



Iberdrola, S.A. and Subsidiaries

Report on the Condensed Consolidated Interim
Financial Statements

30 June 2019

Consolidated Interim Directors' Report
2019

(With Independent Limited Review Report thereon)

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



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

Limited Review Report: Iberdrola, S.A. and Subsidiaries

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

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

REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (the "interim financial statements") of Iberdrola, S.A. (the "Company") and subsidiaries (the "Group"), which comprise the consolidated statement of financial position at 30 June 2019, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the notes to the condensed consolidated interim financial statements for the six-month period then ended. Pursuant to article 12 of Royal Decree 1362/2007 the Directors of the Company are responsible for the preparation of these condensed consolidated interim financial statements in accordance with International Accounting Standard (IAS) 34 "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

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

Conclusion

Based on our limited review, which can under no circumstances be considered an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2019 have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial statements, pursuant to article 12 of Royal Decree 1362/2007.



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Emphasis of Matter

We draw your attention to the accompanying note 2, which states that these interim financial statements do not include all the information required in complete consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The accompanying interim financial statements should therefore be read in conjunction with the Group's consolidated annual accounts for the year ended 31 December 2018. This matter does not modify our conclusion.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

The accompanying consolidated interim directors' report for the six-month period ended 30 June 2019 contains such explanations as the Directors of the Company consider relevant with respect to the significant events that have taken place in this period and their effect on the interim financial statements, as well as the disclosures required by article 119 of Legislative Royal Decree 4/2015 of 23 October 2015, which approves the Revised Securities Market Law, and Circular 3/2018 of the Spanish National Securities Market Commission on periodic information of issuers with securities admitted for trading on official markets in relation to half-yearly financial reports, interim management reports and, where appropriate, quarterly financial reports. The consolidated interim directors' report is not an integral part of the interim financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the interim financial statements for the six-month period ended 30 June 2019. Our work is limited to the verification of the consolidated interim directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of Iberdrola, S.A. and subsidiaries.

Paragraph on Other Matters

This report has been prepared at the request of management in relation to the publication of the six-monthly financial report required by article 119 of Legislative Royal Decree 4/2015 of 23 October 2015, which approves the Revised Securities Market Law.

KPMG Auditores, S.L.

(Signed on original in Spanish)

Enrique Asla García

26 July 2019

IBERDROLA, S.A. AND SUBSIDIARIES

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS AND
CONSOLIDATED INTERIM DIRECTORS' REPORT
FOR THE SIX-MONTH PERIOD
ENDED 30 JUNE 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 21). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION ON 30 JUNE 2019

Thousands of Euros			
		06.30.2019	12.31.2018 (*)
ASSETS	Note	(Unaudited)	(Audited)
Intangible assets		21,133,990	21,000,248
Goodwill		7,936,521	7,837,843
Other intangible assets		13,197,469	13,162,405
Investment property		355,394	428,592
Property, plant and equipment	7	67,796,618	66,109,320
Property, plant and equipment in use		59,258,191	58,517,671
Property, plant and equipment under construction		8,538,427	7,591,649
Right-of-use assets	2.a	575,104	-
Non-current investments		5,791,089	5,191,132
Equity-accounted investees		1,872,887	1,709,518
Non-current securities portfolio	8	87,917	68,831
Other non-current investments	8	3,066,725	2,685,387
Derivative financial instruments	8	763,560	727,396
Trade and other non-current assets	4.b, 17	1,653,153	1,480,252
Deferred tax assets		5,612,061	5,485,999
NON-CURRENT ASSETS		102,917,409	99,695,543
Assets held for sale		65,561	62,164
Nuclear fuel		286,005	272,674
Inventories		2,474,304	2,173,831
Trade and other receivables current		7,783,504	6,854,733
Current tax assets		650,415	252,907
Public entities, other		686,120	503,444
Trade and other receivables current		6,446,969	6,098,382
Current investments	8	1,188,344	1,177,821
Other current financial investments		680,910	571,568
Derivative financial instruments		507,434	606,253
Cash and cash equivalents	9	1,722,494	2,801,157
CURRENT ASSETS		13,520,212	13,342,380
TOTAL ASSETS		116,437,621	113,037,923

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

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

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

Consolidated statement of financial position at 30 June 2019

Thousands of Euros			
		06.30.2019 (Unaudited)	12.31.2018 (*) (Audited)
EQUITY AND LIABILITIES	Note		
Parent company		36,399,038	36,582,199
Subscribed capital		4,680,000	4,798,222
Valuation adjustments		(402,186)	(32,196)
Other reserves		33,640,431	32,731,625
Treasury shares		(552,566)	(1,010,348)
Translation differences		(2,611,024)	(2,919,156)
Net profit for the year		1,644,383	3,014,052
Non-controlling interests		8,447,407	7,394,355
EQUITY	10	44,846,445	43,976,554
Capital grants		1,457,324	1,477,928
Facilities transferred or financed by third parties		4,860,466	4,823,396
Non-current provisions		5,351,373	5,447,587
Provision for pensions and similar obligations		2,326,236	2,420,032
Other provisions		3,025,137	3,027,555
Non-current financial liabilities		31,522,292	31,778,763
Loans and borrowings and finance lease payables	8,13	29,720,136	30,751,710
Equity instruments having the substance of a financial liability	8	212,532	140,582
Derivative financial instruments	8	590,243	387,153
Leases	2.a	444,695	-
Other financial liabilities		554,686	499,318
Other non-current liabilities		415,097	374,688
Deferred tax liabilities		9,310,854	9,042,567
NON-CURRENT LIABILITIES		52,917,406	52,944,929
Liabilities linked to assets held for sale		804	561
Current Provisions		881,000	579,984
Provision for pensions and similar obligations		14,205	22,874
Other provisions		866,795	557,110
Current financial liabilities		14,999,690	13,639,597
Loans and borrowings and finance lease payables	8,13	8,355,992	6,574,762
Equity instruments having the substance of a financial liability	8	74,157	36,647
Derivative financial instruments	8	507,404	448,381
Leases	2.a	63,912	-
Trade payables		4,542,255	5,259,414
Other financial liabilities		1,455,970	1,320,393
Other current liabilities		2,792,276	1,896,298
Current tax liabilities		688,551	349,314
Public entities, other		1,635,505	1,039,449
Other		468,220	507,535
CURRENT LIABILITIES		18,673,770	16,116,440
TOTAL EQUITY AND LIABILITIES		116,437,621	113,037,923

(*)The consolidated statement of financial position at 31 December 2018 is presented for comparison purposes only.
The attached notes are an integral part of the condensed consolidated interim financial statements.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

Thousands of Euros			
	Note	06.30.2019 (Unaudited)	06.30.2018 (*) (Unaudited)
Revenue	6, 14	18,281,043	17,586,623
Supplies		(10,051,014)	(9,918,192)
GROSS MARGIN		8,230,029	7,668,431
Personnel expenses		(1,412,885)	(1,359,147)
Capitalised personnel expenses		329,444	315,231
Net personnel expenses		(1,083,441)	(1,043,916)
External services		(1,390,681)	(1,382,176)
Other operating income		328,336	314,809
Net external services		(1,062,345)	(1,067,367)
Net operating expenses		(2,145,786)	(2,111,283)
Taxes		(1,094,467)	(1,121,261)
GROSS OPERATING PROFIT (EBITDA)		4,989,776	4,435,887
Valuation adjustments, trade and other assets		(150,963)	(126,534)
Amortisation, depreciation and provisions		(1,848,067)	(1,782,090)
OPERATING PROFIT (EBIT)		2,990,746	2,527,263
Profit/(loss) of equity-accounted investees - net of taxes		17,475	24,503
Finance income		425,178	421,557
Financial costs		(1,036,100)	(984,681)
Net finance income/cost		(610,922)	(563,124)
Gains on disposal of non-current assets		6,853	36,220
Losses on disposal of non-current assets		(9)	(14,215)
Gains/(losses) from non-current assets		6,844	22,005
PROFIT BEFORE TAX		2,404,143	2,010,647
Income tax	15	(545,543)	(412,268)
PROFIT FOR THE PERIOD FROM CONTINUING ACTIVITIES		1,858,600	1,598,379
PROFIT FOR THE PERIOD FROM DISCONTINUED ACTIVITIES (NET OF TAX)		(25,712)	(32,265)
Non-controlling interests		(188,505)	(155,628)
NET PROFIT FOR THE PERIOD ATTRIBUTABLE TO THE PARENT COMPANY		1,644,383	1,410,486
EARNINGS PER SHARE IN EUROS FROM CONTINUING OPERATIONS:			
BASIC EARNINGS PER SHARE IN EUROS		0.264	0.219
DILUTED EARNINGS PER SHARE IN EUROS		0.258	0.215
LOSSES PER SHARE IN EUROS FROM DISCONTINUED OPERATIONS:			
BASIC LOSSES PER SHARE IN EUROS		(0.004)	(0.005)
DILUTED LOSSES PER SHARE IN EUROS		(0.004)	(0.005)

(*) The consolidated income statement for the period ended 30 June 2018 is presented for comparison purposes only. The attached notes are an integral part of the condensed consolidated interim financial statements.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 21).
In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2019

Thousands of Euros	06.30.2019 (Unaudited)		06.30.18 (*) (Unaudited)	
	Parent	Non-controlling interests	Parent	Non-controlling interests
NET PROFIT FOR THE PERIOD	1,644,383	188,505	1,410,486	155,628
OTHER COMPREHENSIVE INCOME TO BE RECLASSIFIED IN PROFIT OR LOSS IN FUTURE PERIODS				
Valuation adjustments	(369,859)	(2,285)	179,973	4,993
Change in value of cash flow hedge derivatives	(485,002)	(2,698)	228,216	7,773
Changes in hedging costs	(1,856)	-	2,634	-
Tax effect	116,999	413	(50,877)	(2,780)
Exchange gains/(losses)	269,585	70,779	154,101	(170,898)
TOTAL	(100,274)	68,494	334,074	(165,905)
OTHER COMPREHENSIVE INCOME NOT TO BE RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT IN FUTURE PERIODS				
Valuation adjustments	13	-	(652)	-
Change in value of cash flow hedge derivatives	(666)	-	(739)	-
Tax effect	679	-	87	-
TOTAL	13	-	(652)	-
OTHER COMPREHENSIVE INCOME OF COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD (NET OF TAX)				
Valuation adjustments	1	-	(3)	-
TOTAL	1	-	(3)	-
TOTAL NET PROFIT OR LOSS RECOGNISED DIRECTLY IN EQUITY	(100,260)	68,494	333,419	(165,905)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,544,123	256,999	1,743,905	(10,277)
				1,733,628

(*) The consolidated statement of comprehensive income for the six-month period ended 30 June 2018 is presented for comparison purposes only.
The attached notes are an integral part of the condensed consolidated interim financial statements.

(Unaudited)	Other reserves											
	Subscrib ed capital	Treasury shares	Legal reserve	Revaluation reserves	Share premium	Other restricted reserves	Retained earnings	Valuation adjustments	Translation differences	Net profit for the year	Non- controlling interests	
Thousands of Euros												
Balance at 12.31.2017	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	-	-	-	-	-	-	100,731	1,110	-	-	(8,017)	93,824
Adjustments due to IFRS 15	-	-	-	-	-	-	(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	(41,144)	(2,828,470)	2,803,994	7,215,909	42,786,685
Comprehensive income for the period	-	-	-	-	-	-	-	179,318	154,101	1,410,486	(10,277)	1,733,628
Transactions with shareholders or owners												
Scrp issue	90,644	-	-	(90,644)	-	-	(417)	-	-	-	-	(417)
Capital reduction	(148,780)	1,245,420	-	-	-	148,780	(1,245,426)	-	-	-	-	(6)
Acquisition of free allocation rights	-	-	-	-	-	-	(97,900)	-	-	-	-	(97,900)
Distribution of profit	-	-	-	-	-	-	2,795,774	-	-	(2,803,994)	(100,838)	(109,058)
Transactions with treasury shares	-	(766,790)	-	-	-	-	(2,205)	-	-	-	-	(768,995)
Other movements in equity												
Equity instruments-based payments	-	-	-	-	-	-	(15,518)	-	-	-	(699)	(16,217)
Issuance of perpetual subordinated bonds	-	-	-	-	-	-	(2,538)	-	-	-	700,000	697,462
Reimbursement of perpetual subordinated bonds	-	-	-	-	-	-	-	-	-	-	(525,000)	(525,000)
Other movements	-	-	-	-	-	-	(4,019)	-	-	-	89,731	85,712
Balance at 06.30.2018	4,680,000	(119,167)	968,998	146,222	14,667,676	842,464	16,356,584	138,174	(2,674,369)	1,410,486	7,368,826	43,785,894

(*) The consolidated net statement of changes in equity for the six-month period ended 30 June 2018 is presented for comparison purposes only.
The attached notes are an integral part of the condensed consolidated interim financial statements.

Translation of Annual accounts originally issued in Spanish and prepared in accordance with IFRS as adopted by the European Union (see Note 21). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

Consolidated statement of cash flows for the six-month period ended 30 June 2019

Thousands of Euros	Note	06.30.2019 (Unaudited)	06.30.2018 (*) (Unaudited)
Profit before tax from continuing operations		2,404,143	2,010,647
Profit before tax from discontinued operations		(27,775)	(43,074)
Adjustments for			
Amortization, depreciation, provisions, valuation corrections of financial assets and personnel expenses for pensions		2,076,127	1,987,311
Net profit/loss from investments in associates and joint ventures		(11,562)	(25,296)
Capital grants and other deferred income		(133,746)	(132,969)
Finance income and finance costs		612,432	569,892
Gains on disposal of non-current assets		(6,724)	(21,964)
Movement in working capital			
Movement in trade and other receivables		(585,686)	(426,213)
Movement in inventories		(382,142)	(179,763)
Trade payables and other liabilities		(434,825)	(335,036)
Provisions paid		(354,107)	(332,265)
Income tax		(246,458)	235,342
Dividends received		13,046	5,746
Net cash flows from operating activities		2,922,723	3,312,358
Acquisition of intangible assets		(538,766)	(490,070)
Acquisition of associates		(128,600)	(37,670)
Acquisition of investment property		-	(6,224)
Acquisition of property, plant and equipment		(2,152,118)	(2,073,259)
Capitalised interest paid		(119,393)	(86,319)
Capitalised personnel expenses paid		(329,444)	(309,797)
Capital grants and other deferred income		5,303	17,574
Securities portfolio		(19,086)	1,745
Other investments		(76,761)	(664,461)
Net collection/(payments) for current financial assets		(40,995)	(36,807)
Interest collected		26,764	111,697
Proceeds from disposal of non-financial assets		77,813	171,502
Proceeds from disposal of financial assets		-	35,100
Net cash flows used in investing activities		(3,295,283)	(3,366,989)
Acquisition of free allocation rights		-	(97,900)
Dividends paid	10	(131,426)	(8,220)
Dividends paid to non-controlling interests		(95,471)	(100,051)
Perpetual subordinated obligations			
Issue	10	800,000	700,000
Reimbursement		-	(525,000)
Interest paid		(37,125)	(39,563)
Loans and borrowings and finance lease payables			
Issues and disposals		7,922,872	7,834,719
Reimbursement		(7,630,747)	(6,843,269)
Interest paid		(462,183)	(498,556)
Financial liabilities from leases			
Payment of principal	2.a	(60,685)	(4,971)
Interest paid excluding capitalised interest	2.a	(15,554)	(2,479)
Equity instruments having the substance of a financial liability			
Issue		126,580	172,582
Reimbursement		(19,013)	(14,281)
Interest paid		(8,751)	(5,213)
Transactions with non-controlling interests		-	115,795
Cash outflows due to capital decrease		(51)	(6)
Cash outflows due to scrip issue		(381)	(417)
Acquisition of treasury shares		(1,189,241)	(782,508)
Proceeds from disposal of treasury shares		46,209	41,072
Net cash flows from/(used in) financing activities		(754,967)	(58,266)
Effect of exchange rate fluctuations on cash and cash equivalents		48,864	(100,598)
Net increase/(decrease) in cash and cash equivalents		(1,078,663)	(213,495)
Cash and cash equivalents at the beginning of period		2,801,157	3,197,340
Cash and cash equivalents at the end of period		1,722,494	2,983,845

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

IBERDROLA, S.A. AND SUBSIDIARIES

Notes to the condensed consolidated interim financial statements

For the six-month period ended 20 June 2019

1. ACTIVITY OF THE GROUP

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

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

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

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

a) Accounting standards applied

The board of directors of IBERDROLA authorised these condensed consolidated interim financial statements for the six-month period ended 30 June 2019 (hereinafter the consolidated financial statements) for issue on 23 July 2019.

