IBERDROLA

2013 H1 Results Presentation

Legal Notice

IBERDROLA

DISCLAIMER

This document has been prepared by Iberdrola, S.A. exclusively for use during the presentation of financial results of the first semester of the 2013 fiscal year. As a consequence thereof, this document may not be disclosed or published, nor used by any other person or entity, for any other reason without the express and prior written consent of Iberdrola, S.A.

Iberdrola, S.A. does not assume liability for this document if it is used with a purpose other than the above.

The information and any opinions or statements made in this document have not been verified by independent third parties; therefore, no express or implied warranty is made as to the impartiality, accuracy, completeness or correctness of the information or the opinions or statements expressed herein.

Neither Iberdrola, S.A. nor its subsidiaries or other companies of the Iberdrola Group or its affiliates assume liability of any kind, whether for negligence or any other reason, for any damage or loss arising from any use of this document or its contents.

Neither this document nor any part of it constitutes a contract, nor may it be used for incorporation into or construction of any contract or agreement.

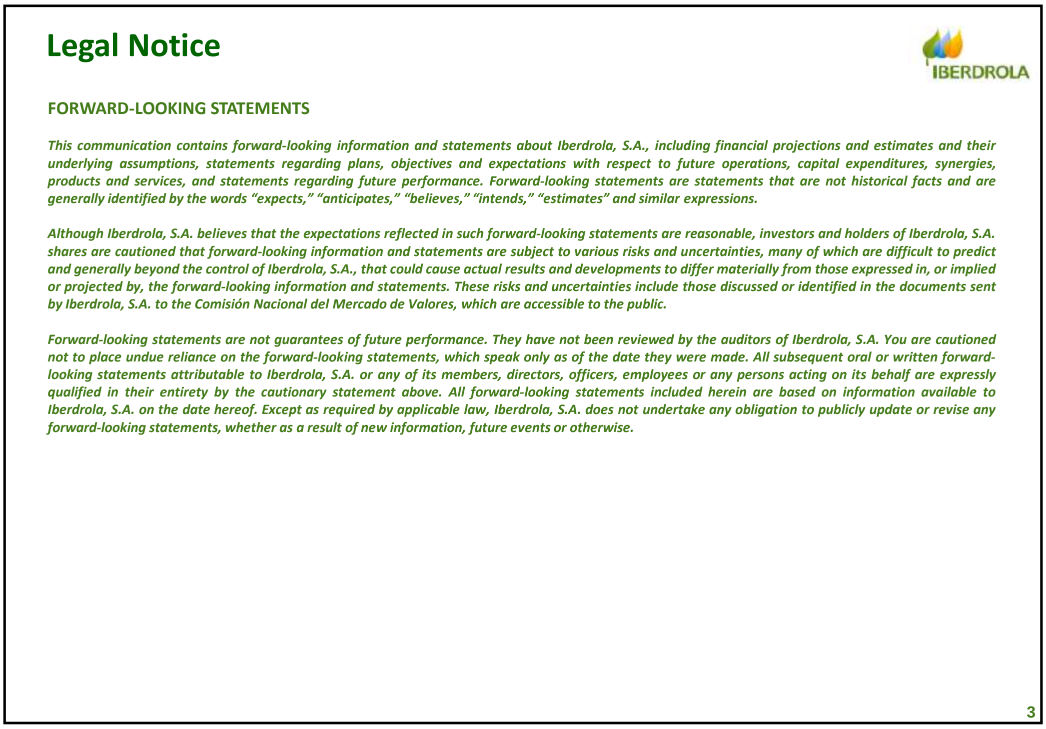
Information in this document about the price at which securities issued by Iberdrola, S.A. have been bought or sold in the past or about the yield on securities issued by Iberdrola, S.A. cannot be relied upon as a guide to future performance.

IMPORTANT INFORMATION

This document does not constitute an offer or invitation to purchase or subscribe shares, in accordance with the provisions of Law 24/1988, of July 28, on the Securities Market, Royal Decree-Law 5/2005, of March 11, and/or Royal Decree 1310/2005, of November 4, and its implementing regulations.

In addition, this document does not constitute an offer of purchase, sale or exchange, nor a request for an offer of purchase, sale or exchange of securities, nor a request for any vote or approval in any other jurisdiction.

The shares of Iberdrola, S.A. may not be offered or sold in the United States of America except pursuant to an effective registration statement under the Securities Act of 1933 or pursuant to a valid exemption from registration.



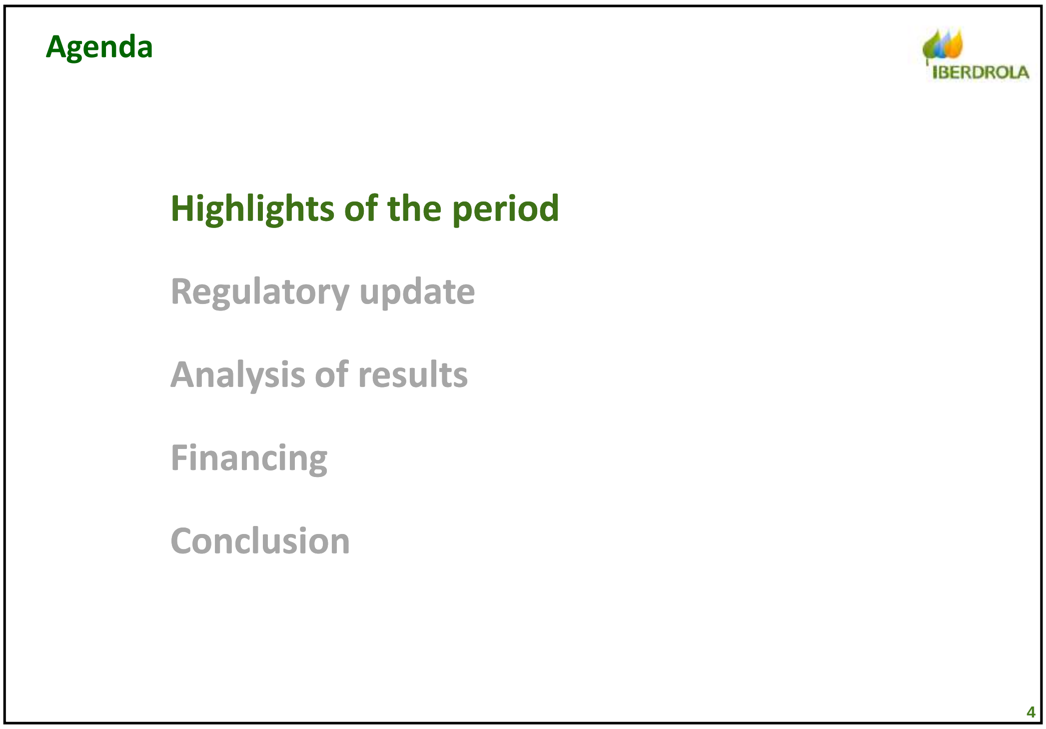
Legal Notice

FORWARD-LOOKING STATEMENTS

This communication contains forward-looking information and statements about Iberdrola, S.A., including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, capital expenditures, synergies, products and services, and statements regarding future performance. Forward-looking statements are statements that are not historical facts and are generally identified by the words "expects," "anticipates," "believes," "intends," "estimates" and similar expressions.

Although Iberdrola, S.A. believes that the expectations reflected in such forward-looking statements are reasonable, investors and holders of Iberdrola, S.A. shares are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of Iberdrola, S.A., that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include those discussed or identified in the documents sent by Iberdrola, S.A. to the Comisión Nacional del Mercado de Valores, which are accessible to the public.

Forward-looking statements are not guarantees of future performance. They have not been reviewed by the auditors of Iberdrola, S.A. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they were made. All subsequent oral or written forward-looking statements attributable to Iberdrola, S.A. or any of its members, directors, officers, employees or any persons acting on its behalf are expressly qualified in their entirety by the cautionary statement above. All forward-looking statements included herein are based on information available to Iberdrola, S.A. on the date hereof. Except as required by applicable law, Iberdrola, S.A. does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



