is undertaken in accordance with the following main principles of conduct:

- a) Integrate the risk/opportunity vision into the group's management, through a definition of the strategy and the risk appetite and the incorporation of this variable into strategic and operating decisions.
- b) Segregate functions, at the operating level, between areas that assume risks and areas responsible for the analysis, control and monitoring of such risks, ensuring an appropriate level of independence between them.
- c) Guarantee the proper use of risk-hedging instruments and the maintenance of records thereof as required by applicable law.
- d) Inform regulatory agencies and the principal external players, in a transparent fashion, regarding the risks facing the group and the operation of the systems developed to monitor such risks, maintaining suitable channels of communication.
- e) Ensure appropriate compliance with the corporate governance rules established by the Company through its *Corporate Governance System* and the update and continuous improvement thereof

within the framework of the best international practices as to transparency and good governance, and implement the monitoring and measurement thereof.

- f) Act at all times in compliance with the values and standards reflected in the *Code of Ethics*, under the principle of “zero tolerance” for the commission of unlawful acts and situations of fraud set forth in the *Crime Prevention Policy* and in the *Anti-Corruption and Anti-Fraud Policy*, and the principles and good practices reflected in the *Corporate Tax Policy*.

The *General Risk Control and Management Policy* and the *Risk Policies* in further development thereof apply to all companies over which the Company has effective control, within the limits established in the legal provisions applicable to the companies of the group that carry out regulated activities in the various countries in which it has a presence.

The listed country subholding companies (Avangrid, Inc. and Neoenergia, S.A.) have their own risk policies approved by their competent bodies pursuant to their own special framework of strengthened autonomy, which are aligned with those of the group.

At those companies in which the Company has an interest but which do not belong to the group, the Company shall promote principles, guidelines, and risk limits consistent with those established in the *General Risk Control and Management Policy* and in its supplemental *Risk Policies* and shall maintain appropriate channels of information to ensure a proper understanding of risks.

Iberdrola believes that its comprehensive risk control and management system operates on a comprehensive and continuous basis, strengthening such management by business unit or activity, subsidiaries, geographic areas and corporate-level support areas.

E.2. Identify the bodies within the company responsible for creating and executing the Risk Management and Control System, including tax compliance risk.

1. BOARD OF DIRECTORS

In the area within its purview, and with the support of the Audit and Risk Supervision Committee, it must use develop all of its capabilities in order for the significant risks to all the activities and businesses of the group to be adequately identified, measured, managed and controlled, and to establish through the *General Risk Control and Management Policy* the mechanisms and basic principles for appropriate management of the risk/opportunity ratio. By virtue thereof, it defines the risk strategy and profile of the group and approves the *Risk Policies*.

2. EXECUTIVE COMMITTEE

In order to conform the impact of the risks to the established appetite, the Executive Committee, upon the proposal of affected business or corporate divisions and after a report from the group’s Risk Committee, annually reviews and approves the specific guidelines regarding the risk limits of the corporate risk policies.

3. AUDIT AND RISK SUPERVISION COMMITTEE.

As a consultative body of the Board of Directors, it has the following powers, among others, relating to the risk control and management systems and the tax area:

- Directly supervise the Corporate Risk Division and maintain an appropriate relationship therewith and with the audit and compliance committees of the other companies of the group.
- Continuously review the risk control and management systems, such that the principal risks are properly identified, managed and reported.
- Supervise the effectiveness of the risk control and management systems, formulating proposals for improvement.

- Obtain information regarding any significant deficiency in internal control that the statutory auditor detects while carrying out its audit work.
- Ensure that the group's risk control and management system identifies at least:
 - the various risk factors that the Company faces;
 - the establishment and review of the risk map and the risk levels that are deemed acceptable;
 - the measures identified in order to mitigate the potential impact the materialisation of any of the identified risks; and
 - the internal control and information systems to be used in order to control and manage such risks.
- Promote (within the limits of its purview) a culture in which risk is a factor that is taken into account in the decisions of the Company.
- Identify and evaluate emerging risks, like those arising from technological, climactic, social and regulatory changes and reputational risks, as well as existing alert mechanisms, periodically evaluating the effectiveness thereof.
- Receive annual visits from the heads of the businesses of the group in order for them to report on the trends of their respective businesses and the risks associated therewith.
- Report in advance on the risks of the group to be included in the *Annual Corporate Governance Report*.
- Receive information from the Company's tax director regarding the tax standards applied during the financial year, and particularly regarding the level of compliance with the *Corporate Tax Policy*.

4. BOARDS OF DIRECTORS AND AUDIT AND COMPLIANCE COMMITTEES OF COUNTRY SUBHOLDING AND HEAD OF BUSINESS COMPANIES

The country subholding companies adopt the risk policies of the group and define the application thereof, approving guidelines on specific risk limits based on the nature and particularities of the businesses in each country. The audit and compliance committees of such companies shall report to the Board of Directors on the internal risk control and management systems.

The management decision-making bodies of the head of business companies of each country must approve the specific risk limits applicable to each of them and implement the control systems necessary to ensure compliance therewith, all within the limits provided by the legal provisions applicable to the companies of the group that carry out regulated activities.

Pursuant to their special framework of strengthened autonomy, the listed companies of the group (Avangrid, Inc. and Neoenergia, S.A.) and those with significant interests of other shareholders have their own risk policies, which are aligned with those of the group.

5. GROUP RISK COMMITTEE

The Risk Committee of the Iberdrola group is a technical committee that is chaired by the CFO and that performs executive duties in the customary management of risks and provides advice to the governance bodies of the group.

- It meets at least once a month, with the participation of the group's Risk Management director, the risk directors of the country subholding companies and corporate areas that have such a position, the Internal Audit Division and the Administration and Control Division.
- It reviews new reported risks and the reports monitoring the main existing risks, and issues the *Quarterly Risk Report of the group*, which includes the main risk positions, the report on compliance with the risk limits and indicators, and the update of the key risks map.

It is supplemented by the credit risk and market risk committees, which report to the former, and which meet on a monthly basis to discuss and decide on credit and market (financial and commodities) risks.

E.3. State the primary risks, including tax compliance risks, and those deriving from corruption (with the scope of these risks as set out in Royal Decree Law 18/2017), to the extent that these are significant, which may affect the achievement of business objectives

The group is subject to various risks inherent in the different countries, industries and markets in which it does business and in the activities it carries out, which may prevent it from achieving its objectives and successfully implementing its strategies.

In the "Principal risks and uncertainties" section of the *Management Report* for financial year 2019, there is a detailed description of the principal risks associated with the activities of the main businesses of the group, as well as the risks of the corporation.

Due to the universal and dynamic nature thereof, the comprehensive risk system allows for the consideration of new risks that could affect the group as a consequence of changes in the environment or revisions of objectives and strategies, as well as updates based on the monitoring, verification, review and supervision activities that are performed on a continuous basis.

Pursuant to the definitions established by the *General Risk Control and Management Policy*, risks at the group level are classified as follows:

- a) Corporate governance risks.
- b) Market risks.
- c) Credit risks.
- d) Business risks.
- e) Regulatory and political risks.
- f) Operational, technological, environmental, social and legal risks.
- g) Reputational risks.

The activities of the group during financial year 2020 and later years will be affected by the following main risk factors:

- Changes in the exchange rate between the euro and the currencies of the principal countries in which the group does business.
- The evolution of commodities and electricity prices in these countries.
- The annual change in hydraulic or wind resources for the production of electricity at the renewable generation plants of the group.
- Increased competition in the unrestricted market in Spain as a result of the entry of significant new players, and the current increased competition in the United Kingdom, with a possible impact on the annual accounts.
- The ability to implement the current major investment plan, in terms of cost and timing.
- The risks associated with cybersecurity.

Finally, in relation to possible risks with a reputational impact, the following is reported:

- The proceeding that commenced in April 2017 when the Public Prosecutor filed a claim against Iberdrola Generación España, S.A.U., bringing before the courts an adverse government ruling by the National Markets and Competition Commission (*Comisión Nacional de los Mercados y de la Competencia*) (“CNMC”), which was appealed to the contentious-administrative courts, relating to the price of bids for the Duero, Sil and Tajo hydroelectric management units between 30 November 2013 and 23 December 2013.
- The hiring of entities linked to the former police commissioner José Manuel Villarejo Pérez, a matter disclosed in the annex to this Report due to the limit on the number of characters in this section.

In relation to these types of risks, it should be noted that the group's comprehensive risk control and management system specifically identifies all risks with a reputational impact and establishes mechanisms for the monitoring, control and internal and external communication thereof.

Furthermore, Iberdrola has a Compliance System made up of a set of substantive rules, formal procedures and significant actions intended to ensure that conduct is in accordance with ethical principles and applicable law, preventing, avoiding and mitigating the risk of conduct that is improper or contrary to ethics or the law. The bodies and divisions directly entrusted with the implementation and further development thereof also form part of this system.

Elements of the system include the *Code of Ethics* (which is applicable to all professionals of the group, board members and suppliers) and the Compliance Unit, a collective permanent and internal body linked to the Sustainable Development Committee, which, among other things, spreads a preventive culture based on the principle of “zero tolerance” towards the commission of illegal acts or improper conduct. The system has been designed following the best domestic and international practices in the area of compliance, fraud prevention and the fight against corruption.

For more details regarding the risks to which the group is subject, see:

- The annual accounts 2019, and particularly the section dedicated to risk factors in the Management Report.
- Statement of Non-Financial Information. Sustainability Report 2019
- The Integrated Report 2019.
- Other sections of this Annual Corporate Governance Report.

E.4. State whether the entity has a risk tolerance level, including tolerance for tax compliance risk.

The Company's Board of Directors reviews and approves the risk tolerance level that is acceptable for the group on an annual basis. The *General Risk Control and Management Policy*, together with the policies that further develop and supplement it, qualitatively and quantitatively establish the annually accepted risk appetite, in a sufficiently detailed manner, both at the group level and at the level of each of its principal businesses and corporate functions.

By way of complement, the Administration and Control Division, after considering such limits and guidelines, in order to verify the risk globally assumed in the annual profit and loss account, engages in a comprehensive probability analysis of the global risk remaining for the financial year at the time of approving the annual budget.

In addition, all new multi-annual plans are accompanied by their corresponding analysis of associated risk.

The *General Risk Control and Management Policy* is further developed and supplemented through the following policies, which are also subject to approval and update by the Company's Board of Directors, and which include the following risk limits and indicators:

Corporate Risk Policies:

- *Corporate Credit Risk Policy*
- *Corporate Market Risk Policy*
- *Operational Risk in Market Transactions Policy*
- *Insurance Policy*
- *Investment Policy*
- *Financing and Financial Risk Policy*
- *Treasury Share Policy*
- *Risk Policy for Equity Interests in Listed Companies*
- *Information Technologies Policy*
- *Cybersecurity Risk Policy*
- *Reputational Risk Framework Policy*
- *Procurement Policy*

Risk policies for the various businesses of the group:

- *Risk Policy for the Networks Businesses of the Iberdrola group*
- *Risk Policy for the Renewable Energy Businesses of the Iberdrola group*
- *Risk Policy for the Liberalised Businesses of the Iberdrola group*
- *Risk Policy for the Real Estate Business of the Iberdrola group*

The *General Risk Control and Management Policy*, as well a summary of the risk policies in further implementation thereof, are available on the corporate website.