These financial statements have been drafted following IAS 34: "Interim Financial Reporting" and also include information which is additional to that required by this standard, pursuant to article 12 of Royal Decree 1362/2007. Nevertheless, they do not contain all the information and disclosures required of consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU). Consequently, to be interpreted properly these financial statements must be read in conjunction with the IBERDROLA Group's consolidated annual accounts for the year ended 31 December 2018.

The accounting policies used in these financial statements match those used for consolidated annual accounts for the year ended 31 December 2018, except for the application on 1 January 2019 of IFRS 16 "Leases" published by the International Accounting Standards Board (IASB), which has been adopted by the European Union for use in Europe.

Transition to IFRS 16

The IBERDROLA Group made the transition to IFRS 16 through the modified retroactive alternative, which does not involve the restatement of the comparative period, and will apply IFRS 16 for the first time on 1 January 2019 (the date it was first applied). Therefore, in lease agreements in which the IBERDROLA Group is lessee, lease liabilities are measured at the current value of the remaining lease payments, to which the discount rate at the time of the first application will be applied.

From the perspective of the lessor, IFRS 16 does not introduce relevant changes.

Right-of-use assets and lease liabilities

From the perspective of the lessee, IFRS 16 eliminates the current classification between operating and finance leases based on the transfer of risks and benefits and sets, as regards lease agreements, that the lessee shall recognise in the statement of financial position an asset for right of use and a liability for the present value of the lease during said period.

The initial value of the lease liability is calculated as the value of future discounted lease payments, as a general rule at the incremental 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;
- 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
- Payments for cancellation of the lease if the lease period includes 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 statement of financial position, 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 "Finance costs" in the consolidated statement of financial position. 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 expectations.

Right-of-use assets are initially recorded at 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 impairment losses. The amortisation of right-of-use assets is recorded under the heading "Amortisations, depreciation and provisions" in the consolidated income statement for the useful life of the underlying asset or the lease term, whichever is shorter. 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.

Preparation

In the consolidated financial statements for the six-month period ending on 30 June 2019, the IBERDROLA Group has classified right-of-use assets and 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, Euros 114,766 and Euros 27,541 thousand have been respectively reclassified, moving from the aforementioned headings to "Right-of-use assets", "Non-current financial liabilities – Leases" and "Current Financial liabilities — Leases" in the consolidated statement of financial position.

Impact on IBERDROLA Group

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.

In accordance with the options provided by IFRS 16, the IBERDROLA Group has opted not to apply IFRS 16 to lease agreements for intangible assets, and 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, except in the case of those types of underlying assets for which such a separation may have a significant impact on the annual accounts.

The impact recognised by the IBERDROLA Group in implementing IFRS 16 as of 1 January 2019 was as follows:

Thousands of Euros	01.01.2019
Property, plant and equipment	(215,465)
Right-of-use assets	588,628
NON-CURRENT ASSETS	373,163
TOTAL ASSETS	373,163
Provisions	14,810
Non-current financial liabilities	
Loans and borrowings or finance lease payables	(114,766)
Leases	455,404
Other financial liabilities	(31,023)
NON-CURRENT LIABILITIES	324,425
Provisions	843

Current financial liabilities	
Loans and borrowings and finance lease payables	(27,541)
Leases	86,069
Trade payables	(10,633)
CURRENT LIABILITIES	48,738
TOTAL EQUITY AND LIABILITIES	373,163

The increase in current and non-current liabilities relating to lease agreements corresponds to the following asset classification

Thousands of Euros	01.01.2019
Buildings and real property	231,437
Vehicle fleet	34,543
Optic fibre and other (Networks)	38,334
Land linked to renewable facilities (solar and other)	46,048
Other	48,804
Total	399,166

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

Currency	Less than 5 years		Between 20-30 years	
	Minimum	Maximum	Minimum	Maximum
EUR	-	2.15	1.87	2.94
Pounds Sterling	1.12	3.21	3.19	4.94
US Dollar	2.68	3.3	4.16	4.48
Mexican Peso	9.09	9.46	11.36	12.62
Brazilian Real	8.68	11.96	14.55	15.15

The impact that the application of IFRS 16 has had on the consolidated statement of cash flows at 30 June 2019 is summarised below:

Thousands of Euros	
Increase in "finance costs"	5,810
Increase in "Amortisation, depreciation and provisions"	31,821
Total	37,631

Increase in costs in the previous headings in the consolidated statement of income at 30 June 2019 is offset by a reduction in costs in "External services" in the consolidated statement of income at 30 June 2019.

b) Comparative information

Following the agreement reached with the authorities, ENRESA and all other partners, the IBERDROLA Group amended the useful life of 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, "Amortisation, depreciation and provisions" in the consolidated income statement for the six-month period ended on 30 June 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 55 million. Furthermore, the IBERDROLA Group estimates that, in the second half of the 2019 financial year, this modification of the useful life will imply lower amortisation to that recorded in the first half of 2019.

c) **Amendment to comparative information**

Segment information (Note 6): During the first semester of the year the decision to expand the breakdowns of the geographic information corresponding to the Lliberalised segment was made. Thus, the activities included as of December 31, 2018 under the grouping of Spain and continental Europe have been disaggregated in Spain and Rest of the World, taking into account the increasing importance of the commercial business in other geographical locations.

Moreover, current liabilities and non-current liabilities in the consolidated statement of result 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. **SEASONAL VARIATION**

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

4. **USE OF ESTIMATES AND SOURCES OF UNCERTAINTY**

a) **Accounting estimates**

Certain assumptions and estimates were made by IBERDROLA Group in the preparation of these financial statements. The criteria used for the calculation of the estimates in these financial statements are the same as those used for the 2018 consolidated annual accounts of the IBERDROLA Group.

Additionally, 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.

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

b) Sources of uncertainty

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

- Update of financial goodwill (section 12.5 of the revised corporate income tax act).

No significant changes have taken place during this period. In the previous year, from the perspective of the Spanish authorities, an aid retrieval procedure was initiated by virtue of the General Tax Act, recovering from IBERDROLA the total amount of Euros 665 million (Euros 576 million as tax base and Euros 89 million as late interests accrued) 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. All this was carried out on the basis of the European Commission's Third Decision. The amount paid has been recognised in "Trade payables and other non-current assets" in the consolidated financial statements of financial position at 30 June 2019 and 31 December 2018.

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

- Under previous standards, the majority of lease agreements for land used for wind-power facilities were considered to be operating leases. In application of IFRS 16 (Note 2.a), on 1 January 2019 IBERDROLA Group understands that the majority of said agreements do not include a lease. However, the accounting treatment of agreements involving shared use of underlying assets is subject to changes in accordance with future interpretations. In the event that assignment agreements for the use of land where wind-power facilities are located qualify as lease agreements within the scope of IFRS 16 on the date of first application of the standard, the estimated current and non-current liabilities for the IBERDROLA Group would entail an increase, up to maximum amounts of Euros 846,374 thousand. As of 30 June 2019 no significant changes have occurred.
- Note 17 to these financial statements describe IBERDROLA Group's principal contingent assets and liabilities, mostly arising from litigations in progress whose future progress cannot be determined with certainty at the reporting date.

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

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

The most significant changes in the consolidated IBERDROLA Group during the six-month period ended 30 June 2019 are as follows:

- 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.

The completion of the operation is subject to obtaining the necessary authorisation of the Spanish National Markets and Competition Commission. Therefore, it will be recognised once it becomes effective.

- 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, Pavilion will pay to IBERDROLA Group the amount of Euros 115 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, which will take place on 1 January 2020.

As a result of the transaction, at the six-month period ended on 30 June 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 with assigned LNG contracts have been discontinued

As a result, IBERDROLA Group has recognised income of Euros 88,487 thousand in "Revenue" in the consolidated income statement for the six-month period ended on 30 June 2019 and a reduction of Euros 86,500 thousand in "Valuation adjustments" in the consolidated statement of financial position at 30 June 2019.

- On 27 June 2019, Neoenergia S.A.'s 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%. 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 124,498 thousand in "Non-controlling shares", a charge of Euros 65,592 thousand in "Other reserves" and a credit of Euros 38,547 thousand to "Translation differences" in the consolidated statement of financial position at 30 June 2019.

6. SEGMENT REPORTING

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

- Network 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 UK, Mexico, Brazil and Rest of the world.
- Renewables business: activities related to renewable energies (principally wind and hydroelectric) in Spain, the UK, USA, Brazil and the rest of the world.
- Other businesses: groups gas retail and storage up to the sale in the first half of 2018 and other non-energy services.

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.

Transactions between the different segments are generally made in market conditions.

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

Segmentation per business for the six-month period ended 30 June 2019

Thousands of Euros	Liberalised				Renewables				Networks				Other business, Corporation and adjustments							
	Spain	United Kingdom	Mexico	Brazil	Rest of the world	Total	Spain	United Kingdom	United States	Brazil	Total									
REVENUE (NOTE 14)																				
External sales	6,082,772	2,389,315	1,178,474	127,853	538,501	10,316,915	199,813	28,318	493,128	47,460	66,499	178,782	1,014,000	997,564	2,942,345	6,824,137	125,991	18,281,043		
Intersegment sales	417,278	23,796	(11,550)	153,914	20,340	603,778	502,234	319,855	12,261	46,249	28,700	909,299	62,946	82,965	514	146,425	6,640	1,666,142		
Eliminations						(349,027)						-				-	(1,317,115)	(1,666,142)		
Total sales						10,571,666						1,923,299				6,970,562	(1,184,484)	18,281,043		
RESULTS																				
Segment operating profit (EBIT)	536,425	(63,422)	299,824	8,291	(22,131)	758,987	227,043	170,217	12,119	19,907	43,453	119,003	591,742	568,268	315,044	401,618	362,941	1,647,871	(7,854)	2,990,746
Profit/(loss) of equity-accounted investees - net of taxes	4,190	-	-	-	-	4,190	5,853	308	(4,698)	-	2,551	(5)	4,009	1,098	18	4,020	-	5,136	4,140	17,475
ASSETS																				
Segment assets	6,661,270	6,725,753	4,725,800	474,399	376,606	18,963,828	8,393,522	5,935,223	12,696,145	1,330,368	1,581,881	2,320,644	32,257,783	12,319,184	12,494,480	21,806,333	5,451,535	52,071,532	4,376,990	107,670,133
Equity-accounted investees	24,279	-	-	-	-	24,279	68,087	8,242	318,561	-	682,211	-	1,077,101	28,169	-	125,129	-	153,298	618,209	1,872,887
LIABILITIES																				
Segment liabilities	2,658,335	1,431,547	1,004,925	96,445	130,987	5,322,239	1,060,450	1,055,822	4,253,268	279,127	246,343	377,061	7,272,071	5,697,591	2,524,306	7,313,185	1,683,786	17,218,868	1,808,123	31,621,301
OTHER INFORMATION																				
Total cost incurred during the period in the acquisition of property, plant and equipment and intangible assets (1)	61,118	103,640	98,653	15,123	30,853	309,387	169,044	285,193	734,221	23,484	14,813	20,042	1,246,797	171,464	219,554	424,256	392,826	1,208,100	64,270	2,828,554
Valuation adjustments, trade and other assets (Expenses)/ income	23,850	44,854	1,033	(55)	5,773	75,455	40	-	1,357	875	229	(86)	2,415	1,144	1,166	39,962	30,216	72,488	605	150,963
Depreciation and amortisation expenses	193,323	74,502	60,160	10,732	9,515	348,232	152,871	74,214	232,968	19,267	27,067	64,611	570,998	267,139	161,737	251,146	193,135	873,157	55,680	1,848,067
Expenses for the period other than depreciation and amortisation not resulting in cash outflows	21,032	10,367	873	1	193	32,466	4,958	2,021	4,616	108	(4)	65	11,764	30,150	21,571	31,963	803	84,487	29,369	158,086

⁽¹⁾ Does not include amounts for capitalised interests and personnel expenses during the six-month period ended 30 June 2019.

Segmentation for the six-month period ended 30 June 2018

Re-stated (Note 2.c)	Liberalised				Renewables				Networks				Other business, Corporate and adjustments							
	Spain	United Kingdom	Mexico	Brazil	Rest of the world	Total	Spain	United Kingdom	United States	Brazil	Total									
Thousands of Euros																				
REVENUE (NOTE 14)																				
External sales	5,745,387	2,772,959	963,082	252,303	447,184	10,180,915	172,374	30,246	543,686	33,548	31,334	116,199	927,387	1,043,764	555,248	2,101,128	2,681,618	6,381,758	96,563	17,586,623
Intersegment sales	302,998	18,955	(6,936)	120,811	14,367	450,195	741,380	299,753	-	(2,097)	78,641	12,147	1,129,824	66,820	84,523	-	464	151,807	8,717	1,740,543
Eliminations						(262,215)							-					-	(1,478,328)	(1,740,543)
Total sales						10,368,895							2,057,211					6,533,565	(1,373,048)	17,586,623
RESULTS																				
Segment operating profit (EBIT)	155,140	75,397	198,700	33,798	(16,348)	446,687	327,135	154,093	74,808	4,720	36,688	49,246	646,690	632,624	303,068	303,657	245,856	1,485,205	(51,319)	2,527,263
Profit/(loss) of equity-accounted investees - net of taxes	3,195	-	-	-	-	3,195	1,646	(898)	(2,259)	-	14,493	(2)	12,980	1,398	-	4,389	-	5,787	2,541	24,503
ASSETS																				
Segment assets	6,748,180	7,398,952	4,202,650	517,367	264,993	19,132,142	8,613,039	5,483,810	11,827,019	1,081,682	1,564,594	2,350,047	30,920,191	12,048,445	12,184,793	20,422,634	5,172,054	49,827,926	3,248,897	103,129,156
Equity-accounted investees	22,854	-	-	-	-	22,854	66,768	5,634	182,452	-	682,282	-	937,136	28,378	-	125,959	-	154,337	653,007	1,767,334
LIABILITIES																				
Segment liabilities	2,270,528	1,505,088	909,186	144,772	92,720	4,922,294	1,177,983	1,030,899	3,864,521	242,854	274,917	428,304	7,019,478	5,781,982	2,484,653	6,709,489	1,650,542	16,626,666	1,817,241	30,385,679
OTHER INFORMATION																				
Total cost incurred during the period in the acquisition of property, plant and equipment and intangible assets (1)	106,557	90,226	305,783	8,525	8,426	519,517	115,350	336,207	140,989	98,423	21,534	127,502	840,005	132,602	199,069	341,792	340,345	1,013,808	68,150	2,441,480
Valuation adjustments, trade and other assets (Expenses)/ income	23,044	30,035	-	(66)	3,078	56,091	(184)	-	8	-	(10)	-	(186)	404	339	35,363	34,092	70,198	431	126,534
Depreciation and amortisation expenses	229,401	83,252	48,491	10,921	2,723	374,788	163,805	79,336	200,909	12,041	24,811	56,715	537,617	260,596	151,654	245,085	175,111	832,446	37,239	1,782,090
Expenses for the period other than depreciation and amortisation not resulting in cash outflows	5,457	13,056	(2,121)	27	182	16,601	3,358	2,476	3,887	125	248	62	10,156	7,815	22,773	32,548	5,473	68,609	25,136	120,502

⁽¹⁾ Does not include amounts for capitalised interests and personnel expenses during the six-month period ended 30 June 2018.

