

# First Half Results 2014

Quarterly Report



**IBERDROLA**



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## Core Business Figures

Operating Data		H1 2014	H1 2013	%
<b>Net production</b>	<b>GWh</b>	<b>73,062</b>	<b>70,608</b>	<b>3.5</b>
Hydro	GWh	13,484	10,198	32.2
Nuclear	GWh	12,191	11,730	3.9
Coal	GWh	6,030	6,576	-8.3
Gas Combined Cycle	GWh	20,146	20,432	-1.4
Cogeneration	GWh	2,532	3,048	-16.9
Renewables	GWh	18,679	18,624	0.3
<b>Installed capacity</b>	<b>MW</b>	<b>45,021</b>	<b>44,876</b>	<b>0.3</b>
Hydro	MW	9,869	9,886	-0.2
Nuclear*	MW	3,410	3,410	-
Coal	MW	3,178	3,178	-
Gas Combined Cycle	MW	12,941	12,996	-0.4
Cogeneration	MW	1,233	1,237	-0.3
Renewables	MW	14,390	14,169	1.6
<b>Distributed Electricity</b>	<b>GWh</b>	<b>107,463</b>	<b>107,129</b>	<b>0.3</b>
<b>Electricity customers</b>	<b>No (mil.)</b>	<b>28.7</b>	<b>28.3</b>	<b>1.4</b>
<b>Gas customers</b>	<b>No (mil.)</b>	<b>3.62</b>	<b>3.57</b>	<b>1.3</b>
<b>Gas supplies</b>	<b>GWh</b>	<b>55,207</b>	<b>56,220</b>	<b>-1.8</b>
<b>Gas storage</b>	<b>bcm</b>	<b>2.48</b>	<b>2.44</b>	<b>1.6</b>
<b>Employees</b>	<b>No.</b>	<b>28,202</b>	<b>28,243</b>	<b>-0.1</b>

\* Includes Garoña plant.

Note: In terms of operational data, IRFS11 do not apply (see details under Operational Performance for the period).

Operating Data		H1 2014	H1 2013	%
<b>Spain</b>				
<b>Net production</b>	<b>GWh</b>	<b>33,760</b>	<b>30,777</b>	<b>9.7</b>
Hydro	GWh	11,965	8,705	37.5
Nuclear	GWh	12,191	11,730	3.9
Coal	GWh	527	483	9.0
Gas combined cycle	GWh	462	774	-40.3
Cogeneration	GWh	981	1,313	-25.3
Renewables	GWh	7,634	7,772	-1.8
<b>Installed capacity</b>	<b>MW</b>	<b>25,488</b>	<b>25,471</b>	<b>0.07</b>
Hydro	MW	8,807	8,807	-
Nuclear*	MW	3,410	3,410	-
Coal	MW	874	874	-
Gas combined cycle	MW	5,894	5,894	-0.01
Cogeneration	MW	394	394	-
Renewables	MW	6,109	6,092	0.3
<b>Distributed Electricity</b>	<b>GWh</b>	<b>45,172</b>	<b>45,665</b>	<b>-1.1</b>
<b>Gas Supplies</b>	<b>GWh</b>	<b>8,066</b>	<b>9,012</b>	<b>-10.5</b>
Consumers	GWh	7,268	7,511	-3.2
Gas combined cycle	GWh	798	1,501	-46.8
<b>Electricity Users</b> (managed supply points)	<b>No (mill.)</b>	<b>10.86</b>	<b>10.85</b>	<b>0.08</b>
Liberalised market	No	6.20	5.35	16.0
Last resort supply	No	4.66	5.51	-15.4
<b>Gas Users</b> (managed supply points)	<b>No (mill.)</b>	<b>0.81</b>	<b>0.78</b>	<b>3.8</b>
<b>United Kingdom</b>				
<b>Production</b>	<b>GWh</b>	<b>10,405</b>	<b>10,815</b>	<b>-3.8</b>
Hydro	GWh	405	320	26.7
Coal	GWh	5,503	6,093	-9.7
Gas combined cycle	GWh	2,881	2,948	-2.3
Cogeneration	GWh	5	5	-3.8
Renewables	GWh	1,612	1,450	11.2
<b>Installed Capacity</b>	<b>MW</b>	<b>6,477</b>	<b>6,133</b>	<b>5.6</b>
Hydro	MW	563	563	-
Coal	MW	2,304	2,304	-
Gas combined cycle	MW	1,967	1,967	-
Cogeneration	MW	31	31	-
Renewables	MW	1,612	1,268	27.1
<b>Distributed Electricity</b>	<b>GWh</b>	<b>18,571</b>	<b>19,391</b>	<b>-4.2</b>
<b>Gas Storage</b>	<b>bcm</b>	<b>0.04</b>	<b>0.03</b>	<b>33.3</b>
<b>Gas Supplies</b>	<b>GWh</b>	<b>24,684</b>	<b>29,105</b>	<b>-15.2</b>
Consumers	GWh	18,133	22,496	-19.4
Gas Combined Cycle	GWh	6,551	6,609	-0.9
<b>Electricity Users</b> (managed supply points)	<b>No (mill.)</b>	<b>3.50</b>	<b>3.49</b>	<b>0.2</b>
<b>Gas Users</b> (customers)	<b>No (mill.)</b>	<b>2.2</b>	<b>2.2</b>	<b>-</b>

\* Includes Garoña central.

Note: In terms of operational data, IRFS11 do not apply (see details under Operational Performance for the period).

Operating Data		H1 2014	H1 2013	%
<b>United States</b>				
<b>Production</b>	<b>GWh</b>	<b>9,271</b>	<b>9,295</b>	<b>-0.3</b>
Hydro	GWh	228	245	-7.2
Gas combined cycle	GWh	0.8	2.0	-61.8
Cogeneration	GWh	831	1,014	-18.1
Renewables	GWh	8,212	8,034	2.2
<b>Installed capacity</b>	<b>MW</b>	<b>6,291</b>	<b>6,332</b>	<b>-0.6</b>
Hydro	MW	118	118	0.0
Gas combined cycle	MW	30	85	-64.3
Cogeneration	MW	636	636	-
Renewables	MW	5,507	5,493	0.3
<b>Gas storage USA</b>	<b>bcm</b>	<b>1.80</b>	<b>1.77</b>	<b>1.7</b>
<b>Gas storage Canada</b>	<b>bcm</b>	<b>0.64</b>	<b>0.64</b>	<b>-</b>
<b>Distributed Electricity</b>	<b>GWh</b>	<b>16,690</b>	<b>16,231</b>	<b>2.8</b>
<b>Gas supplies</b>	<b>GWh</b>	<b>22,457</b>	<b>18,103</b>	<b>24.0</b>
<b>Electricity Users</b> (managed supply points)	<b>No (mill.)</b>	<b>1.8</b>	<b>1.8</b>	<b>0.1</b>
<b>Gas Users</b> (managed supply points)	<b>No (mill.)</b>	<b>0.61</b>	<b>0.59</b>	<b>2.5</b>
<b>Latin America</b>				
<b>Production</b>	<b>GWh</b>	<b>18,859</b>	<b>18,703</b>	<b>0.8</b>
Hydro	GWh	886	928	-4.5
Gas combined cycle	GWh	16,802	16,708	0.6
Cogeneration	GWh	715	716	-0.1
Renewables	GWh	455	351	29.6
<b>Installed capacity</b>	<b>MW</b>	<b>6,021</b>	<b>6,012</b>	<b>0.1</b>
Hydro	MW	381	398	-4.3
Gas combined cycle	MW	5,050	5,050	-
Cogeneration	MW	172	176	-2.3
Renewables	MW	418	388	7.7
<b>Distributed Electricity</b> (under management)	<b>GWh</b>	<b>27,030</b>	<b>25,843</b>	<b>4.6</b>
<b>Customers</b> (managed supply points)	<b>No (mill.)</b>	<b>12.5</b>	<b>12.1</b>	<b>3.2</b>
<b>Rest of the world</b>				
<b>Production</b>	<b>GWh</b>	<b>767</b>	<b>1,017</b>	<b>-24.6</b>
Renewables	GWh	767	1,017	-24.6
<b>Installed capacity</b>	<b>MW</b>	<b>744</b>	<b>928</b>	<b>-19.9</b>
Renewables	MW	744	928	-19.9

\* Includes Garoña central.

Note: In terms of operational data, IRFS11 do not apply (see details under Operational Performance for the period).

Stock Market Data		H1 2014	H1 2013
Market capitalisation	€ Million	34,838	24,865
Earnings per share (6,240,000,000 shares at 06/30/14 and 6,130,435,584 shares. at 06/30/2013)	€	0.24	0.28
Net operating cash flow per share	€	0.458	0.485
P.E.R.	Times	14.84	9.11
Price/Book value (capitalisation to NBV at end of period)	Times	0.98	0.70

Economic/Financial Data			
Income Statement		H1 2014	H1 2013
Revenues	€ Million	15,185.4	15,893.7
Gross Margin	€ Million	6,170.8	6,218.0
EBITDA	€ Million	3,744.7	3,743.6
EBIT	€ Million	2,359.1	672.9
Net Profit	€ Million	1,503.1	1,728.0
Net Operating Expenses/Gross Margin	%	27.37	26.06

Balance Sheet		June 2014	Dec. 2013*
Total Assets	€ Million	90,970	89,787
Shareholders' Equity	€ Million	35,689	35,289
Net Adjusted Financial Debt <sup>(1)</sup>	€ Million	25,682	26,836
ROE	%	6.6	7.9
Financial Leverage <sup>(2)</sup>	%	41.8%	43.2%
Net Debt/Equity Ratio	Times	0.72	0.76

(1) Includes regulatory receivables, TEI.

(2) Net Debt/Net Debt + Shareholder's Equity Includes regulatory receivables financing. Excluding regulatory receivables financing, leverage at First Half 2014 would be at 40.4%.

\* Restated.

Credit Rating of IBERDROLA Senior Debt			
Agency	Rating	Outlook	Date
Moody's	Baa1	Negative	9 November 2012
Fitch IBCA	BBB+	Stable	25 March 2014
Standard & Poors	BBB	Stable	28 November 2012

## Operating highlights for the period

Iberdrola's results over the period are to be viewed within a complex operational environment characterised by a certain improvement in the international macroeconomic situation, which has, however, not yet led to an increase in electricity and gas demand in the Eurozone. In addition, financial year 2014 is impacted by the effect of regulatory and fiscal changes in Spain that have meant lower revenues from different businesses, especially in Renewables.

In this respect, it is worth noting the following:

- In Spain, the period was marked by higher rainfall levels compared to the same period of the previous year (+10.3%) together with a stabilisation of the electricity demand adjusted for working days and temperature (+0.1%). In this line, the growth of the large industrial energy consumers sector is worthy of mention, with a growth of 4.3% in the last 12 months.
- In the United Kingdom, electricity demand dropped by 6.7%, whereas demand for gas increased by 15.9% , due to the mild weather over the first half of the year.
- Iberdrola USA's operational area on the United States saw a +2.8% increase in electricity demand and a +8.7% rise in gas demand, as a result of the increase in consumption due to the difficult weather conditions in the first half of the year.
- As for Brazil, demand grew by 4.6%, compared to the same period of the previous year.
- During the first half of 2014, international markets of raw materials evolved as follows:

- The average price of Brent oil is \$108.82 per barrel compared with \$107.88 per barrel in the same period of last year (+0.9%).
- The average price of gas (Zeebrugge) over the period rose to 51.32 Gbp/Therm, compared to 66.33 Gbp/Therm in 2013 (-22.6%).
- The average price of API2 coal is at USD 93.31/MT compared to USD 90.23/MT (+3.4%) for the first half of the previous year.
- The average cost of CO<sub>2</sub> allowances rose from EUR 4.53/MT in the first half of 2013 to EUR 5.64/MT in 2014 (+24.6%).

During the period, the average trend of the main benchmark currencies against the Euro has been as follows: the value of the GBP rose by 3.4%, whereas the US Dollar and the Brazilian Real dropped by 4.5% and 18.8% respectively.

- Iberdrola's total production (total MW managed, for operating purposes IFRS 11 not applied) in the period increased by 3.5%, to 73,062 GWh. This figure includes 33,760 GWh (+9.7%) generated in Spain, 10,405 GWh (-3.8%) generated in the United Kingdom, 9,271 GWh (-0.3%) generated in the United States, 18,859 GWh (+0.8%) generated in Latin America and the remaining 767 GWh generated in various countries through renewable energies (-24.6%).
- As at the end of the first half of 2014, IBERDROLA had 45,021 MW installed generation capacity (Total MW under management), of which 61% produces emission-free energy, while operating at a very low variable cost.

- The following exceptional highlights should be noted with regard to the period analysed, compared to the same period of the previous financial year:

- Entry into force of the accounting standard IFRS 11, according to which joint ventures are not accounted by the proportionate consolidation method but by the equity method. As a result of this, the deconsolidation of Neenergia is the main effect for the Iberdrola Group. Data for 2013 have been restated in the same terms, as indicated by the rule itself, in order to make the comparison homogeneous. The affected businesses are Networks in Brazil (Neenergia), Liberalised Business in Spain (Nuclenor, BBE and some cogeneration plants) and Renewables. The detailed breakdown is explained in the section *Operational Performance For the Period*.

- The application of RDL 9/2013 since July 2013 has an impact of EUR 369 million in the first half of 2014. This RDL established a cut in the remuneration of the Distribution business in Spain (EUR -56 million), a reduction of the incentive to invest, with an impact of EUR -38 million on the Liberalised Business in Spain, it establishes the financing of the tariffs subsidy ("Bono Social") by the integrated groups (EUR -42 million) and it has a especially negative effect on renewable energies (EUR -227 million) and cogeneration (EUR -6 million).

- In Brazil, the impact of the drought had a total effect in the first half of EUR -74 million for Elektro. The compensation provided by the Government is EUR 207 million higher than that of the first half of 2013. However, it

does not offset the overall 100% costs due to the increase in the electricity price up to BRL 800 per MWh.

- The Non-Current Assets results essentially include the sale of Itapebí and the nuclear development of the United Kingdom (Nugen) with EUR 76 million and EUR 96 million gross capital gain respectively; whereas the sale of EdP was accounted in the Financial Result (EUR 96 million).

- The main items of the Income Statement have changed as follows:

	H1 2014	v. H1 2013
GROSS MARGIN	6,170.8	-0.8%
EBITDA	3,744.7	0.0%
EBIT	2,359.1	+250.6%
NET PROFIT	1,503.1	-13.0%

- The optimisation of financial strength and liquidity as strategic priorities are summarised as follows:

- Net Debt dropped by EUR 2,200 million since June 2013 and by EUR 1,200 million since 2013 year-end, amounting to EUR 25,682 million. Excluding regulatory receivables that are financed and pending securitization, net debt amounts to EUR 24,237 million.

- As at June 2014, Funds Generated from Operations totalled EUR 2,856 million, reflecting a 3.9% decrease compared to the same period in 2013.

- Liquidity amounts to EUR 10,178 million, enough to cover treasury needs for more than 35 months.

## Operational performance for the period

### 1. NETWORKS BUSINESS

#### 1.1. Spain

As of the end of June 2014, Iberdrola Distribución Eléctrica had almost 10.9 million supply points and the total energy distributed was 45,172 GWh, a decrease of 1.1% compared to the previous year.

The Interruption time “TIEPI” supply quality indicator for the first half of 2014 was 27.2 minutes, a decrease of 21% compared to the same period in 2013 and in line with the value of the two previous years. To note that this index was very high in 2013 due to the poor weather conditions in the Basque Country and the Region of Navarre at the beginning of that year.

The table below shows the TIEPI (interruption time) and NIEPI (number of interruptions) values compared with previous years:

Year	TIEPI accumulated	NIEPI accumulated
2011	27.6	0.65
2012	26.9	0.53
2013	34.7	0.61
2014	27.2	0.51

During this current financial year the investment made by the business in Spain has led to the commissioning of the facilities included in the following table:

Physical Units commissioned (June 2014)	Total	Voltage				
		Very high	High	Medium	Low	
<b>Lines</b>	Overhead (km)	212	9	8	67	128
	Underground (km)	305	12	3	149	141
<b>Sub-stations</b>	Transformers (units)	13	10	3	0	
	Capacity increase (MVA)	522	458	50	14	
	Substations (units) (*)	7				
<b>Secondary sub-stations</b>	Secondary substations (units)	130				
	Capacity increase (MVA)	-47				

(\*) Decommissioned substations (3 up to June 2014) are not included.

In addition, during this first half 545,133 meters with a remote management system were put into operation, within the STAR smart network project.

#### 1.2. United Kingdom

As of 30 June 2013, ScottishPower Energy Networks (SPEN) had nearly 3.5 million electricity distribution supply points. The volume of distributed electricity during the first half of 2014 was 18,571 GWh, representing a decrease of 4.2% in relation to the same period of the previous year.

The average interruption time by customer (Customer Minutes Lost, CML) was as follows:

CML	Jan-June 2014	Jan-June 2013
Scottish Power Distribution (SPD)	18.4	21.6
Scottish Power Manweb (SPM)	21.7	23.1

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

CI	Jan-June 2014	Jan-June 2013
Scottish Power Distribution (SPD)	26.5	23.7
Scottish Power Manweb (SPM)	18.4	20.3

Both the CI and the CML comply with the quality limits established.

### 1.3. United States

#### 1.3.1. Distribution

As at 30 June 2014, Iberdrola USA Networks had 1.8 million electricity supply points in the United States. The energy distributed during the period was 16,690 GWh, a 2.8% increase compared with the previous year.

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

SAIFI	Jan-June 2014	Jan-June 2013
Central Maine Power (CMP)	0.76	0.82
NY State Electric & Gas (NYSEG)	0.51	0.50
Rochester Gas & Electric (RGE)	0.37	0.29

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

CAIDI	Jan-June 2014	Jan-June 2013
Central Maine Power (CMP)	1.69	2.02
NY State Electric & Gas (NYSEG)	1.57	1.70
Rochester Gas & Electric (RGE)	1.27	1.76

#### 1.3.2. Transmission

##### Transmission project to interconnect New England and Canada

Construction work on the project has continued, with a total budget of USD 1,400 million. The investment made in the first half of the year amounted to USD 92 million, and the total estimated investment for 2014 amounts to USD 112 million.

On 19 June 2014, the FERC published the Order regarding the request for reducing the ROE. In this Order, the FERC has changed the methodology for determining the rate of return on equity (ROE), applying the methodology used for the gas and oil industries. The decision of the FERC has been to establish the base ROE at 10.57% with minimum and maximum limits of 7.04% and 11.74%.

In the case of the MPRP project of CMP, the ROE has been established at the upper limit, that is 11.74%.

#### 1.3.3. Gas

The number of gas users in New York State at the end of June 2014 was 0.6 million, with 22,457 GWh supplied during the period, 24% more than for the same period of the previous year due to weather conditions.

### 1.4. Brazil

The evolution of demand of Brazilian distributors at the end of the first half of 2014 was as follows:

Energy Distributed (GWh) 100% of business	H1 2014	H1 2013	Var.
Coelba	9,159	8,794	4.1%
Cosern	2,703	2,574	5.0%
Celpe	6,612	6,322	4.6%
Elektro	8,555	8,153	4.9%
<b>TOTAL</b>	<b>27,030</b>	<b>25,843</b>	<b>4.6%</b>

The following table shows the number of customers served by the distributors at the end of the first half of the year and the increase compared with the same period of the previous year:

Number of customers (millions)	H1 2014	H1 2013	Var.
Coelba	5.5	5.3	3.6%
Cosern	1.3	1.2	3.7%
Celpe	3.4	3.3	2.6%
Elektro	2.4	2.3	2.7%
<b>TOTAL</b>	<b>12.5</b>	<b>12.1</b>	<b>3.2 %</b>

With regard to regulated electricity generation, the capacity of the projects in operation at the end of the second quarter of the year was as follows:

Plant	MW *	Attributable MW **
Termope	520	203
Itapebi	450	176
Afluyente	18	8
Rio PCH	39	15
Sitio Grande	25	10
Baguari	140	28
Corumbá III	94	24
Goias Sul	48	19
Dardanelos	261	102
Wind Farms	150	59
<b>TOTAL</b>	<b>1,745</b>	<b>644</b>

(\*) MW equivalent to 100% of the plant's capacity.

(\*\*) MW equivalent to the percentage of Iberdrola's stake.

In June 2014 the joint-venture Forza Eólica (50% Neoenergia; 50% Iberdrola Renovables) was awarded the construction, operation and maintenance of three wind farms in the Brazilian state of Rio Grande do Norte (Santana I, Santana II and Calango 6) in an energy public tender offer. The combined power of the three farms reaches 84 MW and the provisional commissioning date is 2017.