The limits and indicators of the risk policies should be consistent with the annual budget and the objectives set forth in the multi-annual investment plans. The numeric values of the limits and indicators set forth in the various policies are probabilistic in nature (like VaR and EBITDA at risk) or deterministic in nature, and are expressed in monetary units, indices or benchmarks based on which volumetric risks and/or values are generated, including:

- limits on the maximum overall credit risk exposure by type of counterparty;
- limitations on market risk proportional to the volume of activity of each business;
- strict overall limit on the discretionary trading of energy;
- limitations on operational risk through preventative maintenance programmes and assurance programmes; and
- strict limitations on activities not associated with the main energy business.

The *Corporate Tax Policy* establishes the limits on tax risk by setting the tax strategy, the principles of conduct and the good tax practices assumed by the Company.

As described above, the Iberdrola group has a risk tolerance level (acceptable risk level) established at the corporate level, which is annually approved by the Board of Directors and its Executive Committee. The group's Risk Committee, the Operating Committee, the Audit and Risk Supervision Committee, the

businesses, the corporate functions, the Administration and Control Division and the Risk Management Division also participate in the process.

E.5. State which risks, including tax compliance risks, have materialised during the year

The activities of the Iberdrola group during 2019 have been subject to various risk factors occurring in the countries and markets in which it operates, and on a global basis have not had a significant impact on the results for the financial year, thanks to the diversification of activities, markets and geographic areas in which the group is present, which has allowed for the negative effects of some businesses to be offset with favourable performance in others.

During the financial year, the group was negatively affected by events described below, although they have been offset by the following positive events:

- The approval at the end of 2019 of the new remuneration framework and rate applicable to the electricity distribution business in Spain for the 2020-25 period and the approval in December 2019 of the remuneration rate applicable for the next 12 years to the assets of the rate-regulated renewable energy business in Spain.
- These approvals, together with the agreement reached with ENRESA at the beginning of the year for a "Plan for scheduled closing of Spanish nuclear plants", positively eliminate uncertainties relating to these activities by the group in Spain.
- The approval in August 2019, on terms favourable to the group, of the remunerative framework of Elektro, applicable until August 2023.
- The sale with positive impacts for the group of: 1) 40% of the East Anglia One offshore wind farm in the United Kingdom, 2) the group's long-term liquefied natural gas supply contracts, and 3) the fibre optic business of the networks business in Spain.

The risks that have materialised include:

- The slowdown of economic growth in some of the countries in which the group is present, like Mexico, Brazil and the United Kingdom, partially offset by the group's business model, which makes it less sensitive to changing circumstances in the economic growth of the countries in which it is present.
- Lower hydrological contributions received by our hydroelectric plants as a result of the drought in Spain during 2019, which has resulted in hydroelectric production 4.5 TWh lower than expected in annual terms.

The write-off of 54 million euros in accounts receivable for territorial supplements, corresponding to the eco-tax in Extremadura (Spain).

E.6. Explain the response and monitoring plans for all major risks, including tax compliance risks, of the company, as well as the procedures followed by the company in order to ensure that the board of directors responds to any new challenges that arise.

The comprehensive risk control and management system, together with the control and management policies of the Company that implement them, including the group's Risk Committee and the Company's

Operating Committee, have allowed for the identification of risks and new threats sufficiently in advance, as well as for establishing appropriate mitigation plans.

The Company's Operating Committee meets on an approximately weekly basis.

The group's Risk Committee, which reviews the evolution of the various risks, meets on a monthly basis, and on a quarterly basis issues the *Quarterly Risk Report of the Group*, which includes the main risk positions, the report on compliance with policies and limits approved, and the update of the key risks map.

On at least a quarterly basis, the Audit and Risk Supervision Committee of the Board of Directors supervises the evolution of the Company's risks:

- It reviews the group's Quarterly Risk Report submitted by the group's Risk director.
- It coordinates and reviews the Risk Report submitted on a regular basis (at least half-yearly) by the audit and compliance committees of the country subholding and head of business companies of the group.
- On at least a half-yearly basis, it prepares a Risk Report for the Board of Directors.

F. INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS RELATED TO THE PROCESS OF PUBLISHING FINANCIAL INFORMATION (ICFR)

Describe the mechanisms comprising the System of Internal Control over Financial Reporting (ICFR) of your company.

F.1. Control environment

Report on at least the following, describing their principal features:

F.1.1. The bodies and/or departments that are responsible for (i) the existence and maintenance of an adequate and effective ICFR; (ii) their implementation; and (iii) their supervision.

Iberdrola's Board of Directors is ultimately responsible for implementing and maintaining a proper and effective internal control over financial information ("**ICFR**") system. The Boards of Directors of the country subholding companies and head of business companies also have this responsibility within their various purviews.

The heads of the country subholding companies and of the head of business companies, together with their respective heads of control, as well as the directors of the global corporate areas, are in turn responsible for the design and implementation of the ICFR system. This responsibility is explicitly set forth in the certifications that said persons sign on a half-yearly basis in relation to the financial information for their respective areas of responsibility.

Pursuant to article 31.6.d of the *Regulations of the Board of Directors*, the Audit and Risk Supervision Committee (hereinafter, "**ARSC**") is responsible for supervising the effectiveness of the internal control of the Company and of its group, as well as the risk management systems thereof. Article 31.6.f also provides that the duties of the ARSC include that of supervising the process of preparing and presenting mandatory financial information and submitting recommendations or proposals to the Board of Directors to protect the integrity of this information. The ARSC relies on the Internal Audit Area to carry out these responsibilities. Any audit committees at the country subholding and head of business companies have these powers within their respective purviews.

F.1.2. State whether the following are present, especially if they relate to the creation of financial information:

- **Departments and/or mechanisms in charge of: (i) design and review of corporate structure; (ii) clear definition of lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) assurance that adequate procedures exist for proper communication throughout the entity.**

The Board of Directors of Iberdrola defines the organisational structure at the first level. The heads of these top-level organisations, together with the Human Resources and General Services Division, implement the deployment within their respective purviews.

Each top-level division prepares a proposed organisational structure, including a description of the mission, duties and responsibilities of the various organisations deployed, which must subsequently be validated by the Human Resources and General Services Division, as well as by the Finance and Resources Division.

The main responsibility for preparing financial information lies with the corporate Administration and Control Division. This division proposes the structure of heads of Control of the country subholding and head of business companies and deals with coordinating and supervising the conduct thereof.

- **Code of conduct, the body approving this, degree of dissemination and instruction, including principles and values, (state if there is specific mention of transaction recording and creation of financial information), a body charged with analysing breaches and proposing corrective actions and sanctions.**

The Iberdrola group has a *Code of Ethics* that was first approved by the Board of Directors in financial year 2002, and that is regularly reviewed and updated. In its review of April 2019, the *Code of Ethics* strengthened the obligation of the group's professionals to report to the Compliance Division the commission of any illegal act or any impropriety. The obligation of suppliers to comply with the *Code of Ethics* and with the corporate anti-corruption policies is also included.

The *Code of Ethics* is communicated and disseminated among the professionals of the Iberdrola group in accordance with the plan approved annually for this purpose by the Compliance Unit, which provides for various initiatives in the area of training (both on-line and in-person) and communication, addressed to the various groups of employees based on their exposure to Compliance risks.

The *Code of Ethics*, which includes informational transparency among its general ethical principles and principles on relations with Iberdrola's stakeholders, expressly states the following in article B.6.:

"1. The group shall provide true, proper, useful and consistent information regarding its programmes and actions. The transparency of the information required to be disclosed is a basic principle that must govern the conduct of all directors, professionals and suppliers of the group.

2. The economic/financial information of the group (especially the annual accounts) shall faithfully reflect its economic and financial position and its net worth, in accordance with generally accepted accounting principles and applicable international financial reporting standards. For such purposes, no directors, professional or supplier shall conceal or distort the information set forth in the accounting records and reports of the group, which shall be complete, accurate and truthful.

3. A lack of honesty in the communication of information, whether within the group (to professionals, subsidiaries, departments, internal bodies, management decision-making bodies, etc.) or externally (to auditors, shareholders and investors, regulatory entities, the media, etc.) is a breach of this Code of Ethics. This includes delivering incorrect information, organising it in an incorrect manner or seeking to confuse those who receive it".

The Compliance Unit, which is a collective permanent and internal body linked to the Sustainable Development Committee of Iberdrola, controls the effective operation of the Company's Compliance System, with powers in the area of regulatory compliance. The duties of the Unit include ensuring the application of the *Code of Ethics* and of the other rules of the group in the compliance area, and the spread of a preventive culture based on the principle of "zero tolerance" towards the commission of unlawful acts. It also approves the *General Compliance System Framework of the Iberdrola group*, which contains the basic principles of structure and operation of the group's Compliance System as well as the duties and responsibilities of the various bodies involved. The Unit also evaluates and prepares an annual report on the effectiveness of the Compliance System of the Company and of the other companies of the group. The report is submitted to the Sustainable Development Committee, which issues its opinion and forwards it to the Board of Directors.

The Compliance Unit is also in charge of determining whether a professional of Iberdrola, S.A. has engaged in activities that violate the provisions of law or the *Code of Ethics*, and if applicable, for tasking the Human Resources and General Services Division to apply disciplinary measures in accordance with the offences and penalties system set forth in the collective bargaining agreement to which the professional belongs or in applicable labour law. The Compliance divisions of the other companies of the group perform this same function at each of them.

Pursuant to article F.5.1 thereof, directors, professionals of the companies of the group and the suppliers thereof expressly accept the rules of conduct established in the *Code of Ethics* that are applicable thereto.

Pursuant to article F.5.2, professionals who hereafter join or become part of the group and suppliers contracting with companies of the group shall also expressly accept the rules of conduct to which they are subject as set forth in sections D (for professionals of the group) and E (for suppliers), respectively, of the *Code of Ethics*. For this purpose, a literal extract of the corresponding section in each case is attached to their respective contracts.

Likewise, directors shall receive a complete copy of the *Code of Ethics*, for which they shall deliver a signed receipt.

- **Whistleblower channel, that allows notifications to the audit committee of irregularities of a financial and accounting nature, in addition to potential breaches of the code of conduct and unlawful activities undertaken in the organisation, reporting, as the case may be, if this is of a confidential nature.**

Iberdrola has various reporting mailboxes based on the sender: (i) ethics mailboxes for the professionals of the group; (ii) the mailbox available to shareholders and investors; and (iii) the suppliers' mailbox, accessible from the Employee Portal, from the OLS "On Line Shareholders" system or their mobile app, and from the Supplier Portal, respectively. These channels allow for communicating and complaining of any conduct that may involve the commission of an improper act or an act in violation of legal provisions or of the rules of conduct laid down in the *Code of Ethics* or to ask questions regarding any issue with respect to Compliance.