Additionally, details of revenue and non-current assets according to their geographical location are as follows:

Thousands of Euros	06.30.2019	06.30.2018
Revenue		
Spain	7,363,109	6,999,538
United Kingdom	3,030,513	3,373,391
United States	2,783,900	2,666,481
Mexico	1,226,645	987,598
Brazil	3,136,698	2,965,255
Rest of the world	740,178	594,360
Total	18,281,043	17,586,623

Thousands of Euros	06.30.2019	06.30.2018
Non-current assets(*)		
Spain	22,704,187	22,782,191
United Kingdom	22,847,463	23,272,660
United States	31,246,946	29,050,360
Mexico	5,035,373	4,325,770
Brazil	5,817,009	5,765,003
Rest of the world	2,210,128	2,253,199
Total	89,861,106	87,449,183

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

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

Thousands of Euros	06.30.2019	06.30.2018
Segment assets	107,670,133	103,129,156
Non-current investments	5,791,089	5,088,053
Assets held for sale	65,561	35,756
Current investments	1,188,344	1,411,884
Cash and cash equivalents	1,722,494	2,983,845
Total assets	116,437,621	112,648,694

Thousands of Euros	06.30.2019	06.30.2018
Segment liabilities	31,621,301	30,385,679
Equity	44,846,445	43,785,894
Non-current financial liabilities	30,967,606	32,119,538
Loans and borrowings and finance lease payables	29,720,136	31,563,877
Equity instruments having the substance of a financial liability	212,532	199,222
Derivative financial instruments	590,243	356,439
Leases	444,695	-
Current financial liabilities	9,001,465	6,357,255
Loans and borrowings and finance lease payables	8,355,992	5,912,563
Equity instruments having the substance of a financial liability	74,157	19,402
Derivative financial instruments	507,404	425,290
Leases	63,912	-
Liabilities linked to assets held for sale	804	328
Total liabilities and equity	116,437,621	112,648,694

7. PROPERTY, PLANT AND EQUIPMENT

The total cost incurred in purchasing property, plant and equipment, as well as the depreciation and impairment charges for the six-month periods ended 30 June 2019 and 2018, are itemised in the table below for each of the IBERDROLA Group's operating segments:

	06.30.2019		06.30.2018 Restated (Note 2.c)	
Thousands of Euros	Cost incurred in property, plant and equipment ⁽¹⁾	Depreciation charge and provisions for impairment	Cost incurred in property, plant and equipment ⁽¹⁾	Depreciation charge and provisions for impairment
Liberalised business	192,214	249,064	433,290	301,137
Spain	25,032	164,596	64,690	206,645
United Kingdom	54,846	21,046	54,292	41,753
Mexico	97,789	59,016	305,783	48,045
Brazil	13,587	4,361	8,525	4,629
Rest of the world	960	45	-	65
Renewables business	1,236,210	555,179	840,005	529,706
Spain	167,920	150,941	115,350	163,343
United Kingdom	278,286	73,876	336,207	79,152
United States	734,221	227,466	140,989	198,384
Mexico	21,145	18,953	98,423	12,015
Brazil	14,813	21,021	21,534	20,022
Rest of the world	19,825	62,922	127,502	56,790
Networks business	793,335	578,892	657,582	565,019
Spain	158,520	254,388	132,602	255,002
United Kingdom	215,553	155,365	197,084	146,936
United States	419,262	168,792	327,896	162,495
Brazil	-	347	-	586
Other business, Corporation and adjustments	37,703	8,400	18,101	18,435
Total	2,259,462	1,391,535	1,948,978	1,414,297

⁽¹⁾ Does not include amounts for capitalised interests and personnel expenses during the six-month period ended on 30 June 2019 and 2018, respectively.

Investment commitments as at 30 June 2019 and 2018 amount to Euros 3,758,608 and 4,010,829 thousand respectively.

In the six-month periods ended 30 June 2019 and 2018, the IBERDROLA Group has carried out no significant sales of property, plant and equipment in relation to these financial statements.

8. DISCLOSURE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The carrying amount of each category of financial assets and liabilities, except for the assets included in “Trade and other non-current assets” and “Trade and other current assets”, and the liabilities in “Other non-current liabilities”, “Other current liabilities” and “Trade receivables” is shown below.

Non-current financial assets									
Thousands of Euros	Equity instruments		Debt securities		Other financial assets		Derivatives		Total
Categories	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019
Assets at fair value through profit or loss	87,917	68,831	-	-	-	-	228,050	71,690	315,967
Assets at amortised cost	-	-	10,782	4,061	3,055,943	2,681,326	-	-	3,066,725
Hedging derivatives	-	-	-	-	-	-	535,510	655,706	535,510
Total	87,917	68,831	10,782	4,061	3,055,943	2,681,326	763,560	727,396	3,481,614

Current financial Assets									
Thousands of Euros	Equity instruments		Debt securities		Other financial assets		Derivatives		Total
Categories	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019
Assets at fair value through profit or loss	-	-	-	-	-	-	163,060	146,974	163,060
Assets at amortised cost	-	-	-	-	680,910	571,568	-	-	680,910
Hedging derivatives	-	-	-	-	-	-	344,374	459,279	344,374
Total	-	-	-	-	680,910	571,568	507,434	606,253	1,188,344

Non-Current financial liabilities									
Thousands of Euros	Loans and borrowings		Bonds and other marketable securities		Other financial liabilities		Derivatives		Total
Categories	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019 12.31.2018
Liabilities at fair value through profit or loss	-	-	-	-	-	-	88,553	6,617	88,553 6,617
Liabilities at amortised cost	6,783,300	7,901,788	22,936,836	22,849,922	212,532	140,582	-	-	29,932,668 30,892,292
Hedging derivatives	-	-	-	-	-	-	501,690	380,536	501,690 380,536
Total	6,783,300	7,901,788	22,936,836	22,849,922	212,532	140,582	590,243	387,153	30,522,911 31,279,445

Current financial liabilities									
Thousands of Euros	Loans and borrowings		Bonds and other marketable securities		Other financial liabilities		Derivatives		Total
Categories	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019	12.31.2018	06.30.2019 12.31.2018
Liabilities at fair value through profit or loss	-	-	-	-	-	-	198,476	116,302	198,476 116,302
Liabilities at amortised cost	2,718,249	1,746,093	5,637,743	4,828,669	74,157	36,647	-	-	8,430,149 6,611,409
Hedging derivatives	-	-	-	-	-	-	308,928	332,079	308,928 332,079
Total	2,718,249	1,746,093	5,637,743	4,828,669	74,157	36,647	507,404	448,381	8,937,553 7,059,790

The IBERDROLA Group's general risk policy described in its consolidated annual accounts corresponding to the year ended 31 December 2018 remains effective at the reporting date. In this context the hedging instruments and classes have the same characteristics as those described in the aforementioned consolidated annual accounts.

Variation in the fair value of loans and other marketable securities considered at the hedging effect at 30 June 2019 as a result of lower interest rates entails an increase in said fair value of approximately 2% compared to fair value estimates at 31 December 2018 in the consolidated annual accounts for said year.

The IBERDROLA Group measures the derivative financial instruments at fair value and classifies 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 06.30.2019	Level 1	Level 2	Level 3
Derivative financial instruments (financial assets)	1,270,994	-	1,154,085	116,909
Derivative financial instruments (financial Liabilities)	(1,097,647)	-	(914,076)	(183,571)
Total	173,347	-	240,009	(66,662)

Thousands of Euros	Value at 12.31.2018	Level 1	Level 2	Level 3
Derivative 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	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	2019	2018
Balance at 1 January	(28,149)	81,870
Income and expense recognised in the consolidated income statement	(6,028)	(2,555)
Income and expense recognised in equity	(27,562)	(6,496)
Purchases	(285)	(3,537)
Sales and settlements	(4,277)	(3,218)
Translation differences	(297)	(1,851)
Transfers within Level 3	-	(76,460)
Transfers outside Level 3	(64)	-
Balance at 30 June	(66,662)	(12,247)

The fair value of Level 3-classified derivative financial instruments has been determined using the discounted cash flow method. Projections of these cash flows are based on 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 in which it operates.

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

9. CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents in the consolidated statements of financial position are as follows:

Thousands of Euros	06.30.2019	12.31.2018
Cash	463,673	143,868
Short-term deposits	1,258,821	2,657,289
Total	1,722,494	2,801,157

As a general rule, cash at banks accrues interest at a rate comparable to the market rate for overnight deposits. Short-term deposits mature within a period of less than three months from the date of contracting and accrue market interest rates. There are no restrictions on cash withdrawals for significant amounts.

10. EQUITY

Subscribed capital

Movement in IBERDROLA's share capital during the six-month period ended 30 June 2019 is as follows:

	Registration in the Mercantile Registry	% Capital	Number of shares	Nominal	Euros
Balance at 01.01.2019			6,397,629,000	0.75	4,798,221,750
Scrip issue	31 January 2019	1.92%	122,828,000	0.75	92,121,000
Capital reduction	21 June 2019	4.30%	(280,457,000)	0.75	(210,342,750)
Balance at 06.30.2019			6,240,000,000	0.75	4,680,000,000

On 31 January 2019 the second scrip issue approved by IBERDROLA's shareholders at their General Meeting held on 13 April 2018, under item eight on the agenda, through which the Iberdrola scrip dividend system (Iberdrola retribución flexible) was implemented. The number of ordinary shares at Euros 0.75 of nominal value issued was 122,828,000 shares. Therefore, the nominal value of the capital increase was Euros 92,121 thousand.

In the period established for this purpose, the holders of 870,368,973 shares opted to receive the interim dividend payment (Euros 0.151 gross per share). Thus, the gross total of distributed interim dividends was Euros 131,426 thousand. As a result, these shareholders have expressly forgone 870,368,973 free allotment rights and therefore 19,341,533 new shares.

On 21 June 2019 it was resolved to carry out the share capital reduction approved by the shareholders at their General Meeting held on 29 March 2019 under item 10 of the agenda by means of the depreciation of equity shares.

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

Valuation adjustments

Movement during the six-month periods ended on 30 June 2019 and 2018 is as follows:

Thousands of Euros	01.01.2019	Change in fair value and other	Allocation to the values of hedged assets	Amounts taken to income	06.30.2019
Valuation adjustments of equity-accounted investees (net of tax)	2,386	(4)	-	5	2,387
Cash flow hedges					
Interest rate swaps	(360,085)	(229,402)	-	27,830	(561,657)
Collars	(5,751)	(751)	-	-	(6,502)
Commodities derivatives	228,784	(394,973)	-	133,979	(32,210)
Currency forwards	91,604	(8,210)	(4,637)	(9,649)	69,108
	(45,448)	(633,336)	(4,637)	152,160	(531,261)
Hedging costs	3,110	(18,814)	-	16,958	1,254
Tax effect	7,756	152,144	916	(35,382)	125,434
Total	(32,196)	(500,010)	(3,721)	133,741	(402,186)

Thousands of Euros	01.01.2018	Adjustments due to IFRS 9	Change in fair value and other	Allocation to the values of hedged assets	Amounts taken to income	06.30.2018
Valuation adjustments of equity-accounted investees (net of tax)	13,417	-	(9)	-	6	13,414
Available-for-sale assets	615	(615)	-	-	-	-
Cash flow hedges:						
Interest rate swaps	(358,894)	-	22,226	-	25,821	(310,847)
Collars	(4,252)	-	(750)	-	-	(5,002)
Commodities derivatives	236,718	-	209,774	-	(56,930)	389,562
Currency forwards	48,193	-	21,241	3,200	2,895	75,529
	(78,235)	-	252,491	3,200	(28,214)	149,242
Hedging costs	-	2,072	(61,566)	-	64,200	4,706
Tax effect	21,949	(347)	(38,888)	(639)	(11,263)	(29,188)
Total	(42,254)	1,110	152,028	2,561	24,729	138,174

Non-controlling interests

On 5 February 2019 IBERDROLA Group issued perpetual subordinated obligations in the amount of Euros 800 million to finance and refinance the offshore wind farms of East Anglia and Wiking. The issue price was set at 100% of the face value, with a fixed annual coupon of 3.25% as from the issue date to 12 February 2025. From the first repricing date on, the coupon will be equal to the applicable five-year swap rate plus a 2.973% annual spread during the following five years, a 3.223% annual spread during each of the five-year repricing periods beginning on 12 February 2030, 2035 and 2040, and a 3.973% annual spread during the following five-year repricing periods.

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. Although these bonds do not have a contractual maturity date, the IBERDROLA Group has the option of redeeming them beforehand during the three months prior to (and including) 12 February 2025, and from that date on every year.

After analysing the issue conditions, the IBERDROLA Group recognised the cash received with a credit to "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.

Treasury shares

The IBERDROLA Group buys and sells treasury shares in accordance with prevailing legislation and the resolutions adopted by the shareholders at their General Meeting. Such transactions include purchases and sales of company shares and derivatives thereon.

At 30 June 2019 and 31 December 2018 the balances of the various instruments were as follows:

	06.30.2019		12.31.2018	
	No. of shares	Thousands of	No. of shares	Thousands of
Treasury shares held by IBERDROLA	736,463	5,696	135,985,344	873,065
Treasury shares held by SCOTTISH POWER	949,822	7,719	1,050,639	8,076
Total return swaps	11,810,088	77,599	11,810,088	77,599
Accumulators (exercised shares)	527,495	4,336	209,361	1,378
Accumulators (potential shares)	56,010,732	457,216	7,613,376	50,230
Total	70,034,600	552,566	156,668,808	1,010,348

Physically settled derivatives

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

- Total return swaps

The IBERDROLA Group has arranged four swaps on treasury shares with the following features: during the life of the contract it will pay the financial entity 3-month Euribor plus a spread on the notional and will receive the dividends corresponding 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.