Agenda

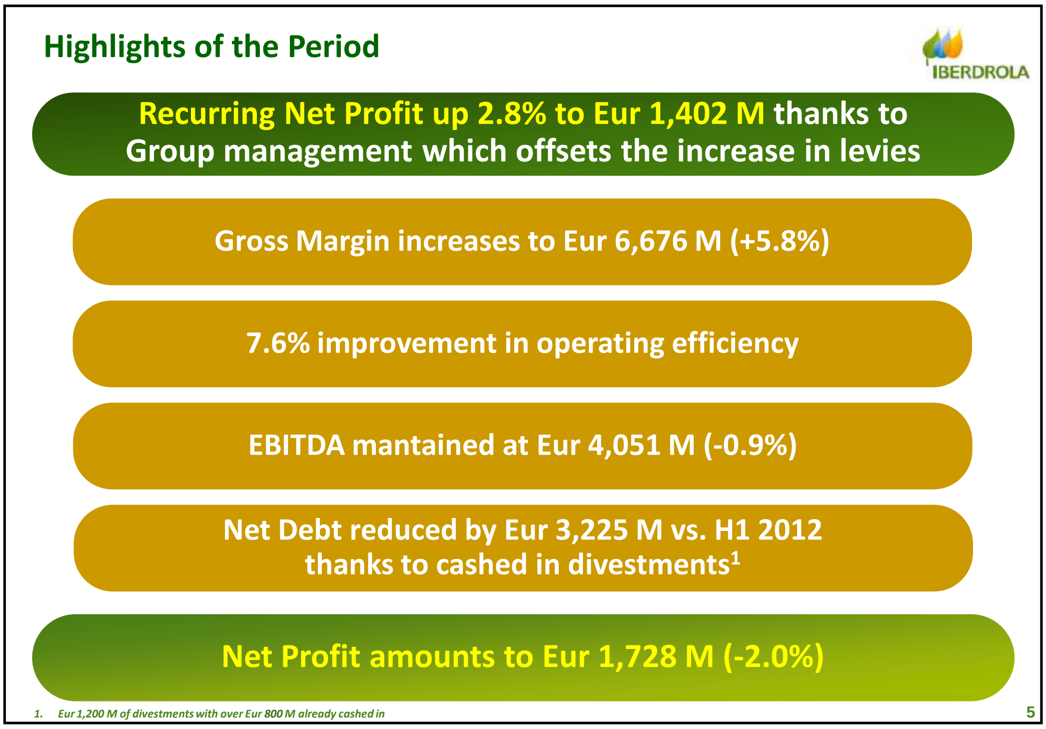
Highlights of the period

Regulatory update

Analysis of results

Financing

Conclusion



Highlights of the Period

Recurring Net Profit up 2.8% to Eur 1,402 M thanks to Group management which offsets the increase in levies

Gross Margin increases to Eur 6,676 M (+5.8%)

7.6% improvement in operating efficiency

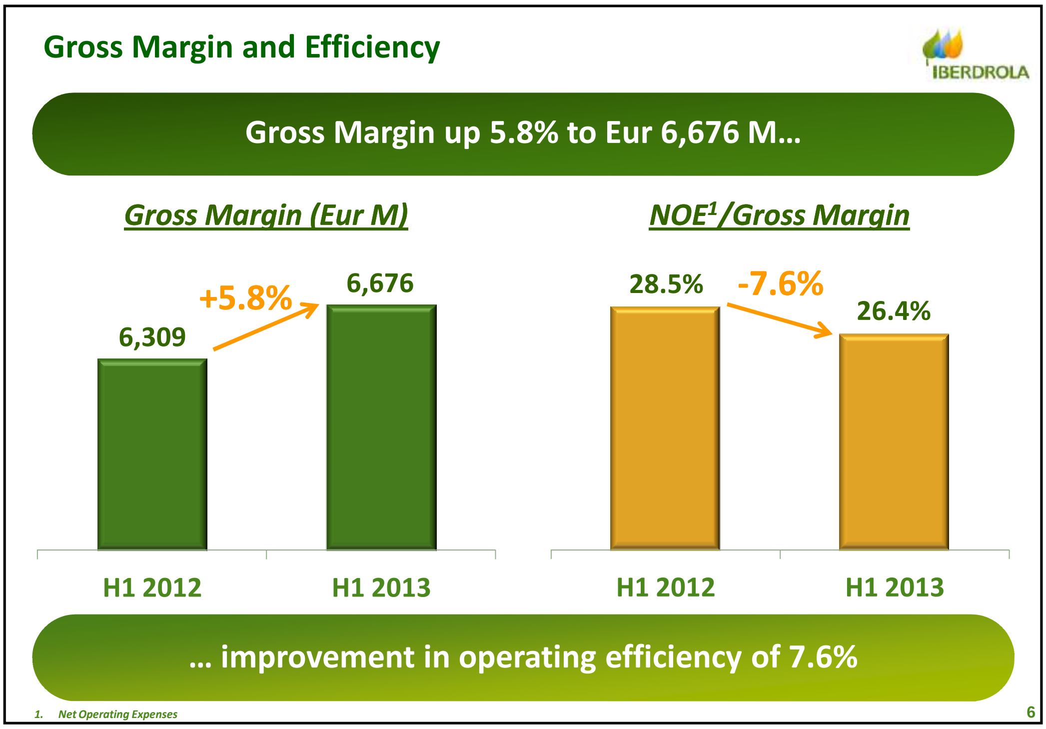
EBITDA mantained at Eur 4,051 M (-0.9%)

Net Debt reduced by Eur 3,225 M vs. H1 2012
thanks to cashed in divestments[1]

Net Profit amounts to Eur 1,728 M (-2.0%)

---

[1] Eur 1,200 M of divestments with over Eur 800 M already cashed in



Gross Margin and Efficiency

Gross Margin up 5.8% to Eur 6,676 M…

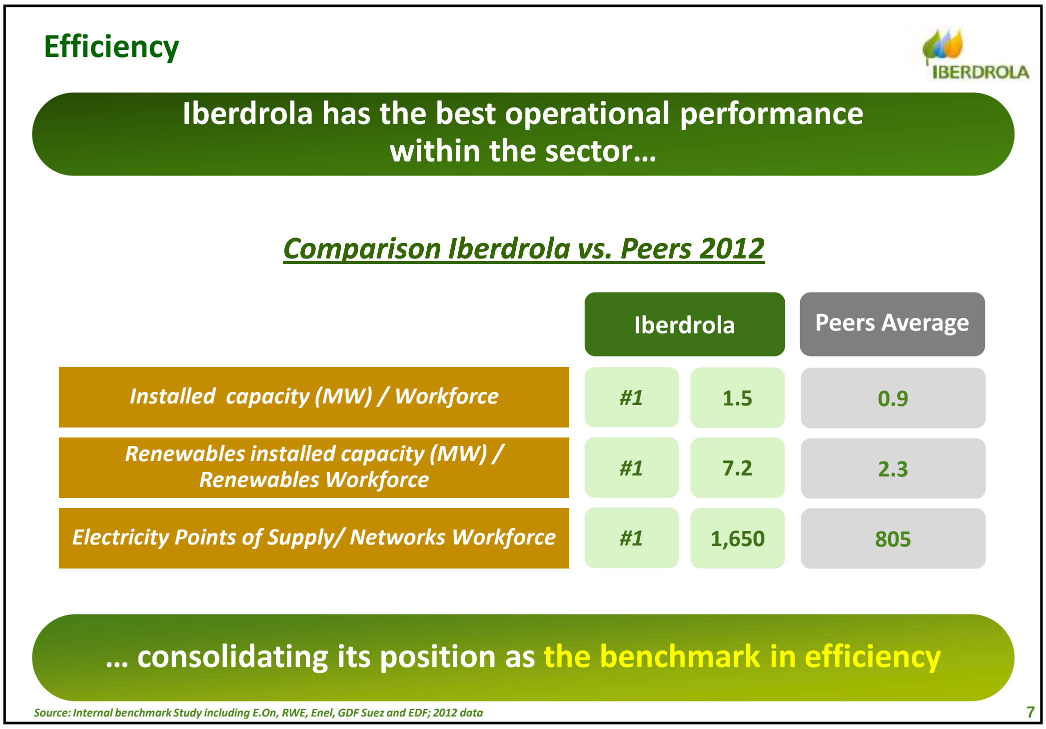
Gross Margin (Eur M)

NOE[1]/Gross Margin

… improvement in operating efficiency of 7.6%

---

[1] Net Operating Expenses



Efficiency

IBERDROLA

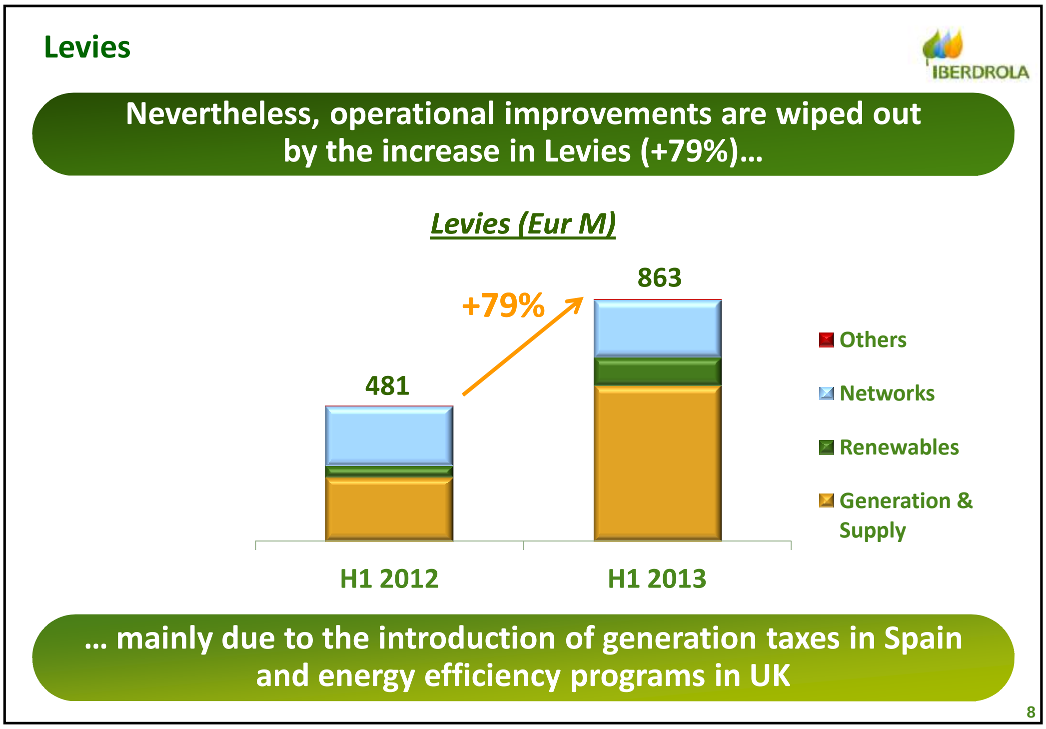
Iberdrola has the best operational performance within the sector…