One need not identify oneself in order to send a complaint through these mailboxes (complaints may be anonymous), and if one does so Iberdrola guarantees absolute confidentiality with respect to both the information provided and the personal data of the reporting party. The group naturally states its commitment to not retaliate against any employee making a complaint, unless there is bad faith on the party of the complaining party.

- **Training and periodic refresher programmes for staff involved in the preparation and revision of financial information, as well as assessment of the ICFR (Internal Control System for Financial Information), that covers at least accounting rules, audits, internal control and risk management.**

Training is key in the Iberdrola's human resources policy and is an essential element for adjusting new employees to Iberdrola and the proper performance of their jobs, as well as to keep the group's employees updated regarding any changes that occur within the group itself as well as the environment within which it does business.

As an example of the commitment to training, Iberdrola has a corporate campus with multiple training centres in various countries, including the International Corporate Campus in San Agustín de Guadalix (Madrid). Training in all areas is provided at these facilities by internal professionals, outside entities, universities, outside experts, etc.

Specifically, the personnel directly or indirectly involved in the preparation and review of financial information and in the evaluation of the ICFR system, based on their different responsibilities, receive regular training on accounting standards, internal control and risk management, which is intended to give them the knowledge needed for the optimal performance of their duties as well as to anticipate, to the extent possible, the proper conformance of the group to future rules and to best practices. Most of these courses are provided by outside entities: business schools, universities and consultants specialising in economic/financial matters.

In addition, and on a general basis, these professionals regularly take coursework to improve their qualifications in the use of the computer-based tools required to perform their duties, mainly excel and database management.

They also attend various conferences, symposia and seminars in the areas of accounting, tax and internal audit, at both the domestic and international level.

Furthermore, in order to pool best practices and analyse the challenges facing the group in these areas, various meetings between the professionals of these areas from the different countries and country subholding companies are organised on an annual basis. Specifically, in 2019 there were, among other events, the International Internal Audit Planning Days, the "VII-Global Tax Meeting" and the annual "XII Global Control Committee", which analyses the most significant issues affecting the function, like new accounting rules, with special attention on reviewing and evaluating the group's ICFR system.

In addition, although not considered specific training activities, the Accounting Practices Division, which reports directly to the director of Administration and Control, who is responsible for defining and updating the accounting policies, publishes a quarterly bulletin that is broadly distributed within the group regarding new accounting developments with respect to International Financial Reporting Standards ("IFRS"), which includes updates on standards (standards that have entered into effect, drafts issued, standards issued, standards approved by the European Union, new standards and expected drafts, as well as existing standards) and accounting questions asked internally, together with the conclusions with respect thereto.

F.2. Assessment of financial information risks

Report on at least the following:

F.2.1. The main characteristics of the risk identification process, including error and fraud risk, as regards:

- **Whether the process exists and is documented.**

The process of identifying risks of error in financial information is one of the most important steps within the methodology for performing the internal control over financial information at Iberdrola, documenting both the objectives and performance thereof as well as its results.

The methodology starts with an analysis of the consolidated financial information of the Iberdrola group and of the various country subholding companies, in order to select the most significant accounting headings and notes, pursuant to quantitative (materiality) and qualitative (business risk and third-party visibility) standards. The headings and notes selected are grouped into management cycles or large processes in which the selected information is generated. The cycles are analysed and a high-level

description of each of them is prepared as a means for identifying the potential risks of error in the financial information in relation to attributes like integrity, presentation, valuation, cut-off, recording and validity. The risks identified are subject to a process of evaluation, selecting the most significant ones, applying professional judgement regarding a number of indicators (existence of documented processes and controls, intervention of systems that automate the process, occurrence of incidents in the past, familiarity with and maturity of the process, and need for the use of judgement to make estimates). The risks of fraud are not subject to explicit identification, although they are taken into account to the extent that they can generate material errors in the financial information.

Once the most significant risks have been selected and the main aspects to be controlled are identified, the controls required for the mitigation or management thereof are selected and designed, with these controls being subject to monitoring and documentation, as well as systematic review by the Internal Audit Area.

The selected risks are reviewed at least annually within the framework of the assessment of the effectiveness of the internal control system performed by those responsible for it. This review is intended to update the risks to the changing circumstances in which the Company operates, especially given changes in the organisation, computer systems, regulation, products or the status of the markets.

- **If the process covers all of the objectives of financial information, (existence and occurrence; completeness; valuation; delivery; breakdown and comparability; and rights and obligations), whether it is updated and with what frequency.**

As mentioned above, the cycles or large processes in which financial information is generated are reviewed at least on an annual basis to identify potential risks of error in relation to attributes like validity (existence and approval), integrity, valuation, presentation, cut-off and recording.

- **The existence of a process for identifying the scope of consolidation, taking into account, among other factors, the possible existence of complex company structures, shell companies, or special purpose entities.**

The scope of consolidation is identified on a monthly basis, and is obtained as a product of an updated map of companies, with express identification of the changes that have occurred each period.

The scope of this review is the totality of all companies in which Iberdrola or any of its subsidiaries has an interest, regardless of the significance thereof.

Furthermore, following the provisions of section 529 of the *Companies Act*, the *Regulations of the Board of Directors* provide that the purview of the Board of Directors includes, among other things, approving the creation or acquisition of equity interests in special purpose entities or entities registered in countries or territories that are considered to be tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the group. In any event, the making of such decision requires a prior report of the ARSC, as provided in Iberdrola's *Regulations of the Audit and Risk Supervision Committee*.

Pursuant to specific internal procedures in effect (conforming to the current corporate governance model), the initiative relating to the creation or acquisition of an interest in a special purpose entity or an entity domiciled in a tax haven is within the purview of the Management of the group or of the country subholding company or head of business company or subsidiary thereof that intends to create or acquire a company of this nature. In the event that such transactions are carried out by listed country subholding companies of the group or by subsidiaries thereof, the audit and compliance committee or similar body of such listed country subholding company shall be responsible for issuing the relevant report.

- **If the process takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.**

The process of identifying risks of error in financial information takes into account the effects of other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements, which risks are evaluated and managed by various corporate units like the Risk Division or the Legal Division, among others. However, there is no express identification of such other types for the identification of financial information risks.

- **The governing body within the company that supervises the process.**

The governing body that supervises the process is the ARSC, which is supported by the Management of the Internal Audit Area in the performance of this duty.

F.3. Control activities

State whether the company has at least the following, describing their main characteristics:

- F.3.1. Review and authorisation procedures for financial information published by the stock markets and a description of the ICFR, indicating those responsible, as well as documentation describing the flow of activity and controls (including those relating to the risk of fraud) of the various types of transactions which may materially affect the financial statements, including financial closing procedures and the specific review of judgements, estimates, valuations and relevant forecasts.**

On 24 July 2018, Iberdrola's Board of Directors approved an *Iberdrola group Financial Information Preparation Policy* that applies to all companies of the group, and which further develops the process for preparing the consolidated financial information and clearly defines the powers vested in the ARSC and the audit and compliance committees of the other companies of the group.

"*Consolidated financial information*" means the information appearing in the consolidated annual accounts, in the *Interim Management Statements* corresponding to the results of Iberdrola and its consolidated group for the first and third quarter, and in the *Half-Yearly Financial Report*.

The policy provides that the financial information required for the preparation of the "*consolidated financial information*" must be prepared in accordance with the accounting standards established in the *Accounting Policies Handbook* and the models approved by Iberdrola's Administration and Control Division.

The policy provides which management decision-making body of each company shall be responsible for preparing the financial information relating to its respective company that may be required to prepare the "*consolidated financial information*". By analogy, the management decision-making bodies of the country subholding companies shall be responsible for approving the "*financial information for consolidation*" within which the information regarding the company itself and that of the subsidiaries forming part of its subgroup are included.

Thus, the management decision-making bodies of the country subholding companies, following a report from their respective audit and compliance committees, and based on the information received from their subsidiaries, shall prepare and approve the financial information for consolidation corresponding to each

subgroup, and once such information has been verified by their external auditor within the context of its review of the consolidated financial information, they shall send it to Iberdrola's Administration and Control Division prior to the date indicated thereby, in order to prepare the consolidated financial information and submit it for formulation or approval by Iberdrola's Board of Directors, as appropriate, after a report from its ARSC.

Furthermore, the process or structure of certification of the financial information, which is formally carried out on a half-yearly basis, coinciding with the interim and annual close, reflects the form in which the financial information is generated within the group.

In this structure, the heads of the country subholding companies and the heads of the head of business companies, together with their respective heads of control, as well as the heads of the global corporate areas, certify both the reliability of the financial information regarding their areas of responsibility (which is the information they provide for consolidation at the group level) and the effectiveness of the internal control system established to reasonably guarantee such reliability. Finally, the chairman & CEO, as the top responsible executive, and the Corporate Administration and Control Director, who is responsible for the preparation of the financial information, certify to the Board of Directors the reliability of the consolidated annual accounts and the *Half-Yearly Financial Report*.

The ARSC, with the support of the Management of the Internal Audit Area, supervises the entire process of certification, submitting to the Board of Directors the conclusions obtained from this analysis at the meetings during which the accounts are formally prepared.

As regards the description of the ICFR system to be published in the securities markets, the procedure for the review and approval thereof is the same as the one used for all disclosures of an economic and financial nature in the *Annual Corporate Governance Report*.

The documentation of the Internal Control over Financial Reporting (ICFR) System includes high-level descriptions of the cycles for generating the selected relevant financial information, as well as detailed descriptions of the prioritised risks of error and of the controls designed for the mitigation or management thereof. The description of the controls includes the evidence obtained for the implementation thereof, which is necessary for their review.

Each of the accounting close processes at the businesses is considered a cycle, and the same occurs with the group of accounting close activities at the corporate level, with the process of global consolidation and with the process of preparing the notes. This means that all of these activities are subject to the methodological process described in the section relating to risks.

Furthermore, the specific review of critical accounting opinions, estimates, valuations and relevant projections is subject to specific controls within the model, as these types of issues involve risks of error in the various cycles in which they are made. The evidence of the specific controls is the support for such reviews in many cases.

Independently of the process of certification followed in the countries, businesses and corporate areas, the ARSC, once again with the support of the Internal Audit Division, performs a quarterly global review of the financial information, ensuring that the half-yearly financial reports and quarterly management statements are prepared using the same accounting standards as the annual financial reports, and verifying the proper definition of the scope of consolidation, as well as the correct application of generally accepted accounting principles and international financial reporting standards.

F.3.2. Internal IT control policies and procedures (access security, change controls, their operation, operational continuity, and segregation of duties, among others) which support relevant processes within the company and relate to the creation and publication of financial information.