At 30 June 2019 and 31 December 2018 the balances of the various instruments were as follows:

	No. of shares	Strike price	Maturity date	Interest rate	Thousands of Euros
Total return swap	5,810,088	6.188	07/24/2019	3-month Euribor + 0.38%	35,953
Total return swap	6,000,000	6.941	07/25/2019	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 30 June 2019 and 31 December 2018 are as follows:

06.30.2019	No. of shares	Average price for the period	Maturity date	Thousands of Euros
Exercised shares	527,495	8.2202	02/07/2020 – 02/13/2020	4,336
Potential maximum ⁽¹⁾	56,010,732	8.1630	02/07/2020 – 02/13/2020	457,216

12.31.2018	No. of shares	Average price for the period	Maturity date	Thousands of Euros
Exercised shares	209,361	6.5819	02/14/2019	1,378
Potential maximum ⁽¹⁾	7,613,376	6.5976	02/14/2019	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).

11. LONG-TERM SHARE-BASED COMPENSATION PLANS

11.1 Share-based compensation plans settled

These plans are described in Note 21 of the Group's consolidated annual accounts corresponding to the year ended 31 December 2018.

2014-2016 Strategic Bonus Programme

In the first six-month period of 2019, and as the bases supporting the handover of shares in the first and second tranche of the payment were confirmed, the third and last annual payment was carried out through the handover of 2,393,909 shares. These shares included those delivered to executive directors and to senior management (Note 18).

Additionally, in Brazil, the third and last payment of the Strategic bonus 2014-2016 corresponding to the 14 beneficiaries from Elektro Group companies was settled in cash in the first half of 2019. The cash amount corresponding to the third and last payment amounts to Euros 1,413 thousand.

2017-2019 Strategic Bonus Programme

The maximum number of shares to be delivered to the beneficiaries of the 2017-2019 Strategic Bonus, approved by the shareholders at their General Meeting, is 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.

At 30 June 2019 the number of shares granted is 11,679,809 shares, and the transaction was as follows:

	No. of shares
Balance at 01.01.2018	12,535,000
Additions	400,000
Cancelled ⁽¹⁾	(1,249,584)
Balance at 12.31.2018	11,685,416
Additions	61,600
Cancelled	(67,207)
Balance at 06.30.2019	11,679,809

⁽¹⁾ 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 on 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.

AVANGRID shares bonus 2016-2019

The maximum number of gross shares to be delivered to the group of the Bonus beneficiaries will be 2,500,000 shares, of which 1,209,368 shares are 30 June 2019 delivered.

Restrictive shares programme AVANGRID

As part of the Avangrid Omnibus Plan, 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.

SCOTTISH POWER share-based incentive plan

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

– *Savesave Schemes:*

In the six-month period ended on 30 June 2019 and 2018, Euros 358 and Euros 458 thousand, respectively, were recognised in "Personnel expenses", which have been recognised as a credit in "Other reserves - Accumulated and remaining profit" in the consolidated financial statements.

Additionally, in the first half of 2019 and 2018 payments for options have been made in the amount of Euros 763 and Euros 1,219 thousand.

Movement in the number of share options is as follows:

	Number of accounts	Number of shares
Balance at 01.01.2018	2,409	5,127,348
Exercised	(1,090)	(1,414,705)
Cancelled	(59)	(138,761)
Balance at 12.31.2018	1,260	3,573,882
Exercised	(109)	(277,806)
Cancelled	(11)	(96,616)
Balance at 06.30.2019	1,140	3,199,460

– *Share Incentive Plan:*

Matching shares acquired by the trust at 30 June 2019 and 2018 amount to 2,710,780.

"Personnel expenses" in the consolidated income statement for the period ended on 30 June 2019 amounted to Euros 1,119 thousand (at 30 June 2018, Euros 1,118 thousand) for this item, recognised with a charge and debit to "Other reserves - Cumulative and remaining profit" and "Provisions – Other provisions" of the consolidated financial statements.

11.2 Cash-based compensation plans

Long-term compensation plans to be settled in the form of shares consist of the Strategic Bonus 2014-2016 Programme of I-DE Redes Eléctricas Inteligentes (formerly, Iberdrola Distribución Eléctrica), the 2017-2019 Strategic Bonus Programme of I-DE Redes Eléctricas Inteligentes (formerly, Iberdrola Distribución Eléctrica) and the 2018-2019 Long-term incentive plan of Neoenergia.

In the first half of 2019, the third and final annual payment of the Strategic bonus 2014-2016 was made, resulting in the payment of Euros 1,342 thousand.

12. LITIGATION PAYMENTS

In the six-month periods ended on 30 June 2019 and 2018 the amounts paid for the settlement of court proceedings amounted to Euros 22,171 and Euros 36,236 thousand, respectively.

13. LOANS AND BORROWINGS AND FINANCE LEASE PAYABLES

Details of outstanding financial debt at 30 June 2019 and 31 December 2018 are as follows:

Thousands of Euros	06.30.2019	12.31.2018
In Euros		
Finance leases (Note 2.a)	-	60,760
Obligations and bonds	16,306,147	16,277,975
Other financing transactions	5,631,717	5,960,870
Unpaid accrued interest	187,473	232,599
	22,125,337	22,532,204
Foreign currency		
US dollars	7,696,796	6,794,968
Pounds sterling	3,203,239	3,139,385
Brazilian reals	4,814,797	4,640,747
Other	42,127	43,932
Unpaid accrued interest	193,832	175,236
	15,950,791	14,794,268
Total	38,076,128	37,326,472

Below is a description of the financial transactions carried out by IBERDROLA Group in the six-month period ended 30 June 2019:

Borrower	Transaction	Million	Currency	Interest rate	Extension option	Maturity
Main new financing transactions						
Iberdrola Finanzas, S.A.U.	Bonds	50	EUR	1.782%	n.a.	Oct-30
Iberdrola Financiación, S.A.U. (*)	Sustainable syndicated loan	1,500	EUR	(a)	Option 1+1	Mar-24
Iberdrola Financiación, S.A.U.	Loan	125	EUR	(a)	Option 1+1	Feb-24
Iberdrola Financiación, S.A.U.	Loan	200	EUR	(a)	n.a.	Mar-26
Iberdrola Financiación, S.A.U.	Loan	75	EUR	(a)	n.a.	Mar-26
Iberdrola Financiación, S.A.U. (*)	EIB loan	150	EUR	(a)	n.a.	Upon drawing
Iberdrola Financiación, S.A.U.	ICO green loan	400	EUR	(a)	n.a.	May-26
AVANGRID Inc	Green bonds	750	USD	3.80%	n.a.	June-29
Neoenergia	Green issue 400 Infrastructure	804	BRL	IPCA+4.07%	n.a.	June-29
Neoenergia	Green issue 400 Infrastructure	492	BRL	IPCA+4.22%	n.a.	June-33
Termopernambuco, S.A.	Debentures 476	500	BRL	CDI+0.76%	n.a.	Apr-24
CELPE	Debentures 476	300	BRL	CDI+0.63%	n.a.	Apr-24
CELPE	Debentures 476	200	BRL	CDI+0.73%	n.a.	Apr-26
COELBA	Debentures 476	309	BRL	CDI+0.53%	n.a.	Apr-24
COELBA	Debentures 476	391	BRL	CDI+0.68%	n.a.	Apr-26
COELBA	Loan 4131	34	EUR	(a)	n.a.	May-24
COELBA	Loan 4131	89	USD	(a)	n.a.	June-24
COELBA	Loan 4131	84	USD	(a)	n.a.	July-22
COSERN	Debentures 476 Infrastructure	180	BRL	IPCA+4.254%	n.a.	Apr-26
COSERN	Debentures 476 Infrastructure	39	BRL	IPCA+4.499%	n.a.	Apr-29
COSERN	Debentures 476	282	BRL	CDI+0.48%	n.a.	Apr-24
ELEKTRO	Loan 4131	45	EUR	(a)	n.a.	May-24
Itapebi Geração de Energia, S.A.	Loan 4131	25	USD	(a)	n.a.	May-24
CHAFARIF 3	BEI loan	93	BRL	IPCA+2.303%	n.a.	May-40
CHAFARIF 6	BEI loan	80	BRL	IPCA+2.304%	n.a.	May-40
CHAFARIF 7	BEI loan	93	BRL	IPCA+2.281%	n.a.	June-40
Main transaction for extending existing financing						
Iberdrola S.A.	Sustainable syndicated loan	2,979	EUR	(a)	+1 year	Feb-24

Borrower	Transaction	Million	Currency	Interest rate	Extension option	Maturity
Iberdrola S.A.	Sustainable syndicated loan	2,321	EUR	(a)	+1 year	Feb-24
AVANGRID Inc	Sustainable syndicated loan	2,500	USD	(a)	+1 year	June-24

(*) Undrawn executed financing.

(a) The interest rate applicable to loans corresponds to market interest rates.

Moreover, the detail of financial transactions cancelled early during the six month period ended on 30 June 2019 is as follows:

Borrower	Transaction	Million	Currency	Transaction date	Due date	Cancellation date
Iberdrola Financiación, S.A.U.	Loan	900	EUR	Mar-15	Mar-21	Apr-19

At the reporting date, neither IBERDROLA nor any of its relevant subsidiaries were in breach of their financial commitments or any kind of obligation that could trigger the early redemption of their financial undertakings or a change in debt classification between current and non-current in the consolidated financial statements.

For the second half of 2019 the IBERDROLA Group intends to fund the planned ordinary investment program with the cash flow generated from its operations and access to bank financing markets, capital markets and supranational lenders (such as the European Investment Bank-EIB), although the Group avails of sufficient cash and loans to cover these investments.

As at 30 June 2019 the IBERDROLA Group has loans and credit facilities that can still draw down against and which have been granted to it with an approximate value of Euros 11,881,283 thousand. The breakdown is shown below by maturities of the liquidity position at 30 June 2019, considering the balance of "Cash and cash equivalents" in the consolidated statement of financial position.

Thousands of Euros	Available
Maturity	
2019 - First half of 2020	459,939
Second half of 2020-2021	80,848
2022 onwards	11,340,496
Total	11,881,283
Cash and cash equivalents	1,722,494
Total adjusted liquidity	13,603,777

14. REVENUE

Details of revenue in the consolidated income statements for the six-month periods ended 30 June 2019 and 2018 by category and segment (Note 6) are as follows:

Thousands of Euros	Liberalised				Renewables				Networks				Other business, Corporation and adjustments
	Spain	United Kingdom	Mexico	Brazil	Rest of the world	Eliminations	Total	Spain	United Kingdom	United States	Brazil	Total	
06.30.2019													
Supplies in regulated markets	702,057	-	727,970	-	-	-	1,430,027	350,621	668,702	2,279,768	2,862,767	6,848,919	8,286,702
Electricity	702,057	-	727,970	-	-	-	1,430,027	350,621	668,702	1,492,386	2,862,767	6,061,537	7,499,320
Gas	-	-	-	-	-	-	-	-	-	787,382	-	787,382	787,382
Supplies and other income in non-regulated markets	5,671,996	2,413,111	438,230	281,767	558,841	(348,646)	9,015,299	351,426	348,173	507,888	112,748	1,587,401	9,781,963
Electricity	4,430,014	1,564,931	438,230	281,767	542,265	(297,811)	6,959,396	351,426	196,496	457,174	112,748	1,382,633	7,547,716
Gas	969,498	837,263	-	-	11,122	(50,776)	1,767,107	-	-	-	-	-	1,769,614
Other	272,484	10,917	-	-	5,454	(59)	288,796	-	151,677	50,714	-	204,768	464,633
Income from lease agreements	-	-	-	-	-	-	-	-	-	-	80,092	85,402	85,402
Income for lease agreements	-	-	-	-	-	-	-	-	-	-	-	246	15,244
Commodities derivatives	125,997	-	724	-	-	(381)	126,340	-	-	(14,760)	37	(14,723)	111,732
Total	6,500,050	2,413,111	1,166,924	281,767	558,841	(349,027)	10,571,666	702,047	348,173	493,128	112,748	2,942,859	18,281,043

Thousands of Euros	Liberalised				Renewables				Networks				Other business, Corporation and adjustments							
	Rest of the world				Resto of the world				United Kingdom											
	Spain	United Kingdom	Mexico	Brazil	Eliminations	Total	Spain	United Kingdom	United States	Brazil	Total									
06.30.2018 Restated (Note 2.c)																				
Supplies in regulated markets	706,527	-	694,322	-	-	-	1,400,849	380,956	-	-	380,956	1,084,758	630,902	2,093,154	2,674,270	6,483,084	(359,309)	7,905,580		
Electricity	706,527	-	694,322	-	-	-	1,400,849	380,956	-	-	380,956	1,084,758	630,902	1,399,092	2,674,270	5,789,022	(359,309)	7,211,518		
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	694,062	-	694,062	-	694,062		
Supplies and other income in non-regulated markets	5,343,631	2,791,914	268,390	373,114	461,608	(265,374)	8,973,283	532,798	329,999	554,925	32,704	109,975	20,264	8,869	7,974	-	37,107	(1,029,234)	9,669,903	
Electricity	4,275,770	1,841,131	268,390	373,114	457,288	(240,310)	6,975,383	532,798	163,357	499,484	32,704	109,975	128,346	-	7,796	-	7,796	(936,503)	7,513,340	
Gas	797,385	940,374	-	-	2,666	(24,995)	1,715,430	-	-	-	-	-	-	-	-	-	-	29,206	1,744,636	
Other	270,476	10,409	-	-	1,654	(69)	282,470	-	166,642	55,441	-	-	222,083	20,264	8,869	178	29,311	(121,937)	411,927	
Income from lease agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	5,310	-	7,812	13,122	-	13,122	
Income for lease agreements	-	-	-	-	-	-	-	-	-	-	-	-	-	252	-	-	252	13,428	13,680	
Commodities derivatives	(1,773)	-	(6,566)	(57)	3,159	(57)	(5,237)	-	-	(11,239)	(1,253)	-	(12,492)	-	-	-	-	2,067	(15,662)	
Total	6,048,385	2,791,914	956,146	373,114	461,551	(262,215)	10,368,895	913,754	329,999	543,686	31,451	109,975	128,346	2,057,211	1,110,584	639,771	2,101,128	2,682,082	6,533,565	17,586,623

15. INCOME TAX

In accordance with IAS 34: "Interim financial statements", the income tax calculation in the consolidated income statement for the six-month periods ended 30 June 2019 and 2018 are based on the best estimate of the expected tax rate for the corresponding periods.

The table below sets forth the determination of the expense accrued by Income Tax in the six-month periods ended June 30, 2019 and 2018, which is as follows:

Thousands of Euros	06.30.2019	06.30.2018
Profit for the year from continuing operations before tax	2,404,143	2,010,647
Profit for the year from discontinuing operations before tax	(27,775)	(43,074)
Consolidated profit before tax	2,376,368	1,967,573
Non-deductible expenses and non-computable income	(90,669)	(88,875)
Profit of equity-accounted investees	(11,562)	(25,296)
Adjusted accounting profit (a)	2,274,137	1,853,402
Gross tax calculated at the tax rate in force in each country (b)	565,212	469,258
Tax deductions due to reinvestment of extraordinary profits and other tax credits (c)	(49,473)	(29,227)
Adjustment of prior years' income tax expense	(3,705)	(236)
Adjustment of deferred tax assets and liabilities	26,286	(36,455)
Other	5,159	(1,881)
Accrued income tax (Income) / Expense	543,479	401,459
Accrued income tax from continuing operations (Income) / Expense	545,543	412,268
Accrued income tax from discontinued operations (Income) / Expense	(2,064)	(10,809)
Effective tax rate (b+c)/a (1)	22.68%	23.74%

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 the risk of a potentially unfavourable decision for Iberdrola is probable, whereas no recognition is required when the risk is possible or remote.