The capacity of the Neoenergia projects under construction at the end of the period was as follows:

Plant	MW *	Attributable MW **	Date
Baixo Iguacu	350	137	2016
Teles Pires	1,820	356	2015
Belo Monte	11,233	438	2015-2018
Wind farms (tender Jun-14)	84	16	2017
<b>TOTAL</b>	<b>13,487</b>	<b>947</b>	

(\*) MW equivalent to 100% of the plant's capacity.

(\*\*) MW equivalent to the percentage of Iberdrola's stake.

## 2. GENERATION AND SUPPLY BUSINESS

### 2.1. Iberian Peninsula

#### 2.1.1. Spain

At the end of the first half of 2014, Iberdrola's installed capacity in Spain (ex-renewables) totalled 19,379 MW, broken down as follows:

SPAIN	Consolidated installed MW	MW Investees	TOTAL
Hydro	8,807		8,807
Nuclear*	3,166	244	3,410
Coal	874		874
Gas combined cycles	5,695	199	5,894
Cogeneration	301	93	394
<b>TOTAL</b>	<b>18,843</b>	<b>536</b>	<b>19,379</b>

\* Includes Garoña

Out of the 19,379 MW, Iberdrola consolidates 18,843 MW and manages through investee companies a further 536 MW, which in the previous financial year were consolidated using

the method of proportional integration, but which, after the entry into force of IFRS 11, go on to being consolidated using the equity method.

In addition, the **Spanish Mainland Energy Production** (full Sector), is characterised by a production based on hydroelectric and wind (45% of the total), thermal (50%) and solar (5%). The demand shows a slight drop of 1.2% (+0.1% having corrected temperature and employment-related effects).

**With regard to Iberdrola**, during the first half of 2014, production increased by 13.6% to 26,126 GWh. The year-on-year trend broken down by types of technology is as follows:

- Hydroelectric production reached 11,965 GWh, representing an increase of 37.5% over the same period in the previous year due to the higher rainfall in the period. As at 30 June 2014, hydroelectric reserve levels were at 77.1% (equivalent to 8,700 GWh).
- Nuclear production reached 12,191 GWh, representing an increase of 3.9%.
- Coal-fired thermal power stations recorded a 9.0% increase, to 527 GWh.
- Meanwhile, combined-cycle production fell by 40.3% to 462 GWh.
- Cogeneration plants registered a drop in production by 25.3% to 981 GWh

Out of the 26,126 GWh produced, Iberdrola consolidated 25,632 GWh at EBITDA level, broken down as follows:

	GWh Consolidated at EBITDA level	GWh Investee companies (equity method)	TOTAL
Hydro	11,965		11,965
Nuclear	12,157	34	12,191
Coal	527		527
Gas combined cycle	193	269	462
Cogeneration	981	191	981
<b>TOTAL</b>	<b>25,632</b>	<b>494</b>	<b>26,126</b>

The remaining (494 GWh) is consolidated by equity method, in accordance with IFRS 11.

Comparatively speaking, Iberdrola's Energy Production figures can be broken down as follows:

	H1 2014	H1 2013
Hydro	45.8%	37.8%
Nuclear	46.7%	51.0%
Coal	2.0%	2.1%
Gas combined cycle	1.8%	3.4%
Cogeneration	3.7%	5.7%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

Note: IFRS 11 do not apply.

In terms of sales, as at 30 June 2014, the portfolio that is managed by Iberdrola increases up to 15,141,126 contracts. This means 261,876 more contracts than in the same period in 2013 (+2%). The breakdown is as follows:

	Contracts	%
Electricity contracts	10,441,488	
Gas contracts	807,349	
Contracts for other products and services	3,892,289	
<b>Total contracts</b>	<b>15,141,126</b>	<b>+2%</b>

By market type they can be split into the following:

	Contracts	%
Liberalised market	10,565,547	70%
Last resort	4,575,669	30%
<b>Total contracts</b>	<b>15,141,126</b>	<b>100%</b>

In the first half of 2014, Iberdrola's total electricity sales amounted to 38,105 GWh (at generator terminals). 23,946 GWh were sold in the liberalised market, 5,929 GWh correspond to the Voluntary Price for Small Consumers (VPSC) and the remaining 8,230 GWh in other markets.

Electricity supplied on the liberalised market in the first half of 2014 amounted to 18,488 GWh compared to the 19,152 GWh supplied in the same period of 2013 (-3%).

With regard to gas, in the first half of the year, Iberdrola managed a total gas production of 3.17 bcm, of which 2.52 bcm were sold in wholesale transactions, 0.35 bcm were sold to end Customers and 0.30 bcm went towards electricity production.

With regard to the group's natural gas procurement, it is worth noting the following:

- The first half of the year has been characterised by a demand for natural gas in the different segments, conventional and electrical production, in the Spanish system, lower than that corresponding to the same period of 2013.
- The Company has adapted the deliveries of procurement contracts to current needs and

has carried out a number of transactions to optimise its gas portfolio with various wholesale sales.

- IBERDROLA and the Cheniere subsidiary, Corpus Christi Liquefaction, signed on 30 May a contract by means of which the US company will supply Iberdrola with approximately 1 bcm per year of liquefied natural gas (LNG) as from 2019, for a term of 20 years, from the liquefaction plant that Cheniere will build in Texas (US). The contract, whose price is linked to that of gas in the US -Henry Hub index-, has been signed on a FOB (Free on Board) basis, which implies freedom of destination, although the LNG will be used mainly for supply to the IBERDROLA markets in the United Kingdom and Spain.
- The gas business in the US and Canada has been able to achieve good results as a consequence of the successive spells of winter cold in America, which have increased the prices in different hubs.

### 2.1.2. Portugal

Iberdrola has supplied 3,294 GWh during the first six months of 2014 compared to the 2,864 GWh supplied in the same period of 2013, it being the second seller in the Medium Voltage and SME industrial customer segment and having started to enter the residential sector.

### 2.2. United Kingdom

As at 30 June 2014, installed capacity in the UK (excluding SPW Renewables) amounted to 4,865 MW. The breakdown of installed capacity is as follows:

UNITED KINGDOM (SPW)	MW
Hydro	563
Coal	2,304
Gas combined cycle	1,967
Cogeneration	31
<b>TOTAL</b>	<b>4,865</b>

With regard to production from Iberdrola's traditional electricity generation in the United Kingdom, this fell by 6.1% in the first half of 2014 to 8,793 GWh, compared to 9,366 GWh in the same period of the previous year.

The market share of the generation business in the first half of 2014 was 6.6%, compared to 6.1% in the previous year. The highlights are as follows, broken down by production technology:

- Coal plant production dropped by 9.7% to 5,503 GWh compared to 6,093 GWh in the same period of the previous year, partly due to the closure of the Cockenzie plant in March 2013.
- Combined cycle gas production dropped by 2.3% to 2,881 GWh compared to 2,948 GWh in the same period of 2013.
- Hydroelectric production increased by 26.7% to 405 GWh, compared to 320 GWh in the previous year.
- Production using cogeneration technology (CHPs) dropped by 3.8% to 5 GWh.

Regarding sales, as at 30 June 2014, customers had been sold 11,348 GWh of electricity and 18,133 GWh of gas, compared to 13,007 GWh of electricity and 22,496 GWh of gas sold during the same period of the previous year.

As at 30 June 2014, ScottishPower had 3.4 million electricity customers and 2.2 million gas customers.

Controlling credit terms continues to be of great importance in customer management. Thus, more than 85% of Iberdrola's customers in the United Kingdom now use a Secure Payment method (defined as customers who pay by direct debit or use a prepay meter).

### 2.3. Mexico

Installed capacity almost amount to 5,000 MW, broken down as follows:

Capacity (MW)	MW
Monterrey	1,040
Altamira	1,036
Enertek	120
La Laguna	535
El Golfo	1,121
Tamazunchale	1,135
<b>TOTAL</b>	<b>4,987</b>

The works related to the 40 MW extension of Enertek are still in progress, and expected to be operative in the third quarter of this year.

The year 2013 and the first half of 2014 have seen a relaunch of Iberdrola's growth in Mexico. Thus, in December 2013, the CFE awarded Iberdrola the combined-cycle plant of Baja California III, with a power capacity of 300 MW, and a cogeneration plant of 50 MW was signed, which will be operative in mid-2016. To this, we must add a new unit in Monterrey of 300 MW for private consumer partners, which was launched in late 2012, and which is currently in construction.

The above-mentioned projects will allow Iberdrola to surpass 5,700 MW of operating capacity in 2016, strengthening the leadership position Iberdrola has maintained over the last ten years in Mexico as a private producer, and its second position in the country after the Comisión Federal de Electricidad.

The reform of the electricity sector is in a process of approval in the Congress, and together with the CFE bids in the next twelve months, they pose a challenge and a chance for the business to grow.

Electricity supplied amounted to 16,651 GWh, which implies a load factor of 77%, giving an idea of the extent to which combined cycle production constitutes the generation basis of the electricity system in Mexico. Cumulative availability of the Mexico plants was 95%, with a reliability of 99%, deemed excellent within the parameters of the electricity industry.

With regard to the electricity demand, given that the outlook for 2014 is a GDP growth of more than 3%, it is expected that the electricity demand will increase in accordance with such growth.

#### 2.4. Gas storage in the USA and Canada

Gas storage installations operated by the Company in the first half of 2014 totalled 2.44 bcm; in addition, the company had 1.8 bcm of contracted or managed capacity

USA/CANADA	BCM
Enstor Katy Storage	0.63
Enstor Grama Ridge Storage	0.40
Freebird	0.27
Caledonia	0.50
Alberta Hub	0.64
<b>TOTAL OWNED CAPACITY</b>	<b>2.44</b>
<b>TOTAL CAPACITY UNDER MANAGEMENT OR CONTRACTED</b>	<b>1.8</b>
<b>TOTAL CAPACITY</b>	<b>4.24</b>

### 3. RENEWABLES

At the end of the second quarter of 2014, the renewables business had an installed capacity of 14,390 MW.

Over the last 12 months, Iberdrola installed 411 MW in new renewables facilities, mainly wind farms. In addition, in the third quarter of 2013, the Company executed the sale of its operating assets in Poland, which amount to 184 MW.

Out of the 14,390 MW, Iberdrola consolidates 13,847 MW and manages through investee companies a further 543, which in the previous financial year were consolidated using the proportional method, but which, after the entry into force of IFRS 11, went on to be consolidated by the equity method.

	Installed MW Consolidated at EBITDA level (*)	MW managed by investee companies	Total
Wind Energy Spain	5,509	244	5,753
Wind Energy USA	5,296	161	5,457
Wind Energy U.K.	1,595	16	1,611
Onshore	1,401	16	1,417
Offshore	194		194
Wind Energy Latam	418	0	418
Wind Energy RoW	616	122	738
<b>Total Wind Energy</b>	<b>13,434</b>	<b>543</b>	<b>13,977</b>
Total Onshore Wind Energy	13,240	543	13,783
Total Offshore Wind Energy	194		194
Other Renewables	413		413
<b>Total installed capacity</b>	<b>13,847</b>	<b>543</b>	<b>14,390</b>

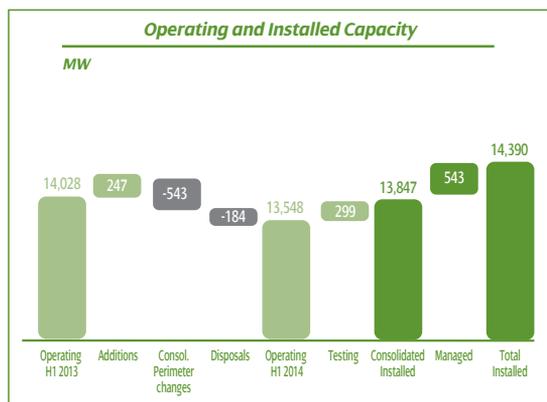
(\*) IFRS11

Production in the period associated with these MWs is as follows:

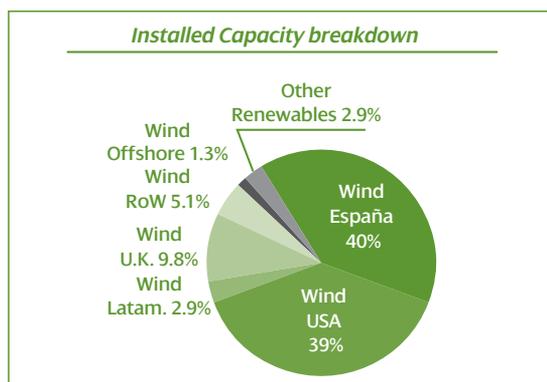
	GWh Consolidated at EBITDA level (*)	GWh managed by investee companies	Total
Wind Energy Spain	6,814	290	7,103
Wind Energy USA	7,923	219	8,141
Wind Energy U.K.	1,597	14	1,612
Onshore	1,534	14	1,549
Offshore	63	-	63
Wind Energy Latam	455	0	455
Wind Energy RoW	649	114	763
<b>Total Wind Energy</b>	<b>17,438</b>	<b>636</b>	<b>18,075</b>
Total Onshore Wind Energy	17,375	636	18,012
Total Offshore Wind Energy	63	-	63
Other Renewables	605	-	605
<b>Total Renewables Production</b>	<b>18,043</b>	<b>636</b>	<b>18,679</b>

(\*) IFRS11

Operating consolidated capacity reached 13,548 MW after adding 247 MW in operation in the last 12 months.



Out of the 14,390 MW installed, at the end of the second quarter of 2014, 57% are outside of Spain, distributed as follows:



### 3.1. Onshore Wind Energy

Iberdrola reached 13,783 MW in installed onshore wind capacity (of which 13,240 MW are consolidated) after adding 211 MW in onshore wind capacity over the last 12 months and divesting 184 MW in the third quarter of 2013, continuing with the global strategy of focusing in strategic countries.

The geographic break-down of installed onshore wind capacity is as follows: 5,753 MW in Spain, 5,457 MW in the US, 1,417 MW in the United Kingdom and Ireland, 418 MW in Latam, and 738 MW in the Rest of the World.

#### Spain

Installed power at the end of the second quarter of 2014 is 5,753 MW. Of this capacity, Iberdrola consolidates 5,509 and manages through investee companies 244 MW, which, in the first quarter of 2014, ceased to form part of the consolidated capacity.

#### United States

The Company is present in 18 states, with a total of 5,457 MW, of which 161 MW are managed through investee companies. At the end of the second quarter of 2014, there is a 202 MW project under construction whose installation has started and is expected to conclude sometime in 2014.

#### United Kingdom and Republic of Ireland

Installed capacity is 1,417 MW in the United Kingdom and the Republic of Ireland, after having installed 149 MW over the last 12 months, which implies an 11.8% increase with regard to the close of the second quarter of 2013. Of this capacity, 1,401 MW are consolidated and 15 are managed through investee companies.

#### Latam

Total installed capacity amounts to 418 MW in Latam.

As for Brazil, 187 MW are consolidated. During this period, 28 MW have been installed and a Partnership Agreement has been signed with Neoenergia, with retroactive effect as of 1 January 2014. The objective of the agreement is to reorganise the shareholder structure in 10 wind farms owned previously by Iberdrola and Neoenergia, each with a 50% share. After this reorganisation, Iberdrola fully consolidates 6 wind parks, which come to a total of 187 MW.

In terms of Mexico, installed capacity amounts to EUR 231 million, following the installation of 22 MW. Another 70 MW wind farm is under construction and the installation will be finished before 2014 year-end.

#### Rest of the world

Installed capacity at the close of the second quarter of 2014 is 738 MW, of which 616 MW corresponds to consolidated capacity and 122 MW is managed through investee companies, broken down as follows:

	MW consolidated at EBITDA level	MW managed by investee companies	Total
Italy	10	122	132
Portugal	92		92
Greece	255		255
Cyprus	20		20
Hungary	158		158
Romania	80		80
<b>TOTAL</b>	<b>616</b>	<b>122</b>	<b>738</b>

Over the last 12 months, it is worth noting the following:

- The reclassification in Italy following the change in consolidation criteria for the wind farms of SER (variation of 122 MW).
- The sale of the Poland farms.

### 3.2. Offshore Wind Energy

At present, the renewables business is developing marine wind projects that increase main projects' capacity up to 2,439 MW, mainly in the United Kingdom (65,2%), Germany (14,3%) and France (20,5%).

In the United Kingdom, the company is building the West of Duddon Sands project, located in the Irish Sea, with a capacity of 389 MW (\*), to be jointly developed with Dong Energy on a 50% basis. Over the last 12 months the installation has been completed and their commissioning has continued.

Iberdrola continues with the development of the Wikinger offshore project, of up to 350 MW, in the Baltic Sea (Germany). During 2014, progress is being made in choosing the main farm suppliers (foundations, electrical, installation and electrical substation) to join AREVA, which was already chosen as the turbine supplier. Simultaneously, progress is also being made on the detail engineering works.

Furthermore, Iberdrola is developing in the United Kingdom, through a 50% Joint Venture with Vattenfall, the East Anglia project in the North Sea. In 2013, the installation of two offshore measurement towers was completed, and

\* Total Capacity Consolidated capacity is 194.5 MW.

work continues with the paperwork, engineering and research for the first phase of the project, called East Anglia ONE, with a capacity of 1,200 MW, which has been authorised by the British Government.

In April 2012, the consortium formed by Iberdrola and the French company EOLE-RES was awarded by the French Government the exclusive rights for the exploitation of the offshore wind farm of Saint-Brieuc, with a capacity of 500 MW. In 2013 the commitments with the French Government regarding the technical, environmental and industrial feasibility studies were completed. In 2014 the consortium has started the works corresponding to the following phase, including the necessary studies for the permit applications.

### 3.3. Other Renewable Technologies

The Renewables business has installations of other renewable technologies in several countries, amounting to a total of 413 MW, broken down as shown in the following table:

Technology	MW	Country
Mini Hydro	306	Spain (176 MW Ordinary Regime 0 and 130 MW Special Regime)
Photovoltaic	56	USA (50 MW) and Greece (6 MW)
Thermo-solar	50	Spain
Wave	1	UK
<b>TOTAL MW</b>	<b>413</b>	

In the field of marine technology, Iberdrola continues to develop projects specifically designed to exploit wave energy and tidal energy in the United Kingdom.

## 4. GENERAL SHAREHOLDERS' MEETING

### Shareholder remuneration

On 29 April 2013, the Board of Directors of IBERDROLA approved a reduction of share capital by 2.1% in accordance with the proposal validated by the General Shareholders' Meeting held on 28 March in Bilbao.

This reduction of share capital was performed by redeeming treasury stock that IBERDROLA had, on the one hand, and through a programme involving buying back shares for redemption, on the other hand.

### Iberdrola Flexible Dividend

Under the programme of the eighth issue of the Iberdrola Flexible Dividend programme and on the occasion of what would have been the supplementary dividend with a charge to 2013 fiscal year results, Iberdrola announced on 2 July 2014 the number of free-of-charge allocation rights required to receive one new share of the Company.

Shareholders who wish to receive the complementary dividend that was traditionally paid out in the month of July in paid-up Iberdrola shares, should own 48 rights of free allocation to obtain a new Company share, without expenses or commissions.

However, the Iberdrola Flexible Dividend programme also makes it possible to receive remuneration in cash, by means of the sale of rights of free allocation to Iberdrola (at a guaranteed fixed price) or on the market. This way, the Company commits to paying 0.114 Euros

gross per share to those shareholders that choose to sell their rights of free allocation to Iberdrola, subject to tax withholdings of 21%. Shareholders can also sell their rights of free allocation on the market, in which case they will not be subject to tax withholdings, but they will not benefit from a guaranteed fixed price either.

As usual, the option assigned by default to this new edition of the Iberdrola Flexible Dividend programme will be the delivery of a new Iberdrola share per every 48 rights of free allocation. Shareholders who prefer to receive their remuneration in cash must sell their rights to the Company from 3 to 14 July, or on the market from 3 to 17 July.

Added to the price guaranteed by Iberdrola is the cash dividend of 0.03 Euros gross per share that was paid on 3 July 2014 and the 0.126 Euros gross per share paid last January. Remuneration per shareholder charged to the results of financial year 2013 is maintained, therefore, at 0.27 Euros per share.

## 5. OTHER SIGNIFICANT EVENTS

### 5.1. Regulation in Spain

In the second quarter of 2014, a group of provisions was approved affecting the energy sector. This section presents the most significant regulatory changes.

#### Electricity Sector

On 10 June *Royal Decree 413/2014* was published regulating the **production of electrical power from sources of renewable energy, cogeneration and waste**, which establishes the methodology of

the specific remuneration regime that will be applicable to the facilities that do not meet the minimum level necessary to cover the costs to allow them to compete on an equal standing with the rest of the technologies on the market, obtaining reasonable profitability with reference to the standard installation applicable in each case.