Comparison Iberdrola vs. Peers 2012

	Iberdrola		Peers Average
Installed capacity (MW) / Workforce	*#1*	1.5	0.9
Renewables installed capacity (MW) / Renewables Workforce	*#1*	7.2	2.3
Electricity Points of Supply/ Networks Workforce	*#1*	1,650	805

… consolidating its position as the benchmark in efficiency

Source: Internal benchmark Study including E.On, RWE, Enel, GDF Suez and EDF; 2012 data



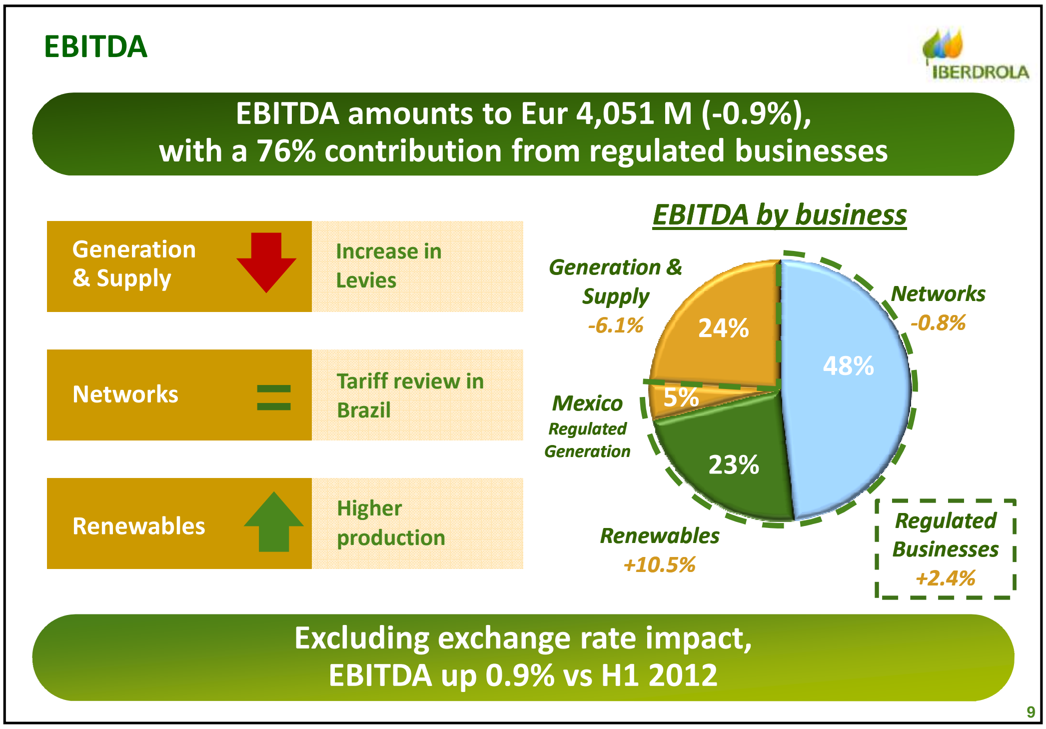
Levies

IBERDROLA

Nevertheless, operational improvements are wiped out by the increase in Levies (+79%)…

Levies (Eur M)

… mainly due to the introduction of generation taxes in Spain and energy efficiency programs in UK



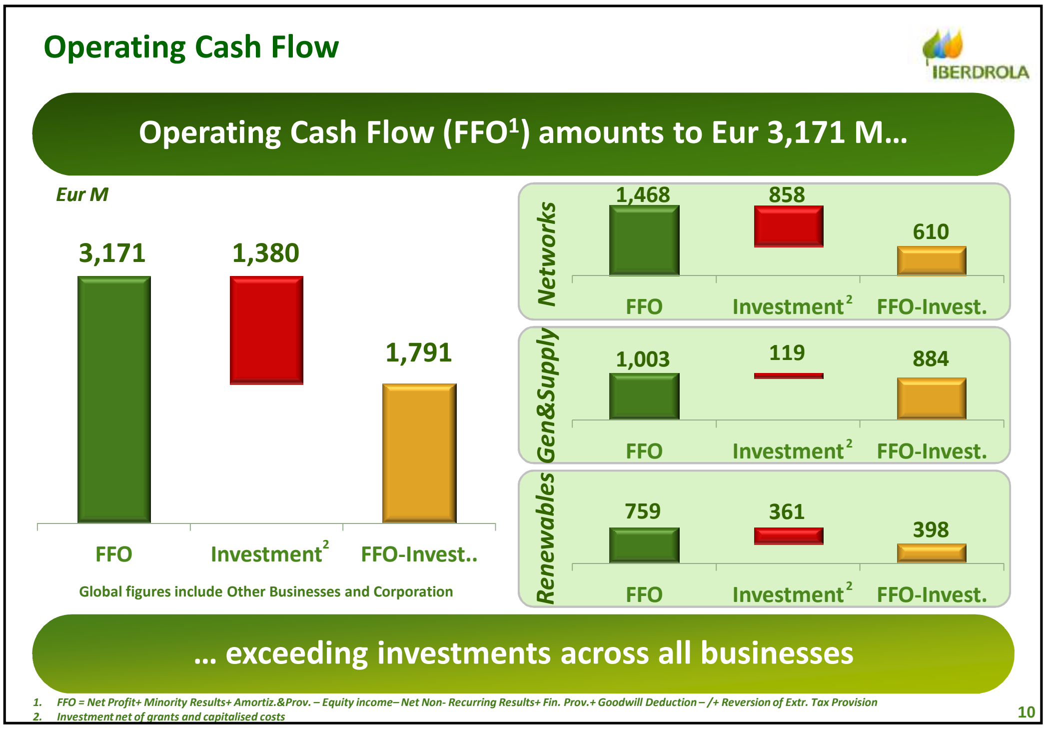
EBITDA

EBITDA amounts to Eur 4,051 M (-0.9%), with a 76% contribution from regulated businesses

Generation & Supply	↓	Increase in Levies
Networks	=	Tariff review in Brazil
Renewables	↑	Higher production