Undergoing tax inspections for the six-month period ended on 30 June 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 the case of Spain, there is no general tax inspection in place. However, during this period several partial assessments have been completed, with the signing of minutes in conformity and disagreement. In the case of agreed tax assessments, the Group has had to settle no material amounts, whereas in the case of contested tax assessments, the balance was zero.

In the other countries there are several tax inspections going on, but no relevant adverse outcomes are expected.

Regarding litigation, at present IBERDROLA is awaiting a decision from the Central Administrative Economic Court for complaints lodged as a result of disagreement signed as part of the general verification process for 2008-2011.

As a general rule, no significant tax litigation is currently ongoing in the other jurisdictions where the Group operates with the exception of 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.

The IBERDROLA Group's directors and its tax advisors consider that no significant liabilities in addition to those already recognised at 31 December 2018 will arise for the Group from the settlements confirming the contested assessments.

16. ASSET IMPAIRMENT CHARGES AND REVERSALS

At least at the closing of every accounting year, the IBERDROLA Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if necessary. 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.

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

"Amortisation, depreciation and provisions" in the consolidated income statement for the six-month periods ended on 30 June 2019 and 2018 include impairment provision allowances and reversals of Euros 6,584 thousand and Euros 15,654 thousand, respectively.

17. CONTINGENT ASSETS AND LIABILITIES

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

In relation to said disputes, IBERDROLA Group's main contingent assets and liabilities yet to be recognised in these condensed interim financial statements for they do not meet the criteria set in accounting standards are:

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, Tajo 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 in the Central Economic-Administrative Court derived from the minutes of disagreement signed 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, as the taxation authorities consider 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 in the *International Centre for Dispute Resolution (ICDR)* of the *American Arbitration Association (AAA)* for breach due to the undue termination of a contract and other claims. Moreover, said client is claiming certain amounts resulting from delay penalties and other damages from IEP. Currently the proceeding is at the documentation presentation stage. The hearing is scheduled for March/April 2020.

In February 2019 the client executed the guarantee for 100% of its value (US dollar 141 million). The amount paid has been recognised in "Trade and other non-current assets" in the consolidated financial position at 30 June 2019 because it is considered probable to recover the amount from the counterparty in the event the outcome is favourable or to offset it with the amount to be paid, in the event of an unfavourable outcome.

- In April 2018 the contractor in charge of the electrical assembling of the Salem Harbor project initiated an arbitration in the ICDR of the American Arbitration Association (AAA) against IEP claiming damages resulting from unpaid works, interferences and delays. IEP has filed a counter-claim in said arbitration. The hearing is scheduled for October/November 2019.
- 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 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 personnel of NEOENERGIA Group companies or by former subcontractors 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.
- failing to make income tax withholdings on interest payment on treasury capital between group companies,
- questioning tax credits related to consumption tax (ICMS) in Celpe and Elektro.
- the taxation 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 the tax deductibility of goodwill (agio) 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.

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

FERC dismissed the claim and, following a review by the Californian courts, the Supreme Court ordered FERC to review the case, which had remained dormant since 2008. In April 2016, following the reopening of the 2014 case, an initial ruling was issued that dismissed any market manipulation by Avangrid Renewables, but the initial ruling did conclude that price of the energy purchase contracts imposed an excessive burden on customers in the amount of Pound sterling 259 million. FERC recommended filing the case without sanction. Following these proceedings, FERC is expected to issue a final ruling in 2019 and its decision may be appealed in the courts. The IBERDROLA Group expects that the case will eventually be shelved without any penalty.

- In October 2017 a report drafted by the Environmental Defence Fund (EDF) was made public alleging that certain Avangrid and Eversource subsidiaries that provide gas transportation services engaged in pipeline capacity scheduling practices that resulted in artificially increased electricity prices in New England. Consequently, various investigations were undertaken both at administrative (state and federal regulators) and judicial level. In particular, two class actions have been filed:
 - Breiding et al. v. Eversource and Avangrid: Class Action Regarding LDC Gas Transportation Service on Algonquin Gas Transmission (AGT), presented on 16 November 2017. The plaintiffs assert claims under federal antitrust law, state antitrust, unfair competition and consumer protection laws, and under the common law of unjust enrichment. They seek damages, disgorgement, restitution, injunctive relief, and attorney fees and costs. In view of FERC's report on the investigation, that found no evidence of anticompetitive withholding of natural gas pipeline capacity by the Company and stated that the EDF Report was flawed, the Court granted the Company's Motion and dismissed all claims accepting the Massachusetts District Court our claims. On January 29, 2019, the plaintiffs filed a brief in support of appeal and on April 26, 2019 the Company and Eversource filed a joint brief in opposition. On May 17, 2019, the plaintiffs filed a reply to the opposition. The Company cannot predict the outcome of this matter.
 - PNE Energy Supply LLC v. 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 September 28, 2018, the Company filed a Motion to Dismiss all of the claims based on the results of the FERC staff inquiry, and the result of the Breiding complaint, among other. The plaintiffs filed an Opposition to Motion to Dismiss on June 7, 2019, and the District Court dismissed all claims. On July 3, 2019, the plaintiffs filed a notice of appeal. The Company cannot predict the outcome of this matter.

Additionally, as part of the ordinary business of 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 yet been cleaned. Lastly, in some cases, the extent of the pollution has not yet been determined. For the latter, at 30 June 2019 no provisions have been recognised as the reasonable cost of the regulators' intervention and approval cannot be estimated. In the past, gas companies have received approval to recover expenses associated with cleaning from customers through rates and IBERDROLA 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 2018 consolidated annual accounts of the IBERDROLA Group.

18. REMUNERATION RECEIVED BY THE BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration received by the board of directors and senior management for the six-month periods ended on 30 June 2019 and 2018 are as follows:

a) Remuneration of the Board of Directors

Details of remuneration and other benefits received by the directors in the six-month periods ended 30 June 2019 and 2018 are as follows:

Thousands of Euros	06.30.2019	06.30.2018
Remuneration for belonging to the Board and/or to Board Committees	2,751	2,649
Fixed remuneration executives	1,625	1,625
Variable remuneration executives	4,250	3,798
Other ⁽¹⁾	225	65
Total	8,851	8,137

⁽¹⁾ Under the same conditions of other members of the board in companies that are not wholly owned, directly or indirectly, by the Company and in accordance with the Directors Remuneration Policy approved by the shareholders at their General Meeting held on 13 April 2018, members who have held the position of director in said companies the remuneration will be subject to their corporate governance rules. In the first half of 2019 the remuneration received is Euros 151 thousand, whereas in the first half of 2018 there was no remuneration.

Additionally, in the first six-month period of 2019, the third and final annual payment of the Strategic Bonus 2014-2016 was made, amounting to 631,528 shares, the same amount as in the year before.

On the other hand, the premium paid to cover directors' Civil Liability Insurance amounted to Euros 36 thousand and Euros 34 thousand in the first half of 2019 and 2018, respectively.

b) Remuneration to senior management

Senior managers are those who answer directly to the Company's board of directors, its chairman or the CEO and, in any case, the internal audit director, as well as any other senior manager recognised by the board as such.

On 30 June 2019 the Company has 9 senior managers personnel.

Remuneration and other compensation received by senior management in the first six-month periods of 2019 and 2018 are detailed below:

Thousands of Euros	06.30.2019	06.30.2018 (*)
Fixed remuneration	2,514	2,614
Variable remuneration	5,233	4,436
Provision plans (savings and risk)	1,137	1,065
Other ⁽¹⁾	741	191
Total	9,625	8,306

(*) For comparison purposes, information regarding members who hold this qualification from 1 January 2019 (4 members) has been included.

(1) Under the same conditions of other members of the board in companies that are not wholly owned, directly or indirectly, by the Company and in accordance with the Directors Remuneration Policy approved by the shareholders at their General Meeting held on 13 April 2018, members who have held the position of director in said companies the remuneration will be subject to their corporate governance rules. In the first half of 2019 the remuneration received is Euros 539 thousand, whereas in the first half of 2018 there was no remuneration.

Additionally, in the first six-month period of 2019, the third and final annual payment of the Strategic bonus 2014-2016 was made, amounting to 418,340 shares, the same amount as in the year before.

During the first half of 2019 and 2018 there were no other transactions with executives outside the normal course of business.

19. RELATED PARTY TRANSACTIONS AND BALANCES

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

The most significant related party transactions in the six-month periods ended 30 June 2019 and 2018 are as follows:

Thousands of Euros	Six-month period ended 06.30.2019				Total
	Significant shareholders ⁽¹⁾	Directors and executives ⁽²⁾	Group persons, companies and entities	Other related parties ⁽⁴⁾	
Expenses and income					
Finance costs	-	-	25	-	25
Services received	-	-	585	16,097	16,682
Purchases	-	-	133,393 ⁽⁶⁾	1,535	134,928
Total expenses		-	134,003	17,632	151,635
Finance income	25 ⁽⁵⁾	-	32	34	91
Services rendered	-	-	1,025	-	1,025
Sales	-	-	14,744	597	15,341
Total income	25	-	15,801	631	16,457
Other transactions					
Purchase of tangible, intangible and other assets	-	-	106	119,141	119,247
Dividends and other distributed profit ⁽³⁾	2,766	79	-	-	2,845
Six-month period ended on 30.06. 2018					

Thousands of Euros	Significant shareholders Shareholders ⁽¹⁾	Directors and executives ⁽²⁾	Group persons, companies and entities	Other related parties ⁽⁴⁾	Total
Expenses and income					
Finance costs	-	-	7	-	7
Services received	-	-	1,038	6,401	7,439
Purchases	-	-	7,654	754	8,408
Total expenses	-	-	8,699	7,155	15,854
Finance income	91 ⁽⁵⁾	-	33	3	127
Services rendered	-	-	1,613	-	1,613
Sales	-	-	13,151	427	13,578
Total income	91	-	14,797	430	15,318
Other transactions					
Purchase of tangible, intangible and other assets	-	-	27,904	54,997	82,901
Dividends and other distributed profit ⁽³⁾	2,766	275	-	-	3,041

At 30 June 2019 and 2018 the balances of the related parties were as follows:

06.30.2019					
Thousands of Euros	Significant shareholders(1)	Directors and executives ⁽²⁾	Group persons, companies and entities	Other related parties ⁽⁴⁾	Total
Trade and other receivables	-	-	2,008	416	2,424
Loans and credit facilities	-	-	9,544	-	9,544
Other receivables	-	-	6,533	2,122	8,655
Total payables	-	-	18,085	2,538	20,623
Trade and other payables	-	-	34,574	86,347	120,921
Other payables	-	-	91,303	7,557	98,860
Total receivables	-	-	125,877	93,904	219,781

06.30.2019					
Thousands of Euros	Significant shareholders(1)	Directors and executives ⁽²⁾	Group persons, companies and entities	Other related parties ⁽⁴⁾	Total
Trade and other receivables	-	-	5,293	86	5,379
Loans and credit facilities	-	-	4,824	-	4,824
Other receivables	45,365 ⁽⁵⁾	-	8,468	545	54,378
Total payables	45,365	-	18,585	631	64,581
Trade and other payables	-	-	82,569	-	82,569
Other payables	-	-	74,138	39,370	113,508
Total receivables	-	-	156,707	39,370	196,077

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

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

At the date of issue of these financial statements only Qatar Investments Authority meets this condition, so the amounts for the six-month period ended 30 June 2019 and 2018 reflect transactions with this shareholder.

(2) Refers to transactions other than those in Note 18.

- (3) Amounts recorded as dividends and other profit distributed in the first half of 2019 and 2018 correspond to the scrip dividend scheme and the General Shareholders Meeting attendance fee received if applicable.
- (4) Transactions with other related parties include transactions carried out with the Gamesa Group.
- (5) Corresponds to income from cash placed in Qatar National Bank by Scottish Power, Ltd. At 30 June 2019 there are no active cash placements. At 30 June 2018 a balance of £40 million (Euros 45,365 thousand) had been placed. This placement was made on 29 June and matured on 5 July 2018.
- (6) Correspond mainly to electrical energy purchases.

20. EVENTS AFTER 30 JUNE 2019

After 30 June 2019 and up until the date these financial statements were authorised for issue, the following relevant subsequent events have taken place:

Iberdrola Scrip Dividend (Iberdrola retribución flexible)

On 2 July 2019, the facts in relation to the implementation of the first paid-up capital increase (Iberdrola flexible dividend) approved IBERDROLA shareholders at their General Meeting on 29 March 2019, under item 8 of the agenda, were determined and were as follows:

- The maximum number of shares to be issued under the capital increase is 145,116,279.
- The number of free allocation rights required to receive one new share is 43.
- The maximum nominal value of the capital increase amounts to Euros 108,837,209.25
- Gross dividend amount per share was Euros 0.200.

Financing transactions

Borrower	Transaction	Million	Currency	Interest rate	Extension option	Maturity
Main new financing transactions						
Iberdrola Financiación, S.A.U.	EIB green loan	145	EUR	(a)	n.a.	Upon drawing
Iberdrola Financiación, S.A.U.	ICO green loan	140	EUR	(a)	n.a.	July-28

- (a) The interest rate applicable to loans corresponds to market interest rates.

21. 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 1

INDUSTRY REGULATION AND FUNCTIONING OF THE ELECTRICITY AND GAS SYSTEM

In the first half of 2019 a set of rules affecting the energy sector were passed. This section lists the most significant changes.

Regulation in Spain

Spanish electricity sector

Powers of the National Commission of Markets and Competition (CNMC): Royal Decree-Law (RDL 1/2019) has been published, which transfers powers to the CNMC to establish the process of remuneration, tolls and the conditions of access to electricity and gas transmission and distribution networks, from the next regulatory period (2020). It will also set the rate of return for networks although by law it will be possible to set a maximum limit for each tariff period. If it is not set, the maximum rate will be the current rate (6.5% for distribution).

The Government retains competence in other regulated activities (renewables and islands) and in setting access fees, the PVPC (Voluntary Price for the Small Consumer), and it may establish energy policy guidelines for the CNMC.

Quality of supply in Extremadura: the Government of Extremadura published Decree-law 1/2018 setting more restrictive quality values than the state regulations for rural areas.

Transmission Planning 2021-2026: Order (TEC/212/2019) was published which begins the process of planning the transmission network for the 2021-2026 period, as a continuation of the current 2015-2020 Planning. Those affected have three months to submit justified proposals for developing the transmission network and other relevant information to the system operator (SO) and the Deputy Director-General of Energy of MITECO (Ministry for Ecological Transition). On the basis of this information, the SO will develop the initial proposal for developing the transmission network within an additional six-month period.

Energy Efficiency: Order (TEC/332/2019) establishing the financial contributions to the National Energy Efficiency Fund for 2019 was published. The annual contribution is set at Euros 203 million, similar to that of previous years, for sales of 817 TWh, which represents an amount of approximately €0.25/MWh of electricity, gas or oil product. The quota calculated for IBERDROLA is 7.6%, on sales of 62.3 TWh (electricity and gas sales by Iberdrola Clientes, S.A.U. and Iberdrola Comercialización de Último Recurso, S.A.U. in 2017) and the payment obligation is approximately Euros 15.5 million, which means an increase of Euros +0.3 million in respect of the previous year, for a higher growth in our energy sales in relation to the overall system.