During their regulatory useful life, these installations can receive, in addition to remuneration for the sale of energy valued at market price, a specific remuneration made up of a term per unit of installed power that covers, when applicable, the investment costs for each standard installation that cannot be recovered by the sale of energy on the market, which is known as **return on investment**; and a term for the operation it covers, if applicable, the difference between the operation costs and earnings resulting from the participation of said standard installation in the production market, which is termed **return on operations**.

For the calculation of the return on investment and the return on operations of a standard installation, the following aspects will be considered: the standard earnings for the sale of energy valued at market price, the standard operation costs necessary to carry out an activity, and the standard value of an initial investment, all of which is aimed at having an efficient and well-managed company.

In addition, the project's reasonable return is established as the return before taxes determined by the average performance of the ten year Government Bonds increased with a spread (7.5% for the first regulatory period ending on 31 December 2019).

All remuneration parameters may be reviewed at the end of each regulatory half-period or period,

among them, the value around which profitable return will revolve in what remains of the regulatory life of the standard installations. Under no circumstance, once the regulatory useful life or the standard value of the initial investment of a standard installation has been recognised, may said values be reviewed.

In addition, this Royal Decree establishes that, by means of the order of the Minister for Industry, Energy and Tourism, a classification of installations will be established based on the technology, the installed power, the age or any other segmentation considered necessary for the application of this remuneration regime. For this reason, on 20 June the *Order IET/1045/2014 of 16 June, is published, approving the **remuneration parameters of the standard installations applicable to specific installations for the production of electrical energy from renewable energy sources, cogeneration and waste** applicable for the first regulatory half-period ending on 31 December 2016.*

This Order of 16 June slightly differs from the initial draft, and the final changes introduced are not relevant in terms of impact and break down among the technologies wind, PV and CSP.

In this final version, both the wind energy and CSP improved in EUR 80 and EUR 26 million versus the impact initially estimated.

*The Decision of 9 May 2014, of the Secretary of State for Energy, modifies the **Regulations for the operation of day and intraday markets of electrical energy production and the contract of adhesion to said regulations** to operatively integrate the MIBEL in the European market. Furthermore, there have been several operation*

procedures for this integration and for the implementation of cross border exchanges of balancing energies.

## 5.2. Regulation in the United Kingdom

### RIIO ED1

Currently, the two ScottishPower Energy Networks distribution subsidiaries, SPD and SPM, are in ongoing negotiations with Ofgem to define the terms of the next RIIO-ED1 regulatory period, which shall enter into force on 1 April 2015 for a duration of 8 years. It is expected that Ofgem will publish at the end of July a first decision regarding the business plan proposals sent by distributors in March 2014. The decision will be published in December 2014.

## 5.3. Regulation in the United States

### Distribution Rate Case of Central Maine Power (CMP)

On 5 June 2014 CMP and the Maine regulatory body, MPUC, came to a tariff agreement for 1 year. The Order will be published in August 2014, where the definitive review terms will be specified.

Despite the new tariffs being applied to consumers as from September 2014, the tariff agreement is applied from 1 July 2014, as was agreed.

### ROE of the FERC transmission networks

On 19 July 2014, the FERC published the Order regarding the request for reduction of the ROE applied to the transmission installations of New England, presented by a group of New England bodies led by the Massachusetts Attorney General.

In this Order, the FERC has changed the method for calculation of the ROE, applying the method used for the gas and oil industries. The decision of the FERC has been to establish the base ROE at 10.57% with minimum and maximum limits of 7.04% and 11.74%.

In the case of the MPRP project of CMP, the ROE has been established at the upper limit, that is 11.74%.

## 5.4. Regulation in the European Union

### Involuntary exposure to retail market

In the year 2012, due to a decision of the Government of Brazil, the long term contracts of the Brazilian distributors came to an end. To date, the Brazilian regulator, ANEEL, has not been able to close contracts to cover all of the energy needs of the distributors. Thus, Brazilian distributors must purchase this energy on the wholesale market at a time when the spot price is very high due to the drought they are suffering.

The distributors will pass on the costs of these purchases to consumers at the time of the tariff review. On the other hand, the Brazilian Administration is articulating different measures to minimise the temporary impact of these purchases on the accounts of the distributors. In the first quarter, an MR\$11,200 fund was established to cover these excess costs during the year 2014, but it has only covered expenses from January to May. The Brazilian administration is currently working to search for new measures.

## Analysis of the Consolidated Income Statement

### 1. RELEVANT INFORMATION

#### Regulatory impacts in Spain

The results of the first half of 2014 include a regulatory impact of EUR 611 million, as a result of several measures introduced since financial year 2012:

- Law 15/2012: EUR 242 million
- RDL 9/2013: EUR 369 million

#### Changes in consolidation (IFRS 11)

The IFRS 11 has implied changes in the consolidation method of certain companies, moving from the proportionate consolidation method to the equity method. This standard requires the 2013 financial statements are to be restated in the same conditions so that the information is homogeneous between periods. Therefore, all references and figures for 2013 are presented under the premise of the new standard.

Within the Iberdrola Group, the affected businesses and the stakes -that are subsequently consolidated by the equity method- are as follows:

- Liberalised Business Spain: Nuclenor, BBE, investee cogenerator plants.
- Renewables: investees in Spain, UK, USA, Brazil and Italy.

- South America: Neoenergia Group.
- Non-energy: investee subsidiaries of Iberdrola Inmobiliaria, IBV.

#### Tariff Deficit

Although no tariff deficit is expected for 2014 following government measures to reduce regulated costs and to increase tax collection, there is a temporary imbalance over the 2014 settlement period, which is financed (according to Law 24/2013 on the Electricity Sector) by the subjects of the settlement system in an amount proportional to the remuneration corresponding to them in each monthly settlement. In this way, Iberdrola reduces its burden from 35.01% to approximately 13%.

The amount financed by Iberdrola in cumulative terms as at 30 June 2014, including the amounts pending on securitizations as at the end of 2013, amounts to EUR 1,445 million.

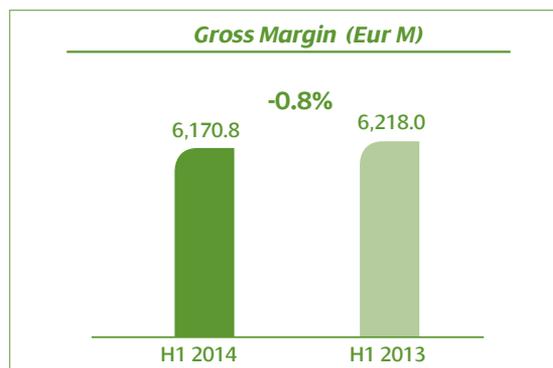
### 2. ANALYSIS OF THE CONSOLIDATED INCOME STATEMENT

The most notable results figures for the first half of 2014 are as follows:

Eur Millions	H1 2014	v. H1 2013
REVENUES	15,185.4	-4.5%
GROSS MARGIN	6,170.8	-0.8%
EBITDA	3,744.7	0.0%
EBIT	2,359.1	+250.6%
RECURRING NET PROFIT	1,296.7	-7.5%
NET PROFIT	1,503.1	-13.0%
OPERATING CASH FLOW	2,856.0	-3.9%

## 2.1. Gross Margin

Gross Margin was EUR 6,170.8 million, a 0.8% drop compared to 2013.



The movements on the exchange rates for the reference currencies (USD: -4.5%; GBP: +3.4%; Real: -18.8%) have resulted in a negative impact of EUR 47 million.

Its performance is mainly the result of the following:

- **The Networks business** decreased by 1.9% to EUR 2,454 million. The main highlights of the first half of the year are:
  - In Spain it came to EUR 935.5 million (-5.0%), as a result of the reduction in recognised income due to the impact of RDL 9/2013, applicable since July 2013.
  - The United Kingdom recorded a 7.9% increase to EUR 641.4 million due to a greater asset base to be remunerated by the investments made and derived from the application of the DPCR5 in

Distribution and RIIO-T1 in transmission. In addition, the GBP rose in value by 3.4%.

- The contribution of Iberdrola USA in the period was EUR 752.2 million (+2.2%), despite the negative effect of the exchange rate (-4.5%). It is worth noting the positive change resulting from the application of the Rate Cases in force and the growing contribution of the AT line in Maine, as well as due to different US GAAP-IFRS adjustments.
- The Gross Margin of Brazil dropped by 32.9% to EUR 124.9 million despite the company's upward review of rates in August 2013. The negative trend of the business is a result of:
  - A certain temporary slowdown of consumption in Elektro's service area.
  - The impact of the exchange rate (EUR -23 million) due to the depreciation of the Real (-18.8%).
  - On one hand, the impact of the tariff assets resulting from the drought (EUR -74 million) that will be recovered beyond August, and on the other, EUR 18 million of positive impacts recorded in 2013 that affect the year-on-year comparison.
- **Generation and Supply Business** increased by 8.2% to EUR 2,577 million.
  - In Spain, the figure was EUR 1,705.4 million (+14.2%), due to a greater production with a generation mix based on a greater hydro

production (+37.5%) and nuclear production (+3.9%), which influences the lower cost of provisioning and the margins achieved. Also as a result of both the good performance of the trading activity in the gas business as well as other positive one-off impacts that are not recurrent.

- The United Kingdom has a Gross Margin of EUR 628.4 million (-0.8%), positively affected by the improvements in the performance of the plants and the rise of the pound (+3.4%) but it is insufficient to offset the negative impact of lower sales (-12.3%) due to better weather conditions, the impact of the Carbon Price Floor applicable to coal and gas purchases and finally, the closure of the Cockenzie plant at the end of March 2013.
- Mexico reduced its Gross Margin by 21.8% down to EUR 194.6 million as a result of the devaluation of the US dollar (-4.5%) and the one-off effect of the redefinition of several contracts with private clients.
- Also noteworthy the good performance of the gas activity in the US and Canada, due, on the one hand, to deviation operations and wholesale margins, as well as the exceptional improvement of the margins in North America as a result of the cold snaps during the semester in this area.
- **The Renewables Business** reduced its Gross Margin by 16.2% down to EUR 1,057.3 million. The main causes of this trend are:
  - The effect of the regulatory measures in Spain by which remuneration is modified

(RDL 9/2013), which had an impact of EUR 227 million.

- A better margin both in the United Kingdom and in the USA and Latin America, as a result of new capacity coming on line.
- A drop of the item corresponding to the Rest of the World affected by the sale of farms and pipeline in Turkey, Estonia and Poland during 2013.
- The contribution of **Other Businesses** totals EUR 100.9 million.

## 2.2. Gross Operating Result - EBITDA

Consolidated EBITDA is kept practically flat with regard to that achieved in 2013, reaching EUR 3,744.7 million, where the improvement of liberalised business offsets the negative effect of RDL 9/2013 on the Renewables and Networks businesses, as well as the evolution of the activities in Brazil.

In addition to the already explained Gross Margin, Net Operating Expenses increased by 4.2% to EUR 1,689 million, mainly affected by the drop in capitalizations and other non recurring effects, that will be recovered in the second half of the year. The Recurring Net Operating Expenses increase by 3.0% due to the greater activity in the United Kingdom (Networks and Renewables).

Net Operating Expenses can be broken down as follows:

- Net Personnel Expenses increased by 2.7% to reach EUR 850.3 million.
- Net External Services totalled EUR 838.8 million (+5.9%).
- Effect of the exchange rate (EUR 25 million).

<i>Net Operating Expenses</i>		
<i>Eur M</i>	H1 2014	% v. H1 2013
Net Personnel Expenses	-850.3	+2.7%
Net External Services	-838.8	+5.9%
<b>Total</b>	<b>-1,689.0</b>	<b>+4.2%</b>

The Taxes and Levies item decreased by 13.7%, totalling EUR 737.1 million, due to the following effects:

- The favourable sentence regarding the emission rights clawback (EUR 111 million). In this line, the sentence states that the clawback should have only been applied to the assignees generation facilities, and just for an amount equivalent to the maximum value of the awarded emission rights (and not for a presumed windfall profit derived from higher energy prices as the result of the internalisation of the emission rights value into the market offers). This impact is partially offset year-on-year by the EUR 53 million registered in 2013 corresponding to the

Sentence of the Constitutional Court on the Ecotax of Castilla-La Mancha.

- The new fiscal measures for energy sustainability in Spain, contained in Law 15/2012, amounted to EUR 233 million (-17%), broken down as follows:
  - 7% tax rate on Generation, EUR 99 million.
  - 22% canon on hydroelectric production, EUR 82 million.
  - Taxes on nuclear waste, EUR 52 million.
- From the above breakdown, EUR 205 million correspond to the Generation and Supply business and EUR 28 million to the Renewables business.
- Impact of RDL 9/2013 as regards Social Tariffs ("*Bono Social*"), 38.47% of which having to be financed by Iberdrola according to Order IET 350/2014, with an impact of EUR 42 million.
- In the United Kingdom, the taxes and levies item amounted to EUR 64 million (-42.8%) due mainly to the new energy efficiency programmes established (ECO), whose application period has been extended until 2017.
- End of cost of energy efficiency charged to companies in Spain (EUR +25 million).

### 2.3. Net Operating Result - EBIT

EBIT was EUR 2,359.1 million, with an increase of 250.6% compared with the first quarter of 2013 after the write-offs made in June 2013 (Gas USA, portfolio of renewables and other projects).

Thus, Amortisations and Provisions dropped by 54.9%, totalling EUR 1,385.6 million.

In this regard, the main comments are as follows:

- The Amortisations item registers an increase of 0.5%, to EUR 1,311 million. Their evolution is basically due to the change of useful life of the UK networks, from 60 to 40 years, new Renewables assets in operation and to the increase in value of the pound (+3.4%).
- The Provisions item is at EUR 74.1 million with a lower expense of EUR 1,692.1 million as a result of the extraordinary write-offs carried out in 2013, mentioned above.

## 2.4. Financial Result

The net financial result was EUR -511 million, which is 7% better than that achieved in the same period of the previous financial year. The following impacts are worth noting:

### Financial result improved:

- The average balance of net debt dropped by 10%, whereas total average cost dropped 13 basis points to 4.52%.
- The sale of the stake in EdP generated a gross capital gain of EUR 96 million.

### Financial result worsened:

- The lower income from the deficit of EUR -60 million is due to the application in 2013 of the margin that had to be recognised in the draft Ministerial Order and that was reverted in the fourth quarter, as well as to the reduction of the average accounts receivable balance.

- In the past financial year EUR 45 million were received in dividends that this year are no longer received due to the sale of the aforementioned EdP portfolio and EUR 4 million due to the sale of Medgaz.
- The gains on the exchange rates in the hedging of results has decreased to EUR 30 million.

	June 13	June 14	Diff.
Debt Result	-670	-587	+83
Interests deficit	75	15	-60
Dividends	49	-	-49
Derivatives and exchange differences	28	-2	-30
Sale of EdP and others	-33	63	+96
Financial result	-550	-511	+40

## 2.5. Results of Companies Consolidated by the Equity Method

The item Results of Companies Consolidated by the Equity Method reached EUR 121.7 million (-9.7%) due mainly to the lower contribution of the business in Brazil as a result of the tariff review of April 2013, and of the drought (EUR -91 million) partially offset by the restatement of Gamesa's book value following the positive performance of the stock share that increases up to EUR 8.11 per share.

## 2.6. Income from Non-Current Assets

Income from Non-Current Assets amounted to EUR 184.9 million, EUR 202.2 million more than in the first half of 2013. During the first half of 2014 the most significant operations have been the sale of the portfolio of Itapebí (Brazil) and

of the stake of the Group in the Nugen project (United Kingdom).

## 2.7. Net Profit

As a result of everything mentioned above, Profit before Tax was EUR 2,155.1 million, bringing an increase of EUR 1,915.1 million.

With regards to the income tax, it amounts to EUR 630.9 million, considering an apparent gross tax rate of 29.3%. The difference in this item is due to the revaluation of balance sheet in July 2013 and its fiscal treatment.

Recurring Net Profit, that is, profit generated before the effect of non-current items, amounted to EUR 1,296.7 million (-7.5%).

Lastly, Net Profit amounted to EUR 1,503.1 million, a 13.0% drop compared to the figure obtained in the same period of 2013.

Funds Generated from Operations\* in the first half of 2014 were EUR 2,855.7 million, resulting in a drop of 3.9% compared to the same period of the previous year. The change experienced by the benchmark credit ratios\*\* is as follows:

	Excluding regulatory collection rights		Including regulatory collection rights	
	July'13- June'14	Jan'13-Dec'13	July'13- June'14	Jan'13-Dec'13
Retained Cash Flow (RCF)***/Net Debt*	19.6%	18.7%	18.4%	17.5%
Funds Generated from Operations (FFO)** / Net Debt*	22.7%	22.1%	21.4%	20.8%
Net Debt*/EBITDA	3.6x	3.7 x	3.8x	4.0x

\* Including TEI.

\*\* Net Profit + Minority Results + Amort. and Prov. - Equity Accounting - Net Non-recurring Results - Financial Provisions + Dividends of companies consolidated by the equity method – Adjustment of tax deductible items and other effects – Removal of tax effect of revaluation of balance sheets.

\*\*\* FFO – Dividends.

## Results by Business

### 1. NETWORKS BUSINESS

The key figures for the Networks business are as follows:

(Eur Millions)	H1 2014	v. H1 2013
Revenues	3,524.7	+3.6%
Gross Margin	2,454.0	-1.9%
EBITDA	1,654.6	-4.5%
EBIT	1,148.1	-5.2%

The Networks business reduced its contribution to the Gross Margin (-1.9%), mainly due to the impact of the RDL 9/2013 in Spain (-5.0%), the drought in Brazil (-32.9%) and the effect of the exchange rate in the USA. These figures are partially offset by the good performance of the activities in the United Kingdom and the USA.

#### 1.1. Spain

(Eur Millions)	H1 2014	v. H1 2013
Revenues	935.5	-5.0%
Gross Margin	935.5	-5.0%
EBITDA	698.9	-7.5%
EBIT	500.1	-11.8%

#### a) Gross Margin

Gross Margin for the Networks Business in Spain dropped by 5.0% to EUR 935.5 million, mainly as a result of the lower remuneration established in Royal Decree Law 9/2013 (EUR -56 million), which was not yet applicable in the first half of 2013.

#### b) Operating Profit/EBIT

EBITDA for this Business totalled EUR 698.9 million, a decrease of 7.5%. The mentioned change in Gross Margin should be considered in conjunction with the 2.3% increase in Net Operating Expenses, to a great extent resulting from lower expense capitalisation due to lower investment and to the 7.6% increase in Taxes and Levies.

EBIT for the Networks Business in Spain totalled EUR 500.1 million (-11.8%). From this EBITDA trend, we must subtract EUR 198.8 million (-7.5%), pertaining to amortisations and provisions due to amortisation of new assets commissioned.

#### 1.2. United Kingdom

(Eur Millions)	H1 2014	v. H1 2013
Revenues	663.9	+8.8%
Gross Margin	641.4	+7.9%
EBITDA	484.9	+6.8%
EBIT	356.1	+9.9%

#### a) Gross Margin

Gross Margin of the Networks Business in the United Kingdom (Energy Networks) increased by 7.9% to EUR 641.4 million due to a larger base of regulatory assets as a result of greater investments, given that the regulatory frameworks in force for both Distribution and Transmission favour this. The effect of the rise in the value of the GBP on this item amounts to EUR 22 million.

#### b) Operating Profit/EBIT

EBITDA reached EUR 484.9 million (+6.8%). Net Operating Expenses increased by 14.2% to EUR 107.4 million, to a great extent due to greater

developed activity and to consultant fees derived from ED1 revision.

Personnel expenses amounted to EUR 39.8 million and net exterior services were at EUR 67.6 million.

Lastly, amortisations and provisions amounted to EUR 128.8 million (-0.8%).

### 1.3. United States

(Eur Millions)	H1 2014	v. H1 2013
Revenues	1,292.1	+12.4%
Gross Margin	752.2	+2.2%
EBITDA	422.7	-0.2%
EBIT	299.5	+5.6%

#### a) Gross Margin

Iberdrola USA increased its contribution to Gross Margin by 2.2% to EUR 752.2 million due to IFRS effects (EUR +33 million), and to the positive business trend due to the rate cases in force and the Maine transmission line (MPRP). The devaluation of the USD had a negative effect amounting to EUR 34 million.

The breakdown is as follows:

#### • By business

(Eur Million)	H1 2014	v. H1 2013
Electricity	597.9	-1.1%
Gas	147.8	-5.1%
Corporation and others (incl. IFRS adjustments)	6.5	N/A
<b>TOTAL</b>	<b>752.2</b>	<b>2.2%</b>

#### • By company

(Eur Million)	H1 2014	v. H1 2013
NYSEG	339.7	-7.2%
RGE	203.0	-6.5%
CMP	203.0	14.6%
Corporation and others (incl. IFRS adjustments)	6.5	N/A
<b>TOTAL</b>	<b>752.2</b>	<b>2.2%</b>

#### b) Operating Profit/EBIT

The Net Operating Expenses item increased by 8.2% to EUR 215.8 million, affected by the depreciation of the dollar (EUR 10 million) and IFRS and PPA adjustments, given that in 2013 an extraordinary positive impact on the nuclear decommissioning costs was posted.