EBITDA by business

Excluding exchange rate impact, EBITDA up 0.9% vs H1 2012



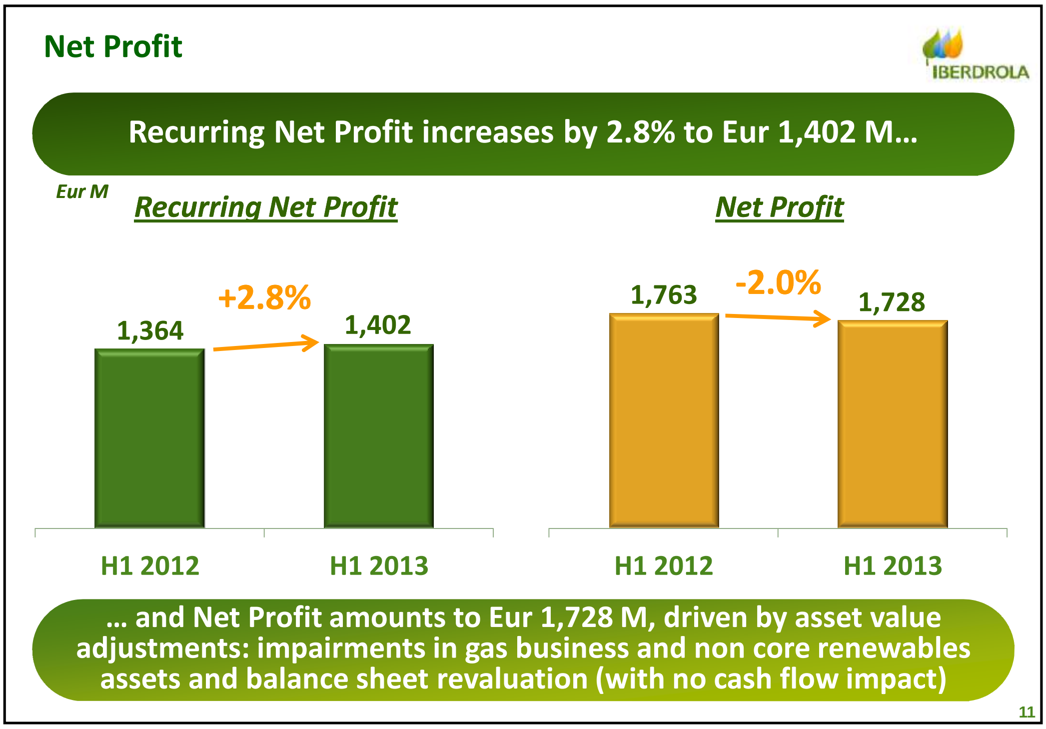
Operating Cash Flow

Operating Cash Flow (FFO[1]) amounts to Eur 3,171 M…

Global figures include Other Businesses and Corporation

… exceeding investments across all businesses

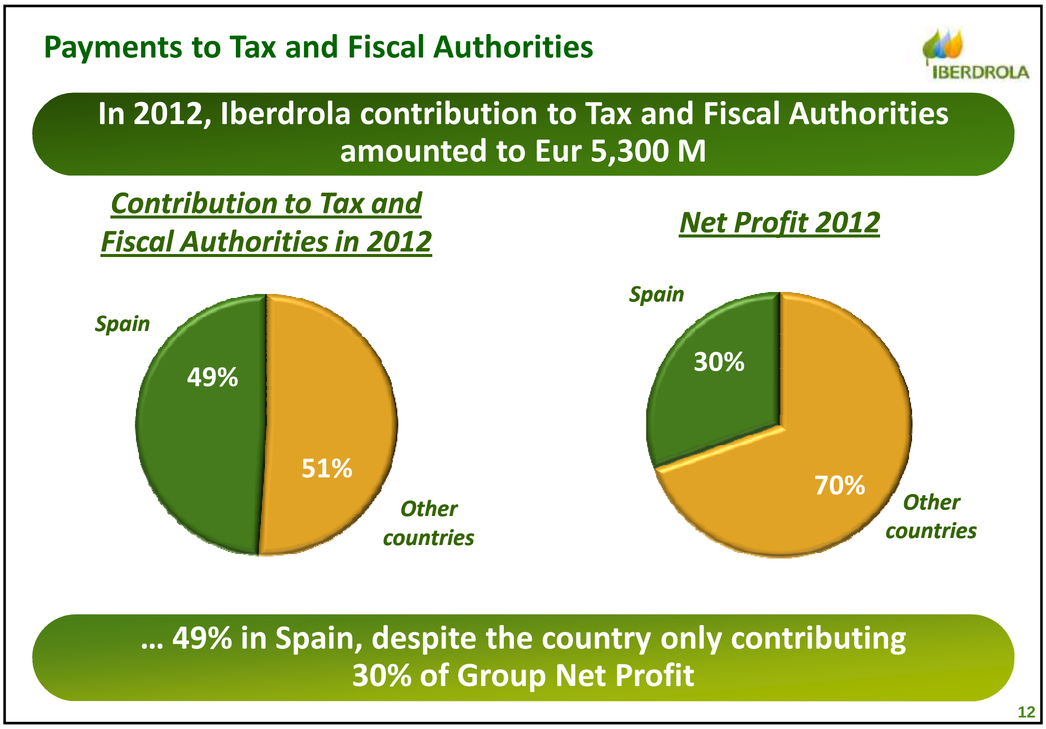
1. FFO = Net Profit+ Minority Results+ Amortiz.&Prov. – Equity income– Net Non- Recurring Results+ Fin. Prov.+ Goodwill Deduction – /+ Reversion of Extr. Tax Provision
2. Investment net of grants and capitalised costs



Net Profit

Recurring Net Profit increases by 2.8% to Eur 1,402 M…

… and Net Profit amounts to Eur 1,728 M, driven by asset value adjustments: impairments in gas business and non core renewables assets and balance sheet revaluation (with no cash flow impact)



Payments to Tax and Fiscal Authorities

In 2012, Iberdrola contribution to Tax and Fiscal Authorities amounted to Eur 5,300 M

… 49% in Spain, despite the country only contributing 30% of Group Net Profit

Regulation in Spain

Regulatory reform approved by the Government removes structural tariff deficit...

Includes mechanisms to avoid future deficit generation

In case of temporary deficits, these will be financed by all the incumbents

… and increases the State guarantee to cover 2012 pending deficit

---

Regulation in Spain

However, the approved reform lacks:

- *Demand forecasts*
- *Networks infrastructure planning*
- *Precise definition of economic and environmental objectives*
- *Target energy mix*

And requires an inequitable effort, which mainly relies on the parties that have not generated the deficit

Regulation in Spain

The main cause of the deficit is the exponential growth of subsidies to immature technologies which only contribute 4% of total energy and increase the system cost of production by 30%

> *"The electricity in Spain is expensive due to energy policy decisions undertaken during the last 10 years (…). The country has paid the learning curve for the rest of the world and remains with a 25 year loan to continue paying photovoltaic modules"*

Energy Secretary of State, 1st July 2013
http://www.fundacionfaes.org/es/multimedia_videos?page=13#contenedorGeneral

> *"The average price to produce 1 MWh in Spain is Eur 50 (…).*
> *If produced with photovoltaic, it costs Eur 450. The difference is paid by all of us in the electricity bill"*

Energy Minister, 18th July 2013
http://www.rtve.es/alacarta/audios/el-dia-menos-pensado/dia-menos-pensado-soria-estudiamos-recurrir-ante-tribunal/1942749/

The solution can't imply an income transfer between sectors, from the most efficient to the least efficient ones…

… and requires mechanisms that avoid closing efficient plants and maintains production from the most costly

Regulation in Spain

The new measures set returns for regulated businesses lower than the cost of capital…

… sending signs not to invest in sectors such as distribution, which are labour-intensive

… which, moreover, is particularly serious for a sector with public service obligations

… the opposite to what happens in other countries, which promote investments in the strengthening and reinforcement of the grid

… and are contrary to European Directives

Regulation in the United Kingdom

Networks: regulatory framework stable and predictable
Iberdrola will invest Eur 10 bn up to 2023

Transmission: RIIO-T1 started past April (2013 - 2021)

Distribution: Plan submitted to the regulator for RIIO-ED1 (2015-2023)

Generation and Supply: pending definition of the remuneration framework for new capacity and avoid increasing the electricity bill with non-energy costs (ECO)

Renewables: prices set up to 2017; beyond that date, Contracts for Differences with fixed prices to be reviewed with inflation

---

Agenda

Highlights of the period

Regulatory update

Analysis of results

Financing

Conclusion

Main highlights of the reform

Very extensive and specific Royal Decree Law for a rule of such a rank
Provides the legal coverage to the rest of regulatory proposals

REFORM

- Royal Decree Law (already passed)
- Draft electricity Law
- Proposals:
  - 7 royal decrees
  - Tariff order
  - 3 ministerial orders

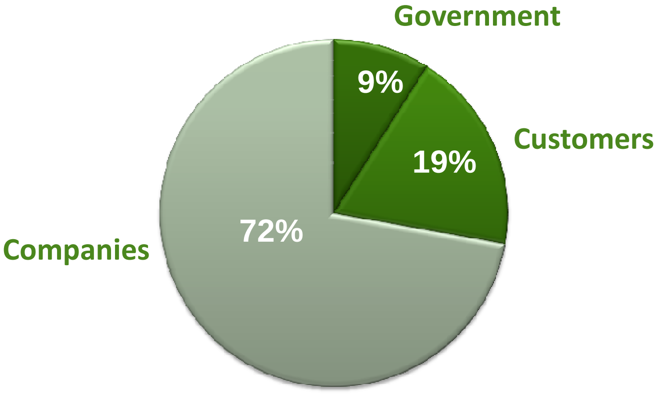
Main highlights of the reform

Main objective of the RD-L:
Elimination of the structural tariff deficit

Positive	Negative
• Removes the tariff deficit problem from 2013 • Guarantees the securitisation of 2012 deficit with the State guarantee • Temporary deficits will be limited and financed by the recipients of regulated revenues (for Iberdrola the contribution would be 1/3 of the current level)	• Transfer of regulated costs to State Budget limited to 50% of non mainland costs (Eur 900 M/year) and, therefore, does not fulfill the balance of efforts among Government, companies and customers • Lack of route map for a national energy policy

Structural tariff deficit

Efforts made since 2012 by the different parties in order to solve the structural deficit

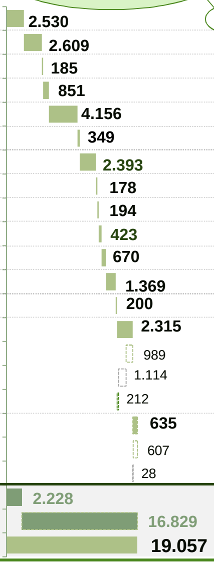


Source: Slide 10 of the presentation made in the press conference of the Ministers Counsel held on the 12 of July of 2013

Iberdrola accrued contribution to reduce the tariff deficit up to date has been Eur 5.3 bn