Territorial supplements: Order (TEC/271/2019) establishing territorial supplements for 2013 applicable to the eleven autonomous communities pending rebilling and the settlement of the amounts collected was published. The territorial supplements are taxes and fees set by the autonomous communities on electricity activities which, by virtue of the provisions in force in 2013, should have been rebilled to users.

The Supreme Court (Tribunal Supremo or TS) recognised the right of utilities to recover these supplements through rebilling to users. The former government delayed this proceeding. Therefore in January 2017 the rebilling of these supplements in four autonomous communities (Castilla La Mancha, Cataluña, La Rioja and Comunidad Valenciana) was approved and in January 2018 a procedure was put in place for taxpayers to prove before the Ministry that they had paid said taxes in the remaining autonomous communities.

Integrated National Energy and Climate Plan: the government has published a draft national plan defining the objectives for reducing greenhouse gas emissions, renewable energy penetration and energy efficiency to meet the European targets set for 2030, by subjecting it to a

public consultation until 22 March. The new government is required to send the final plan to Brussels in December.

Reference retailer margin (COR): the Supreme Court dismissed the appeal against the COR margin filed by IBERDROLA (new methodology published by royal decree in late 2016). It alleges that the government has a margin of decision and that there was no violation of the legal framework. It also states that it is not competent to assess whether the amounts are suitably calculated or not. Finally, it opens the door to the inclusion of the cost of funding the rate subsidy, and considers that the COR should not bear the costs arising from re-invoicing financial years 2014, 2015 and 2016, so that it can recover those costs.

Self-consumption: Royal Decree 244/2019 was published, regulating the administrative, technical and economic conditions of self-consumption, and the implementation of Royal Decree-Law 15/2018 (October 2018), which already removed charges and the requirement of metering generation.

The royal decree removes all limits of representation (for the dominant operators) for any installation with self-consumption from renewable energy sources. In addition, it develops the definition of nearby facilities for the purposes of self-consumption, develops collective self-consumption, enables remuneration of surpluses, allows for different owners of production and consumption facilities, simplifies administrative procedures for smaller size facilities, and establishes that revenue obtained by distribution companies for reactive power will be taxable income.

Distribution remuneration: the Ministry has published an order which modifies (to include the Supreme Court ruling on the lambda parameter) the order which in 2015 set unit values for distribution and remuneration for 2016 onwards. This new ministerial order would enable modifications of the 2016 remuneration, also increasing the calculation basis for the final remuneration for later years, still pending publication. The implementation of this parameter would involve around Euros 130 million per year for the sector.

2012 and 2013 incentive losses: a resettlement of losses incentive of I-DE Redes Eléctricas Inteligentes, S.A.U. (formerly Iberdrola Distribución Eléctrica, S.A.U. was published for 2012 and 2013 (corresponding to remuneration for 2014 and 2015) as a consequence of the ruling handed down by the Supreme Court in 2017, resulting in a charge of Euros 4.9 million to IBERDROLA, plus interest. This amount will be charged with the closing settlement, before 30 November 2019.

Renewables Revenue: an order was published revising the revenue from operations in the second half of 2018 from renewable sources, cogeneration and waste (RECORE) that use fuels (biomass, cogeneration, waste). In the fourth quarter of 2018, the parameters continue to include the *céntimo verde* (tax on natural gas) and a 7% tax on generation, in contrast to the indications of Royal Decree-Law 15/2018 (its application will reduce the costs to the system), which is pending review.

Regulation in the United Kingdom

EU-ETS: in light of the development of Brexit, for the moment, the European Commission has suspended the processes related to the United Kingdom in the EU-ETS Union Registry from 1 January 2019.

Cap Retail: On 7 February, Ofgem announced the cap for the second period (from 1 April to 30 September). The limit for dual customers (gas and electricity) who pay by direct debit increased by £117, up to £1,254 per year; and for customers with prepaid meters, it increased by £106, up to £1,242 per year. The most important aspect of the increase (which is £74) is associated with rising energy costs in the market. In addition, Ofgem decided to retain the item allocated to recover the costs of the Capacity Market (CM). This is due to the fact that the Secretary of State

for Business, Energy and Industrial Strategy (BEIS), subject to the European Commission's re-approval of the CM, would guarantee payments from the CM to generators with capacity contracts.

On 7 June the CMA issued an interim decision on the review of the cap methodology for customers with pre-pay meters, with the intention of streamlining this method with the Ofgem Tariff Cap (which sets the cap for standard variable tariffs, SVT). It also recommends that Ofgem continue to limit prices for prepay customers beyond the end of 2020 (when the application of the CMA cap finishes), until the deployment of smart metering is almost completed.

Ofgem has also published a consultation document with its proposal to assess whether conditions have been met to ensure effective competition in the retail energy market and to recommend maintaining the cap on standard rates or not (Ofgem should make an annual recommendation from 2020).

Market capacity: the T-1 auction was held on 11 and 12 June (to substitute the one that should have taken place in early 2019), subject to the European Commission's re-approval of the Market Capacity, closing with a price of £0.77 per kW/year with 3.6 GW of capacity.

The government has approved new regulations to allow retailers to make regular and voluntary payments to the *Electricity Settlement Company*, for the capacity payments that are currently suspended (compensation against potential liabilities), to facilitate capacity payments to the generators once the Market Capacity suspension is lifted by the European Commission.

Furthermore, BEIS consulted regarding the changes needed to facilitate holding a T-3 auction to deliver capacity in 2022/23 (replacing the T-4 auction which could not be held) and which will probably take place in late 2019 or early 2020.

RIIO-2: on 24 May 2019 Ofgem published its Electricity Sector Specific Methodology Decision for gas and electricity transmission, confirming a change to the RPI (Retail Price Index) and to the inflation index of reference, the CPIH (Consumer Price Index including housing costs), and updating the estimated range of the annual real post-tax Cost of Equity 4–5%. The Ofgem decision envisages a 60% leverage. The final values will be set in 2020. SPEN presented its draft RIIO-T2 Business Plan to the Ofgem Challenge Group (responsible for the first review) before 1 July.

Re-nationalisation of the electricity sector: following the publication of the consultation of the Labour Party, *Democratic Public Ownership*, which sets out general principles for the renationalisation of different sectors (water, Royal Mail, railways and power grids), Labour published a document, *Bringing Energy Home*, with more details of their plans for the energy sector. This document envisages an energy sector with new national, regional, municipal and local institutional structures.

Offshore Wind Power: on 1 May BEIS published the parameters at the end of the *Contract for Difference* (CfD) auction for less mature technologies (including offshore wind). The general budget increased from £60 million to £65 million (prices for 2011/12) for delivery years 2023/24 and 2024/25 and maintained maximum capacity of 6 GW to be awarded. The period for the submission of bids was from 29 May to 18 June.

Further, on 7 March, BEIS published the Offshore Wind Sector agreement intending to install up to 30 GW of offshore wind energy for 2030.

Regulation in the United States

PTC/ITC: the continuity of some tax credits that expire at the end of 2019 is being discussed. On 20 June, the House Ways and Means Committee submitted a bill to extend the PTC (Production

Tax Credit) for wind energy for a year. The solar industry is also calling for an extension of its ITC (Investment Tax Credit).

Offshore: the House Committee on Transportation and Infrastructure submitted a draft law to reauthorize the Coast Guard which requires expansion of the Jones Act (federal law that regulates maritime trade in the USA and which requires goods between US ports to be transported by boats which have been built by, are operated by and belong to United States citizens or permanent residents) to include installation vessels used for platforms on the high seas, unless they receive an exemption.

Affordable Clean Energy: the EPA (*Environmental Protection Agency*) has terminated the Clean Energy Plan (*Clean Power Plan*, CPP) and issued the *Affordable Clean Energy* (ACE) plan which has no emissions reductions targets. The ACE requires the development of plans that incorporate efficiency improvements to coal-fired power plants.

PHMSA: the current authorisation of PHMSA (*Pipeline and Hazardous Materials Safety Administration*) expires on 30 September 2019. Congress and the Administration are reviewing proposals to re-authorise the Agency and its programs. On 26 June a subcommittee within the House Committee on Energy and Commerce voted to approve a bill to reauthorize PHMSA. The final bill will be a compromise among a number of House committees and the Senate.

Tariffs: tariffs on Chinese products include a 25% first round quota on US dollar 50,000 million in Chinese products; a second round, already effective, of 25% of \$200,000 million in products; and a process for imposing tariffs of 25% on almost all remaining Chinese imports (US dollar 325,000 million in goods). Solar panels and cells are subject to a 25% tariff, which will be reduced in the next two years and excludes the first 2.5 GW of imports each year. On 12 June, the Office of the United States Trade Representative (USTR) granted a tariff exemption for bifacial solar modules that can absorb sunlight on both sides.

The Government also imposed 25% and 10% tariffs on steel and aluminium imports, respectively, though Canada and Mexico are now exempt.

Emissions Reductions and the RPS: following California, the District of Columbia, Massachusetts, Connecticut and New Jersey approved increases to their RPS (*Renewables Portfolio Standard*) in 2018.

In the first half of 2019, Colorado, Connecticut, Maine, Maryland, Nevada, Oregon and Washington passed laws that increase RPS requirements, impose significant targets to reduce CO₂ emissions and/or the direct acquisition of substantial amounts of offshore wind energy.

In Washington, the law on CO₂ emissions reductions included a partial exemption from the renewable energy sales tax.

For their part, Utah legislators approved a bill to allow cities and counties to acquire 100% renewable energy for customers in their jurisdictions. Oregon lawmakers approved revisions to state laws on sites locations, allowing the counties to consider more requests for wind and solar energy rather than the state location advisory.

Regulation in Mexico

Industrial electricity rates for basic supply: for commercial and industrial customers, the progressive application of the new electricity rate continues based on the methodology presented in November 2017 by the Energy Regulatory Commission (CRE - Comisión Reguladora de Energía). Agreements published by the CRE at the end of 2018 extended the validity of the methodologies for calculating the regulated components of the tariff, as well as updating the adjustment methodology of these due to changes in generation costs. In the first months of 2019 there were no significant variations to the tariff month to month, moving within a band of 3%. For their part, domestic customers continue to remain subject to the methodology prior to the

electricity reform (integrated tariff) and it is not known when this customer profile will migrate to the new tariff scheme.

Electricity Balancing Market (EBM): like every year, the EBM took place on the last day of February for the three interconnected systems in the country. For the first time the critical hours (hours in which recognition and demand of the participants is based) were the lowest generation reserve levels instead of those of most demand.

Long-Term Auctions (LTA): in January 2019 the Energy Secretary cancelled the auction convened in March 2018 and suspended in November 2018. The letters of credit submitted by interested parties were released by the National Energy Control Center (CENACE) within the deadlines.

National Electricity System Development Program 2019–2033 (PRODESEN): on 31 May, Mexico's Ministry of Energy (SENER) published the National Electricity System Development Program 2019–2033 which details annual planning with a 15-year horizon. It includes Programs for Expansion and Modernisation of the transmission and distribution networks, as well as the Indicative Program for the Installation and Removal of Electrical Power Plants (PIIRCE). Subsequently, on 17 June, the Productive Enterprise Subsidiary (EPS) of Distribution of the CFE published the expansion and modernisation programme (PAM) for the General Distribution Networks for 2019–2033, incorporating relevant aspects in the PRODESEN. The programme reflects the needs of electricity distribution in relation to electrical infrastructure, including the technical analysis of projects.

In addition, on 17 June, the CENACE published the expansion and modernisation programme of the National Transmission Network and General Distribution Networks 2019–2033. It includes detailed information on the existing electrical system, power station projects, load centres and electricity networks which will come into operation on specific dates. It also contains a demand forecast and projects for the expansion and modernisation of the National Transmission Network and General Distribution Networks which are part of the Wholesale Electricity Market.

Power: sanctions for non-compliance: on 10 April the CRE published in the Official Gazette of the Federation an Agreement by which the Energy Regulatory Commission issued the criteria for imposing sanctions resulting from non-compliance with the acquisition of electricity through electricity coverage contracts or the electricity balancing market. The document sets out the criteria to consider in calculating penalties if suppliers fail to comply with the obligation to have signed contracts for electricity coverage to 31 December of each year, and the failure of a participant in the electricity balancing market not to cover their net power obligation by not having a guaranteed payment amount to support their purchase offer.

Fourth Annual Review of the Five-Year Expansion Plan SISTRANGAS 2015–2019: on 14 October 2015, the Energy Department issued a proposal of the National Control Center for Natural Gas (CENAGAS), a Five-Year Expansion Plan of the National Integrated Natural Gas Transportation and Storage System (SISTRANGAS). In addition to system planning, the plan includes social coverage projects and others SENER considers strategic to ensure efficient development. Every year, CENAGAS and SENER issue a revision; the fourth and final revision to the current plan was published on 31 March 2019. The fourth review contains an assessment of the plan's objectives throughout the validity period. The paper considers that the main obstacles to achieving the objectives were delays to the construction of CFE pipelines, as well as the drop in the domestic natural gas supply.

Currently, CENAGAS is in the process of developing the second Five-Year Expansion Plan for 2020–2024.

Reliability: activation of the CENACE Corrective Protocol: on 22 March CENACE gave notification in the Market Information System (SIM) of the activation of the Corrective Protocol in the Baja California Electricity System. The purpose of the protocol is to contract power and energy

for the period from 1 May to 30 September 2019. This protocol will be governed by the CRE A/073/2015 agreement, which indicates that CENACE will determine whether the costs of contracting electricity and its associated products will be shared by all suppliers and qualified users or, if the costs will be allocated to suppliers or qualified users whose failure to meet their electricity obligations has led to the need for CENACE to manage electricity contracting.

The deadline for receiving bids was extended to 23 April. Subsequently, on 28 May CENACE published the Sales Contract Model associated with the Protocol. The results were not published in the SIM but the offers selected by CENACE were notified. IBERDROLA decided not to present a bid.

Regulation in Brazil

Cross-over issues

Improvement of the rules on sanctions: Normative Resolution No. 846/2019 introduces greater rigor and severity regarding sanctions: it includes new types of sanctions and more types of behaviour subject to sanction. It included fines relating to the exposure of people to electrical and electromagnetic fields, obligations relating to the declaration of public utility and provisions relating to the safety of hydroelectric dams. It determines cases for which the holder is suspended from the right to participate in tenders.

Gas market: Resolution No. 016/2019 of the National Council of Energy Policy (CNPE). In April 2019 the Government launched the New Gas Market programme with the aim of improving competitiveness in the sector. The programme pillars are to promote competition, harmonise state and federal regulations, the integration of the electricity and industrial sectors and the elimination of fiscal barriers. The Committee for the Promotion of Competition in the Natural Gas Market was also established with the aim of presenting proposals within 60 days.

As part of this initiative, Resolution 16/2019 of the CNPE was published on 26 June 2019 establishing guidelines to liberalise the natural gas market, which include:

- Sale of Petrobras shares in natural gas transport and distribution companies, allowing the effective separation of transport and distribution of those activities with free competition of production, exploitation and trading of natural gas.
- Conditions for effective access to gas pipelines and essential infrastructures.
- Reduction by Petrobras of the use of each entry and exit point in the transport systems, allowing the liberalisation of access capacity for new agents.
- Implementation of natural gas liberalisation programmes to reduce the market concentration.