EBITDA decreased by 0.2% to EUR 422.7 million given that the improvement of the business (EUR +14 million) and the greater contribution due to IFRS adjustments are exceeded by the devaluation of the dollar (EUR -19 million).

EBIT totalled EUR 299.5 million (+5.6%) following the deduction of Amortisations and Provisions totalling EUR 123.3 million, which decreased due to the greater assets commissioned and the reversal of provisions.

### 1.4. Brazil

Following the application of IFRS 11, only Elektro is included in this section, as Neoenergia goes on to consolidate by the equity method.

	H1 2014	v. H1 2013
Revenues	633.3	-3.7%
Gross Margin	124.9	-32.9%
EBITDA	48.1	-52.0%
EBIT	-7.5	N/A

### a) Gross Margin

In Brazil, the Gross Margin reached EUR 124.9 million (-3.7%), due to the following factors:

- The impact of the depreciation of the Real (-18.8%), with a negative effect of EUR 23.5 million.
- A temporary slowdown of electricity consumption in the last quarter (+8.9% in the Q1 compared to +1.0% in the Q2)
- The impact of the drought derived into higher prices together with a larger amount of energy sold, partially offset by CDE funds. This contribution, despite being higher than that of the first quarter, results in a net effect of EUR -74 million compared to that in 2013.
- Lastly, and on a positive note, Elektro's tariff review carried out in August 2013, with a year-on-year impact of EUR +27 million.

### b) Operating Profit / EBIT

EBITDA for the area amounted to EUR 48.1 million, a 52.0% drop.

Net Operating Expenses totalled EUR 75.6 million and dropped by 10.5% compared to the first half of 2013 basically due to the depreciation of the Real (-18.8%).

Amortisations and provisions amounted to EUR 55.65 million (-13.1%), also as a result of the depreciation of the Brazilian Real and smaller provisions.

As a consequence of this, there is a negative EBIT of EUR 7.5 million.

## 2. GENERATION AND SUPPLY BUSINESS

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

(Eur Millions)	H1 2014	v. H1 2013
Revenues	10,852.2	-6.2%
Gross Margin	2,577.0	+8.2%
Levies	-406.9	-25.9%
EBITDA	1,451.7	+27.0%
EBIT	953.4	N/A

On a global level, the Generation and Supply business was underpinned by a greater contribution of Spain and the gas business in Spain and the USA.

### 2.1. Spain

(Eur Millions)	H1 2014	v. H1 2013
Revenues	6,293.5	-3.8%
Gross Margin	1,705.4	+14.2%
EBITDA	1,034.7	+39.8%
EBIT	736.7	59.9%

### a) Gross Margin

To analyse the trends under these headings, the following aspects arising in the **Spanish Mainland Electricity System** during the first quarter of 2014 should be kept in mind:

- A 1.2% drop in mainland demand, although on a comparable basis of working days and temperature, the figures of 2013 still stand.

Gross Margin for Iberdrola's Generation and Supply Business in Spain recorded a 14.2% increase, totalling EUR 1,705.4 million.

The following can be noted regarding this trend of **Iberdrola**:

- Greater production (13.6%), where hydro (+37.5%), nuclear (+3.9) and coal (+9%) more than offset the drop in the production of gas cycles (-40.3%) and cogeneration (-25.3%).
- The cost of Procurement decreased by 9.1%, impacted by greater rainfall compared to the same period of 2013.
- Greater margins due to lower production costs, despite of lower prices.
- With regard to the application of energy, 81% corresponded to forward sales at a fixed price, whilst 19% were spot market sales.
- Hydroelectric reserves as at 30 June 2014 were at 8,700 GWh (77.1%).
- Management of several gas business items with a positive impact of EUR 132 million.

#### **b) Operating Profit / EBIT**

EBITDA has increased by 39.8% to EUR 1,034.7 million.

Operating Expenses dropped by 0.6%, while Personnel Expenses decreased by 0.9%, and External Services dropped by 0.4%.

The Taxes item dropped by 20.6% to EUR 309.6 million, due mainly to the favourable decision regarding CO<sub>2</sub> rights deduction, which had a positive impact of EUR 111 million. Within the Taxes item the following should be noted:

- Law 15/2012 on fiscal measures for energy sustainability, in force since 1 January 2013, which establishes a 7% tax on energy produced (EUR 70 million), a 22% levy on hydroelectric production (EUR 82 million) and a tax on spent nuclear fuel production (EUR 52 million), had an impact of EUR 205 million, compared to the EUR 204 million in the first half of last year. The green cent on gas and coal production is reflected in the Gross Margin (EUR -9 million).
- Positive effects in 2013 without correspondence in 2014 due to the application of the ruling of the Constitutional Court on the Ecotax of Castilla-La-Mancha, with a negative impact of EUR -53 million in the annual comparison.
- Higher Enresa tax, EUR 3 million, in line with the greater nuclear production.
- Lower taxes for energy efficiency (EUR +25 million), given that the financing of this cost borne by the companies ended in June 2013.
- The Social Tariff (*Bono Social*) (EUR 42 million) goes on to be financed at a Corporation level.

Amortisations and Provisions increased by 6.6% to EUR 298.0 million.

As a result of the above, EBIT increased by 59.9% compared to the same period of 2013, totalling EUR 736.7 million.

The regulatory impacts over recent financial years affected the business in the first half of 2014 as follows:

Item		Amount (Eur million)	Included in
Green cent	Law 15/2012	9	Gross Margin
Investment incentive	RDL 9/2013	38	Gross Margin
Cogeneration	RDL 9/2013	6	Gross Margin
Taxes on Generation	Law 15/2012	70	Levies
22% canon on hydroelectric production	Law 15/2012	82	Levies
Taxes on nuclear waste	Law 15/2012	52	Levies
<b>TOTAL</b>		<b>257</b>	

## 2.2. United Kingdom

(Eur Millions)	H1 2014	v. H1 2013
Revenues	4,055.4	-12.3%
Gross Margin	628.4	-0.8%
Levies	-94.8	-39.2%
EBITDA	244.0	8.6%
EBIT	92.2	23.0%

### a) Gross Margin

Gross Margin for ScottishPower customers (Generation & Supply) was EUR 628.4 million (-0.8%). The exchange rate had a positive effect of EUR 21 million. With regard to this item, the following should be noted:

#### In Generation:

- Lower production (-3.8%), mainly as a result of the closure of the Cockenzie plant in March 2013.
- Improvements in performance of plants and commodities prices.
- The “Carbon Tax”, established since 1 April 2013, which taxes coal and gas purchases, has an impact of GBP 31 million. Since 1 April 2014 the price has increased, going from £4.94 to £9.55 per MWh.

#### In Supply:

- Lower sales volume due to more favourable weather in the first half of 2014 compared to last year.
- Increases of electricity and gas rates since 7 December 2013, partially offset by the drop since 31 January 2014 (-3.3%).
- Higher non-energy costs (ROCs, T&D).

### b) Operating Profit/EBIT

EBITDA in Generation & Supply amounted to EUR 244.0 million, an increase of 8.6%. The exchange rate had a positive effect of EUR 8.2 million.

Net Operating Expenses reached EUR 289.6 million (+14.5%) due to marketing and IT expenses that will not grow proportionally on the second half. Without the effect of the rise in value of the GBP they would increase by 10.7%. The Personnel expense item totalled EUR 79.3 million (+6.3%) and External Services totalled EUR 210.3 million (+17.9%).

Tax and Levies amounted to EUR 94.8 million, a drop of EUR 61 million compared to the first half of 2013, mainly due to lower energy efficiency costs, as required by the British regulatory body (OFGEM), as they have been extended until March 2017, and that will be adjusted at year-end. These programmes are aimed at reducing CO2 emissions and focus on the insulation of homes and on improvements in energy efficiency in homes, after establishing the new environmental programmes (ECO in 2013 and CERT/CESP in 2012).

Lastly, amortisations and provisions amount to EUR 151.8 million and increased by 1.3%, mainly a consequence of the exchange rate, given that without this effect they would drop by 2.1% mainly due to the closure of the Cockenzie plant.

### 2.3. Mexico (Regulated Generation)

(Eur Millions)	H1 2014	v. H1 2013
Revenues	726.0	9.4%
Gross Margin	194.6	-21.8%
EBITDA	140.4	-26.5%
EBIT	105.4	-32.2%

#### a) Gross Margin

In Mexico the Gross Margin reached EUR 194.6 million (-21.8%), negatively affected by an extraordinary impact due to the renegotiation of private contracts in order to adapt them to current conditions. This one-off effect will be corrected in the following years.

The exchange rate has a negative effect of EUR 9 million.

#### b) Operating Profit/EBIT

EBITDA came to EUR 140.4 million (-26.5%), while Net Operating Expenses dropped by 6.2%, to EUR 53.3 million. The Amortisations and Provisions item dropped by 1.2% to EUR 35 million.

Lastly, EBIT for the business amounted to EUR 105.4 million, a 32.2% drop.

### 2.4. USA and Canada (gas)

(Eur Millions)	H1 2014
Revenues	49.0
Gross Margin	48.6
EBITDA	32.6
EBIT	19.0

#### a) Gross Margin

In this business, Gross Margin was EUR 48.6 million (EUR +43.1 million), as the cold winter and unfavourable weather conditions generated opportunities, and trading operations have been conducted, improving this item in comparison with the same period of 2013.

### b) Operating Profit / EBIT

EBITDA of the gas business in the USA and Canada came to EUR 13.6 million. Net Operating Expenses totalled EUR 14.4 million.

Lastly, EBIT for this business amounted to EUR 19.0 million, with lower amortisations in EUR 1,079 million following the write-offs made in 2013.

## 3. RENEWABLES

(Eur Millions)	H1 2014	v. H1 2013
Revenues	1,139.2	-15.2%
Gross Margin	1,057.3	-16.2%
EBITDA	712.8	-20.3%
EBIT	376.4	N/A

### a) Gross Margin

During the first half of 2014, Gross Margin showed a 16.2% drop to EUR 1,057.3 million. This trend can be explained by the following:

- The average price of renewables in the period reached 56.7 EUR/MWh, an 18% decrease derived mainly from the lower price in Spain, as a result of the regulatory reform, which reduced the average price in this country by 38%. The effect of the reform is increased by the abnormally low spot price in this period. Given that it is expected that the spot price recovers in the second half of the year, the impact registered up to June cannot be extrapolated to the entire financial year of 2014.

- Operating capacity at the close of the period is at 13,548 MW, showing a 0.4% increase with regard to its value at the close of the first half of 2013, restated under IFRS 11. The sale of assets in Poland (184 MW) and the existence of 299 MW under testing at the close of the period explain the mentioned trend. As for the average operating power during the period, this grew by +0.6% and boosted a growth in the production of 0.5%, up to 18,043.1 GWh.
- A high average load factor of 30.6%, although slightly lower (-0.1 percent) than the same period of the previous year, when the average load factor was 30.7%. The load factor in Spain was high, 28.5%, although it came 0.6 percentage points lower than the previous year, which was already extremely high. Likewise, the USA had a solid load factor, at 34.5%, a rise by +0.7 percentage points compared to the end of the previous year. In the United Kingdom, the load factor was 26.1% lower than that of 2013 (1.0%). As to Latam (Brazil and Mexico), they obtained 31.9%, improving on the result from the previous year by 1.6 pp and the Rest of the World (RoW), and registered a load factor of 24.3%. The first installed MW of the offshore West of Duddon Sands farm reached load factors of 26%.

By business, the Gross Margin trend was as follows:

- **Wind Energy Spain:** Gross Margin for the period is at EUR 354.8 million, dropping by 39.4% due to the impact of the regulatory reform in Spain (RDL9/2013) that amount to EUR 227 million.

- **Wind Energy USA:** Gross Margin grew by 1.7% reaching a total of EUR 352.4 million, due to a 2.0% increase in production, a 4.1% increase in the price in dollars (including all items), and a negative effect of the exchange rate of 4.5%.
  - **Wind Energy United Kingdom:** Gross Margin increased to reach EUR 157.3 million (+6.6%), a result of the increase in average power (+11%) and a lower load factor that have led to a 6.9% increase in production. The 3.6% drop in the price in local currency is almost offset by a 3.4% rise in the value of the pound.
  - **Wind Energy, Latam:** The commissioning of several farms in Mexico and Brazil has increased the average operating power by 27.1%, which in addition to a higher load factor, has led to a 34% increase in production. All of this, together with a significant increase in the average price billed of +17%, as a result of a lower base of comparison in Mexico in 2013 due to non-recurrent re-billings, and despite an 18% drop in value of the Real, has led the Gross Margin to grow 57.5%, to EUR 46.3 million.
  - **Wind Energy Rest of the World:** The decrease in production (-26.2%), resulting from the divestments made, drove the Gross Margin down by -37.0%, placing it at EUR 57.5 million.
  - **Mini-Hydro and other Renewables:** Gross Margin came to EUR 44.2 million (+6.0%), internalising a very significant increase in mini-hydro production in Spain (+3.6%), and a reversal of provisions that have more than offset the reduction of prices derived from the regulatory reform in Spain and the low spot price.
  - **Thermal Business, United States:** Gross Margin reached EUR 34.6 million at the close of 2013, showing an improvement of EUR 15.3 million.
- b) Operating Profit/EBIT**
- EBITDA dropped by 20.3% to EUR 712.8 million, mainly due to the regulatory reform in Spain (Law 15/2012) that results in an impact of EUR 28 million. The mentioned change in Gross Margin (-16.2%) should be considered in conjunction with the stabilisation of the Net Operating Expenses (+0.5).
  - The amortisations and provisions item totalled EUR 336.5 million, dropping by 65.4% compared to the previous year, when write-offs of project development costs were registered.
  - Lastly, EBIT, totalled EUR 376.3 million.

#### 4. OTHER BUSINESSES

(Eur Millions)	H1 2014	v. H1 2013
Revenues	268.7	6.1%
Gross Margin	100.9	1.7%
EBITDA	-7.9	-28.6%
EBIT	-13.5	N/A

##### a) Gross Margin

Gross Margin amounts to EUR 100.9 million, 1.7% higher than that registered in the first half of 2013.

##### b) Operating Profit / EBIT

EBITDA totalled EUR -7.9 million. Net Operating Expenses of these businesses amounted to EUR 14.4 million (-13,0%).

Amortisations and Provisions amounted to EUR 13.6 million.

#### 5. CORPORATION

This basically includes eliminations of inter-group expenses between the Corporation and businesses, as well as services provided by the Corporation to the various Businesses. During the first half of the year it has made no contribution to the group's profit and loss account.

In terms of levies, to highlight a negative impact of EUR 42 million resulting from RDL 9/2013, by which the Social Tariff (*"Bono Social"*) is financed.

## Balance Sheet Analysis

### January-June 2014

(Eur Millions)	June 2014	v. Dec 2013 <sup>(1)</sup>
TOTAL ASSETS	90,970	+1.3%
FIXED ASSETS	52,312	+2.2%
INTANGIBLE ASSETS	16,294	+1.6%
LONG-TERM INVESTMENTS	3,493	-32.1%
SHAREHOLDERS' EQUITY	35,689	+1.1%
ADJUSTED NET DEBT <sup>(2)</sup>	25,682	-4.3%

(1) Restated

(2) Includes regulatory receivables and TEI.

Iberdrola's Balance Sheet at 30 June 2014 shows Total Assets of EUR 90,970 million, highlighting the continuity of its solid asset strength.

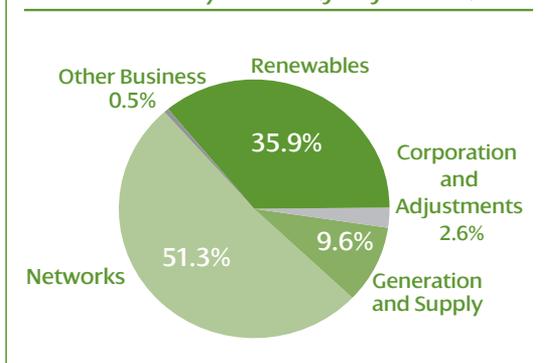
### 1. FIXED ASSETS

Total net investments in the period from January to June 2014 increased to EUR 1,199 million, confirming the investment containment established in recent years. These are broken down as follows:

(Eur Millions)	Jan.-June 2014	%
<b>Networks Business</b>	<b>615.5</b>	<b>51,3%</b>
Spain	91.9	
UK	301.1	
Iberdrola USA	195.6	
Brazil	26.9	
<b>Renewables Business</b>	<b>430.4</b>	<b>35,9%</b>
Spain	10.5	
UK	261.9	
USA	113.2	
Mexico	38.4	
Brazil	5.5	
Others	1.0	
<b>Generation and Supply Business</b>	<b>115.5</b>	<b>9,6%</b>
Spain	42.0	
UK	28.4	
Mexico	44.7	
USA and Canada	0.4	
<b>Other Businesses</b>	<b>6.6</b>	<b>0,5%</b>
Engineering	6.4	
Non-Energy	0.1	
<b>Corporation and Adjustments</b>	<b>31.1</b>	<b>2,6%</b>
<b>Total investment</b>	<b>1,199</b>	<b>100,0%</b>

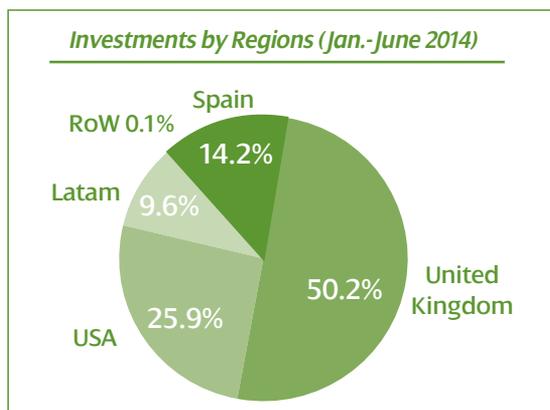
Investments in the period were concentrated in the Regulated Business and in Renewables activities, with the two items combined accounting for almost 90% of total investments in the period.

*Investment by Business (Jan.-June 2014)*



By geographical areas, investment for the period was as follows:

*Investments by Regions (Jan.-June 2014)*



As regards Regulated Business, investments in the period amount to a total of EUR 615.5 million, or 51.0% of total investments. ScottishPower Networks made investments worth EUR 301 million. Meanwhile, investments in Iberdrola USA, which were focused mainly towards the CMP transmission line and, to a lesser extent, towards electricity and gas distribution, amounted to EUR

196 million in the period. Finally, investments in Networks Spain totalled EUR 92 million.

Under the “Renewables” section, 61% of the investment in the period was aimed at wind projects in the United Kingdom, with EUR 236 million invested in offshore wind power.

With regard to investments in the Generation and Supply Business, these can be broken down into those made in the United Kingdom, for a total of EUR 28 million, in Spain for EUR 42 million, mainly in hydroelectric and nuclear power, and in Mexico for EUR 45 million

## 2. SHARE CAPITAL

Last 7 May 2014, after completing the share buy-back plan, a reduction of Share Capital was performed through the retirement of 133.47 million treasury shares. Therefore, the Company's Share Capital at 30 June 2014 amounted to 6,240,000,000 bearer shares with a nominal value of EUR 0.75 each.

## 3. EQUITY INSTRUMENTS WITH THE CHARACTER OF FINANCIAL LIABILITY

Equity instruments with the character of financial liability (TEI) are financial structures created for the purpose of optimising the tax incentive that supports investment in renewable energies in the United States.

The figure of EUR 246 million (net amount) as at 30 June 2014, is a result of the business history in the United States.

#### 4. FINANCIAL DEBT

Adjusted net financial debt at 30 June 2014 dropped by EUR 1,200 million to EUR 25,682 million compared with the EUR 26,836 million at 31 December 2013, as a result of the containment in investment, and the positive progress of divestments. Financial leverage is at 41.8% compared to 43.2% at 31 December 2013.

Excluding financing of the regulatory receivables, which in the case of Iberdrola amounted to EUR 1,445 million at 30 June 2014, adjusted net financial debt would be EUR 24,237 million and adjusted leverage would be 40.4%, compared with EUR 25,265 million and 41.7% at 31 December 2013.

The breakdown of the regulatory receivables amount at 30 June 2014 is as follows:

Tariff Deficit	1,324
Regulatory receivables of 2014 to be offset with taxes on generation collected by the Treasury	121
<b>Total</b>	<b>1,445</b>

The credit rating is broken down as follows:

Credit Rating of IBERDROLA Senior Debt			
Agency	Rating	Outlook	Date
Moody's	Baa1	Negative	9 Nov. 2012
Fitch IBCA	BBB+	Stable	25 Mar. 2014
Standard & Poors	BBB	Stable	28 Nov. 2012

With regard to the trend in the Company's financing cost, as at 30 June 2014, this was at 4.52%, 13bp below the accumulated cost in the first half of 2013.