The controls considered to mitigate or manage the risks of error in financial reporting include some relating to the most significant software applications, like the controls relating to user access permissions or those relating to the integrity of the transfer of information between applications, of the transaction, and of change management.

In addition, the Iberdrola group has internal control guidelines and procedures regarding IT systems in relation to the acquisition and development of software, the acquisition of systems infrastructure, the installation and testing of software, change management, management of service levels, management of third-party services, security of the systems and access thereto, incident management, transaction management, continuity of operations and the segregation of functions.

These guidelines and procedures (which in some cases are different based on geographic area or type of solution, and are in a process of progressive homogenisation) are applied to all IT systems that support the relevant process of generation of financial information, and to the infrastructure required for the operation thereof.

The Iberdrola group also has an Information Technologies (IT) Policy that contemplates the management of risks associated with the use, ownership, operation, participation, influence and adoption of specific information technology or the processes for the management and control thereof.

Thus, there is a model of general controls integrated within the risk management model that allows for a global evaluation of the risks related to information technology.

Both the risk model and the IT controls are based on and aligned with good market practices, like COBIT5 and COSO. The evolution thereof over the long term is maintained by including the new needs arising from the changing regulatory compliance framework that applies to the IT systems and services, as well as the recommendations and guidelines of auditors and relevant third parties.

As part of the general IT controls model, there is a regular evaluation of the effectiveness of the information technology controls in the area of financial systems, adopting the appropriate measures if any incident is detected.

On an annual basis, the heads of the IT systems of the Iberdrola group certify the effectiveness of the internal controls established regarding financial information. This certification covers all systems declared to be within the scope of the external financial auditing, as well as others deemed to be relevant, by the corresponding business organisations within the group.

For financial year 2019, the total number of systems covered by the IT controls system was 46, on which there was homogeneous application of 14 controls, most of which are evaluated and applied by the Systems Division, and in some cases by other business organisations. The frequency of the evaluation is annual or biannual, depending on the nature of the control, and it is performed using a principle of sampling of all of the relevant evidence in each case. The entire process of evaluating the IT controls is supported by a GRC system and is supervised annually by the Internal Audit Division.

F.3.3. Internal control policies and procedures intended to guide the management of activities subcontracted to third parties, as well as those aspects of assessment, calculation or evaluation entrusted to independent experts, which may materially affect financial statements.

In general terms, the Iberdrola group does not have significant functions subcontracted to third parties with a direct impact on financial information. The evaluations, calculations or assessments entrusted to third parties that could materially affect the financial statements are considered to be activities relevant to the generation of financial information leading to the identification of any priority risks of error, which involves the design of associated internal controls. These controls cover the internal analysis and approval of fundamental assumptions to be used, as well as the review of the evaluations, calculations or assessments made by outside parties, by comparing them to the calculations made internally.

F.4. Information and communication

State whether the company has at least the following, describing their main characteristics:

F.4.1. A specifically assigned function for defining and updating accounting policies (accounting policy area or department) and resolving doubts or conflicts arising from their interpretation, maintaining a free flow of information to those responsible for operations in the organisation, as well as an up-to-date accounting policy manual distributed to the business units through which the company operates.

The Accounting Practice Division, which reports directly to the Administration and Control director, is responsible for defining and updating the accounting policies, as well as for resolving questions or conflicts arising from the interpretation thereof. It maintains fluid communication with the heads of operation of the organisation, and particularly with the heads of the accounting functions.

It publishes a quarterly bulletin that is broadly distributed within the group regarding new accounting developments deriving from the IFRS, which includes updates on standards (standards that have entered into effect, drafts issued, standards issued, standards approved by the European Union, new standards and expected drafts, as well as existing standards) and accounting questions asked internally, together with the conclusions with respect thereto.

The Accounting Practice Division is also responsible for keeping the *Accounting Policies Handbook of the group* continuously updated and ensuring the appropriate dissemination thereof.

The accounting policies handbook is continuously updated. For this purpose, the Accounting Practice Division analyses whether the new developments or changes in the accounting area have an effect on the group's accounting policies, as well as the date of entry into force of each of the standards. When a new provision, or new interpretations thereof, are identified having an effect on the accounting policies of the group, it is included in the handbook, and also communicated to the parties responsible for preparing the financial information of the group through the quarterly bulletins mentioned above, and the application supporting the handbook is also updated.

The updated version of the handbook is available in an application on the internal network of the group. This application is also accessible by users via remote access and can be connected to e-mail. Any change or upload of a document of the handbook generates an e-mail notice to all users.

F.4.2. Measures for capturing and preparing financial information with consistent formats for application and use by all of the units of the entity or the group, and which contain the main financial statements and notes, as well as detailed information regarding ICFR.

The mechanism for capturing and preparing the information supporting the main financial statements of the Iberdrola group is mainly based on the use of a unified management consolidation tool (called BPC), which is accessible from all geographic areas, that is currently deployed throughout the group.

A large part of the information supporting the breakdowns and notes is included in the consolidation tool, with the rest being captured by homogeneously formatted spreadsheets, called reporting packets, that are prepared for the half-yearly and yearly close.

F.5. Supervision of system performance

Describe at least the following:

F.5.1. The activities of the audit committee in overseeing ICFR as well as whether there is an internal audit function that has among its mandates support of the committee and the task of supervising the internal control system, including ICFR. Additionally, describe the scope of ICFR assessment made during the year and the procedure through which the person responsible prepares the assessment reports on its results, whether the company has an action plan describing possible corrective measures, and whether its impact on financial reporting is considered.

The activities for supervising the ICFR by the ARSC mainly include: (i) monitoring of compliance with the process of certification by the various parties responsible for the financial information; (ii) the review, with the support of the Management of the Internal Audit Area, of the design and operation of the internal control system, to evaluate the effectiveness thereof; and (iii) regular meetings with the external auditors, internal auditors and senior management to review, analyse and comment on the financial information, the boundary of companies that it covers and the accounting criteria applied, as well as any significant weaknesses in internal control that have been identified.

It should be mentioned that the parties responsible for preparing the financial information of each country subholding company, each head of business company and each corporate area must engage in an annual process, coordinated by the Internal Control Division, of reviewing the design and operation of the internal control system within their area of responsibility in order to evaluate the effectiveness thereof.

There is thus an analysis of whether, based on the changing circumstances in which the group acts (changes in organisation, systems, processes, products, regulation, etc.), changes in the risks identified and prioritised and/or new risks identified should be included. There is also an analysis of whether the design of the existing controls to mitigate or manage the risks that may have changed is appropriate, as well as whether they have operated satisfactorily in accordance with their design.

The conclusions from this annual review process, with respect to both the deficiencies identified (which are classified as serious, medium or mild, based precisely on their potential impact on the financial information) and the action plans to fix them, are presented at an annual specialised meeting chaired by the Administration and Control director, and at which the Management of the Internal Audit Area is also present. Conclusions are made at this meeting regarding the effectiveness of the internal control system within each of the different areas of responsibility, and globally for the entire group.

Thereafter, the most significant conclusions regarding the review are submitted to the ARSC within the framework of the regular meetings it holds with the Administration and Control director.

Apart from what is described in the preceding paragraphs, the Internal Audit Area, in support of the ARSC, undertakes an independent review of the design and operation of the internal control system, identifying deficiencies and preparing recommendations for improvement. The Internal Audit Area reports hierarchically to the chairman of Iberdrola's Board of Directors, and functionally to the ARSC, and pursuant to the Basic Internal Audit Regulations has the main duties of assisting this committee in the exercise of its powers and objectively and independently supervising the effectiveness of the group's internal control system, which is made up of a set of risk management and control mechanisms and systems.

Based thereon, the Management of the Internal Audit Area engages in ongoing monitoring of the action plans agreed to with the various organisations to correct the deficiencies detected and to implement the suggestions for improvement agreed to with the organisations.

The period that the Management of the Internal Audit Area plans for in-depth review of the entire internal control system is five years.

Specifically, 18 cycles were reviewed during financial year 2019. These are cycles corresponding to the companies Iberdrola México, S.A. de C.V., Scottish Power Ltd., Iberdrola España, S.A. (Sociedad Unipersonal), Neoenergía, S.A. and Iberdrola Inmobiliaria, S.A.U., as well as corporate cycles.

In addition, on a half-yearly basis, coinciding with the half-yearly and yearly close, the Management of the Internal Audit Area performs a review of the operation of the internal controls that are considered to

be most critical, to which there should be added the annual review of all the SOX Key Controls of Avangrid, Inc.

The combination of regular reviews, together with the half-yearly reviews of the most critical controls, allows the Management of the Internal Audit Area to perform an evaluation of the internal control system (both design and operation) and issue an opinion regarding the effectiveness of the internal controls established to ensure the reliability of the financial information, which it submits to the ARSC within the framework of their regular meetings.

F.5.2. If there is a procedure by which the account auditor (in accordance with the contents of the Normas Técnicas de Auditoría (NTA) - “Auditing Standards”), internal auditor and other experts may communicate with senior management and the audit committee or senior managers of the company regarding significant weaknesses in internal control identified during the review of the annual accounts or any others they have been assigned. Additionally, state whether an action plan is available for correcting or mitigating any weaknesses found.

In general terms, the procedure for discussion regarding significant internal control weaknesses that have been identified is based on regular meetings by the various agents.

Thus, the ARSC holds meetings, both at the half-year and yearly close, with the external auditors, with the internal auditors, and with the management responsible for preparing the financial information, in order to discuss any relevant aspect of the preparation process and of the resulting financial information.

Specifically, as established in its Regulations (scope of powers), Iberdrola’s ARSC has, among other powers, that of obtaining information regarding any significant deficiency in internal control that the statutory auditor detects while carrying out its audit work. For these purposes, the statutory auditor appears before such Committee on an annual basis to present recommendations in connection with the internal control weaknesses identified during the review of the annual accounts. Any weaknesses noted by the statutory auditor are continuously monitored by the Committee with the support of the Management of the Internal Audit Area. Management responsible for preparing the consolidated accounts also holds meetings with the external auditors and with the internal auditors, at both the half-yearly and yearly close, in order to discuss any significant issues relating to the financial information.

F.6. Other relevant information.

Iberdrola has an Internal Control over Financial Reporting (ICFR) system or model that is intended to reasonably guarantee the reliability of the financial information. The development of the model, which began in 2006, was not the result of a legal requirement but rather the conviction, by both the Board of Directors and the Company’s senior management, that within a context of growth and internationalisation as was already forecast for the group, an explicit and auditable internal control system would contribute to maintaining and improving its control environment and the quality of the financial information, while at the same time increasing the confidence of investors due to its effects on the transparency, reputation and good governance of Iberdrola and of the companies making up the group.

The ICFR system has two main sides: certification, and internal control itself.

Certification is a process by which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and the financial condition of the Company within their area of responsibility, and (ii) they are responsible for establishing the ICFR system within their area of responsibility and have found, upon evaluation, that the system is

effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the half-yearly process is a joint certification that the chairman & CEO and the Administration and Control director submit to the Board of Directors for purposes of approval of the Half-Yearly Financial Report or the formulation of the annual accounts.