In 2003, the cost for generators was 0

In 2011, this and other taxes and levies represent Eur 13/MWh on nuclear output



		2006	2007	2008	2009	2010	2011	2012	2013
2nd cycle nuclear fuel tax	**2.530**	230	219	226	270	418	375	417	375
CO2 allowances reduction	**2.609**	1.071	43	1.179	316	0	0	0	0
Bilateral contracts at fixed price	**185**	185	0	0	0	0	0	0	0
Regional pseudo-environmental taxes	**851**	42	41	40	51	100	129	224	223
capacity payments reduction	**4.156**	0	315	863	752	773	665	405	383
National coal subsidies	**349**	0	80	93	93	83	0	0	0
CCGTs: gas access tariff	**2.393**	0	0	137	258	353	481	555	609
Financing of tariff deficit	**178**	0	0	0	0	-5	8	130	44
Social bonus*	**194**	0	0	0	21	80	176	-84	0
Generation fee	**423**	0	0	0	0	0	140	144	139
Energy saving and efficiency plans	**670**	0	0	0	0	0	270	250	150
RD-L 13/2012: Distribution	**1.369**	0	0	0	0	0	0	689	680
RD-L 20/2012	**200**	0	0	0	0	0	0	100	100
Law 15/2012**	**2.315**	0	0	0	0	0	0	0	2.315
Ordinary Regime	989	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*989*
Special Regime	1.114	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*1.114*
Tax on Gas: other sectors	212	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*212*
RD-L 2/2013	**635**	0	0	0	0	0	0	0	635
Special Regime	607	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*607*
Distribution	28	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*28*
Special Regime and Others	**2.228**	**0**	**0**	**0**	**0**	**10**	**77**	**100**	**2.040**
Supply related activities	**16.829**	**1.528**	**698**	**2.538**	**1.761**	**1.793**	**2.167**	**2.730**	**3.614**
TOTAL EFFORT	**19.057**	**1.528**	**698**	**2.538**	**1.761**	**1.803**	**2.244**	**2.830**	**5.653**

*Including refund to Iberdrola Generación of all the amounts financed, according to the Supreme Court rulings

General principles for the remuneration of regulated activities

RD-L principles for the remuneration of regulated activities

Based on the costs of an efficient, well managed company,
applying a reasonable return

Applying homogeneous criteria for all the Spanish territory

To be adjusted every 6 years taking into account economic cycles

To be developed using a standard cost methodology

New remuneration for renewables, cogeneration and waste (I)

RD-L principles for the remuneration of the Special Regime

Special Regime disappears

Maintains some aspects of RD 661

Complicated remuneration framework that makes its evaluation more difficult

Fixed incentive applied over investments
that will guarantee receiving a reasonable return
This reasonable return (7.5% pre tax) is below the level
that the Government defined in RD 661/2007 (8 % after tax)

The returns will be calculated according to standard costs
and estimates of market prices, difficult to forecast in the long term

The incentive will be periodically revised
according to the returns obtained in the market

New remuneration for renewables, cogeneration and waste (II)

IBERDROLA

Very complicated framework

Currently difficult to estimate the impact by technology

Will depend on the long term estimates for market prices, which are also pending

Affects, above all, the most efficient technologies, whose remuneration depends more on the market price and less on subsidies

Also regulates gas consumption in thermosolar plants

Distribution remuneration (I)

IBERDROLA

Main elements of the Distribution remuneration system

A provisional methodology is established, based on an implicit RAB calculated by the CNE and a profitability calculated as 10 years Spanish bond + 200 b.p. in 2014 (+100 b.p. in 2H 2013)

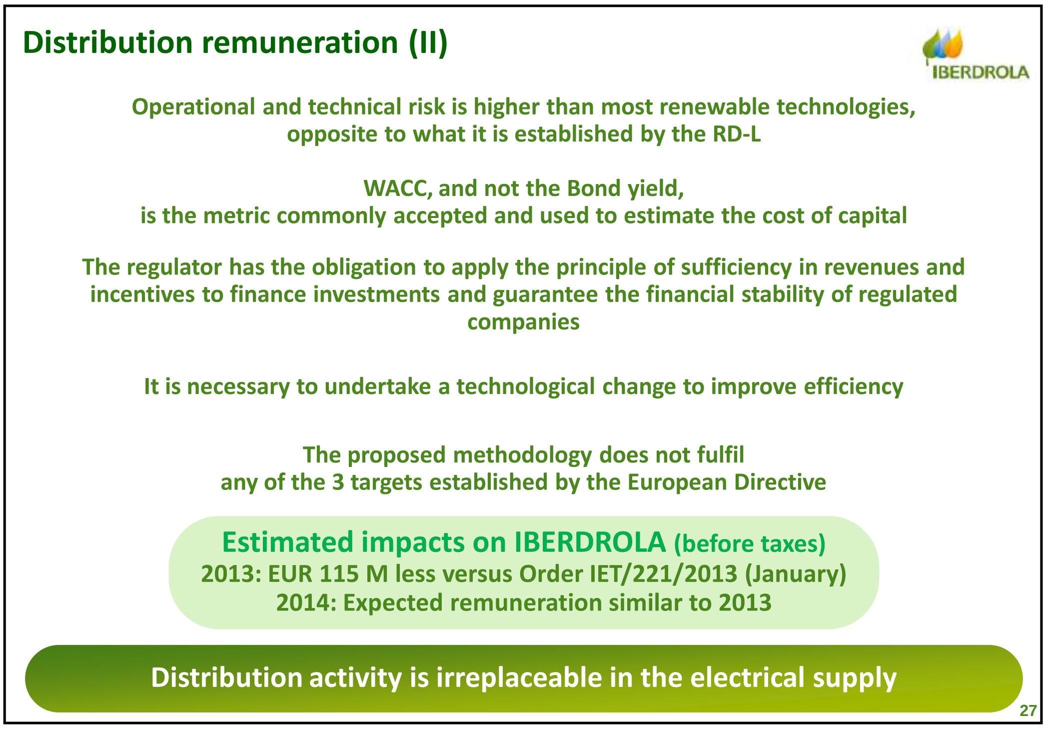
It establishes general principles to be applied from 2015:

Remuneration based on standard unitary investment and operating costs

It will estimate a RAB from physical inventory and standard costs

The regulator will have the authority to impose a limit on the level of planned investments by the companies

The regulatory period will be 6 years



Distribution remuneration (II)

Operational and technical risk is higher than most renewable technologies, opposite to what it is established by the RD-L

WACC, and not the Bond yield,
is the metric commonly accepted and used to estimate the cost of capital

The regulator has the obligation to apply the principle of sufficiency in revenues and incentives to finance investments and guarantee the financial stability of regulated companies

It is necessary to undertake a technological change to improve efficiency

The proposed methodology does not fulfil
any of the 3 targets established by the European Directive

Estimated impacts on IBERDROLA (before taxes)
2013: EUR 115 M less versus Order IET/221/2013 (January)
2014: Expected remuneration similar to 2013

Distribution activity is irreplaceable in the electrical supply

International experience is based on WACC…

WACC methodology is the one used by regulators in developed countries

ERGEG (European regulators)	*"It is recommended that the cost of capital for the transmission is estimated using a Weighted Average Cost of Capital (WACC)."*
OFGEM (British regulator)	*"The cost of capital is the financial return expected by investors - both debt and equity - if an efficient company is delivering an acceptable level of performance and service and meeting all of its statutory and licence obligations. Regulators typically make an allowance for efficiently incurred financing costs by calculating an allowed return on the value of the capital employed in the business (i.e. the RAB), at least equal to the company's Weighted Average Cost of Capital (WACC)."*
Sweddish Royal Sciences Academy	*Otorgó el nobel de economía en 1990 al creador* de una metodología que alimenta el cálculo del WACC (modelo CAPM**), indicando que es la ampliamente utilizada para análisis empíricos y una herramienta básica en el análisis de inversiones.*
EEUU (Supreme Court)	*"The investor interest has a legitimate concern with the financial integrity of the company whose rates are being regulated. From the investor or company point of view it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock. By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital."*
ANEEL (Brazilian regulator)	*"A opção feita pela ANEEL para o cálculo do custo de capital é o Custo Médio Ponderado de Capital (WACC) em combinação com o Capital Asset Pricing Model (CAPM). De acordo com esse modelo, a taxa de retorno de um empreendimento é uma média ponderada dos custos dos diversos tipos de capital, com pesos iguais à participação de cada tipo de capital no valor total dos ativos do empreendimento"*

* William Sharpe ** Capital Asset Pricing Model

Distribution remuneration (II)

Operational and technical risk is higher than most renewable technologies, opposite to what it is established by the RD-L

WACC, and not the Bond yield, is the metric commonly accepted and used to estimate the cost of capital

The Regulator has the obligation to apply the principle of sufficiency in revenues and incentives to finance investments and guarantee the financial stability of regulated companies