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

	June 2014	June 2013
Euro	50.1%	54.8%
Dollar	18.8%	17.7%
British Pound	29.2%	26.4%
Brazilian Real and other currencies	1.9%	1.1%
Fixed Rate	49.7%	68.4%
Floating Rate <sup>(1)</sup>	46.5%	27.0%
Capped Rate	3.8%	4.6%

(\*) Includes TEI. Net Debt including net investment hedging derivatives and excluding regulatory receivables.

(\*\*) Excludes TEI. Gross Debt

(1) Without the regulatory receivables (EUR 1,445 million), the floating rate % would be reduced to 43.5% in June 2014.

In accordance with the policy of minimising the financial risks of the Company, the foreign currency risk has continued to be mitigated through financing the international businesses in local currencies (British pound, Brazilian real, US dollar, etc.) or in their functional currencies (US dollar, in the case of Mexico).

The debt\* structure by subordination is shown in the following Table:

	June 2014	June 2013
Holding	76.6%	78.3%
UK	9.5%	8.5%
USA	8.2%	8.7%
Brazil	3.0%	1.7%
Mexico	1.7%	1.7%
Others	1.0%	1.0%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(\*) Gross Debt. Including TEI.

This debt\* is broken down by financing source as follows:

	June 2014	June 2013
Euro market	41.8 %	42.2 %
Dollar market	18.2 %	18.0 %
British pound market	12.4 %	11.1 %
Remaining bonds	1.5 %	1.6 %
Notes	3.7 %	4.7 %
EIB	8.8 %	8.5 %
Project Finance	3.5 %	3.6 %
Bank loans	8.9 %	8.9 %
TEI	1.0 %	1.4 %
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

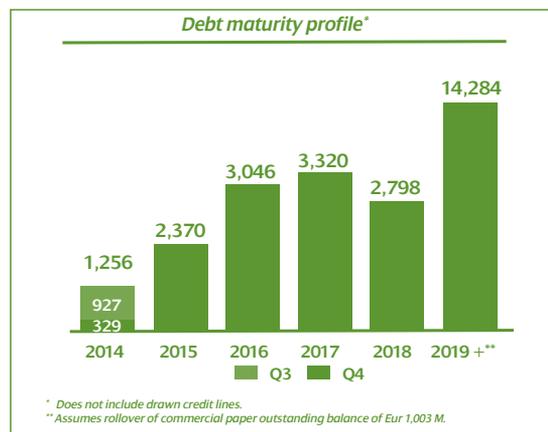
(\*) Gross Debt. Including TEI.

Iberdrola has a strong liquidity position at the end of the first quarter of 2014, exceeding EUR 10,100 million (equivalent to more than 35 months of the company's financing needs).

	Eur M
<b>Credit Line Maturities Available</b>	
2014	359
2015	192
2016 & onwards	7,530
<b>Total Credit Lines</b>	<b>8,081</b>
Cash & Short Term Fin. Invest.	2,097
<b>Total Adjusted Liquidity</b>	<b>10,178</b>

Iberdrola has a good debt maturity profile, with over six years of average debt life, as a result, among other factors, of the active management of liabilities carried out throughout this financial

year. The following chart shows the debt maturity profile\* of Iberdrola at the end of the first half of 2014.



Lastly, the **financial leverage** evolution has been as follows:

	Eur M	June 2014	June 2013 <sup>(1)</sup>
<b>Shareholder's Equity</b>		<b>35,689</b>	<b>35,080</b>
Gross Debt*		28,281	29,866
Cash		2,134	1,513
Asset derivatives		464	418
<b>Adjusted Net Debt</b>		<b>25,682</b>	<b>27,936</b>
Leverage		41.8 %	44.3 %
Regulatory receivables		1,445	2,153
<b>Adjusted Net Debt (excl. Regulatory receivables)</b>		<b>24,237</b>	<b>25,783</b>
Leverage (excl. <b>Regulatory receivables</b> )		40.4 %	42.4 %

(\*) Including TEI, derivative liabilities and accrued interest.

(1) Restated.

## 5. WORKING CAPITAL

Working capital shows an increase of EUR 543.0 million since December 2013, mainly as a result of several different effects partially offsetting each other:

- A significant increase of “Current Financial Investments” due mostly to the inclusion under this item of the regulatory receivables pending securitisation, which amounts to EUR 1,445 million.
- The increase in the Commercial Debtors item is offset by the increase in Commercial Creditors.
- Asset and liability balances with Public Administrations amount to, all together, a reduction of working capital of EUR 552 million.

CURRENT ASSETS	Including Regulatory Receivables		
	June. 2014	Dec. 2013	Var.
Nuclear Fuel	334.3	370.3	(36.0)
Inventories	1,839.6	2,025.8	(186.2)
Commercial debtors and other accounts receivable	4,711.8	4,299.6	412.2
Current financial investments	2,127.0	939.7	1,187.3
Asset derivative financial instruments	256.1	169.8	86.3
Public Administrations	699.8	939.7	(239.9)
<b>TOTAL CURRENT ASSETS*</b>	<b>9,968,6</b>	<b>8,744,9</b>	<b>1,223,7</b>

\* Does not include cash or debt asset derivatives.

CURRENT LIABILITIES	June 2014	Dec.2013 <sup>(1)</sup>	Var.
Provisions	206.4	294.4	(88.0)
Liability derivative financial instruments	237,0	244.4	(7,4)
Commercial creditors and other accounts payable	5,957.6	5,493.5	464.1
Public Administrations	1,615.2	1,303.2	312.0
<b>TOTAL CURRENT LIABILITIES**:</b>	<b>8,016.2</b>	<b>7,335.5</b>	<b>680,7</b>
<b>NET WORKING CAPITAL</b>	<b>1,952.4</b>	<b>1,409.4</b>	<b>543.0</b>

\*\* Does not include financial debt and debt liabilities derivatives.

## 6. FUNDS GENERATED FROM OPERATIONS

Funds Generated from Operations at 30 June 2014 amount to EUR 2,855.7 million, compared with EUR 2,974.4 million in the same period of the previous year.

	June. 2014	June 2013 <sup>(1)</sup>	Var.
Net Profit	1,503.1	1,728.0	-13.0%
Amortisations	1,385.6	3,070.7	-54.9%
P/L Equity	-121.7	-134.8	-9.7%
Extraordinary results, net of taxes	-133,3	8,8	n,a,
Financial provisions capitalized	61.6	73.4	-16.1%
Minority P/L	21.1	12.7	66.7%
Adjustment of tax deductible items and other effects	89.8	209.8	n,a,
Equity dividends	49.6	57.0	-13.0%
Fiscal effect on Impairments PPA	-	-515.7	n,a,
Fiscal effect Balance sheet revaluation	-	-1,537.5	n,a,
<b>FFO</b>	<b>2,855.7</b>	<b>2,972.4</b>	<b>-3.9%</b>

## 7. FINANCE TRANSACTIONS

### Summary of the main financial transactions carried out in 2014

Issuer	Transaction	Amount	Currency	Maturity date
Iberdrola Internacional	Green bonds / Exchange	750	Eur	8.5 years
Iberdrola Financiación	Loan	3,000	EUR	+1 year
Iberdrola, S.A.	Syndicated loan	2,000	Eur	5 years
Iberdrola Financiación	Loan	600	Eur	2 years
Elektro	Loan 4131	400	Brl	2 years

### Second Quarter Financing

#### Reconfiguration of syndicated loan

With the aim of adjusting the liquidity of the Group to market conditions, in April Iberdrola subscribed in a syndicated bank loan of 2,000 million Euros, comprising two tranches: 600 million Euros with a five year term and 1,400 million Euros also with a five year term which, subject to the acceptance of the banks, may be extended by one or two additional years.

This operation reconfigures two already existing loans: a syndicated bank loan of 2,150 million Euros subscribed in July 2010 with a five year term; and a syndicated operation of 1,089 million Euros signed in May 2012 with a four and five year term for the loan and the credit respectively.

With this restructuring, Iberdrola manages to adapt the liquidity volume, reduce the cost of its credit operations, and flexibilise the management of its liquidity.

#### Extension of the syndicated loan.

In June, Iberdrola exercised the right to extend the syndicated loan of EUR 3,000 million to 2017 from 2016.

#### Bank loan

In June, Iberdrola signed a bank loan of 600 million Euros, maturing in 2016, with a very competitive margin above Euribor.

#### Loan 4131

Elektro signed in June three bank loans with three foreign banks for a total amount of 400 million reais, under Law 4131, maturing in 2016. These operations facilitate the access of the Brazilian subsidiary to external financing at competitive cost to fulfil working capital needs.

## 8. CREDIT RATING

	Moody's			Standard and Poors			Fitch IBCA		
	Rating	Outlook	Date	Rating	Outlook	Date	Rating	Outlook	Date
Iberdrola S.A.	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012	BBB+	Stable	March 2014
Iberdrola Finance Ireland Ltd.	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012	BBB+	Stable	March 2014
Iberdrola Finanzas S.A.U.	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012	BBB+	Stable	March 2014
Iberdrola Finanzas S.A.U. (Escala Nacional)							AAA (mex)	Stable	March 2014
Iberdrola International B.V.	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012	BBB+	Stable	March 2014
Iberdrola USA Corporation	Baa1	Negative	Jan. 2014	BBB	Stable	Nov. 2012	BBB	Stable	Nov. 2013
Iberdrola Renewables Holdings Inc.	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012			
CMP	A3	Stable	Jan. 2014	BBB+	Stable	April 2013	BBB+	Stable	Nov. 2013
NYSEG	A3	Stable	Jan. 2014	BBB+	Positive	May 2014	BBB+	Stable	Nov. 2013
RG&E	Baa1	Stable	Jan. 2014	BBB+	Positive	May 2014	BBB	Stable	June 2014
Scottish Power Ltd	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012	BBB+	Stable	March 2014
Scottish Power UK Plc	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012	BBB+	Stable	March 2014
Scottish Power UK Holdings Ltd.	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012			
Scottish Power Finance US Inc	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012			
Scottish Power Energy Networks Holdings Ltd				BBB	Stable	Nov. 2012			
ScottishPower Generation Ltd.	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012			
SP Transmission plc	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012			
SP Manweb plc	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012			
SP Distribution plc	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012			
SPD Finance UK plc	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012			
ScottishPower Energy Management Ltd.	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012			
ScottishPower Energy Retail Ltd.	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012			
Scottish Power Investment Ltd	Baa1	Negative	Nov. 2012	BBB	Stable	Nov. 2012			
Neoenergia				BBB-	Stable	March 2010			
Celpe				BBB-	Stable	March 2011			
Coelba	Baa2	Stable	April 2011	BBB-	Stable	March 2010			
Cosern				BBB-	Stable	March 2010			
Neoenergia (Escala nacional)				brAAA	Stable	March 2010			
Celpe (Escala nacional)				brAAA	Stable	March 2011			
Coelba (Escala nacional)				brAAA	Stable	March 2010			
Cosern (Escala nacional)				brAAA	Stable	March 2010			
Elektro (Escala nacional)				brAAA	Stable	July 2011			

## Balance Sheet

### June 2014 (Unaudited)

<b>ASSETS</b>	June 2014	December 2013*	Variation
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>	<b>16,249</b>	<b>15,993</b>	<b>256</b>
Goodwill	7,995	7,801	194
Other intangible assets	8,254	8,192	62
<b>Investment properties</b>	<b>482</b>	<b>488</b>	<b>-6</b>
<b>Property, plant and equipment</b>	<b>52,312</b>	<b>51,204</b>	<b>1,108</b>
Property, plant and equipment in use	48,296	46,857	1,439
Property, plant and equipment in the course of construction	4,016	4,347	-331
<b>Non current financial investments</b>	<b>3,493</b>	<b>5,143</b>	<b>-1,649</b>
Investments accounted for using in equity method	2,368	2,284	84
Non-current equity methods	104	757	-652
Other non-current financial assets	725	1,849	-1,124
Derivative financial instruments	296	253	43
<b>Non-current trade</b>	<b>398</b>	<b>366</b>	<b>32</b>
<b>Deferred tax assets</b>	<b>5,756</b>	<b>6,500</b>	<b>-744</b>
<b>Total non current assets</b>	<b>78,690</b>	<b>79,694</b>	<b>-1,004</b>
<b>CURRENT ASSETS</b>			
<b>Nuclear fuel</b>	<b>334</b>	<b>370</b>	<b>-36</b>
<b>Inventories</b>	<b>1,840</b>	<b>2,026</b>	<b>-186</b>
<b>Current trade and other receivables</b>	<b>5,412</b>	<b>5,239</b>	<b>172</b>
Income Tax receivables	179	231	-52
Other tax receivables	521	709	-188
Trade and other receivables	4,712	4,300	412
<b>Current financial assets</b>	<b>2,598</b>	<b>1,126</b>	<b>1,472</b>
Current financial instruments	5	5	0
Other current financial assets	2,123	872	1,250
Derivative financial instruments	471	249	222
<b>Cash and cash equivalents</b>	<b>2,097</b>	<b>1,332</b>	<b>765</b>
<b>Total current assets</b>	<b>12,280</b>	<b>10,093</b>	<b>2,187</b>
<b>TOTAL ASSETS</b>	<b>90,970</b>	<b>89,787</b>	<b>1,183</b>

<b>EQUITY AND LIABILITIES</b>	<b>June 2014</b>	<b>December 2013*</b>	<b>Variation</b>
<b>EQUITY:</b>	<b>35,689</b>	<b>35,289</b>	<b>401</b>
<b>Of shareholders of the parent</b>	<b>34,953</b>	<b>34,585</b>	<b>368</b>
Share capital	4,680	4,680	0
Unrealised asset and liability revaluation reserve	-318	-297	-21
Other reserves	31,582	30,108	1,474
Treasury shares	-208	-303	94
Translation differences	-2,285	-2,174	-111
Net profit of the year	1,503	2,572	-1,069
<b>Hybrid Capital</b>	<b>536</b>	<b>551</b>	<b>-15</b>
<b>Of minority interests</b>	<b>200</b>	<b>153</b>	<b>47</b>
<b>EQUITY INSTRUMENTS WITH CHARACTERISTICS OF A FINANCIAL LIABILITY</b>	<b>190</b>	<b>244</b>	<b>-53</b>
<b>NON-CURRENT LIABILITIES</b>			
<b>Deferred income</b>	<b>5,762</b>	<b>5,683</b>	<b>79</b>
<b>Provisions</b>	<b>4,074</b>	<b>4,065</b>	<b>9</b>
Provisions for pensions and similar obligations	1,305	1,391	-86
Other provisions	2,769	2,674	94
<b>Bank borrowing and other financial liabilities</b>	<b>23,766</b>	<b>24,473</b>	<b>-707</b>
Bank borrowings-loans and others	23,486	24,139	-653
Derivative financial instruments	280	334	-54
<b>Other non-current payables</b>	<b>575</b>	<b>542</b>	<b>32</b>
<b>Deffered tax liabilities</b>	<b>8,524</b>	<b>8,336</b>	<b>188</b>
<b>Total non-current liabilities</b>	<b>42,700</b>	<b>43,099</b>	<b>-399</b>
<b>EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY</b>	<b>93</b>	<b>86</b>	<b>8</b>
<b>CURRENT LIABILITIES</b>			
<b>Provisions</b>	<b>206</b>	<b>294</b>	<b>-88</b>
Provisions for pensions and similar obligations	5	8	-3
Other provisions	201	287	-85
<b>Financial Debt</b>	<b>4,518</b>	<b>3,979</b>	<b>539</b>
Bank borrowings-loans and others	3,886	3,524	362
Derivative financial instruments	632	455	178
<b>Trade and other payables</b>	<b>7,573</b>	<b>6,797</b>	<b>776</b>
Trade payables	4,856	4,559	298
Current tax liabilities and other tax payables	768	444	324
Other tax payables	847	859	-12
Other current liabilities	1,101	935	167
<b>Total current liabilities</b>	<b>12,297</b>	<b>11,070</b>	<b>1,227</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>90,970</b>	<b>89,787</b>	<b>1,183</b>

\* Restated

## Profit and Loss

### June 2014 (Unaudited)

Eur M

	June 2014	June 2013*	%
<b>REVENUES</b>	<b>15,185.4</b>	<b>15,893.7</b>	<b>(4.5)</b>
PROCUREMENTS	(9,014.5)	(9,675.7)	(6.8)
<b>GROSS MARGIN</b>	<b>6,170.8</b>	<b>6,218.0</b>	<b>(-.8)</b>
<b>NET OPERATING EXPENSES</b>	<b>(1,689.0)</b>	<b>(1,620.2)</b>	<b>4.2</b>
<b>Net Personnel Expense</b>	<b>(850.3)</b>	<b>(828.0)</b>	<b>2.7</b>
Personnel	(1,069.5)	(1,074.2)	(.4)
Capitalized personnel costs	219.2	246.2	(11.0)
<b>Net External Services</b>	<b>(838.8)</b>	<b>(792.2)</b>	<b>5.9</b>
External Services	(1,016.2)	(995.9)	2.0
Other Operating Income	177.4	203.7	(12.9)
<b>LEVIES</b>	<b>(737.1)</b>	<b>(854.1)</b>	<b>(13.7)</b>
<b>EBITDA</b>	<b>3,744.7</b>	<b>3,743.6</b>	<b>.0</b>
AMORTISATIONS AND PROVISIONS	(1,385.6)	(3,070.7)	(54.9)
<b>EBIT</b>	<b>2,359.1</b>	<b>672.9</b>	<b>250.6</b>
<b>Financial Expenses</b>	<b>(895.0)</b>	<b>(1,118.9)</b>	<b>(20.0)</b>
<b>Financial Income</b>	<b>384.4</b>	<b>568.5</b>	<b>(32.4)</b>
<b>FINANCIAL RESULT</b>	<b>(510.6)</b>	<b>(550.4)</b>	<b>(7.2)</b>
<b>RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD</b>	<b>121.7</b>	<b>134.8</b>	<b>(9.7)</b>
<b>RESULTS FROM NON-CURRENT ASSETS</b>	<b>184.9</b>	<b>(17.3)</b>	<b>(1,168.7)</b>
<b>PBT</b>	<b>2,155.1</b>	<b>240.0</b>	<b>797.8</b>
Corporate Tax	(630.9)	1,500.7	(142.0)
Minorities	(21.1)	(12.7)	66.7
<b>NET PROFIT</b>	<b>1,503.1</b>	<b>1,728.0</b>	<b>(13.0)</b>

\* Restated

## Results by Business (Unaudited)

Eur M

June 2014	Networks	Generation and Supply	Renewables	Other Businesses	Corporation and adjust
Revenues	3,524.7	10,852.2	1,139.2	268.7	(599.5)
Procurement	(1,070.7)	(8,275.2)	(81.9)	(167.8)	581.1
<b>GROSS MARGIN</b>	<b>2,454.0</b>	<b>2,577.0</b>	<b>1,057.3</b>	<b>100.9</b>	<b>(18.4)</b>
NET OPERATING EXPENSES	(588.2)	(718.3)	(272.5)	(108.0)	(2.0)
Net Personnel Expense	(331.2)	(244.5)	(81.4)	(75.1)	(118.1)
Personnel	(510.2)	(260.0)	(91.4)	(85.7)	(122.3)
Capitalized personnel costs	179.0	15.5	10.0	10.6	4.1
Net External Services	(257.0)	(473.8)	(191.1)	(32.9)	116.1
External Services	(382.1)	(524.0)	(206.7)	(34.1)	130.7
Other operating income	125.1	50.1	15.6	1.1	(14.5)
LEVIES	(211.2)	(406.9)	(71.9)	(0.9)	(46.1)
<b>EBITDA</b>	<b>1,654.6</b>	<b>1,451.7</b>	<b>712.8</b>	<b>(7.9)</b>	<b>(66.6)</b>
Amortisation and Provisions	(506.5)	(498.4)	(336.5)	(5.6)	(38.7)
<b>EBIT / Operating Profit</b>	<b>1,148.1</b>	<b>953.4</b>	<b>376.4</b>	<b>(13.5)</b>	<b>(105.2)</b>
Financial Result	(249.3)	(104.6)	(69.9)	(11.4)	(75.4)
Results of companies consolidated by equity method	15.9	4.2	8.0	93.6	(0.0)
Results of non-current assets	84.6	96.6	3.3	0.1	0.3
<b>PBT</b>	<b>999.3</b>	<b>949.6</b>	<b>317.8</b>	<b>68.7</b>	<b>(180.4)</b>
Corporate tax and minority shareholders	(261.1)	(266.8)	(106.8)	(17.0)	(0.2)
<b>NET PROFIT</b>	<b>738.2</b>	<b>682.8</b>	<b>211.0</b>	<b>51.7</b>	<b>(180.6)</b>