The process is carried out by means of electronic signature in a software application which manages the areas of responsibility and time periods and which serves as a repository of all the documentation generated, allowing for periodic review by the supervision and control bodies of the group.

The other side of the model, that of internal control itself, is inspired by the leading framework described in the "Internal Control Integrated Framework" report of the "Committee of Sponsoring Organizations of the Treadway Commission (COSO)", and is mainly focused on providing a reasonable level of security in achieving the goal of reliability of financial information.

The methodology used by Iberdrola for the development and continuous update of internal control has the following stages or steps: (i) analysis and selection of significant financial information; (ii) the grouping thereof within cycles or large processes in which it is generated; (iii) the identification, evaluation and prioritisation of the risks of error in financial information within the selected cycles; (iv) the design and operation of controls to mitigate or manage the selected risks; and (v) the monitoring and update of the foregoing steps to continuously adapt the model to the circumstances of the business activity.

One of the main characteristics of the design of the model is that it attempts to ensure the quality of the financial information during each month of the year, and is not only limited to the periods corresponding to the annual or half-yearly close.

This characteristic is strengthened with the use of a specific software application internally developed by the group, which allows for the monitoring of the status of the controls at all times.

Another important characteristic of the model is that it extends the culture of internal control to all of the organisations, both corporate and business, that significantly contribute to the generation of financial information, by personally assigning responsibility in the implementation and documentation of controls.

All significant documentation regarding Iberdrola's ICFR system, including both the process of certification and the internal control itself, is stored in this software application.

The people responsible for implementing the controls input into the software application evidence showing the performance thereof, and evaluate the results obtained, classifying them as satisfactory or unsatisfactory. This allows for monitoring of the internal control situation in real-time, permitting quick action regarding any deficiencies detected.

Additionally, on an annual basis, the various heads of control at the country subholding and head of business companies, as well as the heads of the corporate areas, review the design and operation of the ICFR system, as a systematic process for the update thereof to the changing circumstances of the business activity.

The annual review is coordinated by the Internal Control Division, which is also tasked with administering the software application and with coordinating the development of the ICFR system within the various businesses and corporate areas of the group, as well as maintaining the homogeneity of the ICFR system throughout the group.

Furthermore, the Management of the Internal Audit Area, which is responsible for supervising internal control in support of the ARSC, undertakes an independent review of the design and operation of the ICFR system, identifying deficiencies and preparing recommendations for improvement. This review is performed applying a mixed model of selecting cycles based on risk and a minimum rotation of five years.

In addition, on a half-yearly basis, the Management of the Internal Audit Area undertakes an independent review of the effectiveness of the internal controls established to ensure the reliability of the financial information. It also reviews the process of certification of the financial information on a half-yearly basis. The conclusions from these reviews are submitted to the ARSC, which, if applicable, makes them its own and forwards them to the Board of Directors.

Based on materiality standards, the current scope of the ICFR system covers the entire Iberdrola group. More than 1,750 people from the group use the software application, both to document the evidence showing the implementation of more than 3,000 controls —which mitigate or manage more than 1,180

risks of error in the financial information deemed priority— and to monitor, analyse, adjust and evaluate the ICFR system.

In addition, the approximately 110 department heads who participate in the process of certifying the correctness of the information for which they are responsible do so using an electronic signature directly within the software application.

All of the above allows for the final result of the certification process, which is supported by the situation of internal control itself, to be reviewed by Iberdrola's Board of Directors as one of the major guarantees of reliability in connection with the formulation of the annual and interim financial information of the group.

F.7. External auditor's report

Report on:

F.7.1. If the ICFR information submitted to the markets has been subject to review by the external auditor, in which case the entity shall include its report as an attachment. If not, reasons why should be given.

The information on the ICFR system sent to the markets has not been subject to review by the external auditor consistent with the fact that the other information contained in the Annual Corporate Governance Report is only subject to review by the external auditor in relation to the accounting information contained in said Report. Furthermore, it is believed that externally reviewing the information on the ICFR system sent to the markets would in a certain way be redundant, taking into account the review of internal control that the external auditor must perform in accordance with technical auditing standards within the context of the statutory audit of accounts.

G EXTENT OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Specify the company's level of compliance with recommendations from the Good Governance Code of Listed Companies.

In the event that a recommendation is not followed or only partially followed, a detailed explanation should be included explaining the reasons in such a manner that shareholders, investors and the market in general have enough information to judge the company's actions. General explanations are not acceptable.

1. That the Articles of Association of listed companies do not limit the maximum number of votes that may be cast by one shareholder or contain other restrictions that hinder the takeover of control of the company through the acquisition of shares on the market.

Complies | Explanation | X

Article 29.2 of the By-Laws provides that "No shareholder may cast a number of votes greater than those corresponding to shares representing ten (10%) per cent of share capital, even if the number of shares held exceeds such percentage of the share capital. This limitation does not affect votes corresponding to shares with respect to which a shareholder is holding a proxy as a result of the provisions of article 23 above, provided, however, that with respect to the number of votes corresponding to the shares of each shareholder represented by proxy, the limitation set forth above shall apply".

Section 3 of such article adds: “The limitation set forth in the preceding section shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholders that are entities or companies belonging to the same group. Such limitation shall also apply to the number of votes that may be cast collectively or individually by an individual and the shareholder entity, entities, or companies controlled by such individual. A group shall be deemed to exist under the circumstances provided by law, and also when a person controls one or more entities or companies”.

Iberdrola believes that the limitation on the maximum number of votes that may be cast by a single shareholder, or by several shareholders belonging to the same group or, if applicable, acting in concert, is a measure to protect shareholders at companies with dispersed share ownership, whose investment is thus guarded from any transaction that is contrary to the corporate interest. In this regard, most shareholders, especially including but not limited to small retail investors, who represent approximately one-fourth of Iberdrola’s capital, have little room to manoeuvre and respond to a potential shareholder owning a non-controlling interest and not reaching the threshold requiring a takeover bid but seeking influence over the Company and whose own interest is not totally in line with the corporate interest.

It should also be noted that such voting limitation has been in effect since 16 June 1990, the date on which the General Shareholders’ Meeting was held at which it was resolved, by unanimous vote of the attendees, to bring the By-Laws of the Company (then doing business as Iberduero, S.A.) into line with the consolidated text of the Companies Act approved by Royal Legislative Decree 1564/1989 of 22 December. This shows the level of corporate consensus that has existed on such voting limitation from the very beginning, which has been confirmed by the fact that such limitation has remained unchanged through various by-law amendments passed by the shareholders at General Shareholders’ Meetings. In turn, it reflects the will of the shareholders to increase their bargaining power in the event of hostile offers or transactions.

In any event, article 50 of the current By-Laws establishes the instances of removal of such voting limitation in the event that the Company is the target of a takeover bid that receives the required shareholder approval, in which case the provisions of section 527 of the Companies Act prevail. Pursuant to the foregoing, it cannot be deemed that the limitation on the maximum number of votes that may be cast by a shareholder constitutes an obstacle to a takeover bid.

- 2. That when the parent company and a subsidiary are listed on the stock market, both should publicly and specifically define:**
- a) The respective areas of activity and possible business relationships between them, as well as those of the listed subsidiary with other group companies.**
 - b) The mechanisms in place to resolve any conflicts of interest that may arise.**

Complies	X	Complies Partially	Explanation	Not Applicable

- 3. That, during the course of the ordinary General Shareholders’ Meeting, complementary to the distribution of a written Annual Corporate Governance Report, the chairman of the Board of Directors makes a detailed oral report to the shareholders regarding the most material aspects of corporate governance of the company, and in particular:**
- a) Changes that have occurred since the last General Shareholders’ Meeting.**

- b) Specific reasons why the company did not follow one or more of the recommendations of the Code of Corporate Governance and, if so, the alternative rules that were followed instead.

Complies | X Complies Partially | Explanation |

4. That the company has defined and promoted a policy of communication and contact with shareholders, institutional investors and proxy advisors that complies in all aspects with rules preventing market abuse and gives equal treatment to similarly situated shareholders.

And that the company has made such a policy public through its web page, including information related to the manner in which said policy has been implemented and the identity of contact persons or those responsible for implementing it.

Complies | X Complies Partially | Explanation |

5. That the Board of Directors should not propose to the General Shareholders' Meeting any proposal for delegation of powers allowing the issuance of shares or convertible securities without pre-emptive rights in an amount exceeding 20% of equity at the time of delegation.

And that whenever the Board of Directors approves any issuance of shares or convertible securities without pre-emptive rights the company immediately publishes reports on its web page regarding said exclusions as referenced in applicable company law.

Complies | X Complies Partially | Explanation |

6. That listed companies which draft reports listed below, whether under a legal obligation or voluntarily, publish them on their web page with sufficient time before the General Shareholders' Meeting, even when their publication is not mandatory:

- a) Report regarding the auditor's independence.
- b) Reports regarding the workings of the audit committee and the appointments and remuneration committee.
- c) Report by the audit committee regarding related-party transactions.
- d) Report on the corporate social responsibility policy.

Complies | X Complies Partially | Explanation |

7. That the company reports in real time, through its web page, the proceedings of the General Shareholders' Meetings.

Complies | X Explanation |

8. That the audit committee ensures that the Board of Directors presents financial statements in the audit report for the General Shareholders' Meetings which do not have qualifications or reservations and that, in the exceptional circumstances in which qualifications may appear, that the chairman of the audit committee and the auditors clearly explain to the shareholders the content and scope of said qualifications or reservations.

Complies | X Complies Partially | Explanation |

9. That the company permanently maintains on its web page the requirements and procedures for certification of share ownership, the right of attendance at the General Shareholders' Meetings, and the exercise of the right to vote or to issue a proxy.

And that such requirements and procedures promote attendance and the exercise of shareholder rights in a non-discriminatory fashion.

Complies | **X** | Complies Partially | Explanation |

10. That when a verified shareholder has exercised his right to make additions to the agenda or to make new proposals to it with sufficient time in advance of the General Shareholders' Meeting, the company:

- a) Immediately distributes the additions and new proposals.
- b) Publishes the attendance card credential or proxy form or form for distance voting with the changes such that the new agenda items and alternative proposals may be voted upon under the same terms and conditions as those proposals made by the Board of Directors.
- c) Submits all of these items on the agenda or alternative proposals to a vote and applies the same voting rules to them as are applied to those drafted by the Board of Directors including, particularly, assumptions or default positions regarding votes for or against.
- d) That after the General Shareholders' Meeting, a breakdown of the results of said additions or alternative proposals is communicated.

Complies | **X** | Complies Partially | Explanation | Not Applicable |

11. That, in the event the company intends to pay for attendance at the General Shareholders' Meeting, it establishes in advance a general policy of long-term effect regarding such payments.