The Ministry of Mines and Energy, in coordination with the Ministry of Economy; the Brazilian National Agency of Petroleum, Natural Gas and Biofuels (ANP); the Energy Research Company (EPE) and the Administrative Council for Economic Defense (CADE) will monitor the implementation of the actions with the obligation of providing additional and complementary measures to the CNPE if necessary.

Generation

Calendar of auctions for new generation: Ordinance No. 151 was published on 1 March by which the Ministry of Mines and Energy (MME) established the auctions to be held in the three-year period 2019–2021.

New Energy Auctions	2019	2020	2021
A-4	27 June	23 April	29 April

A-6	26 September	24 September	30 September
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2019 A-4 Auction: on 4 April the Ministry of Mines and Energy published Ordinance No. 186/2019, with the guidelines for conducting the 2019 A-4 auction involving wind, photovoltaic, mini-hydro and biomass technologies. Power purchase agreements traded at this auction provide for the start of delivery in January 2023 and may be of the following types:

- By quantity and with a 30-year supply for hydroelectric projects.
- By quantity with delivery time of 20 years for wind projects and photovoltaic systems (this is the first time that photovoltaic agrees with contracts by quantity).
- By availability and 20-year supply for biomass projects.

The auction was held on 28 June and 401 MW were contracted (average 81.1 MW-165 MW physical guarantee) at an average price of BRL 51.15 per MWh. The predominant technologies were photovoltaic: 253.6 MW at an average price of BRL 67.48 per MWh and wind power: 95.2 MW at an average price of BRL 79.99 per MWh.

A-6 auction in May 2019: the Ministry of Mines and Energy published Ordinance No. 222/2019, with guidelines to conduct the 2019 A-6 auction. Subsequently, on 16 May ordinance 226 was published delaying the date of registration for participating projects and setting the auction for 17 October 2019.

Power purchase agreements traded at this auction provide for supply to begin on 1 January 2025 and may be of the following types:

- By quantity and with a 30-year supply for hydroelectric projects
- By quantity with a 20-year delivery time for wind projects and photovoltaic systems.
- By availability and 20-year supply for biomass projects, national coal and natural gas (includes open cycle, combined cycle and expansion of existing natural gas projects)

In accordance with the EPE, 100 GW (1,829 projects) were registered on the supply side, the largest amount recorded at an auction in Brazil, 41.7 GW was natural gas, 29.7 GW photovoltaic and 25.1 GW wind power.

Commercial operation of Baixo Iguaçu: in April, Agência Nacional de Energia Elétrica (National Electrical Energy Agency) (ANEEL) published Release No. 1,037/19 authorising the commercial operation of the last generator unit of this hydroelectric power plant. In total Baixo Iguaçu consists of three units, totalling 350.2 MW of installed power (average 172.40 MW of physical guarantee).

Networks

Gradual elimination of subsidies from the electricity rate: Decree No. 9,744 was published 4 April, addressing the accumulation of subsidies granted to irrigation and agriculture. This decree eliminates the possibility of one consumer having more than one subsidy in the electric rate. Background: Decree 9,642 was published on 28 December 2018 establishing the gradual reduction of electricity rate subsidies to the agriculture and irrigation sectors and to sanitation companies over a five-year period until their total elimination. The text also eliminated the accumulation of discounts granted to these sectors. Under pressure from the rural sector in April 2019 the government suspended this decree.

Coelba authorised to hold a public tender for distributed energy contracting: ANEEL Order 2,947 published 19 December 2018, authorised Coelba to call a public tender to contract distributed energy for a two-year term, being mandatory the technical and economic bases for selecting that generation source, its delivery point and start of supply. The purpose of this

measure is to help the quality of the energy supply in the western region of the state of Bahia. The auction was held in March 2019 and Coelba contracted an average 20 MW from Sykué Bioenergia.

In ANEEL Technical Note No. 71/2019 published on 31 May, the regulator concludes that the cost of purchasing distributed power from Sykué Bioenergia may only be transferred at Coelba consumers' rates at the end of the oversight process established in Order 2,947/2018. Until that time, Coelba consumers should only pay for the cost of purchasing power the equivalent cost of the value at which the distributor might have acquired the energy under the Compensation Mechanism for Surpluses and Deficits of new energy (*MCSD de Energia Nova*) (BRL 183.74 per MWh) instead of the value defined in the contract signed with Sykué which is BRL 557.88 per MWh. Coelba sent a letter to ANEEL on 10 June disagreeing with the technical note and requesting a guarantee in order to continue contracting energy in the terms of Order 2,947/2018.

Tariff flags: Resolution No. 2,551 of 21 March 2019 sets out the additional costs for each flag applicable from 1 June:

- Yellow flag: BRL 15 per MWh
- Level 1 red flag: BRL 35 per MWh
- Level 2 red flag: BRL 60 per MWh

Celpe appeal for the recalculation of energy overcontracting from years prior to 2015: ANEEL Order No. 662/2019 recognises the appeal filed by Celpe in reference to revision of the rate for recalculating the overcontracting of energy from years prior to 2015 in Celpe's annual rate adjustment process for 2018. In the appeal, Celpe stressed the existence of an error concerning the year 2014 due to incorrect calculation of the Settlement Price (PLD). ANEEL analysed the claim and found that there was an error in the procedure. The Technical Secretaria General verified that the orders should have been considered in calculating the energy purchase and not in the calculation of the overcontracting. The effect of the adjustment involves a variation of BRL 9 million that must be considered a financial component in the 2019 rate process. This amount must be updated with the SELIC rate.

Early repayment of the loan to distributors (Order No. 871/2019): on 20 March ANEEL published order No. 871/2019 to anticipate early repayment of the loan granted to distributors to cover its involuntary exposure in the 2014 short-term market. It was included in the electricity rate to regulated customers connected to the national system. The amount paid by the rate is entered into a sectoral account (Conta ACR). The final repayment and cancellation of the loan will be moved ahead to September 2019. It was initially planned for April 2020 and will lead to a reduction of the average rate by 3.7% in 2019 and 1.2% in 2020.

Precautionary measures granted to the distributors by exempting them from the effects of the black-out of 21 March 2018 on their quality indices: on 28 August, ANEEL published Order No. 1,862/2018, which denied the distributors' request not to consider this incident in their quality indices. On 28 March 2019 the distributors obtained an interim measure exempting them from the effects of the incident until it is tried by the court. However, there is a possibility of ANEEL reversing this measure by means of a tort.

Reference prices for tariff reviews for power transmission: the 19 February resolution 2,514/2019 approved new values for the ANEEL Bank of Reference Prices to be used in the processes of authorisation, tendering, allocation of concessions and review of the annual income allowed for power transmission concessions. The main impacts are:

- In transmission lines: reduction of the more expensive assets by 18% and an increase to services in similar proportions. The net effect is of little significance.
- In substations: 35% reduction of the more expensive assets and substantial growth of services (more than 100% in some cases).

In general there was a 22% reduction in the equipment modules and 35% in the connection modules.

Annual allowed income (RAP) for power transmission concessions: on 14 June 2019 Resolution No. 2,556 was published which approved the results of the periodic review of the transmission concessions which should be revised from 1 July 2019. It affects two concessions of Neoenergia: Potiguar Sul revenue of which rises by 1.67% and SE Naranhã, the revenue for which declines by 5.1% to adapt the values of the revision of 2014 in which the RAP rose 13%.

**CONSOLIDATED INTERIM DIRECTORS' REPORT FOR THE SIX-MONTH
PERIOD ENDED 30 JUNE 2019**

1. SIGNIFICANT EVENTS OF THE FIRST HALF OF 2019

The results in the first half of 2019 show strong growth compared to the same period of the previous year, with EBITDA growing by 12.5% owing to the good performance of all businesses.

The average performance of IBERDROLA's main reference currencies against the euro in the first half of 2019 was as follows: the pound sterling has appreciated by 0.7%, the US dollar by 7.1% and the Brazilian real by 5.3%, compared to the previous financial year.

With regard to trends in terms of demand and electrical production during the period in the main activity areas of the company:

- In Spain energy balance in the peninsular system in the first half of 2019 has been characterised by a marked strong increase in combined cycles (81%), nuclear (12%) and solar (27%) compared to the same period of the previous year, whereas there was a decrease in coal (44%) and renewables: hydropower (41%) and wind (4%).

At the reporting date the semester has been dry. Output index reached 0.7 and hydro-electric power reserves levels at 51.2%, compared to an index of 1.4 and 64.1% of reserves in the first half of 2018.

In terms of demand, this decreased by 2.2% with respect to the same period of the previous year, while in terms adjusted for work and temperature, it decreased by 2.4%.

- In the United Kingdom, electricity demand dropped by 2.2% compared to the first half of 2018. Furthermore, gas demand from customers (excluding generation consumption) decreased by 6.7%.
- In the Avangrid area in the East Coast of the USA, electricity demand dropped by 1.9%, while gas demand stayed practically the same, increase 0.7% compared to 2018.
- On the other hand, in the Neoenergia area in Brazil, electricity demand rose by 5.2%.

1.1. Main operating figures

- **Installed capacity**

At the end of the first half of 2019, IBERDROLA Group has an installed capacity of 45,988 MW, which is 1,954 MW more than at the 2018 close.

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

Installed capacity (MW)	06.30.2019	12.31.2018	Variation
Hydroelectric	10,666	10,421	245
Nuclear	3,166	3,166	-
Coal	874	874	-
Gas combined cycle ⁽¹⁾	13,332	12,440	892
Cogeneration ⁽¹⁾	645	645	-
Wind power, mini-hydraulic and other renewables	17,305	16,488	817
Total	45,988	44,034	1,954

Installed capacity (MW)	06.30.2019	12.31.2018	Variation
Spain	25,614	25,574	40
United Kingdom	2,114	2,086	28
United States	7,801	7,180	621
Mexico	7,613	6,593	1,020
Brazil	1,885	1,640	245
Rest of the world	961	961	-
Total	45,988	44,034	1,954

(1) In Mexico the power of gas combined cycles was adjusted to express a nominal power (70W lower than in 2018) and included 32 cogeneration MW presented under combined cycles in the previous year.

Variations in installed power are as follows:

- In Spain, the mini hydro power plant of Quebrada (2.3MW) following the end of the assignment period and 36.5 MW corresponding to the Nuñez de Balboa photovoltaic plant are added.
- In the UK the first 28 MW of the East Anglia One offshore wind farm were installed.
- In the United States the onshore wind farms of Karankawa (265.7 MW) and Montague (136.1 MW) were commissioned. Additionally, Patriot Wind (226.1 MW) was acquired. On the other hand, machines totalling 6 MW in Leaning Juniper, Locust Ridge I and South Chestnut were withdrawn.
- In Mexico the Escobedo combined cycle plant (892 MW) is already in operation and the power in the Pier IV (65.63 MW) and Santiago (63 MW) onshore wind farms were gradually commissioned.
- The 245 MW in Brazil correspond to the Baixo Iguaçu hydroelectric power plant.

• Production

In the first half of 2019, IBERDROLA Group's total production has decreased 0.4% to 69,161 GWh (69,408 GWh in the first half of 2018).

Production by technologies was as follows:

Net production (GWh)	06.30.2019	06.30.2018	% Variation
Hydroelectric	5,379	9,019	(40.4)
Nuclear	12,328	10,959	12.5
Coal	338	576	(41.3)
Gas combined cycle	30,141	27,371	10.1
Cogeneration	1,109	1,048	5.8
Wind power, mini-hydroelectric and other renewables	19,866	20,435	(2.8)
Total	69,161	69,408	(0.4)

Output by geographical area was as follows:

Net production (GWh)	06.30.2019	06.30.2018	% Variation
Spain	28,243	28,876	(2.2)
United Kingdom	2,141	6,218	(65.6)
United States	10,176	9,954	2.2
Mexico	24,711	19,830	24.6

Brazil	2,487	3,531	(29.6)
Rest of the world	1,403	999	40.4
Total	69,161	69,408	(0.4)

- **Retail**

Details of gas and electricity supply are as follows:

Electricity supply (GWh)	06.30.2019	06.30.2018	% Variation
Spain	27,577	27,614	(0.1)
United Kingdom	9,512	10,669	(10.8)
United States	17,659	18,028	(2.0)
Brazil	22,181	21,404	3.6
Rest of the world	4,745	4,449	6.7
Total	81,674	82,164	(0.6)

Gas supply (GWh)	06.30.2019	06.30.2018	% Variation
Spain	5,735	6,351	(9.7)
United Kingdom	15,283	16,667	(8.3)
United States	37,875	35,521	6.6
Rest of the world	213	57	273.7
Total	59,106	58,596	0.9

- **Distribution**

Electricity distributed in the first half of 2019 reached 109,567 GWh and gas 37,875 GWh (110,281 GWh and 35,520 GWh respectively in the first half of 2018), broken down geographically as follows:

Electricity distributed (GWh)	06.30.2019	06.30.2018	% Variation
Spain	46,487	47,427	(2.0)
United Kingdom	15,928	16,682	(4.5)
United States	17,659	18,028	(2.0)
Brazil	29,493	28,144	4.8
Total	109,567	110,281	(0.6)

Gas distribution (GWh)	06.30.2019	06.30.2018	% Variation
United States	37,875	35,520	6.6

1.2. Main figures of the consolidated statement of financial position

The key figures for the first half of 2019 are as follows:

Millions of Euros	06.30.2019	06.30.2018	% Variation
Gross margin	8,230	7,668	7.3
Gross operating profit – EBITDA	4,990	4,436	12.5
Net operating profit – EBIT	2,991	2,527	18.4
Net profit for the period attributable to the parent	1,644	1,410	16.6

Profit for the period has been positive in all businesses but Renewables. Gross Operating result – EBITDA amounted to Euros 4,990 million and revenue to Euros 1,644 million.

This performance is supported by the Group's growth in Mexico, Brazil, Rest of the world and the United States and better margins in Spain due to higher prices and the suspension of taxes in the first half of 2019.

The performance of currencies, the revaluation of the US dollar (7.1%) and the pound sterling (0.7%) despite the devaluation of the Brazilian real (5.3%) contribute Euros 58 million to gross operating profit – EBITDA.

In the absence of extraordinary elements, profit for the year increases by Euros 234 million (16.6%).

1.2.1. Gross margin

Gross margin, understood as the difference between net turnover and expenses incurred in for supplies, is Euros 8,230 million, 7.3% higher than in the same year in 2018 (Euros 7,668 million). The impact of average exchange rate fluctuations has improved gross margin by Euros 116 million.

Millions of Euros	06.30.2019	06.30.2018	% Variation
Spain	1,060	1,100	(3.6)
United Kingdom	649	614	5.7
United States	1,552	1,395	11.3
Brazil	883	764	15.6
Networks business	4,144	3,873	7.0
Spain	1,480	1,090	35.8
United Kingdom	340	488	(30.3)
Mexico	454	298	52.3
Brazil	34	65	(47.7)
Rest of the world	19	10	90.0
Liberalised business	2,327	1,951	19.3
Spain	661	849	(22.1)
United Kingdom	323	303	6.6
United States	410	427	(4.0)
Mexico	58	30	93.3
Brazil	94	88	6.8
Rest of the world	204	127	60.6
Renewables business	1,750	1,824	(4.1)
Other businesses	29	41	(29.3)
Corporation and adjustments	(20)	(21)	4.8
Total	8,230	7,668	7.3

Per business:

- Networks gross margin has risen by 7% compared to 2018 reaching Euros 4,144 million. The most noteworthy events of the period were as follows:
 - o In Spain it reaches Euros 1,060 million, down 3.6% compared to 2018, mainly due to greater regulatory income from tax reassessments of previous financial years.
 - o The United Kingdom contributed up to Euros 649 million, up 5.7%. The revaluation of the pound sterling represents Euros 4 million, whereas the remaining Euros 31 million result from transmission and distribution income due to a greater asset portfolio following the investments made.