Eur M

June 2013*	Networks	Generation and Supply	Renewables	Other Businesses	Corporation and adjust.
Revenues	3,401.5	11,564.6	1,343.8	253.2	(669.6)
Procurement	(900.5)	(9,182.0)	(82.7)	(154.0)	643.5
<b>GROSS MARGIN</b>	<b>2,501.0</b>	<b>2,382.7</b>	<b>1,261.1</b>	<b>99.3</b>	<b>(26.1)</b>
NET OPERATING EXPENSES	(563.1)	(691.0)	(271.2)	(109.8)	15.0
Net Personnel Expense	(308.3)	(241.9)	(76.6)	(73.1)	(128.2)
Personnel	(499.9)	(260.2)	(90.7)	(87.9)	(135.6)
Capitalized personnel costs	191.6	18.3	14.1	14.7	7.4
Net External Services	(254.9)	(449.1)	(194.7)	(36.7)	143.2
External Services	(388.0)	(516.6)	(211.9)	(37.6)	158.2
Other operating income	133.1	67.4	17.2	0.9	(15.0)
Levies	(204.8)	(548.9)	(95.6)	(0.5)	(4.3)
<b>EBITDA</b>	<b>1,733.1</b>	<b>1,142.8</b>	<b>894.3</b>	<b>(11.1)</b>	<b>(15.4)</b>
Amortisation and Provisions	(522.2)	(1,556.9)	(973.1)	18.5	(36.9)
<b>EBIT / Operating Profit</b>	<b>1,210.9</b>	<b>(414.1)</b>	<b>(78.8)</b>	<b>7.4</b>	<b>(52.4)</b>
Financial Result	(189.8)	(72.4)	(77.5)	(7.3)	(203.4)
Results of companies consolidated by equity method	107.6	17.4	12.2	(2.4)	-
Results of non-current assets	0.3	(0.3)	11.1	(26.0)	(2.5)
<b>PBT</b>	<b>1,128.9</b>	<b>(469.4)</b>	<b>(132.9)</b>	<b>(28.4)</b>	<b>(258.3)</b>
Corporate tax and minority shareholders	59.7	1,201.8	86.7	8.5	131.3
<b>NET PROFIT</b>	<b>1,188.6</b>	<b>732.4</b>	<b>(46.2)</b>	<b>(19.9)</b>	<b>(126.9)</b>

\* Restated

## Networks Business (Unaudited)

Eur M

June 2014	SPAIN	UNITED KINGDOM	US	BRAZIL
Revenues	935.5	663.9	1,292.1	633.3
Procurement	-	(22.5)	(539.9)	(508.3)
<b>GROSS MARGIN</b>	<b>935.5</b>	<b>641.4</b>	<b>752.2</b>	<b>124.9</b>
<b>NET OPERATING EXPENSES</b>	<b>(189.4)</b>	<b>(107.4)</b>	<b>(215.8)</b>	<b>(75.6)</b>
Net Personnel Expenses	(120.0)	(39.8)	(126.2)	(45.1)
Personnel	(173.9)	(106.9)	(172.0)	(57.4)
Capitalized personnel costs	53.9	67.1	45.7	12.3
Net External Services	(69.4)	(67.6)	(89.6)	(30.4)
External Services	(140.0)	(96.6)	(106.3)	(39.2)
Other operating income	70.7	29.0	16.7	8.8
Levies	(47.2)	(49.2)	(113.6)	(1.3)
<b>EBITDA</b>	<b>698.9</b>	<b>484.9</b>	<b>422.7</b>	<b>48.1</b>
Amortisations, Provisions and other	(198.8)	(128.8)	(123.3)	(55.6)
<b>EBIT / Operating Profit</b>	<b>500.1</b>	<b>356.1</b>	<b>299.5</b>	<b>(7.5)</b>
Financial Result	(66.8)	(62.5)	(49.4)	(70.7)
Results of companies consolidated by equity method	0.4	-	-	15.5
Results of non-current assets	-	-	-	84.6
<b>PBT</b>	<b>433.7</b>	<b>293.6</b>	<b>250.1</b>	<b>21.9</b>
Corporate tax and minority shareholders	(131.7)	(66.0)	(63.9)	0.4
<b>NET PROFIT</b>	<b>302.0</b>	<b>227.5</b>	<b>186.2</b>	<b>22.4</b>

Eur M

June 2013*	SPAIN	UNITED KINGDOM	US	BRAZIL
Revenues	984.3	610.4	1,149.3	657.5
Procurement	-	(16.1)	(413.0)	(471.4)
<b>GROSS MARGIN</b>	<b>984.3</b>	<b>594.4</b>	<b>736.3</b>	<b>186.1</b>
<b>NET OPERATING EXPENSES</b>	<b>(185.1)</b>	<b>(94.1)</b>	<b>(199.5)</b>	<b>(84.4)</b>
Net Personnel Expenses	(107.5)	(35.8)	(113.9)	(51.0)
Personnel	(171.0)	(96.8)	(166.8)	(65.4)
Capitalized personnel costs	63.5	61.0	52.8	14.3
Net External Services	(77.6)	(58.3)	(85.6)	(33.4)
External Services	(151.5)	(82.6)	(111.1)	(42.8)
Other operating income	73.9	24.3	25.5	9.4
Levies	(43.9)	(46.5)	(113.2)	(1.3)
<b>EBITDA</b>	<b>755.3</b>	<b>453.9</b>	<b>423.6</b>	<b>100.3</b>
Amortisations, Provisions and other	(188.4)	(129.8)	(140.0)	(64.0)
<b>EBIT / Operating Profit</b>	<b>566.9</b>	<b>324.1</b>	<b>283.6</b>	<b>36.3</b>
Financial Result	(30.4)	(57.1)	(70.5)	(31.8)
Results of companies consolidated by equity method	1.5	-	-	106.1
Results of non-current assets	-	0.2	-	0.1
<b>PBT</b>	<b>538.0</b>	<b>267.2</b>	<b>213.0</b>	<b>110.8</b>
Corporate tax and minority shareholders	217.4	(49.3)	(104.0)	(4.4)
<b>NET PROFIT</b>	<b>755.3</b>	<b>217.9</b>	<b>109.0</b>	<b>106.3</b>

\* Restated

## Generation and Supply (Unaudited)

Eur M

June 2014	SPAIN	UNITED KINGDOM	MEXICO	US & CANADA	Interco
Revenues	6,293.5	4,055.4	726.0	49.0	(271.7)
Procurement	(4,588.1)	(3,427.0)	(531.3)	(0.4)	271.7
<b>GROSS MARGIN</b>	<b>1,705.4</b>	<b>628.4</b>	<b>194.6</b>	<b>48.6</b>	<b>-</b>
NET OPERATING EXPENSES	(361.0)	(289.6)	(53.3)	(14.4)	-
Net Personnel Expenses	(148.2)	(79.3)	(10.2)	(6.7)	-
Personnel	(159.4)	(83.2)	(10.5)	(6.9)	-
Capitalized personnel costs	11.1	3.9	0.3	0.2	-
Net External Services	(212.8)	(210.3)	(43.1)	(7.6)	-
External Services	(233.1)	(239.6)	(44.2)	(7.9)	0.9
Other operating income	20.4	29.3	1.1	0.2	(0.9)
Levies	(309.6)	(94.8)	(0.9)	(1.6)	-
<b>EBITDA</b>	<b>1,034.7</b>	<b>244.0</b>	<b>140.4</b>	<b>32.6</b>	<b>-</b>
Amortisations, Provisions and other	(298.0)	(151.8)	(35.0)	(13.6)	-
<b>EBIT / Operating Profit</b>	<b>736.7</b>	<b>92.2</b>	<b>105.4</b>	<b>19.0</b>	<b>-</b>
Financial Result	(79.2)	(9.7)	(7.2)	(8.5)	-
Results of companies consolidated by equity method	4.2	-	-	-	-
Results of non-current assets	95.9	0.7	-	-	-
<b>PBT</b>	<b>757.7</b>	<b>83.2</b>	<b>98.2</b>	<b>10.5</b>	<b>-</b>
Corporate tax and minority shareholders	(225.7)	(15.5)	(24.1)	(1.6)	-
<b>NET PROFIT</b>	<b>532.0</b>	<b>67.7</b>	<b>74.2</b>	<b>8.9</b>	<b>-</b>

Eur M

June 2013*	SPAIN	UNITED KINGDOM	MEXICO	US & CANADA	Interco
Revenues	6,539.5	4,624.0	663.6	5.7	(268.2)
Procurement	(5,046.2)	(3,990.6)	(414.8)	(0.2)	269.8
<b>GROSS MARGIN</b>	<b>1,493.3</b>	<b>633.4</b>	<b>248.9</b>	<b>5.5</b>	<b>1.6</b>
NET OPERATING EXPENSES	(363.1)	(252.9)	(56.8)	(16.5)	(1.6)
Net Personnel Expenses	(149.5)	(74.6)	(10.2)	(7.5)	-
Personnel	(161.0)	(81.3)	(10.2)	(7.6)	-
Capitalized personnel costs	11.5	6.7	-	0.1	-
Net External Services	(213.6)	(178.3)	(46.6)	(9.0)	(1.6)
External Services	(237.8)	(218.4)	(49.7)	(9.3)	(1.4)
Other operating income	24.2	40.1	3.0	0.3	(0.2)
Levies	(389.9)	(155.8)	(1.0)	(2.2)	-
<b>EBITDA</b>	<b>740.2</b>	<b>224.7</b>	<b>191.0</b>	<b>(13.2)</b>	<b>-</b>
Amortisations, Provisions and other	(279.6)	(149.8)	(35.4)	(1,092.2)	-
<b>EBIT / Operating Profit</b>	<b>460.7</b>	<b>74.9</b>	<b>155.6</b>	<b>(1,105.3)</b>	<b>-</b>
Financial Result	(44.9)	(6.5)	(11.3)	(9.6)	-
Results of companies consolidated by equity method	17.4	-	-	-	-
Results of non-current assets	(0.8)	0.4	-	-	-
<b>PBT</b>	<b>432.4</b>	<b>68.8</b>	<b>144.3</b>	<b>(1,115.0)</b>	<b>-</b>
Corporate tax and minority shareholders	927.6	(16.7)	(30.2)	321.1	-
<b>NET PROFIT</b>	<b>1,360.1</b>	<b>52.1</b>	<b>114.2</b>	<b>(793.9)</b>	<b>-</b>

\* Restated

## Renewable Business (Unaudited)

Eur M

June 2014	SPAIN	UNITED KINGDOM	USA	LATINAMERICA	RoW
Revenues	395.6	183.7	454.3	48.4	57.1
Procurement	(3.6)	(16.2)	(60.3)	(2.1)	0.4
<b>GROSS MARGIN</b>	<b>392.0</b>	<b>167.5</b>	<b>394.0</b>	<b>46.3</b>	<b>57.5</b>
NET OPERATING EXPENSES	(104.9)	(38.1)	(107.5)	(6.9)	(15.0)
Net Personnel Expenses	(28.5)	(8.2)	(40.4)	(0.4)	(3.9)
Personnel	(29.0)	(11.8)	(45.3)	(0.8)	(4.5)
Capitalized personnel costs	0.5	3.6	4.9	0.4	0.6
Net External Services	(76.5)	(30.0)	(67.1)	(6.5)	(11.1)
External Services	(92.9)	(37.0)	(70.2)	(6.5)	-
Other operating income	16.5	7.1	3.2	-	(11.1)
Levies	(47.5)	(6.6)	(15.6)	(0.2)	(2.0)
<b>EBITDA</b>	<b>239.6</b>	<b>122.8</b>	<b>270.9</b>	<b>39.2</b>	<b>40.4</b>
Amortisations, Provisions and other	(83.8)	(59.5)	(161.4)	(12.8)	(18.9)
<b>EBIT / Operating Profit</b>	<b>155.7</b>	<b>63.3</b>	<b>109.5</b>	<b>26.3</b>	<b>21.6</b>
Financial Result	(37.7)	(11.7)	(2.7)	(5.5)	(12.1)
Results of companies consolidated by equity method	(1.3)	0.7	5.3	0.6	2.7
Results of non-current assets	1.9	-	-	-	1.4
<b>PBT</b>	<b>118.6</b>	<b>52.3</b>	<b>112.0</b>	<b>21.4</b>	<b>13.6</b>
Corporate tax and minority shareholders	(42.6)	(13.6)	(36.9)	(7.5)	(6.3)
<b>NET PROFIT</b>	<b>76.0</b>	<b>38.6</b>	<b>75.1</b>	<b>14.0</b>	<b>7.2</b>

Eur M

June 2013*	SPAIN	UNITED KINGDOM	USA	LATINAMERICA	RoW
Revenues	622.5	159.3	437.6	30.5	94.0
Procurement	(4.4)	(11.8)	(64.7)	(1.1)	(0.8)
<b>GROSS MARGIN</b>	<b>618.1</b>	<b>147.5</b>	<b>372.9</b>	<b>29.4</b>	<b>93.2</b>
NET OPERATING EXPENSES	(109.4)	(30.0)	(105.4)	(7.7)	(18.7)
Net Personnel Expenses	(23.5)	(6.3)	(42.0)	(0.6)	(4.2)
Personnel	(28.0)	(9.3)	(47.5)	(0.8)	(5.1)
Capitalized personnel costs	4.6	3.0	5.5	0.2	0.9
Net External Services	(85.9)	(23.7)	(63.5)	(7.1)	(14.5)
External Services	(100.4)	(28.7)	(68.9)	(7.1)	(6.8)
Other operating income	14.5	5.0	5.4	-	(7.7)
Levies	(67.0)	(6.7)	(15.6)	-	(6.3)
<b>EBITDA</b>	<b>441.7</b>	<b>110.9</b>	<b>251.9</b>	<b>21.7</b>	<b>68.2</b>
Amortisations, Provisions and other	(200.5)	(49.6)	(688.3)	(8.0)	(26.6)
<b>EBIT / Operating Profit</b>	<b>241.2</b>	<b>61.2</b>	<b>(436.4)</b>	<b>13.7</b>	<b>41.5</b>
Financial Result	(41.5)	(8.6)	(14.6)	(5.1)	(7.6)
Results of companies consolidated by equity method	8.7	0.9	0.5	0.4	1.7
Results of non-current assets	7.8	-	0.8	2.7	(0.2)
<b>PBT</b>	<b>216.2</b>	<b>53.5</b>	<b>(449.7)</b>	<b>11.7</b>	<b>35.4</b>
Corporate tax and minority shareholders	(65.0)	(12.5)	189.9	(3.6)	(22.1)
<b>NET PROFIT</b>	<b>151.2</b>	<b>41.1</b>	<b>(259.8)</b>	<b>8.1</b>	<b>13.3</b>

\* Restated

## Quarterly Results (Unaudited)

Eur M

2014	JAN-MARCH 2014	APR-JUNE 2014
<b>REVENUES</b>	<b>8,325.0</b>	<b>6,860.3</b>
PROCUREMENTS	(4,938.8)	(4,075.7)
<b>GROSS MARGIN</b>	<b>3,386.3</b>	<b>2,784.6</b>
<b>NET OPERATING EXPENSES</b>	<b>(815.1)</b>	<b>(873.9)</b>
<b>Net Personnel Expense</b>	<b>(417.9)</b>	<b>(432.3)</b>
Personnel	(525.0)	(544.5)
Capitalized personnel costs	107.1	112.1
<b>Net External Services</b>	<b>(397.2)</b>	<b>(441.6)</b>
External Services	(476.2)	(540.0)
Other Operating Income	79.0	98.5
<b>LEVIES</b>	<b>(444.6)</b>	<b>(292.6)</b>
<b>EBITDA</b>	<b>2,126.5</b>	<b>1,618.1</b>
AMORTISATIONS AND PROVISIONS	(688.3)	(697.3)
<b>EBIT</b>	<b>1,438.3</b>	<b>920.8</b>
<b>Financial Expenses</b>	<b>(441.4)</b>	<b>(453.6)</b>
<b>Financial Income</b>	<b>227.6</b>	<b>156.8</b>
<b>FINANCIAL RESULT</b>	<b>(213.8)</b>	<b>(296.8)</b>
<b>RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD</b>	<b>22.5</b>	<b>55.6</b>
<b>RESULTS FROM NON-RECURRING ASSETS</b>	<b>76.7</b>	<b>179.3</b>
<b>PBT</b>	<b>1,323.6</b>	<b>936.5</b>
Corporate Tax	(360.7)	(296.2)
Minorities	(10.4)	(15.8)
<b>NET PROFIT</b>	<b>952.6</b>	<b>624.45</b>

Eur M

2013	JAN-MARCH 2013*	APR-JUNE 2013*
<b>REVENUES</b>	<b>8,743.3</b>	<b>7,150.3</b>
PROCUREMENTS	(5,390.4)	(4,285.3)
<b>GROSS MARGIN</b>	<b>3,353.0</b>	<b>2,865.0</b>
<b>NET OPERATING EXPENSES</b>	<b>(815.5)</b>	<b>(804.7)</b>
<b>Net Personnel Expense</b>	<b>(409.9)</b>	<b>(418.1)</b>
Personnel	(530.6)	(543.6)
Capitalized personnel costs	120.7	125.5
<b>Net External Services</b>	<b>(405.6)</b>	<b>(386.6)</b>
External Services	(504.0)	(491.9)
Other Operating Income	98.4	105.3
<b>LEVIES</b>	<b>(404.6)</b>	<b>(449.5)</b>
<b>EBITDA</b>	<b>2,132.8</b>	<b>1,610.8</b>
AMORTISATIONS AND PROVISIONS	(718.6)	(2,352.1)
<b>EBIT</b>	<b>1,414.3</b>	<b>(741.3)</b>
<b>Financial Expenses</b>	<b>(729.1)</b>	<b>(389.8)</b>
<b>Financial Income</b>	<b>461.7</b>	<b>106.8</b>
<b>FINANCIAL RESULT</b>	<b>(267.4)</b>	<b>(283.0)</b>
<b>RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD</b>	<b>66.2</b>	<b>68.6</b>
<b>RESULTS FROM NON-RECURRING ASSETS</b>	<b>5.6</b>	<b>(22.9)</b>
<b>PBT</b>	<b>1,218.7</b>	<b>(978.6)</b>
Corporate Tax	(334.7)	1,835.4
Minorities	(5.3)	(7.4)
<b>NET PROFIT</b>	<b>878.6</b>	<b>849.41</b>

## Statement of Origin and Use of Funds

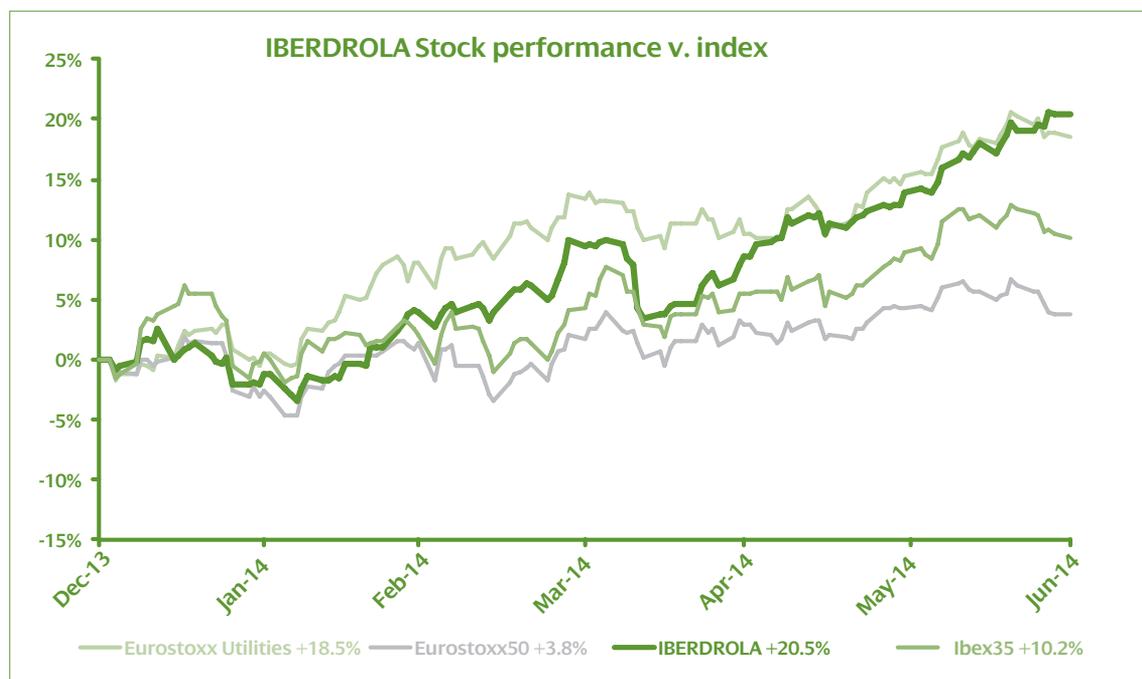
### June 2014 (Unaudited)

Eur M

	June 2014	June 2013*	Difference
EBITDA	3,745	3,744	1
Adjustments to results and others	(274)	(298)	24
Financial payments-receivables	(493)	(531)	38
Corporate Tax Payment	(283)	(238)	(44)
Provision payments	(179)	(151)	(28)
<b>Operating Cash Flow</b>	<b>2,516</b>	<b>2,526</b>	<b>(10)</b>
Dividends Paid	(181)	(308)	127
<b>Retained Cash Flow</b>	<b>2,335</b>	<b>2,218</b>	<b>118</b>
<i>Total Cash Flow allocations:</i>	(880)	(367)	(513)
<i>Net Investments</i>	(1,199)	(1,101)	(98)
<i>Divestments</i>	868	471	397
<i>Treasury stock</i>	(518)	(254)	(265)
<i>Capital issue</i>	(0,4)	(0,6)	0,2
<i>Hybrid issuance</i>	(30)	517	(547)
Exchange rate differentials	(329)	272	(601)
Change in regulatory receivables	126	256	(130)
Other variations	(99)	(846)	748
<b>Decrease/(Increase) in net debt</b>	<b>1,154</b>	<b>1,532</b>	<b>(378)</b>

\* Restated

## Stock Market Evolution



IBERDROLA Share	H1 2014	H1 2013
Number of shares outstanding	6,240,000,000	6,130,435,584
Price at the end of the period	5.58	4.05
Average Price of the period	4.94	3.98
Average daily volume	39,290,803	44,686,734
Maximum volume (04-10-2014 / 06-24-2013)	422,630,657	306,609,901
Minimum volume (06-04-2014/ 01-29-2013)	14,738,870	11,613,980
Dividends paid (€)	0.126	0.143
Gross Interim (01-30-2014/01-22-2013)	0.126 <sup>(1)</sup>	0.143 <sup>(1)</sup>
Dividend yield <sup>(2)</sup>	5.22%	8.35%

(1) Iberdrola fixed guaranteed price for the rights.