Complies | **X** | Complies Partially | Explanation | Not Applicable |

12. That the Board of Directors completes its duties with a unity of purpose and independence, treating all similarly situated shareholders equally and that it is guided by the best interests of the company, which is understood to mean the pursuit of a profitable and sustainable business in the long term, and the promotion of continuity and maximisation of the economic value of the business.

And that in pursuit of the company's interest, in addition to complying with applicable law and rules and in engaging in conduct based on good faith, ethics and a respect for commonly accepted best practices, it seeks to reconcile its own company interests, when appropriate, with the interests of its employees, suppliers, clients and other stakeholders, as well as the impact of its corporate activities on the communities in which it operates and the environment.

Complies | **X** | Complies Partially | Explanation |

13. That the Board of Directors is of an adequate size to perform its duties effectively and collegially, and that its optimum size is between five and fifteen members.

Complies | **X** | Explanation |

14. That the Board of Directors approves a selection policy for directors that:

- a) Is concrete and verifiable.
- b) Ensures that proposals for appointment or re-election are based upon a prior analysis of the needs of the Board of Directors.
- c) Favours diversity in knowledge, experience and gender.

That the resulting prior analysis of the needs of the Board of Directors is contained in the supporting report from the appointments committee published upon a call to the General Shareholders' Meeting submitted for ratification, appointment or re-election of each director.

And that the selection policy for directors promotes the objective that by the year 2020 the number of female directors accounts for at least 30% of the total number of members of the Board of Directors.

The appointments committee will annually verify compliance with the selection policy of directors and explain its findings in the Annual Corporate Governance Report.

Complies | **X** Complies Partially | Explanation |

15. That proprietary and independent directors constitute a substantial majority of the Board of Directors and that the number of executive directors is kept at a minimum, taking into account the complexity of the corporate group and the percentage of equity participation of executive directors.

Complies | **X** Complies Partially | Explanation |

16. That the percentage of proprietary directors divided by the number of non- executive directors is no greater than the proportion of the equity interest in the company represented by said proprietary directors and the remaining share capital.

This criterion may be relaxed:

- a) In companies with a high market capitalisation in which interests that are legally considered significant are minimal.
- b) In companies where a diversity of shareholders is represented on the Board of Directors without ties among them.

Complies | **X** Explanation |

17. That the number of independent directors represents at least half of the total number of directors.

Nonetheless, when the company does not have a high level of market capitalisation or in the event that it is a high cap company with one shareholder or a group acting in a coordinated fashion who together control more than 30% of the company's equity, the number of independent directors represents at least one third of the total number of directors.

Complies | **X** Explanation |

18. That companies publish and update the following information regarding directors on the company website:

- a) Professional profile and biography.

- b) Any other Boards to which the director belongs, regardless of whether the companies are listed, as well as any other remunerated activities engaged in, regardless of type.
- c) Category of directorship, indicating, in the case of individuals who represent significant shareholders, the shareholder that they represent or to which they are connected.
- d) The date of their first appointment as a director of the company's Board of Directors, and any subsequent re-election.
- e) The shares and options they own.

Complies | Complies Partially | Explanation |

19. That the Annual Corporate Governance Report, after verification by the appointments committee, explains the reasons for the appointment of proprietary directors at the proposal of the shareholders whose equity interest is less than 3%. It should also explain, where applicable, why formal requests from shareholders for membership on the Board meeting were not honoured, when their equity interest is equal to or exceeds that of other shareholders whose proposal for proprietary directors was honoured.

Complies | Complies Partially | Explanation | Not Applicable |

20. That proprietary directors representing significant shareholders must resign from the Board if the shareholder they represent disposes of its entire equity interest. They should also resign, in a proportional fashion, in the event that said shareholder reduces its percentage interest to a level that requires a decrease in the number of proprietary directors representing this shareholder.

Complies | Complies Partially | Explanation | Not Applicable |

21. That the Board of Directors may not propose the dismissal of any independent director before the completion of the director's term provided for in the Articles of Association unless the Board of Directors finds just cause and a prior report has been prepared by the appointments committee. Specifically, just cause is considered to exist if the director takes on new duties or commits to new obligations that would interfere with his or her ability to dedicate the time necessary for attention to the duties attendant to his post as a director, fails to complete the tasks inherent to his or her post, or enters into any of the circumstances which would cause the loss of independent status in accordance with applicable law.

The dismissal of independent directors may also be proposed as a result of a public takeover bid, merger or similar transaction entailing a change in the shareholder structure of the company, provided that such changes in the structure of the Board are the result of the proportionate representation criteria provided for in Recommendation 16.

Complies | Explanation |

22. That companies establish rules requiring that directors inform the Board of Directors and, where appropriate, resign from their posts, when circumstances arise which may damage the company's standing and reputation. Specifically, directors must be required to report any criminal acts with which they are charged, as well as the consequent legal proceedings.

And that should a director be indicted or tried for any of the offences set out in company law legislation, the Board of Directors must investigate the case as soon as possible

and, based on the particular situation, decide whether the director should continue in his or her post. And that the Board of Directors must provide a reasoned written account of all these events in its Annual Corporate Governance Report.

Complies | Complies Partially | Explanation |

23. That all directors clearly express their opposition when they consider any proposal submitted to the Board of Directors to be against the company's interests. This particularly applies to independent directors and directors who are unaffected by a potential conflict of interest if the decision could be detrimental to any shareholders not represented on the Board of Directors.

Furthermore, when the Board of Directors makes significant or repeated decisions about which the director has serious reservations, the director should draw the appropriate conclusions and, in the event the director decides to resign, explain the reasons for this decision in the letter referred to in the next recommendation.

This recommendation also applies in the case of the secretary of the Board of Directors, despite not being a director.

Complies | Complies Partially | Explanation | Not Applicable |

24. That whenever, due to resignation or any other reason, a director leaves before the completion of his or her term, the director should explain the reasons for this decision in a letter addressed to all the directors of the Board of Directors. Irrespective of whether the resignation has been reported as a relevant fact, it must be included in the Annual Corporate Governance Report.

Complies Complies Partially | Explanation | Not Applicable |

25. That the appointments committee ensures that non-executive directors have sufficient time in order to properly perform their duties.

And that the Board rules establish the maximum number of company Boards on which directors may sit.

Complies | Complies Partially | Explanation |

26. That the Board of Directors meets frequently enough so that it may effectively perform its duties, at least eight times per year, following a schedule of dates and agenda established at the beginning of the year and allowing each director individually to propose items that do not originally appear on the agenda.

Complies | Complies Partially | Explanation |

27. That director absences only occur when absolutely necessary and are quantified in the Annual Corporate Governance Report. And when absences occur, that the director appoints a proxy with instructions.

Complies | Complies Partially | Explanation |

28. That when directors or the secretary express concern regarding a proposal or, in the case of directors, regarding the direction in which the company is headed and said concerns are not resolved by the Board of Directors, such concerns should be included in the minutes, upon a request from the protesting party.

Complies | Complies Partially | Explanation | Not Applicable |

29. That the company establishes adequate means for directors to obtain appropriate advice in order to properly fulfil their duties including, should circumstances warrant, external advice at the company's expense.

Complies | **X** | Complies Partially | Explanation |

30. That, without regard to the knowledge necessary for directors to complete their duties, companies make refresher courses available to them when circumstances require.

Complies | **X** | Explanation | Not Applicable |

31. That the agenda for meetings clearly states those matters about which the Board of Directors is to make a decision or adopt a resolution so that the directors may study or gather all relevant information ahead of time.

When, under exceptional circumstances, the chairman wishes to bring urgent matters for decision or resolution before the Board of Directors which do not appear on the agenda, prior express agreement of a majority of the directors shall be necessary, and said consent shall be duly recorded in the minutes.

Complies | **X** | Complies Partially | Explanation |

32. That directors shall be periodically informed of changes in equity ownership and of the opinions of significant shareholders, investors and rating agencies of the company and its group.

Complies | **X** | Complies Partially | Explanation |

33. That the chairman, as the person responsible for the efficient workings of the Board of Directors, in addition to carrying out his duties required by law and the Articles of Association, should prepare and submit to the Board of Directors a schedule of dates and matters to be considered; organise and coordinate the periodic evaluation of the Board as well as, if applicable, the chief executive of the company, should be responsible for leading the Board and the effectiveness of its work; ensuring that sufficient time is devoted to considering strategic issues, and approve and supervise refresher courses for each director when circumstances so dictate.

Complies | **X** | Complies Partially | Explanation |

34. That when there is a coordinating director, the Articles of Association or the Board rules should confer upon him the following competencies in addition to those conferred by law: chair of the Board of Directors in the absence of the chairman and deputy chairmen, should there be any; reflect the concerns of non-executive directors; liaise with investors and shareholders in order to understand their points of view and respond to their concerns, in particular as those concerns relate to corporate governance of the company; and coordinate a succession plan for the chairman.

Complies | **X** | Complies Partially | Explanation | Not Applicable |

35. That the secretary of the Board of Directors should pay special attention to ensure that the activities and decisions of the Board of Directors take into account the recommendations regarding good governance contained in this Code of Good Governance and which are applicable to the company.

Complies | **X** | Explanation |

36. That the Board of Directors meets in plenary session once a year and adopt, where appropriate, an action plan to correct any deficiencies detected in the following:

- a) **The quality and efficiency of the Board of Directors' work.**
- b) **The workings and composition of its committees.**
- c) **Diversity of membership and competence of the Board of Directors.**
- d) **Performance of the chairman of the Board of Directors and the chief executive officer of the company.**
- e) **Performance and input of each director, paying special attention to those in charge of the various Board committees.**

In order to perform its evaluation of the various committees, the Board of Directors will take a report from the committees themselves as a starting point and for the evaluation of the Board, a report from the appointments committee.

Every three years, the Board of Directors will rely upon the assistance of an external advisor for its evaluation, whose independence shall be verified by the appointments committee.

Business relationships between the external adviser or any member of the adviser's group and the company or any company within its group shall be specified in the Annual Corporate Governance Report.

The process and the areas evaluated shall be described in the Annual Corporate Governance Report.

Complies | Complies Partially | Explanation |

37. **That if there is an executive committee, the proportion of each different director category must be similar to that of the Board itself, and its secretary must be the secretary of the Board.**

Complies | Complies Partially | Explanation | Not Applicable |

The Executive Committee is made up of the chairman & CEO, the vice chair of the Board of Directors, who is classified as other external director, and two independent directors, one of whom is a woman. Iberdrola believes that the various types of directors are duly represented and that the composition of said Committee is sufficiently diverse.

38. **That the Board of Directors must always be aware of the matters discussed and decisions taken by the executive committee and that all members of the Board of Directors receive a copy of the minutes of meetings of the executive committee.**

Complies | Complies Partially | Explanation | Not Applicable |

39. **That the members of the audit committee, in particular its chairman, are appointed in consideration of their knowledge and experience in accountancy, audit and risk management issues, and that the majority of its members be independent directors.**

Complies | Complies Partially | Explanation |

40. **That under the supervision of the audit committee, there must be a unit in charge of the internal audit function, which ensures that information and internal control systems operate correctly, and which reports to the non-executive chairman of the Board or of the audit committee.**

Complies | **X** | Complies Partially | Explanation |

41. That the person in charge of the group performing the internal audit function should present an annual work plan to the audit committee, reporting directly on any issues that may arise during the implementation of this plan, and present an activity report at the end of each year.