- US contribution in the period stands at Euros 1,552 million, up 11.3%. The revaluation of the US dollar represents Euros 103 million and business performance Euros 54 million, due to new rate cases and improved transmission rates offsetting the negative effect of rate adjustments following the tax reform applicable from the third quarter of 2018.
 - In Brazil gross margin reaches Euros 883 million due to positive tariff reviews for Coelba and Cosern from May 2018, therefore affecting comparison, greater contribution of transmission assets and increase in demand (5.0%). In addition, this business was negatively impacted by the devaluation of the Brazilian real, down Euros 50 million.
- Liberalised business increases its gross margin by 19.3% to Euros 2,327 million.
 - In Spain gross margin increases 35.8% to Euros 1,480 million, as a result of an increase in output to 17,582 GWh. As a consequence, there is an increase of 25.1% compared to the same period last year and better income. The impact of the agreement with Pavillion (Note 5) for the sale of wholesale gas must be added, which required valuing active balances at market price.
 - United Kingdom contributes Euros 340 million to gross margin, 30.3% less than in the same period in 2018. This variation is impacted by the revaluation of the pound sterling to 0.7%, lowering local currency margin by 31.0%, due to the sale of the thermal generation business in December 2018 and the implementation of the cap to SVT rates, as well as a lower electricity and gas demand during the six-month period compared to the same period last year, partially due to better weather conditions in the first quarter of the year.
 - Mexico contributes Euros 454 million to gross margin, increasing 52.3%. The revaluation of the US dollar represents Euros 30 million. Without taking this into consideration, the business improves Euros 126 million due to a better performance of the generation portfolio, greater installed capacity in 2018 and the first half of 2019 and rates going back to normal.
 - Brazil contributes Euros 34 million to gross margin to the liberalised business, down 47.7% compared to the previous year due to the non-recurring impact of the retail business.
 - Rest of the world's Liberalised business contributes Euros 19 million to gross margin.
- Renewables decreases its contribution to gross margin by 4.1% to Euros 1,750 million. The main causes of this trend are:
 - In Spain it reaches Euros 661 million, decreasing in a 22.1% due to lower wind production (-8.8%) and hydro production (-43.2%).
 - In the UK it increases 6.6% to Euros 323 million. Lower onshore wind output (-10.5%) and offshore wind output (-10.1%), as well as the sale of hydroelectrical power plants in December 2018, were offset by better prices.
 - US contribution is Euros 410 million, down 4.0% compared to the same period in 2018. The appreciation of the US dollar amounts to Euros 27 million. However, this business is affected by a lower output of 4.7% and lower prices.

- Mexico contributes Euros 58 million, improving gross margin by 93.3% due to a higher output as a result of increased installed average capacity.
 - In Brazil it reaches Euros 94 million, up 6.8% due to an increase in output (14.3%), as a result both of an increase in hydro electrical power output following the commissioning of Baixo Iguazu and a greater wind charge factor.
 - Rest of the world contributes Euros 204 million, up 60.6% compared to the previous year, driven by the Wikingen offshore wind farm, which was progressively commissioned in the previous year and whose output went from 363 GW in the same period in the previous year to 695 GWh.
- Contribution of other business is placed at Euros 29 million decreasing by Euros 12 million compared to the first half of 2018. following the sale of the gas trading and storage division in the United States during the year.

1.2.2. Gross operating profit – EBITDA

EBITDA for the first half of 2019 rises by Euros 554 million (12.5%) to Euros 4.990 million (Euros 4,436 million in the first half of 2018).

The contribution by business is as follows:

Millions of Euros	06.30.2019	06.30.2018	% Variation
Spain	837	894	(6.4)
United Kingdom	478	455	5.1
United States	693	584	18.7
Brazil	586	455	28.8
Networks business	2,594	2,388	8.6
Spain	754	408	84.8
United Kingdom	56	189	(70.4)
Mexico	361	247	46.2
Brazil	19	45	(57.8)
Rest of the world	(7)	(11)	36.4
Liberalised business	1,183	878	34.7
Spain	380	491	(22.6)
United Kingdom	244	233	4.7
United States	246	276	(10.9)
Mexico	40	17	135.3
Brazil	71	61	16.4
Rest of the world	184	106	73.6
Renewables business	1,165	1,184	(1.6)
Other businesses	21	20	5.0
Corporation and adjustments	27	(34)	179.4
Total	4,990	4,436	12.5

Net operating expenses amounting to Euros 2,145 million, compared to Euros 2,111 million in the same period of 2018 (1.6%), must be added to the aforementioned gross margin performance already explained. Without taking into consideration the effects of the exchange rate, Euros 32 million, the increase in net operating expenses would only be Euros 3 million (+0.1%).

Taxes decrease by Euros 27 million, down 2.4%, to Euros 1,094 million compared to Euros 1,121 million in the same period in 2018. Without taking into consideration the effects of the exchange rate (Euros 27 million), the decrease of Euros 53 million is a result of lower hydroelectric power output and the temporary suspension of the tax to generation of 7%.

1.2.3. Net operating profit – EBIT

Net operating profit - EBIT amounted to Euros 2,991 million, rising 18.3% compared to the first half of 2018 (Euros 2,527 million).

- Amortisations and depreciation record a rise of 3.7% to Euros 1,848 million due to the group's activity (Euros 66 million), the impact of IFRS 16 Leases (Euros 36 million) and customer acquisition costs (Euros 19 million), partially offset by a lower amortisation and depreciation resulting from the change of useful life of nuclear plants (Euros 56 million) and the sale of generation assets in the United Kingdom and Puertollano (Euros 34 million). The effect of exchange rate changes rose to Euros 27 million.
- Provisions increase Euros 24 million to Euros 151 million (up 19.3%), mainly due to the increase in the valuation adjustments of trade and other receivables.

1.2.4. Net finance income/cost

Net finance cost amounted to Euros 611 million, increasing Euros 48 million compared to the same period in the previous year. The main impacts have been:

- Market value of exchange rate derivatives is Euros 36 million. This amount was partially offset by other items in the income statement.
- Gross expenditure due to interest increased by Euros 10 million as a consequence of the increased average amount of debt offset by lower finance costs.
- Provisions update represents Euros 6 million.
- The effect of derivative valuation and other is Euros 5 million.

In sum,

Millions of Euros	06.30.2019	06.30.2018	% charge
Average net debt	(602)	(593)	1.5
Other	(9)	30	(130.0)
Net finance income/cost	(611)	(563)	8.5

1.2.5. Profit of equity-accounted investees

Profit of companies accounted for under the equity method amounts to Euros 17 million (Euros 25 in the same period in 2018).

1.2.6. Non-current asset profit/(loss)

Profit for the sale of non-current assets was positive, amounting to Euros 7 million, compared to Euros 22 million in the same period in the prior year.

1.2.7. Profit before tax

Profit before tax stood at Euros 2,404 million, compared to Euros 2,011 million in the first half of 2018, a fall of Euros 393 million.

1.2.8. Income tax

Corporate income tax expense from continuing activities increased by Euros 133 million to Euros 546 million.

The effective tax rate corresponds to the six-month period ended on 30 June 2019 rising 22.7%, compared to the 23.7% in the six-month period ended on 30 June 2018.

- The 20% increase of consolidated profit before tax from continuing activities results in an increase in ordinary tax expense of Euros 103 million.
- The reduction in nominal rates from 26% in 2018 to 24% in 2019 in companies under the Basque regional regulations in Spain amounts to Euros 11 million.
- Lower contribution of the United Kingdom to profit (tax rate of 19%) and a higher contribution of Mexico (tax rate of 30%) increases the expense by Euros 15 million..
- Other effects contribute to higher taxes amounting to Euros 4 million.

1.2.9. Net profit for the period attributable to the parent

Lastly, Net Profit from continuing operations came to Euros 1,644 million, an increase of 16.6% compared to that obtained in the first half of 2018 (Euros 1,410 million).

1.3. Main figures of the consolidated statement of financial position

The balance sheet of IBERDROLA Group at 30 June 2019 presents total assets of Euros 116,438 million, highlighting the ongoing strength of its equity.

- **Investment in property, plant and equipment**

Total net investments in property, plant and equipment during the period January to June 2019 amounted to Euros 2,259 million as explained in Note 7.

Investments for the period were focused on the Renewables (Euros 1,236 million) and Networks (Euros 793 million) areas, which jointly accounted for 89.8% of the total amount invested in the period.

In terms of Renewables activities, investments in the United Kingdom (Euros 278 million), mainly in the offshore wind project of East Anglia One, and in the United States (Euros 734 million), mainly in the new wind farms of Karankawa and Montaque, are worthy of note.

In Networks, most investments were made in the United Kingdom (Euros 216 million) and the United States (Euros 419 million).

Investment for the period by geographical areas was as follows:

06.30.2019	Millions of Euros	% of total investment
Spain	389	17.2
United Kingdom	549	24.3
United States	1,153	51.1
Mexico	119	5.3
Brazil	28	1.2
Rest of the world	21	0.9
Total	2,259	100.0

- **Capital**

Following the scrip issue on 29 January 2019 as a result of the Iberdrola scrip dividend scheme, the Company's share capital amounted to 6,520,457,000 bearer shares of Euros 0.75 of nominal value each.

In line with the commitment announced at the Outlook 2016-2020 presentation to maintain a stable number of 6,240 million shares, the shareholders at their General Meeting agreed to reduce share capital by redeeming 280,457,000 treasury shares representing 3.08% of the Company's share capital. The capital reduction was carried out on 28 June 2019.

At 30 June 2019 the Company's share capital amounts to 6,240,000,000 bearer shares of Euros 0.75 par value each.

- **Financial leverage**

Details of financial leverage are as follows:

Millions of Euros	06.30.2019	12.31.2018
Equity (a)	44,846	43,977
Gross debt	39,534	37,990
Cash and other	1,722	2,801
Asset derivatives and other	1,019	990
Net debt (b)	36,793	34,199
Net leverage (b/(a+b))	45.1%	43.7%

Leverage improves to 45.1% compared to 43.7% in December 2018.

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

- **Liquidity**

The IBERDROLA Group's liquidity position is adequate at the end of the first half of 2019 and amounts to Euros 13,604 million (Note 13).

The IBERDROLA Group has a smooth debt maturity profile with more than six years of average maturity, as a result, among other factors, of the active management of liabilities in recent years.

- **Rating**

The rating breakdown is as follows:

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

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

2. MAIN RISKS AND UNCERTAINTIES OF THE FIRST HALF OF 2019

The activities of the IBERDROLA Group are subject to various risks (i) market risks such as exposure to price variations and other market variables, such as exchange rate, interest rate, commodity prices (electricity, gas, CO2 emission allowances, other fuels, etc.), prices of financial assets and others; (ii) business risks such as uncertainty regarding the behaviour of the key variables intrinsic to the different activities of the Group, through its businesses, such as the characteristics of demand, meteorological conditions or the strategies of the different agents; (iii) regulatory risks stemming from regulatory changes established by the different regulators, such as changes in the remuneration of regulated activities or the required supply conditions, or in environmental or fiscal regulations.

No risks having a significant impact have been identified for aspects of regulatory risks known to date which, because they are not completely resolved or developed, can entail an element of uncertainty.

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

3. STOCK MARKET DATA. THE IBERDROLA SHARE

- Stock market data**

06.30.2019		
Market capitalisation	Millions of Euros	54,700
Price / Carrying amount (Capitalisation / Equity of the parent at year end)	No. of times	1.5

- **The IBERDROLA share:**

Stock market performance of IBERDROLA compared to the indexes:



		06.30.2019	12.31.2018
Number of shares outstanding	No.	6,240,000,000	6,397,629,000
Share price at period end	Euros	8.766	7.018
Average share price for the year	Euros	7.795	6.428
Average daily volume	No.	17,391,006	18,167,584
Maximum volume 05/06/2019 and 19/01/2018 respectively	No.	51,959,976	62,436,659
Minimum volume 18/02/2019 and 24/12/2018 respectively	No.	7,041,882	4,680,119
Dividends paid (euros)	Euros/share	0.356	0.331
- Gross interim dividend (05/02/2019 - 29/01/2018) (1)	Euros/share	0.151	0.140
- Gross complementary dividend (01/08/2019 (expected) and paid 24/07/2018) (2)	Euros/share	0.200	0.186
Attendance bonus	Euros/share	0.005	0.005
Dividend yield ⁽²⁾	%	4.06%	4.72%

- (1) Purchase price of rights guaranteed by IBERDROLA equivalent to interim dividend in accordance with "Iberdrola scrip dividend (Iberdrola retribución flexible)".
- (2) Complementary dividend in cash 1/08/2019 (expected) = 0.200 and paid 24/07/2018 = 0.186
- (3) Interim dividend, complementary dividend and attendance bonus for attending the General Shareholders' Meeting/share price at period end.

4. ALTERNATIVE PERFORMANCE MEASURES

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

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

The consolidated income statement of the IBERDROLA Group includes lines and subtotals relevant for the purposes of reporting its position and financial performance and includes subtotals such as "Gross margin", "Net operating expenses", "Gross operating profit/EBITDA", "Operating profit/EBIT", "Net finance income/cost" and "Gains/losses on non-current assets".

In general, these APMs are the ones used in the Directors' Report, so they are directly traceable to the consolidated income statement and do not require reconciliation.

Details of the definitions and calculations of the APM can be found on the corporate website (www.iberdrola.com) in the "Shareholders and Investors" section.

STATEMENT OF RESPONSIBILITY

FINANCIAL REPORT FOR THE FIRST HALF OF 2019
STATEMENT OF RESPONSIBILITY

The members of the Board of Directors of IBERDROLA, S.A. state that, to the best of their knowledge, the interim condensed separate financial statements of IBERDROLA, S.A., as well as the interim condensed consolidated financial statements of IBERDROLA, S.A. and its subsidiaries for the first half of fiscal year 2019, issued by the Board of Directors at its meeting of July 23, 2019, and prepared in accordance with applicable accounting standards, present a fair view of the assets, financial condition and results of operations of IBERDROLA, S.A. as well as of the subsidiaries included within its scope of consolidation, taken as a whole, and that the interim management report contains a fair assessment of the required information.

Bilbao, July 23, 2019

Mr. José Ignacio Sánchez Galán
Chairman & Chief Executive Officer

Ms. Inés Macho Stadler
Vice Chair

Mr. Iñigo Víctor de Oriol Ibarra
Director

Ms. Samantha Barber
Director

Ms. María Helena Antolín Raybaud
Director

Ms. Georgina Yamilet Kessel Martínez
Director

Ms. Denise Mary Holt
Director

Mr. José Walfredo Fernández
Director

Mr. Manuel Moreu Munaiz
Director

Mr. Xabier Sagredo Ormaza
Director

Mr. Juan Manuel González Serna
Lead director

Mr. Francisco Martínez Córcoles
Business CEO

Mr. Anthony Luzzato Gardner
Director

Ms. Sara de la Rica Goiricelaya
Director