(2) Last dividend paid and Shareholders' Meeting attendance bonus / end-of-period price.

## APPENDIX - Iberdrola and Sustainability

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

### 1. SUSTAINABILITY INDICATORS

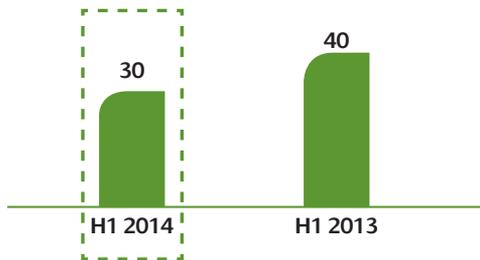
Sustainability Indicators	H1 2014	H1 2013
Contribution to GDP (Gross Margin) (*)	0.66%	0.71%
Contribution to GDP (Net Revenues) (*)	1.64%	1.91%
Net Investments in equipment (EUR million)	1.119	1.101
Investment in clean generation over the total investments (%)	86%	83%
Net profit (EUR million)	1,503.1	1,728.0
Dividend yield (%) (**)	5.22%	8.35%
CO <sub>2</sub> emissions in the period (gr. CO <sub>2</sub> /kWh). Total	194	212
CO <sub>2</sub> emissions in the period (gr. CO <sub>2</sub> /kWh). Spain	30	40
CO <sub>2</sub> emissions in the period (gr. CO <sub>2</sub> /kWh). SPW	620	652
Total emission-free production (GWh)	44,354	40,552
Spain emission-free production (GWh)	31,790	28,207
Emission-free production out of total production (%)	61%	57%
Spain emission-free production out of total production (%)	94%	92%
Total emission-free installed capacity (MW)	27,669	27,465
Spain emission-free installed capacity (MW)	18,326	18,309
Total emission-free installed capacity (%)	61%	61%
Spain emission-free installed capacity (%)	72%	72%

(\*) Source: Iberdrola Results and National Quarterly Accounting for Spain – INE (Last data published in Q1 2014).

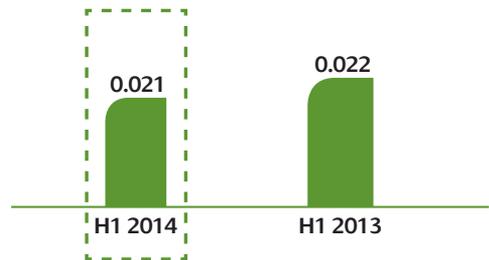
(\*\*) Last dividend paid and Shareholders' Meeting attendance bonus / end-of-period price.

Development of specific thermal mix emissions, Global: CO<sub>2</sub>, SO<sub>2</sub>, particles and NO<sub>x</sub>.

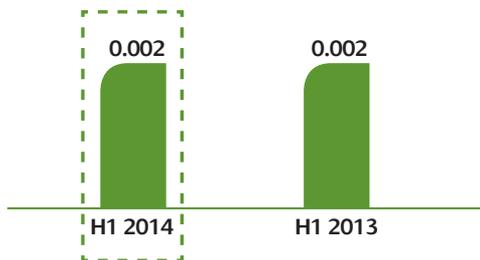
*CO<sub>2</sub> specific emissions Mix, GLOBAL (g/kWh)*



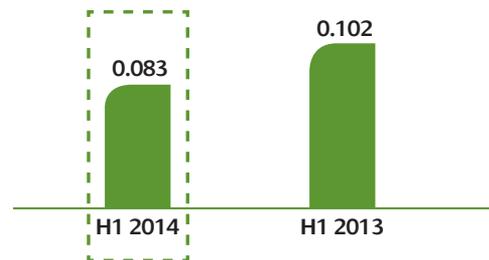
*SO<sub>2</sub> specific emissions mix, GLOBAL (g/kWh)*



*Specific particulate emissions mix GLOBAL (g/kWh)*



*NO<sub>x</sub> Specific emissions mix, GLOBAL (g/kWh)*

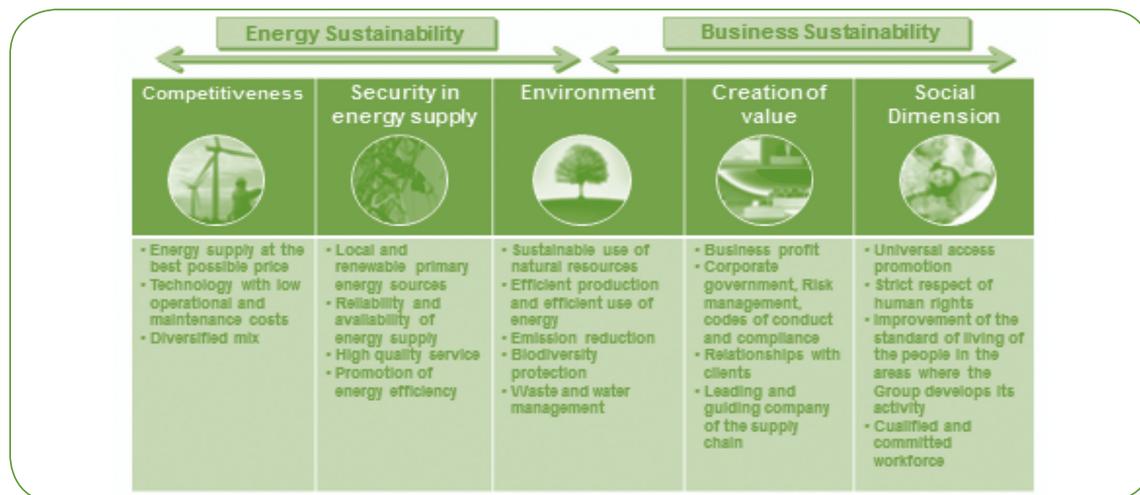


## 2. INDICES, RANKINGS AND RECOGNITIONS

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

Sustainability and Corporate Reputation	
	Rating
Dow Jones Sustainability World Index 13	Iberdrola selected on the utilities sector in all editions
FTSE 4Good	First utility with nuclear assets to be selected on the index
Carbon Disclosure Leadership Index	Iberdrola selected
Global Roundtable on Climate Change	IBERDROLA AMONG THE PARTICIPANTS
Sustainability Yearbook Robeco Sam 2013	Classified as "Gold Class" in the electricity sector.
OEKOM Research 2013	Classified as "Prime"
European Business Awards 2013-2014	Honourable Mention 2013 in Environment and Sustainability.
Award for leadership in New Energy 2013	Leadership in New Energy.
MERCO 2013	Leading company in Spain in the utilities sector: electricity, gas, and water.
New York Stock Exchange, NYSE Euronext & Vigeo	Iberdrola selected
ET Global 800 Carbon Ranking	Iberdrola first Spanish utility
Two Tomorrows (DNV)	Leading company in Sustainability
Nesweek and Corporate Knights	Iberdrola first Spanish utility and third worldwide.

### New Sustainability Policy (Dec. 2013).



### 3. CONTRIBUTION TO SOCIAL DEVELOPMENT

IBERDROLA's most significant actions with regard to social commitment in the Jan-Jun 2014 period have been:

#### 3.1.- Corporate Social Responsibility (CSR) Recognition

- IBERDROLA acknowledged as one of the most ethical companies in the world.**  
 IBERDROLA has been named as one of the most ethical companies in the world, according to the 2014 World's Most Ethical Company ranking drawn up by the Ethisphere Institute, which acknowledges organisations that are committed to ethical leadership and behaviour at corporate level. Our company is the only Spanish enterprise to have achieved this award in 2014 and one of just 145 companies worldwide selected for the honour this year.
- IBERDROLA Generación México has been awarded the ESR 2014**  
 For the second year in a row, IBERDROLA Generación México has been awarded the ESR (Socially Responsible Company) *Seal of Distinction 2014*, in recognition of its track record of commitment towards ethical values, community and the environment.

#### 3.2.- Relations with Stakeholders

- Regional Advisory Boards**  
 Working meetings were held with three Advisory Boards in Spain (Andalusia, Castilla-León and the Valencian Community). The purpose of these boards is to contribute to the development of their respective regions through dialogue and exchange of management and innovation experience with major business

and financial organisations within these regions.

#### 3.3.- Staff

- Corporate Volunteering Programme**  
 Within the IBERDROLA Volunteering Programme, organised through the International Volunteering Portal (a website specifically created to promote corporate volunteer work among Iberdrola's employees), the following goals can be highlighted for this period:

  - **Volunteerism Days.** These are recreational and sporting days to raise awareness regarding disabilities, which have taken place in Castilla-León, the Valencian Community and the Community of Madrid.
  - **7th IBERDROLA Tree Day.** The seventh Tree Day was celebrated in Bermeo (Vizcaya), in collaboration with the Asociación Gorabide and the Fundación Lurgaiia, with the aim of creating the Iberdrola Forest that will increase up to five hectares.
  - **"Lights and Action" Project.** A group of young people from Madrid at risk of social exclusion have received training by employees of our Company in order to favour their access to the job market.
  - **"IBERDROLA Operation Kilo" campaign.** Every two months, IBERDROLA launches this campaign to collect basic foodstuffs to be distributed to families in need. The food is distributed through aid organisations such as *Cáritas, Cooperación Internacional, Casa Caridad* and the *Banco de Alimentos*.

■ **IBERDROLA Engineering and Construction online courses**

IBERDROLA Engineering and Construction has organised several online courses for its employees on:

- **Work and family life balance.** To spread measures and advantages available to the staff and raise awareness about the importance of keeping a work-life balance.
- **Prevention of occupational hazards.** To underline the importance of integrating health and safety in the workplace across all company processes.
- **Ethical Compliance Programme.** To reinforce a business culture based on ethics and honesty.
- **Code of Ethics.** To provide (mandatory) training to all company professionals in the application of the vision, values and norms of conduct established in the Code.

### 3.4.- Community Action

#### a) Training and Research

##### **Research Scholarships and Grants Programme**

For the first half of 2014, several committees have carried out processes to select a total of 95 persons deserving of research scholarships and grants, entailing an investment of two million Euros. Cultural diversity is one of the main values of this Programme, in which Mexicans, Americans, Spaniards, Brazilians, English and Scots who stand out for their talent, efforts, search for excellence and cosmopolitan view of the world, are taking part.

On 3 July, the diploma award ceremony for students who have obtained grants for 2014 was held, in the presence of the King and Queen of Spain. This programme has received special recognition for its search for excellence and the promotion of knowledge in areas related to renewable energies, energy efficiency, biodiversity, electrical vehicles or intelligent networks that greatly contribute to society. Standing out especially due to their added value are the Restoration Grants at the Prado Museum and the Museo de Bellas Artes de Bilbao, and other grants awarded through collaborations with the Carolina Foundation and the Fullbright Commission.

#### b) Sustainability and Biodiversity

##### **Bird migration monitoring programme (MIGRA)**

In this period, a total of nineteen (19) birds have been tagged. Thirteen in Doñana (1 red kite and 12 white storks) with the collaboration of the CSIC Biological Station and twenty-two common swifts in Ciudad Real. Roberto Fernández, the Iberdrola employee who won the competition for naming three birds, took part in this tagging which was carried out in Nuevo Baztán.

The migratory movements of all of the tagged birds can be followed in detail on the programme's website: [www.migracióndeaves.org](http://www.migracióndeaves.org) where it is easy to see how 'Ainhoa', a booted eagle, returned to her breeding area after hibernating in Mali, more than 2,500 km from her nest. We also see the route of "Oninza", another booted eagle who is only 400 km away from her nest, having hibernated in Burkina Fasso, at a distance of 3,400 km from her breeding area. "Treviana" an adult female

Montagu's Harrier, spent the winter in Senegal and the Gambia, and then returned to her breeding area in La Rioja. "Gardelegi", "Agiñaga", "Pobes" and "Ataria" are four red kites tagged in the Basque Country who are completing their migration towards Central Europe.

### **Fundación Aquila's conditioned learning programme to reintroduce the Spanish imperial eagle**

Opening of the aviary at the "Águilas de Fuente Empedrada" Holistic Centre facilities of Fundación Aquila in Lagartera, Toledo, which is devoted to researching endangered species and breeding in captivity. In this aviary an electrical turret has been installed, equipped with adapted electric fencing that facilitates learning through low intensity electric discharges. This facilitates the task of reintroducing into nature captive-bred eagles, who learn to reject these structures as potential perches once they have been released. In addition to the Iberdrola Foundation, the Department of the Environment of Castilla la Mancha and the renowned SIA Foundation in the USA are also collaborating with the project.

### **Loch Lomond and the Trossachs Countryside Trust (UK)**

The aim of this project is to minimise the negative impact that the visits to this nature reserve can cause. With the aim of attempting to preserve this space, different activities for families and young volunteers are carried out, providing them with conservation skills to protect and improve the biodiversity of the area.

### **US Department of Energy America Data Energy Challenge:**

In May, the Secretary of the US Department of Energy announced the four finalists for the best application in the "Energy Applications II" competition. The winner and runner-up were announced in an event that was held this spring in Washington, D.C. One of the finalists is an education programme for the classroom that connects students and their portable computers to their homes. With this programme, the students acquire capacities to reduce their own carbon footprint in their homes, while they develop relevant skills in science, technology, engineering and mathematics.

### **Kopernik Observatory & Science Center:**

The science laboratory in the state of New York has been designed to offer a common space for teachers, students and their families to interact. In the laboratory, practices are taught for research with advanced telescopes, computers and other tools, encouraging knowledge transfer and scientific research on the Universe. The Observatory is also the home of the Kopernik Astronomical Society (KAS), which carries out volunteering activities complementary to the center.

### **Riverkeeper:**

Its mission is to protect the environmental, leisure and commercial integrity of the Hudson River and its tributaries, in order to safeguard the drinking water of nine million residents in New York.

Riverkeeper focuses on the general problems facing the communities of the Hudson River: the restoration of the ecosystems of the river banks, minimising the death of fish and

water contamination, protecting the supply of drinking water in New York and improving public access to the Hudson River.

### c) Art and Culture

#### **Atlantic Romanesque Project**

In this first half of the year, the following significant works in the programme have come to an end: Nuestra Señora de la Asunción church, in Pobladura de Aliste, Zamora, where the works have focused on opening up the central section of the Romanesque door in the northern wall, which had up to now remained bricked up, and installing steel and alabaster frames to allow light in. Also finished are the works to replace the lighting system in the Virgen de la Bandera sanctuary in Fermoselle, Zamora, to adapt it to the aesthetics of the church and include technical improvement elements such as the incorporation of LED technology. The works on the castle hermitage in Yecla de Yeltes, Salamanca, have also concluded. Their purpose was focused on providing the temple with electricity and a zenithal lighting system to increase natural light.

Still ongoing are design works to restore and provide lighting to other projects, such as San Martín church in Salamanca. Further information can be found at [www.romanicoatlantico.org](http://www.romanicoatlantico.org).

#### **Museo del Prado [National Prado Museum] Restoration Workshop**

An exhibition on six Rubens panels was open to the public from March to June. The paintings were presented as an exhibition ("Rubens. The Triumph of the Eucharist") next to four

tapestries created from these designs. These paintings have been cleaned and paintwork infilled. Some 18th century additions that interfered with the correct appreciation of Rubens' original design and damaged the supports were removed. Another important project has been the restoration of the supporting structure, following an innovative process which has only been previously carried out at the Metropolitan Museum of Art in New York.

#### **Lighting of the façade of "La Compañía" in Oropesa, Toledo**

The exterior lighting works on the main façade of San Bernardo Chapel, "La Compañía", in Oropesa, declared a Place of Cultural Interest, which has been refurbished as a cultural centre. The Chapel is a collegiate church, annexed to the school that was there before.

#### **Lighting of the tower of the Church of Santo Tomé, Toledo**

The lighting works in the tower of the Church of Santo Tomé, where El Greco's "*The Burial of the Count of Orgaz*" is housed, are about to finish. The only thing remaining is finishing the renovation of the church roofs. These works are being carried out by the Archdiocese, and the opening is scheduled to take place in the second half of this year.

#### **Restoration of the Planetarium of the Matacán Air Base, Salamanca**

In 2013 an agreement was signed with the Fundación de Aeronáutica y Astronáutica Españolas (FAAE) for the refurbishment of the "*Celeste I*" Planetarium located in the Matacán Air Base, Salamanca, a unique prototype of 1947, listed in the register of the General

Subdirectorate of Historical-Artistic Heritage of 2002. It is one of the world's oldest functioning optical planetariums and was an important page of aeronautical history of the Air Forces. Thanks to the possibility of projecting on the ground with great quality the natural movements of the stars, hundreds of pilots and radio operators of Spanish military and civil aviation have learned to navigate using the stars. The works were started at the beginning of this year. In March the lenses and other deteriorated elements of the planetarium were refurbished, and finally on 1 April the works were opened, with the attendance of the Chief of Staff of the Air Force, the President of IBERDROLA and the president of the IBERDROLA Foundation.

### **Restoration of the tapestries at the Colegio del Patriarca [College of the Patriarch] in Valencia**

The team of restorers of the Royal Tapestry Factory in Madrid continues with the rehabilitation works of the tapestries *"La Gracia pública de los honores"* and *"El pago del denario"*, placed on the loom, a procedure by means of minimal stitches that give great support to the deteriorated areas and are not aggressive. They are known as *"restoration stitches"*.

### **Exhibition of military miniatures at the Military Museum of Toledo**

On 12 February, the *"Military Miniatures: Windows onto the history of Spain"* exhibition opened. The exhibition, open to visitors until June, is considered to be the most important exhibition ever organised in Spain showing miniatures. It has 20,000 lead soldiers that cover 22 centuries of the history of Spain, from the fall of Sagunto in 219 B.C., to the

recent international missions in Bosnia and Afghanistan. These scenes are accompanied by dioramas and vignettes of exceptional quality on loan from other museums and private collections compiled by reputed miniature collectors.

### **Garth Fagan Dance, New York, USA**

More than 70% of the students who took part last year in the Summer Movement Institute, the intensive dance programme organised every summer by the Garth Fagan Dance school, have been given scholarships to become part of the school's dancers, which has allowed them to take part in the shows offered at the start of this year. This school organises educational programmes aimed at young dance talents in the area of Rochester, New York and almost 40% of its students enjoy a scholarship.

### **Donation of children's literature to schools and libraries, Maine, USA**

IBERDROLA USA Foundation has collaborated in the donation of the renowned children's book *"This Is Not My Hat"* by Jon Klassen to schools and libraries in the state of Maine. This book was recently awarded the Caldecott medal by the Association for Library Service to Children. It is the fourteenth annual book donation made by our company to more than 600 schools and public libraries in the state.