Complies | **X** | Complies Partially | Explanation | Not Applicable |

42. That in addition to the provisions of applicable law, the audit committee should be responsible for the following:

1. With regard to information systems and internal control:

- a) Supervise the preparation and integrity of financial information relative to the company and, if applicable, the group, monitoring compliance with governing rules and the appropriate application of consolidation and accounting criteria.
- b) Ensure the independence and effectiveness of the group charged with the internal audit function; propose the selection, appointment, re- election and dismissal of the head of internal audit; draft a budget for this department; approve its goals and work plans, making sure that its activity is focused primarily on material risks to the company; receive periodic information on its activities; and verify that senior management takes into account the conclusions and recommendations of its reports.
- c) Establish and supervise a mechanism that allows employees to report confidentially and, if appropriate, anonymously, any irregularities with important consequences, especially those of a financial or accounting nature, that they observe in the company.

2. With regard to the external auditor:

- a) In the event that the external auditor resigns, examine the circumstances which caused said resignation.
- b) Ensure that the remuneration paid to the external auditor for its work does not compromise the quality of the work or the auditor's independence.
- c) Insist that the company file a relevant fact with the CNMV when there is a change of auditor, along with a statement on any differences that arose with the outgoing auditor and, if applicable, the contents thereof.
- d) Ensure that the external auditor holds an annual meeting with the Board of Directors in plenary session in order to make a report regarding the tasks accomplished and regarding the development of its accounting and risks faced by the company.
- e) Ensure that the company and the external auditor comply with applicable rules regarding the rendering of services other than auditing, proportional limits on the auditor's billing, and all other rules regarding the auditor's independence.

Complies | **X** | Complies Partially | Explanation |

43. That the audit committee may require the presence of any employee or manager of the company, even without the presence of any other member of management.

Complies | **X** | Complies Partially | | Explanation |

- 44. That the audit committee be kept abreast of any corporate and structural changes planned by the company in order to perform an analysis and draft a report beforehand to the Board of Directors regarding economic conditions and accounting implications and, in particular, any exchange ratio involved.**

Complies | **X** | Complies Partially | | Explanation | | Not Applicable |

- 45. That the risk management and control policy identify, at a minimum:**
- a) **The various types of financial and non-financial risks (among those operational, technological, legal, social, environmental, political and reputational) which the company faces, including financial or economic risks, contingent liabilities and other off-balance sheet risks.**
 - b) **Fixing of the level of risk the company considers acceptable.**
 - c) **Means identified in order to minimise identified risks in the event they transpire.**
 - d) **Internal control and information systems to be used in order to control and manage identified risks, including contingent liabilities and other off balance sheet risks.**

Complies | **X** | Complies Partially | | Explanation |

- 46. That under the direct supervision of the audit committee or, if applicable, of a specialised committee of the Board of Directors, an internal control and management function should exist delegated to an internal unit or department of the company which is expressly charged with the following responsibilities:**
- a) **Ensure the proper functioning of risk management and control systems and, in particular, that they adequately identify, manage and quantify all material risks that may affect the company.**
 - b) **Actively participate in the creation of the risk strategy and in important decisions regarding risk management.**
 - c) **Ensure that the risk management and control systems adequately mitigate risks as defined by policy issued by the Board of Directors.**

Complies | **X** | Complies Partially | | Explanation |

- 47. That members of the appointment and remuneration committee – or of the appointments committee and the remuneration committee if they are separate – are chosen taking into account the knowledge, ability and experience necessary to perform the duties they are called upon to carry out and that the majority of said members are independent directors.**

Complies | **X** | Complies Partially | | Explanation |

- 48. That high market capitalisation companies have formed separate appointments and remuneration committees.**

Complies | **X** | | Explanation | | Not Applicable |

- 49. That the appointments committee consult with the chairman of the Board of Directors and the chief executive of the company, especially in relation to matters concerning executive directors.**

And that any director may ask the appointments committee to consider potential candidates he or she considers appropriate to fill a vacancy on the Board of Directors.

Complies | Complies Partially | Explanation |

50. That the remuneration committee exercises its functions independently and that, in addition to the functions assigned to it by law, it should be responsible for the following:

- a) Propose basic conditions of employment for senior management.
- b) Verify compliance with company remuneration policy.
- c) Periodically review the remuneration policy applied to directors and senior managers, including remuneration involving the delivery of shares, and guarantee that individual remuneration be proportional to that received by other directors and senior managers.
- d) Oversee that potential conflicts of interest do not undermine the independence of external advice rendered to the Board.
- e) Verify information regarding remuneration paid to directors and senior managers contained in the various corporate documents, including the Annual Report on Director Remuneration.

Complies | Complies Partially | Explanation |

51. That the remuneration committee consults with the chairman and the chief executive of the company, especially in matters relating to executive directors and senior management.

Complies | Complies Partially | Explanation |

52. That the rules regarding composition and workings of supervision and control committees appear in the rules governing the Board of Directors and that they are consistent with those that apply to mandatory committees in accordance with the recommendations above, including:

- a) That they are comprised exclusively of non-executive directors, with a majority of them independent.
- b) That their chairmen be independent directors.
- c) That the Board of Directors select members of these committees taking into account their knowledge, skills and experience and the duties of each committee; discuss their proposals and reports; and detail their activities and accomplishments during the first plenary session of the Board of Directors held after the committee's last meeting.
- d) That the committees be allowed to avail themselves of outside advice when they consider it necessary to perform their duties.
- e) That their meetings be recorded and the minutes be made available to all directors.

Complies | Complies Partially | Explanation | Not Applicable |

53. That verification of compliance with corporate governance rules, internal codes of conduct and social corporate responsibility policy be assigned to one or split among more than one committee of the Board of Directors, which may be the audit committee, the appointments committee, the corporate social responsibility committee in the event that one exists, or a special committee created by the Board of Directors pursuant to

its powers of self-organisation, to which at least the following responsibilities shall be specifically assigned:

- a) Verification of compliance with internal codes of conduct and the company's corporate governance rules.
- b) Supervision of the communication strategy and relations with shareholders and investors, including small- and medium-sized shareholders.
- c) The periodic evaluation of the suitability of the company's corporate governance system, with the goal that the company promotes company interests and take into account, where appropriate, the legitimate interests of other stakeholders.
- d) Review of the company's corporate social responsibility policy, ensuring that it is orientated towards value creation.
- e) Follow-up of corporate social responsibility strategy and practice, and evaluation of degree of compliance.
- f) Supervision and evaluation of the way relations with various stakeholders are handled.
- g) Evaluation of everything related to non-financial risks to the company, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordination of the process of reporting on diversity and reporting non-financial information in accordance with applicable rules and international benchmarks.

Complies | **X** | Complies Partially | Explanation |

54. That the corporate social responsibility policy include principles or commitments which the company voluntarily assumes regarding specific stakeholders and identifies, at a minimum:

- a) The objectives of the corporate social responsibility policy and the development of tools to support it.
- b) Corporate strategy related to sustainability, the natural environment and social issues.
- c) Concrete practices in matters related to: shareholders, employees, clients, suppliers, social issues, the natural environment, diversity, fiscal responsibility, respect for human rights, and the prevention of unlawful conduct.
- d) Means or systems for monitoring the results of the application of specific practices described in the immediately preceding paragraph, associated risks, and their management.
- e) Means of supervising non-financial risk, ethics, and business conduct.
- f) Communication channels, participation and dialogue with stakeholders.
- g) Responsible communication practices that impede the manipulation of data and protect integrity and honour.

Complies | **X** | Complies Partially | Explanation |

55. That the company reports, in a separate document or within the management report, on matters related to corporate social responsibility, following internationally recognised methodologies.

Complies | X Complies Partially | Explanation |

- 56. That director remuneration be sufficient in order to attract and retain directors who meet the desired professional profile and to adequately compensate them for the dedication, qualifications and responsibility demanded of their posts, while not being so excessive as to compromise the independent judgment of non-executive directors.**

Complies | X Explanation |

- 57. That only executive directors receive remuneration linked to corporate results or personal performance, as well as remuneration in the form of shares, options or rights to shares or instruments whose value is indexed to share value, or long-term savings plans such as pension plans, retirement accounts or any other retirement plan.**

Shares may be given to non-executive directors under the condition that they maintain ownership of the shares until they leave their posts as directors. The foregoing shall not apply to shares that the director may be obliged to sell in order to meet the costs related to their acquisition.

Complies | X Complies Partially | Explanation |

- 58. That as regards variable remuneration, the policies incorporate limits and administrative safeguards in order to ensure that said remuneration is in line with the work performance of the beneficiaries and is not based solely upon general developments in the markets or in the sector in which the company operates, or other similar circumstances.**

And, in particular, that variable remuneration components:

- a) Are linked to pre-determined and measurable performance criteria and that such criteria take into account the risk undertaken to achieve a given result.
- b) Promote sustainability of the company and include non-financial criteria that are geared towards creating long term value, such as compliance with rules and internal operating procedures and risk management and control policies.
- c) Are based upon balancing short-, medium- and long-term objectives, permitting the reward of continuous achievement over a period of time long enough to judge creation of sustainable value such that the benchmarks used for evaluation are not comprised of one-off, seldom occurring or extraordinary events.

Complies | X Complies Partially | Explanation | Not Applicable |

- 59. That a material portion of variable remuneration components be deferred for a minimum period of time sufficient to verify that previously established performance criteria have been met.**

Complies | X Complies Partially | Explanation | Not Applicable |

- 60. That remuneration related to company results takes into account any reservations which may appear in the external auditor's report which would diminish said results.**

Complies | X Complies Partially | Explanation | Not Applicable |

- 61. That a material portion of variable remuneration for executive directors depends upon the delivery of shares or instruments indexed to share value.**

Complies | Complies Partially | Explanation | Not Applicable |

- 62. That once shares or options or rights to shares arising from remuneration schemes have been delivered, directors are prohibited from transferring ownership of a number of shares equivalent to two times their annual fixed remuneration, and the director may not exercise options or rights until a term of at least three years has elapsed since they received said shares.**

The foregoing shall not apply to shares that the director may be obliged to sell in order to meet the costs related to their acquisition.

Complies | Complies Partially | Explanation | Not Applicable |

- 63. That contractual arrangements include a clause which permits the company to seek reimbursement of variable remuneration components in the event that payment does not coincide with performance criteria or when delivery was made based upon data later deemed to be inaccurate.**

Complies | Complies Partially | Explanation | Not Applicable |

- 64. That payments made for contract termination shall not exceed an amount equivalent to two years of total annual remuneration and that it shall not be paid until the company has verified that the director has fulfilled all previously established criteria for payment.**

Complies | Complies Partially | Explanation | Not Applicable |

Contracts with executive directors and senior officers signed as from 2011 provide severance pay for contractual termination equal to a maximum of two times annual salary in the event of termination of their relationship with the Company, provided that termination of the relationship is not the result of a breach attributable thereto or solely due to a voluntary decision thereof. This is the case of the Business CEO.