It is necessary to undertake a technological change to improve efficiency

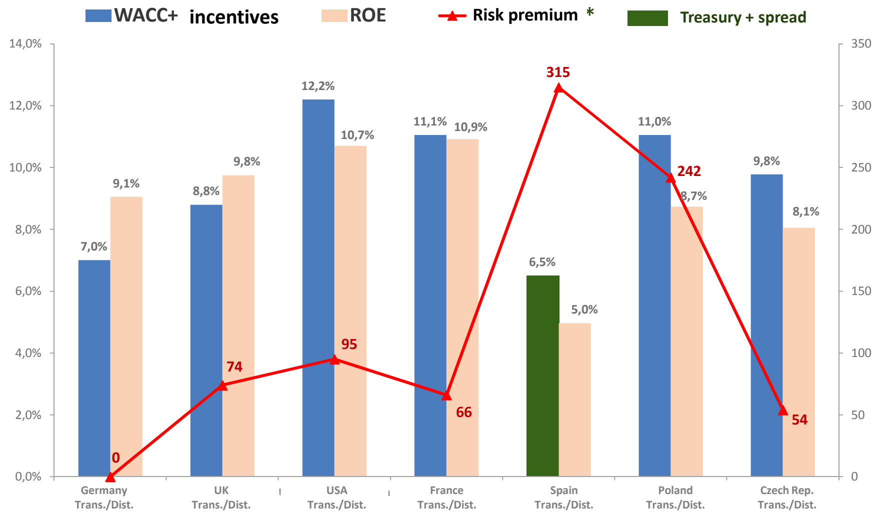
The proposed methodology does not fulfil any of the 3 targets established by the European Directive

Estimated impacts on IBERDROLA (before taxes)
2013: EUR 115 M less versus Order IET/221/2013 (January)
2014: Expected remuneration similar to 2013

Distribution activity is irreplaceable in the electrical supply

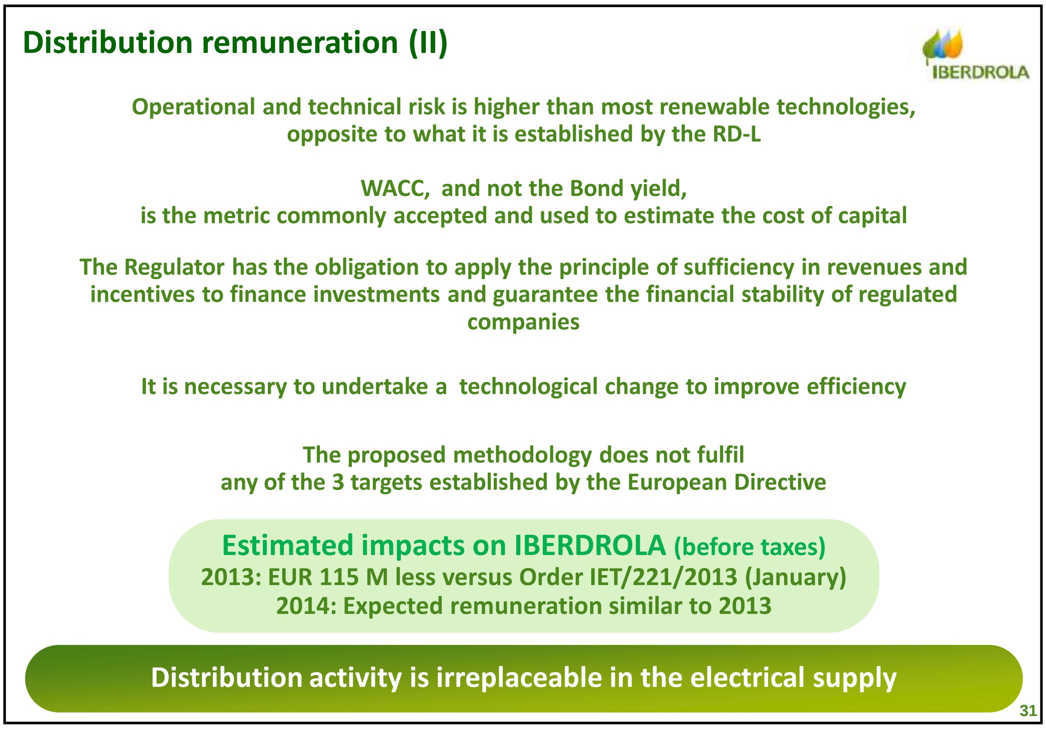
---

WACC in Spain should be between 9%-10% pre-tax. The proposed rate of return destroys 300 b.p. of value



Source: Ernst & Young Report "Mapping power and utilities regulation in Europe" June 2013 (Germany, Poland, Czech Republic and France), US and UK: average of Iberdrola Transmission and Distribution business.

* Premium risk as of 18th July 2013



Distribution remuneration (II)

Operational and technical risk is higher than most renewable technologies,
opposite to what it is established by the RD-L

WACC, and not the Bond yield,
is the metric commonly accepted and used to estimate the cost of capital

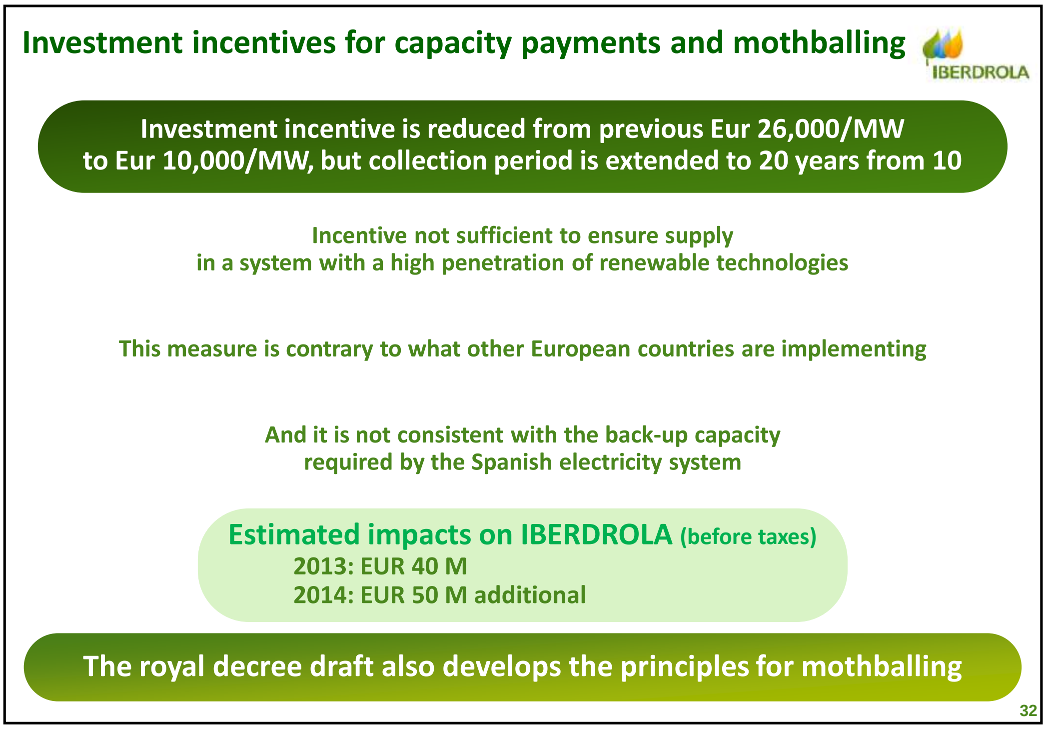
The Regulator has the obligation to apply the principle of sufficiency in revenues and incentives to finance investments and guarantee the financial stability of regulated companies

It is necessary to undertake a technological change to improve efficiency

The proposed methodology does not fulfil
any of the 3 targets established by the European Directive

Estimated impacts on IBERDROLA (before taxes)
2013: EUR 115 M less versus Order IET/221/2013 (January)
2014: Expected remuneration similar to 2013

Distribution activity is irreplaceable in the electrical supply



Investment incentives for capacity payments and mothballing

Investment incentive is reduced from previous Eur 26,000/MW to Eur 10,000/MW, but collection period is extended to 20 years from 10

Incentive not sufficient to ensure supply
in a system with a high penetration of renewable technologies

This measure is contrary to what other European countries are implementing

And it is not consistent with the back-up capacity
required by the Spanish electricity system

Estimated impacts on IBERDROLA (before taxes)
2013: EUR 40 M
2014: EUR 50 M additional

The royal decree draft also develops the principles for mothballing

Social Bonus

Social Bonus to be financed by vertically integrated groups

Restablishes the financing of the Social Bonus by the companies, proportional to the points of supply and the number of supplied customers

Against Supreme Court ruling

The criteria to define the companies and the share
has very little to do with the cost of the Social Bonus

Beneficiaries are limited, in addition to the current criteria, by income thresholds

Estimated impact on IBERDROLA (before taxes)
2013: Eur 15 M
2014: Additional Eur 40 M

The Social Bonus is a consequence of a social policy not linked to the supply of electricity and, therefore, it should not be financed again by 5 companies