### **Rochester International Jazz Festival:**

The Rochester International Jazz Festival, in Rochester, New York, has become one of the country's most popular and respected music festivals. Every year, the festival attracts different artists with free performances. It has become one of the country's main international music events, bringing together unique sounds

from many countries. Founded in 2002 in Rochester, New York, attendance to the Festival has progressively increased, from 15,000 from the first year to more than 195,000 in 2014. The festival established the first jazz music grant, at the renowned Eastman Music School. Twenty-eight students have received grants to attend the prestigious school since the start of the festival. Every year there is a grant concert held during the festival with the grant winners.

### **National Museum of Scotland, United Kingdom**

The well-established collaboration with the National Museum of Scotland is strengthened this semester with the development of activities geared not only to promoting art and culture, but also to disseminating values of respecting identity and coexistence. Its project “*Get Energised*” offers training support for people at school studying Physics. The first of a total of five scheduled days encouraged students to design and test their own projects aimed at covering future electricity demand in Scotland with renewable energies. The teams, assisted by experts, were encouraged to transcend the purely scientific aspect and take into account the industrial and commercial impact of their ideas. The award ceremony took place on 15 May.

### **National Library of Wales, Wales, United Kingdom**

The large scale multimedia project created to celebrate the birth of the poet Dylan Thomas, with unpublished material such as manuscripts and letters brought from the USA, continues its course, offering the public a unique experience of the poet’s work. The project also includes dissemination activities for children, a theatre

production based on his short stories, a photographic exhibition, conferences and films.

## **c) Cooperation and Solidarity**

### **Social Grants**

In recent years, more than 200 projects of almost fifty organisations have benefited from the Social Grants project of the Iberdrola Foundation. In this first semester, follow-up work has been carried out on the projects, as well as visits to some of the beneficiary associations, to find out more about the projects, and verify their positive impact on site.

The IBERDROLA Foundation wishes to contribute to the access to the job market and social inclusion of very vulnerable groups such as children, young people and the elderly. In this edition, special attention will be given to those initiatives aimed at comprehensive support of homes with low labour intensity or long-lasting unemployment, the cover of basic needs, labour inclusion for young people or social inclusion of children through education, school support or the transfer of values and the enjoyment of leisure and free time. Likewise, the foundation will consider projects whose aim is to contribute to the improvement of the quality of life of ill people and other projects that contribute to the quality of life of people with functional diversity and of assistance to dependency or the promotion of personal autonomy. For this edition, the award per project has been increased (from €20,000 to €40,000) and new requirements have been defined to guarantee good management, viability, solvency and transparency of all applying associations, in order to select the best projects, i.e. those which are the most useful

and effective. The definitive award of the social grants will be made in the second half of 2014.

#### **Food Bank of the Southern Tier, New York**

Its direct service food distribution programme “BackPack Program™” has distributed food to students during weekends and school holidays to prevent children from going hungry.

Established in 1981 and head-quartered in Elmira, New York, the Food Bank of the Southern Tier distributes food to people in need through a network of more than 165 member agencies including food pantries, soup kitchens, shelters and other hunger relief organizations in Broome, Chemung, Schuyler, Steuben, Tioga and Tompkins Counties. It has also designed direct service food distribution programmes including the BackPack Program™ mentioned here.

#### **Meninos Ecológicos, Brazil**

The project “Meninos Ecológicos” was launched in 1998 and is currently active in the towns of Araras, Pariquera-Açu and Eldorado for teenagers from low income families to get involved in the care for the environment through activities such as gathering seeds or producing cuttings in tree nurseries for reforestation. Since its launch, it has produced over three million cuttings, which have been donated to more than 150 towns in the area of operation of Elektro, with 1,245 children having taken part.

#### **La Venta III Social Responsibility Programme, Oaxaca, Mexico**

As part of the social responsibility programme of the La Venta III wind farm located in Santo Domingo Ingenio, Oaxaca, on 10 February

the paving of Calle Pino Suárez was opened following the repair works carried out due to them being in a serious state of disrepair. In addition, other improvements have been carried out such as the extension of the sewage network, the installation of a new drinking water channelling system and the construction of pavement.

#### **Parques Ecológicos de México Social Responsibility Programme, Oaxaca, Mexico**

In compliance with the social responsibility of Parques Ecológicos de México, several improvements have been made in the town of La Ventosa, in Juchitán (Oaxaca), where the project is based. The works have consisted in paving 100 metres of street, taking electricity to the colony of San Miguelito and providing a roof for the primary school.

## **4. CORPORATE GOVERNANCE**

The Corporate Governance highlights during the first half of financial year 2014 were as follows:

- On 19 November 2013, IBERDROLA notified the CNMV of the agreement to implement the second increase of paid-up capital approved by the General Shareholders’ Meeting of 2013. Subsequently, on 9 January 2014, the supplement to the corresponding brochure regarding the second increase of paid-up capital was published.

On 28 January 2014, the second implementation of the increase of paid-up share capital related to the *Iberdrola Dividendo Flexible* system was approved, on the occasion of what would have been the traditional payment of the dividend

corresponding to financial year 2013. As a result, 133,492,000 shares with a per unit nominal value of EUR 0.75 were issued without a share premium, representing approximately 2.139% of the capital prior to the increase.

- On 4 February 2014, the Company submitted its energy production figures for the year 2013.
- On 10 February IBERDROLA reported that its 100% owned subsidiary Iberdrola Energía S.A. had sold, in successive transactions, part of its stake in EDP - Energias de Portugal, S.A, the stake going from 6.66% of the Portuguese company's share capital to the current 2.9%.

In addition, it was reported that this percentage corresponds to sales derivatives on EDP shares whose ultimate maturity date is 7 May, 2014.

On 11 February, it was notified to the CNMV that Iberdrola Energía, S.A. had commissioned UBS Limited to sell shares representing 1.979% of the share capital of EDP - Energias de Portugal, S.A. This sale was completed on 12 February and was carried out through a process of accelerated bookbuilding aimed exclusively at qualified and institutional investors.

Subsequently, on 8 May, the Company notified the maturity of the latest derivatives contract on EDP – Energias de Portugal, S.A. shares, in such a way that the entire stake of Iberdrola Energía, S.A. in EDP – Energias de Portugal, S.A. was cashed in on that date.

- On 12 February IBERDROLA informed the CNMV of the transfer by Iberdrola Energía, S.A, of the entirety of its direct stake (22.6%) in the Brazilian company Itapebi Geração de Energia, S.A. in favour of Termopernambuco, S.A., a subsidiary of Neoenergia, S.A. As a result of this process, IBERDROLA now has an indirect stake in Itapebi Geração de Energia, S.A., equivalent to 39% of its share capital..
- The IBERDROLA Board of Directors, in its meeting of 18 February 2014, prepared the annual accounts and individual management reports of the Company consolidated with its subsidiaries, corresponding to the financial year ending 31 December 2013, as well as the proposals to distribute a cash dividend of EUR 0.030 gross per share with rights to such payment and to approve an increase of paid-up capital for the free-of-charge allocation of new shares to the shareholders of the Company, within the framework of the shareholder compensation system named *Iberdrola Dividendo Flexible*.
- On the same date, IBERDROLA notified the CNMV of the agreement to carry out a buyback programme of the Company's own shares in accordance with the authorisation conferred by the General Shareholders Meeting held on 26 March 2010, under point eight of the agenda. In relation with this, since that date, IBERDROLA periodically reported to the CNMV on the share buyback programme until 28 April 2014, the date when it ended. As a result, the Company acquired a total of 42,161,696 treasury shares (0.662%) of IBERDROLA share capital, in implementation of the share buyback programme.

- On 19 February, the Company submitted to the CNMV its financial results for financial year 2013 and the business outlook for the 2014-2016 period.
- On 21 February, IBERDROLA sent to the CNMV the *Annual Corporate Governance Report* and the *Annual Report on Remuneration of Directors* corresponding to financial year 2013.
- On 15 April 2014, the Company submitted its energy production figures for the first quarter of 2014.
- On 29 April, the Company notified the CNMV of the execution of the reduction in share capital through the redemption of treasury stock, approved by the General Shareholders' Meeting held on 28 March 2014, under point eleven of the agenda.

Subsequently, on 8 May, notification was given of the deed of reduction in share capital through redemption of treasury stock.

- Also on 29 April, IBERDROLA approved the implementation of the first increase of capital paid-up by the General Shareholders' Meeting held on 28 March 2014, under section A, point six of the agenda.
- On 30 April 2014, the Company submitted to the CNMV its presentation of results for the first quarter of 2014.
- The Company notified the CNMV on 30 May of the signing by IBERDROLA and the US company Corpus Christi Liquefaction,

LLC, subsidiary of Cheniere Energy, Inc., of a liquefied natural gas supply contract.

- With reference to the notification of the Company issued on 23 December 2013, on 26 June 2014, IBERDROLA announced the completion of the transfer of its stake in the Belgian company NNB Development Company, S.A. (50%) to the UK company Advence Energy UK, Ltd., subsidiary of Toshiba Corporation. .

## GENERAL SHAREHOLDERS' MEETING

The IBERDROLA Board of Directors, in its meeting of 18 February 2014, agreed to convene the General Shareholders' Meeting to be held at the first session on 28 March 2014, or, if the necessary quorum was not attained, at the second session on 29 March 2014. In addition, the Board approved the payment of a gross attendance bonus of EUR 0.005 per share for the shareholders present or represented at the General Shareholders' Meeting.

The announcement of the call for the General Shareholders' Meeting was published by the Company in the Official Bulletin of the Commercial Registry on 21 February 2014.

On 28 March 2014, the General Shareholders' Meeting of the Company was held at first session, with a quorum of 82.2% (6.11% present and 76.13% represented), and approved each and every agreement put to vote that had been included in the meeting agenda, as detailed below:

- Agreements relating to the annual financial statements, corporate management and re-election of the Company Auditor

The General Shareholders' Meeting approved the individual annual accounts of Iberdrola consolidated with its subsidiaries corresponding to financial year 2013, as well as the individual management reports consolidated with its subsidiaries, in addition to corporate management and performance of the Board of Directors during financial year 2013.

In addition, the General Shareholders' Meeting approved the re-election of Ernst & Young, S.L. as accounts auditor of the Company and of its consolidated group for financial year 2014.

- Agreements relating to shareholder compensation

The General Shareholders' Meeting approved the appropriation of earnings proposed by the Board of Directors, which includes the payment of a dividend corresponding to financial year 2013 of EUR 0.03 gross per share with a right to such payment and which are outstanding on the date of payment.

In addition, the General Shareholders' Meeting approved two increases in paid-up share capital by issuing new ordinary shares of the Company, with a maximum reference market value of 782 and 897 million Euros, respectively, for the free-of-charge allocation of the new shares to the Company's shareholders.

These capital increases were agreed in order to implement the *Iberdrola Dividendo Flexible* and offer all the shareholders of the Company, in each implementation, new issue paid-up shares or, eventually, through the transmission of free-of-charge allocation rights that shareholders receive for the shares they hold, to obtain a value equivalent to traditional dividend payments, without altering the Company's shareholder remuneration policy.

- Agreement regarding the executive directors, senior management and management team through delivery of shares

The General Shareholders Meeting approved a Strategic Bonus aimed at executive directors, senior management and the management team, linked to the Company's performance in relation with certain parameters established for the 2014-2016 period and to be paid through delivery of Company shares in the three years following the end of said three-year period.

- Agreements regarding the structure of the Board of Directors and the explicit authorisations and delegations requested for said body

The General Shareholders' Meeting ratified the appointment by co-option of Ms Georgina Yamilet Kessel Martinez as director, agreeing to her re-election for the statutory period of four years, as an independent external director.

- Agreements relating to changes in the **By-Laws**.

The General Shareholders' Meeting also approved:

- a) the modification of article 34.5 of the *By-Laws*, to introduce technical improvements in its drafting and
- b) the modification of article 44.3 of the *By-Laws* to establish four years as the maximum time in the position of Chairman of the Audit and Risk Supervision Commission.

- Agreement regarding capital decrease

The General Shareholders' Meeting approved a decrease of share capital through the amortisation of 91,305,304 Iberdrola treasury shares, representing 1.433% of share capital, and the purchase of a maximum of 42,161,696 additional treasury shares of the Company, representing up to 0.662% of share capital, through a buyback programme for their amortisation.

- Agreement relating to general matters

In addition, the General Shareholders' Meeting agreed, without prejudice to the delegations included in previous agreements, to give powers to the Board of Directors, which may delegate interchangeably to the Delegate Executive Committee, to Mr. José Ignacio Sánchez Galán, President and CEO, and to Mr. Julián Martínez-Simancas Sánchez, General Secretary and Secretary of the Board of Directors, with as large a scope as may be necessary, to formalise and execute any agreements adopted by the General Shareholders' Meeting, in order to notarise

them and interpret, correct, complement or develop them until the corresponding inscriptions are achieved.

- Consultative voting on the **Annual Report on Remuneration of Directors**

Lastly, the *Annual Report on Remuneration of Directors* corresponding to financial year 2013 was submitted to consultative voting by the General Shareholders' Meeting, having resulted in the support of an ample majority of shareholders present or represented at the General Shareholders' Meeting.

- Board of Directors and Consulting Committees

On 10 April 2014 the Board of Directors acknowledged the resignation of Mr. Manuel Lagares Gómez-Abascal from his post as proprietary director appointed at the request of Banco Financiero y de Ahorros, S.A., following the sale by the latter of its stake in the Company.

On 29 April 2014, the re-election of Mr. Julio de Miguel Aynat as president of the Audit and Risk Supervision Committee was approved, as was the appointment of Mr. Fernando Bautista Sagüés as non-member secretary of the Corporate Social Responsibility Committee.

IBERDROLA announced on 24 June the appointment by co-option, and by proposal of the Appointments and Remuneration Committee, of Ms. Denise Mary Holt as an independent external director, with the purpose of covering the vacancy resulting from the resignation of Mr. Lagares Gómez-Abascal. This appointment will be subjected to the

ratification of the first General Shareholders' Meeting to be held.

On that same date, the re-appointment of executive director Mr. José Luis San Pedro Guerenabarrena as another external director was also announced, after having left his executive functions at his own request.

## CORPORATE GOVERNANCE SYSTEM

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

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

*Corporate Policies* develop the principles reflected in the Company's Corporate Governance System and contain the guidelines that govern the activities of the Company and the companies of its Group, as well as their directors, executives and employees, within the context of the Strategic Plan and the vision and values of the Company with regard to corporate governance and regulatory compliance, risk and social responsibility.

Specifically, the *General Corporate Governance Policy* is an updated summary of the Company's Corporate Governance System.

During the first semester of financial year 2014, the following updates and reviews of the Corporate Governance System of IBERDROLA were made:

- On 28 January 2014, article 5 of the Articles of Association was modified as a result of the second implementation of the paid-up capital increase within the framework of the *Iberdrola Dividendo Flexible* system.
- On 18 February, the Company approved the review and update of the following documents that form part of the corporate governance System: the *Dividend Policy*, the *Policy of remuneration of directors*, the *Risk Policies (General control and risk management policy, the Summary of Corporate risk Policies and the Summary of the Specific Risk Policies for the different businesses of the Group)*, the *General Policy of corporate social responsibility*, the *Quality Policy*, the *Internal Regulations of Conduct in the Securities Markets* and the *Code of separation of activities of companies of the Iberdrola group with regulated activities in Spain*.
- On 26 March 2014, the Board of Directors approved the modification of the *Policy of Equal Opportunities and Reconciliation*.
- As a result of the agreements adopted by the General Shareholders' Meeting held on 28 March 2014, the *Articles of Association* of the Company were modified.

- With the aim of adapting its contents to the new drafting of articles 34.5 and 44.3 of the *Articles of Association*, approved by the General Shareholders' Meeting on 28 March 2014, on 29 April the Board of Directors approved the partial reform of the Corporate Governance System, including the *Regulations of the Board of Directors*, the *Regulations of the Appointments and Remuneration Committee* and the *Dividend Policy* which went on to be called the *Shareholder's Remuneration Policy*.
- On 24 June 2014 a new partial reform of the *Corporate Governance System* was announced, which modified the *General Policy on Corporate Governance*, the *Regulations of the Board of Directors*, the *Regulations of the Committee of Appointments and Remunerations* and the *Regulations of the Commission of Corporate Social Responsibility* to promote the group's corporate social responsibility strategy and introduce improvements regarding the procedure of appointment of directors of the group's companies.

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

### Information Transparency

One of the core principles underlying IBERDROLA's corporate governance practices is to ensure maximum transparency in financial and non-financial information provided to shareholders, investors and markets. In this respect, there has been a high level of activity during the first half of 2014 to ensure that institutional investors and financial analysts are kept fully informed.

### On-Line Shareholders (OLS)

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

**CNMV: Significant Events from April to June 2014**

<b>Date</b>	<b>Event</b>	<b>Registration No.</b>
04/04/2014	The company submits periodic information on the operations carried out under its Share buyback Programme.	202949
04/14/2014		203467 203823
04/22/2014		204149
04/28/2014		
04/08/2014	The company reports on the issue of notes by Iberdrola International with a guarantee of 750 million Euros by Iberdrola, maturing in October 2022 and with a 2.50% annual coupon rate, as well as on the exchange for notes issued by Iberdrola Finanzas.	203219
04/09/2014	UBS Limited notifies that it is carrying out on behalf of Banco Financiero y de Ahorros, S.A. a private placement with qualified investors of a package of 314,887,559 shares in Iberdrola, which represents 4.94% of its share capital.	203263
04/10/2014	CNMV decides to provisionally suspend the trading of Iberdrola, S.A., with immediate effect. The provisional suspension will be lifted at 10 a.m. today.	203268
04/10/2014	UBS and Citi notify the conclusion of the private placement of 4.94% of Iberdrola with a price of 4.85 euros per share.	203270
04/10/2014	Iberdrola reports on the acknowledgement of the resignation of Mr. Manuel Lagares Gómez-Abascal from his post as director of the company.	203282
04/15/2014	The company reports its Energy Production figures as at the end of the first quarter of 2014.	203578
04/16/2014	The Company reports on the exchange of 7,500 series 106 notes that will be issued by Iberdrola International with the guarantee of Iberdrola for series 57, 95 and 96 notes issued by Iberdrola Finanzas, which HSBC Bank has accepted to purchase according to its tender offer of 8 April 2014.	203765
04/29/2014	Iberdrola reports on possible divestment of assets by the Company.	204355
04/29/2014	Iberdrola reports on the execution of the reduction in share capital through the redemption of treasury stock approved by the General Shareholders' Meeting held on 28 March 2014.	204361
04/29/2014	Iberdrola reports on the first implementation of the increase in paid-in share capital approved by the General Shareholders' Meeting held on 28 March 2014 and the publication of the corresponding information memorandum. Date of payment of dividend	204362
04/29/2014	Iberdrola reports on the partial reform of the Company's Corporate Government and re-elections and appointments in the Board of Directors committees.	204363
04/29/2014	The company reports on the reconfiguration of syndicated loans subscribed by Iberdrola, S.A. and Iberdrola International, B.V. in a single syndicated loan for the amount of 2,000 million Euros and an initial term of five years.	204377
04/30/2014	The Company reports on the results of the first quarter of 2014.	204438 204451
05/08/2014	The company reports on the total divestment of Iberdrola Energía (a subsidiary of Iberdrola, S.A.) from EDP Energias de Portugal, S.A.	204976
05/08/2014	The company reports on the inscription of the deed of reduction in share capital through redemption of treasury stock executed by the Board of Directors in their meeting of 29 April 2014.	205034
05/30/2014	Iberdrola reports on the long term liquefied natural gas supply contract with US company Corpus Christi Liquefaction, LLC.	206527
06/24/2014	The company reports on the appointment of Ms Denise Mary Holt as an independent external director of Iberdrola, S.A., the partial reform of the Company's Corporate Governance System and the appointment of the new Business CEO.	207532
06/26/2014	The company reports on the full completion of the sale process of Iberdrola, S.A.'s stake in the Belgian company NNB Development Company, S.A.	207634





IBERDROLA informs you that the data used to send you this information are included in a file property of IBERDROLA, S.A., with the only purpose of sending you financial information about the Company. Such data were included in our file either at your request or due to previous relations held between you and IBERDROLA.

As stated by the Organic Law 15/1999 of 13 March on the Protection of Personal Data (Ley Orgánica de Protección de Datos de Carácter Personal, LO 15/1999), you can at any time exercise your rights of access, rectification, objection and cancellation on your personal data. Should this be the case, you must send a letter, with a photocopy of your identity card or passport attached, to the following address:

IBERDROLA, S.A.  
Investor relations  
C/ Tomás Redondo, 1  
28033 – Madrid (Spain)

Notwithstanding this, if you are not interested in receiving any more information related to IBERDROLA, please let us know by calling the toll free line +34 900 10 00 19.



IBERDROLA IR

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IBERDROLA, S.A.  
Investor relations  
Phone: 00 34 91 784 2804  
Fax: 00 34 91 784 2064  
[investor.relations@iberdrola.es](mailto:investor.relations@iberdrola.es)