The Company included guarantee clauses of up to five years in contracts with its key officers in the year 2000. Subsequently, in 2001, when the current chairman & CEO joined Iberdrola, he received the treatment in effect for such officers, in order to achieve an effective and sufficient level of loyalty. As chairman & CEO, he is currently entitled to three times his annual salary.

The Board of Directors has analysed this situation, the treatment of which is necessarily collective in nature. Any reduction in the salary multiples would carry high costs for the Company, for which reason the Board of Directors believes that it is most appropriate not to change the status quo. Any proposed reduction in the salary multiples would have a higher cost for the Company, as the amount of the contingency will gradually decrease due to the passage of time, resulting in payments far smaller than any possible reduction in the agreed severance payment, taking into account the average age of the affected group and the low likelihood of the guarantees being enforced. In this regard, it should be pointed out that at year-end 2014, there were 62 officers with a right to severance pay greater than two years in case of termination. At year-end 2019, the number has decreased again to 26, without the enforcement of any guarantee clause.

H FURTHER INFORMATION OF INTEREST

1. If there is any aspect regarding corporate governance in the company or other companies in the group that has not been included in other sections of this report, but which is necessary in order to obtain a more complete and comprehensible picture of the structure and governance practices in the company or group, describe it briefly below.
2. This section may also be used to provide any other information, explanation or clarification relating to previous sections of the report, so long as it is relevant and not redundant.

Specifically, state whether the company is subject to any corporate governance legislation other than that prevailing in Spain and, if so, include any information required under this legislation that differs from the data requested in this report.

3. The company may also state whether it voluntarily complies with other ethical or best practice codes, whether international, sector-based or other. In such a case, name the code in question and the date the company began following it. It should be specifically mentioned that the company adheres to the Code of Good Tax Practices of 20 July, 2010.

On 20 July 2010 the Company acceded to the Code of Good Tax Practices, a document approved by the full Forum of Large Businesses (*Foro de Grandes Empresas*) established by the National Tax Administration Agency (*Agencia Estatal de Administración Tributaria*) and certain large companies and held on that date.

Pursuant to the provisions of section 2 of the annex of accession to the Code of Good Tax Practices and section 4.a) of the Corporate Tax Policy, the Company reports that it has complied with the text of said Code as from the time of approval thereof.

In particular, it is reported that during financial year 2019, the Company's tax director appeared before Iberdrola's Audit and Risk Supervision Committee on 18 February 2019 and 22 July 2019 to report on compliance with the Corporate Tax Policy, which includes the good tax practices contained in said Code, all of which has been reported to the Board of Directors.

The annex contains a description of the attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2019. Proxies granted with specific voting instructions are considered to be attendances.

This Annual Corporate Governance Report was approved by the Board of Directors of the company at the meeting held on 24/02/2020.

State whether any directors voted against or abstained from voting on this report.

Yes

No

Annex to ACGR 2019:

SECTION C.1.26

Below is the data on attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2019. Proxies granted with specific voting instructions are considered to be attendances.

Directors	Board	Committees				
		EC	ARSC	AC	RC	SDC
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	8/8	15/15	-	-	-	-
MR ÍÑIGO VÍCTOR DE ORIOL IBARRA	8/8	-	-	9/9	-	9/9
MS INÉS MACHO STADLER	8/8	15/15	-	-	7/7	-
MS SAMANTHA BARBER	8/8	15/15	-	-	-	9/9
MS MARÍA HELENA ANTOLÍN RAYBAUD	8/8	-	-	9/9	-	-
MR ÁNGEL JESÚS ACEBES PANIAGUA	2/2	3/3	-	2/2	-	-
MS GEORGINA KESSEL MARTÍNEZ	8/8	-	12/12	-	-	-
MS DENISE MARY HOLT	8/8	-	12/12	-	-	-
MR JOSÉ W. FERNÁNDEZ	8/8	-	12/12	-	-	-
MR MANUEL MOREU MUNAIZ	8/8	15/15	-	-	7/7	-
MR XABIER SAGREDO ORMAZA	8/8	-	12/12	-	-	-
MR JUAN MANUEL GONZÁLEZ SERNA	8/8	-	-	-	7/7	-
MR FRANCISCO MARTÍNEZ CÓRCOLES	8/8	-	-	-	-	-
MR ANTHONY L. GARDNER	8/8	-	-	6/6	-	2/3
MS SARA DE LA RICA GOIRICELAYA	5/5	-	-	1/1	-	6/6

Notes:

The denominator indicates the number of meetings held during the period of the year in which the director served as such or as a member of the respective Committee.

EC: Executive Committee.

ARSC: Audit and Risk Supervision Committee.

AC: Appointments Committee.

RC: Remuneration Committee.

SDC: Sustainable Development Committee (previously the Corporate Social Responsibility Committee).

SECTION E.3.

ACTIONS OF IBERDROLA, S.A. AND IBERDROLA RENOVABLES ENERGIA, S.A.U. RELATING TO THE HIRING OF CLUB EXCLUSIVO DE NEGOCIOS Y TRANSACCIONES, S.L. (CENYT)

Since the day following the appearance of the first news reports in certain media regarding the hiring of “Club Exclusivo de Negocios y Transacciones, S.L.” (“**CENYT**”), Iberdrola, S.A. (Iberdrola) has conducted various investigations described below in accordance with the provisions of its Corporate Governance System and its Compliance System.

Both systems define and describe the powers assigned to the various companies of the group and their corresponding governance bodies, and particularly the Audit and Risk Supervision Committee, the Sustainable Development Committee, the Executive Committee and the Board of Directors of Iberdrola, and the Board of Directors of Iberdrola Renovables, in relation to the facts referred to in said news reports.

The first news about the hiring of CENYT by Iberdrola appeared on 11 June 2018. Four days later, on 15 June 2018, the Compliance Unit (which, pursuant to the provisions of the *Regulations of the Compliance Unit*, is the body authorised since its creation in 2012 to investigate facts like those referred to above) prepared a first report identifying 14 invoices issued by CENYT to Iberdrola between 2004 and 2009 (in the total amount of 1,017,824.14 euros) and another 3 invoices issued between 2012 and 2017 to Iberdrola Renovables, S.A.U. (Iberdrola Renovables) (in the total amount of 114,200.00 euros).

In relation to the same news reports, the Audit and Risk Supervision Committee requested a report from the Internal Audit Area regarding invoices issued to the Iberdrola group on 19 November 2018 by companies connected to the former police commissioner Villarejo. Said report concluded (i) that the only company linked to Mr Villarejo Pérez (through his spouse and son) that invoiced the Iberdrola group was CENYT; and (ii) that the invoices paid corresponded to services purchased by the Corporate Security Division, which, according to statements thereby, were actually provided by CENYT within the context of Iberdrola’s international expansion process, in order to ensure the integrity of its officers in their travels to at-risk countries, ensure the confidentiality of communications and of significant meetings of the management team, and strengthen the security of vital sites for the group’s power generation activities.

On 25 September 2019 Iberdrola’s Internal Audit Area prepared a second report on the internal control of third parties, which was intended to describe the main controls implemented in recent years in relation with the process of hiring third party creditors and analyse how the internal controls worked in the hiring of CENYT. The Internal Audit Area concluded that the process followed conformed to the internal control procedures in effect at that time.

Beginning on 8 October 2019, additional news referring to alleged specific assignments by Iberdrola to CENYT were published in the media, on this occasion describing allegedly illegal content or purposes.

On that same 8 October, the Compliance Unit, under the supervision of the Sustainable Development Committee and in coordination with Iberdrola Renewable’s Compliance Division, commenced an internal investigation to clarify this additional news.

The content of the 24 meetings of Iberdrola’s governance bodies between the months of October 2019 and February 2020 reflects the impetus given to all of the investigations performed, the supervision of the performance thereof without any limitation in scope, and the guarantee that all internal areas responsible for performing them had the required human and material resources at all times and acted free of any type of internal or external interference.

The internal investigations performed at both companies covered all available documentary evidence, in whatever media they may have been stored. However, it should be noted that in certain cases, whether due to the nature of the services provided, the time since they were provided (which well exceeded the six-year period legally provided for maintaining business documentations) or the lack of cooperation of certain former employees, complete documentation was not available.

The Compliance Unit also directly hired the services of “Pricewaterhousecoopers Asesores de Negocio, S.L.” (“PwC”) to perform an independent investigation, with neither supervision nor control of internal bodies or outside lawyers, and which made a commitment to make its findings immediately available to the judicial authorities, whatever those findings may be. PwC dedicated more than 3,000 hours of work to this investigation, processing 4.67 TB of information (4.4 million files) and reviewing more than 300,000 files and more than 3,000 invoices.

As arises from the internal investigations conducted by the respective Internal Audit Areas and the Compliance divisions:

- (i) After the investigations and based on the results of PwC’s collaboration on the terms and with the intensity described above, no payments to companies directly or indirectly linked to Mr Villarejo have been identified other than those corresponding to the 17 invoices issued by CENYT to the group: 14 to Iberdrola and 3 to Iberdrola Renovables.
- (ii) All of the payments made to CENYT correspond to invoices received for which the information has been entered into the Iberdrola group’s internal records, as the Management System (SAP) does not allow for the making of payments that do not correspond to the entry of the respective invoice.
- (iii) Specifically, the payments to CENYT were made in accordance with the internal procedures at all times in effect within the group, which require that the service be requested and the corresponding invoice be approved by a person duly authorised to do so by reason of the subject matter, and approved by a controller other than the requesting party.
- (iv) No evidence or indications have been detected that would warrant a suspicion that the services set forth in the invoices reviewed were not provided.
- (v) In particular, based on the information available to Iberdrola and Iberdrola Renovables, no illegal conduct or conduct contrary to the rules making up the Corporate Governance System has been identified as a result of the internal investigations being conducted.
- (vi) All relevant information available and the full findings from the forensic work performed by PwC have been made available to Central Investigation Court number 6.

As of the date hereof, based on both the internal information and the external events of which the Company has become aware, the facts cannot be considered legally relevant for the Company, such that the impact thereof, if any, would be limited to the reputational area.

Along these lines, Iberdrola’s Sustainable Development Committee and Board of Directors have been monitoring changes in corporate reputation and no impairment in the general reputation of the group or negative impact in relation to its professionals, customers, shareholders or suppliers has been detected. The aforementioned news reports have also not had a negative effect on the group’s financial performance.

To ensure maximum dissemination in accordance with the Company’s commitment to transparency, the information set out in the preceding paragraphs in connection with the hiring of CENYT reproduces the text of the memorandum of the Board of Directors regarding this issue published on the corporate website on occasion of the call to the General Shareholders’ Meeting.