Interrumptibility

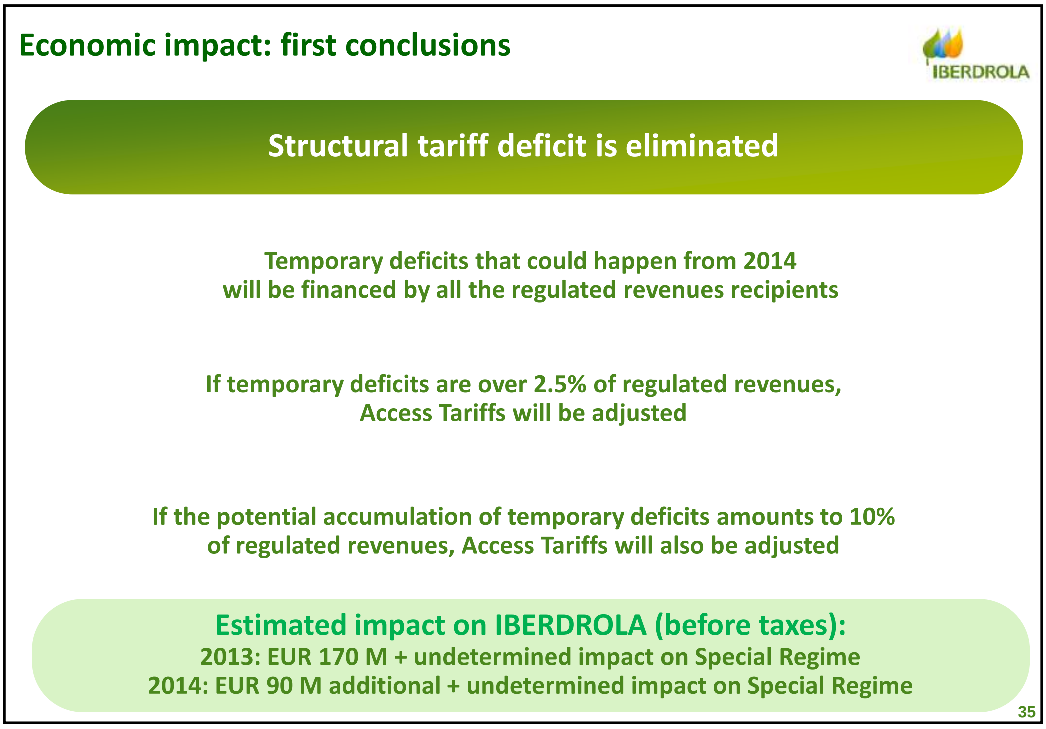
A new mechanism based on auctions organized by TSO

Rules established by the Secretary of State for Energy

Two products: blocks of 5 MW and 90 MW

Eur 750 M are removed from the tariff deficit

The cost of the service will be paid 50% by consumers and 50% by other market players



Economic impact: first conclusions

IBERDROLA

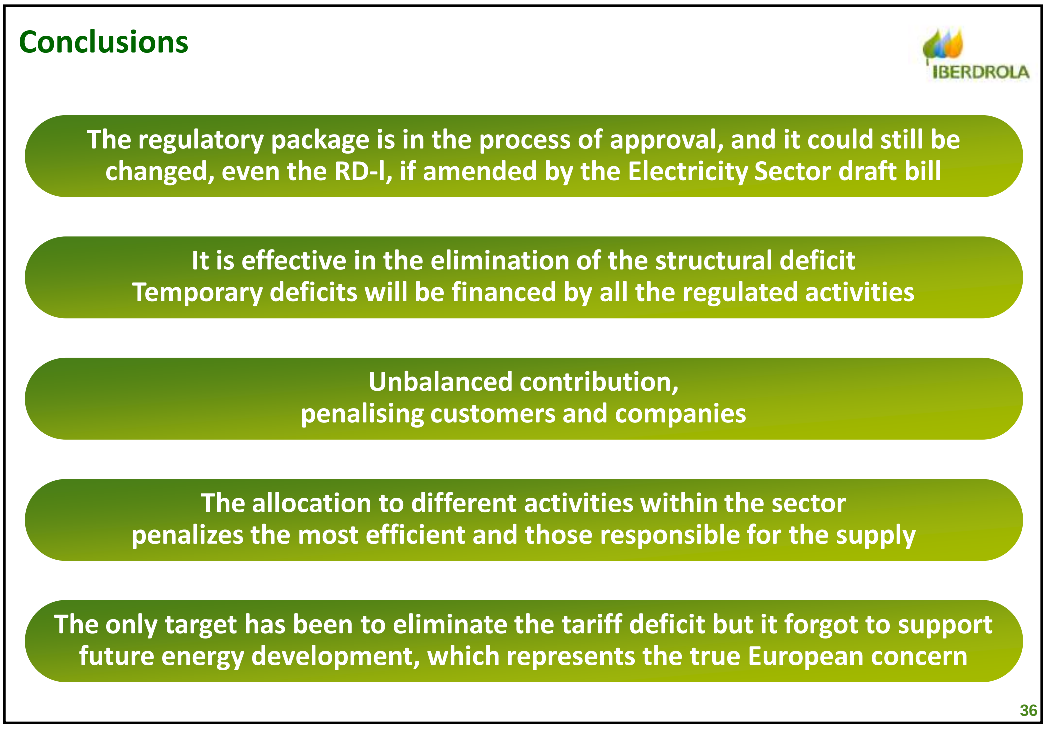
Structural tariff deficit is eliminated

Temporary deficits that could happen from 2014
will be financed by all the regulated revenues recipients

If temporary deficits are over 2.5% of regulated revenues,
Access Tariffs will be adjusted

If the potential accumulation of temporary deficits amounts to 10%
of regulated revenues, Access Tariffs will also be adjusted

Estimated impact on IBERDROLA (before taxes):
2013: EUR 170 M + undetermined impact on Special Regime
2014: EUR 90 M additional + undetermined impact on Special Regime



Conclusions

IBERDROLA

- The regulatory package is in the process of approval, and it could still be changed, even the RD-l, if amended by the Electricity Sector draft bill
- It is effective in the elimination of the structural deficit
  Temporary deficits will be financed by all the regulated activities
- Unbalanced contribution,
  penalising customers and companies
- The allocation to different activities within the sector
  penalizes the most efficient and those responsible for the supply
- The only target has been to eliminate the tariff deficit but it forgot to support future energy development, which represents the true European concern

Agenda

Highlights of the period

Regulatory update

Analysis of results

Financing

Conclusion

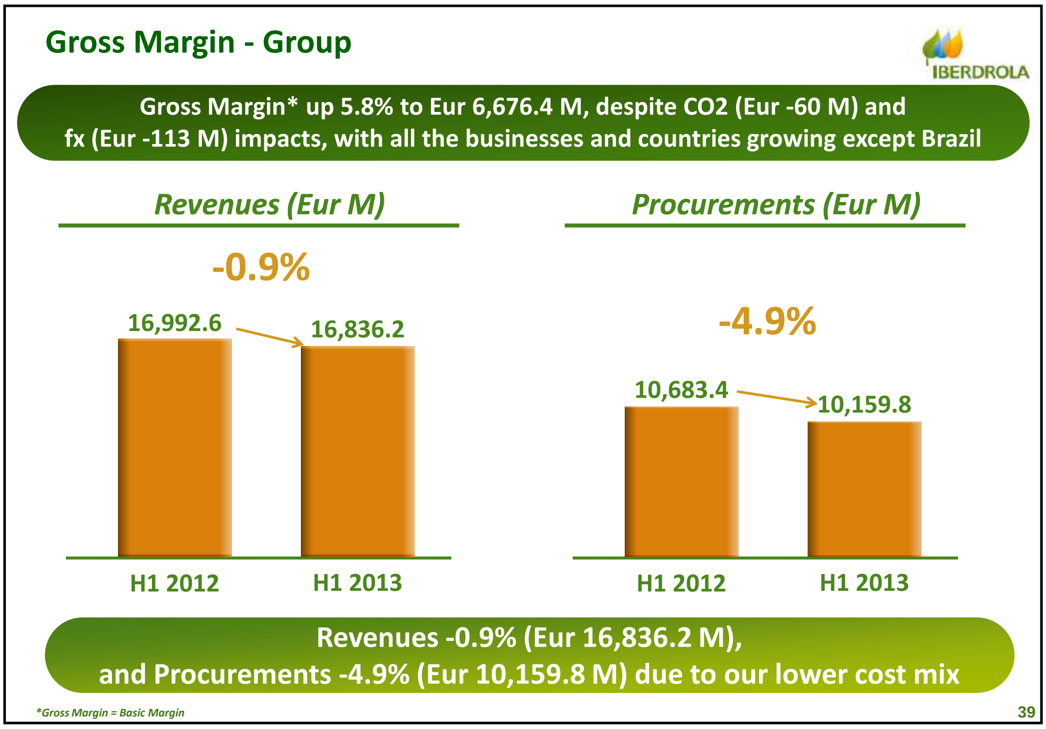
Income Statement – Group

According to IAS 19, that amends the accounting treatment in 2013 for pension charges, 2012 should be adjusted as well for comparative purposes

Eur M

	H1 2013	H1 2012	Prev. H1 2012	Var. %
Revenues	16,836.2	16,992.6		-0.9
Gross Margin	6,676.4	6,309.2		+5.8
Net Op. Expenses	-1,762.0	-1,801.2		-2.2
Levies	-863.5	-481.5		+79.3
EBITDA	4,051.0	4,086.0		-0.9
Operating Profit (EBIT)	881.7	2,539.9		-65.3
Net Financial Expenses	-568.4	-670.0	-615.5	-15.2
Recurring Net Profit	1,402.0	1,364.5	1,401.9	+2.8
Reported Net Profit	1,728.0	1,763.1	1,800.5	-2.0
Operating Cash Flow*	3,171.1	3,299.9		-3.9

**Net Profit + Minority Results + Amortiz.&Prov. – Equity Income – Net Non-Recurring Results + Fin. Prov.+ Goodwill deduction – /+ reversion of extraordinary tax provision*



Gross Margin - Group

IBERDROLA

Gross Margin* up 5.8% to Eur 6,676.4 M, despite CO2 (Eur -60 M) and fx (Eur -113 M) impacts, with all the businesses and countries growing except Brazil

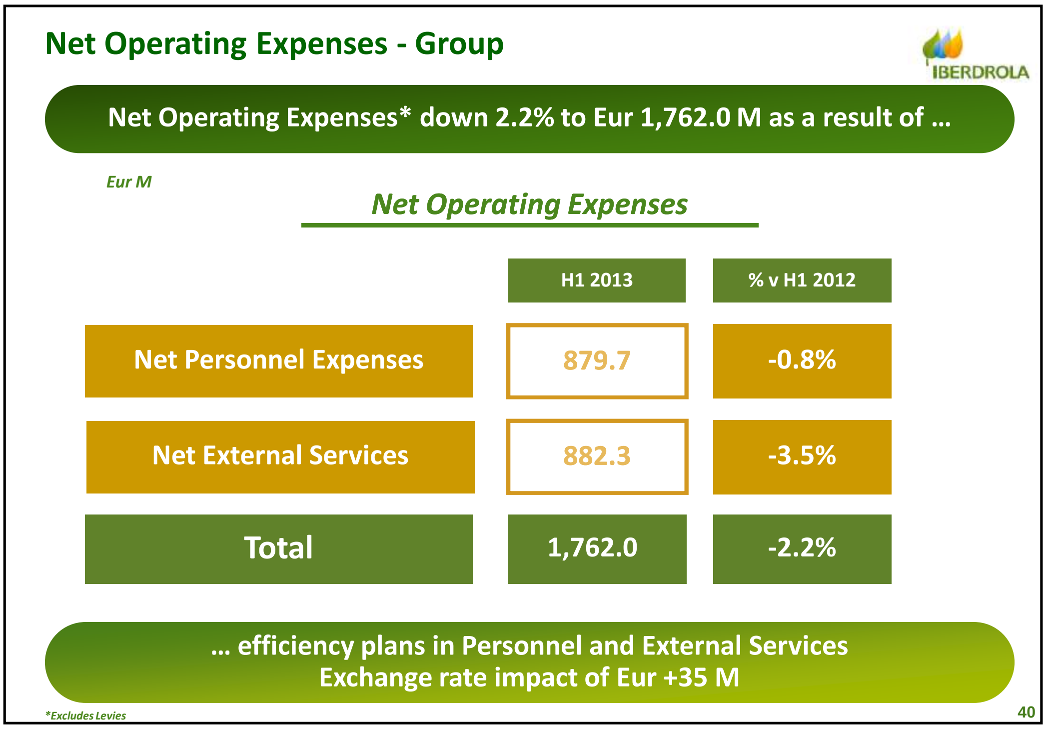
Revenues (Eur M)

Procurements (Eur M)

Revenues -0.9% (Eur 16,836.2 M), and Procurements -4.9% (Eur 10,159.8 M) due to our lower cost mix

Gross Margin = Basic Margin

39



Net Operating Expenses - Group

IBERDROLA

Net Operating Expenses* down 2.2% to Eur 1,762.0 M as a result of …

Eur M

Net Operating Expenses

	H1 2013	% v H1 2012
Net Personnel Expenses	879.7	-0.8%
Net External Services	882.3	-3.5%
Total	1,762.0	-2.2%

… efficiency plans in Personnel and External Services
Exchange rate impact of Eur +35 M

Excludes Levies

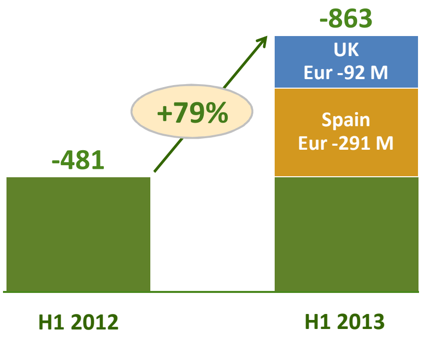
40

Levies

IBERDROLA

Levies rise close to 80% (Eur +382 M) to Eur 863 M …

Levies (Eur M)



Spain

- **Taxes on Generation*:** Eur -252 M impact
(Eur -5 M of green tax accounted at Gross Margin level)
- **Supreme Court rulings**: Eur -48 M net impact, as in Q1 2013

UK

- **Efficiency programmes:** Eur -95 M impact
To improve in the 2nd half of the year as:
  - 2013: 60% accounted in H1
  - 2012: 25% accounted in H1

… due to Spanish taxes on Generation and energy efficiency programmes in UK

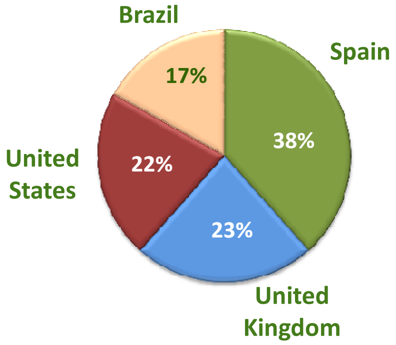
**Includes impact in Generation & Supply business (Eur -208 M) and Renewables (Eur -45 M). Green cent accounted for at Gross Margin Level.*

Results By Business Networks

IBERDROLA

Networks EBITDA decreases 0.8% to Eur 1,965.0 M, as the 9.9% growth in Spain, UK and US do not fully compensate the 32.9% fall in Brazil

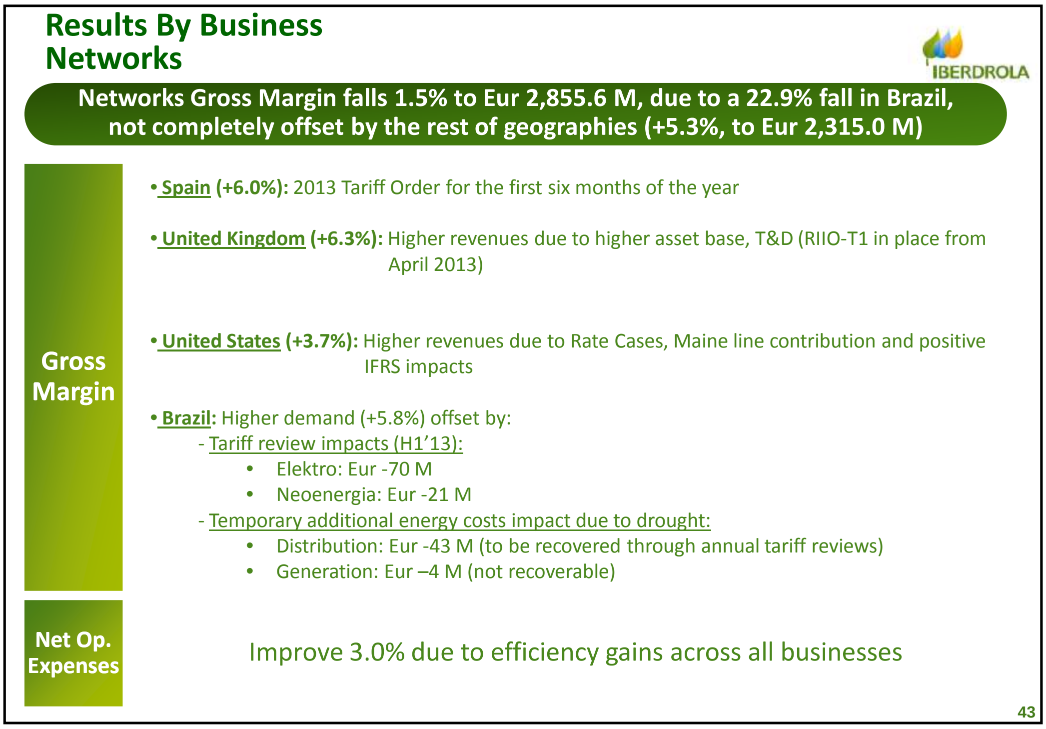
EBITDA by Geography (%)



Financial Highlights (Eur M)

	H1 2013	% v H1 2012
Gross Margin	2,855.6	-1.5%
Net Op. Exp.	-684.7	-3.0%
EBITDA	1,965.0	-0.8%

**EBITDA ex exchange rate impact +1.9%
(fx impact of Eur -54 M)**



Results By Business
Networks

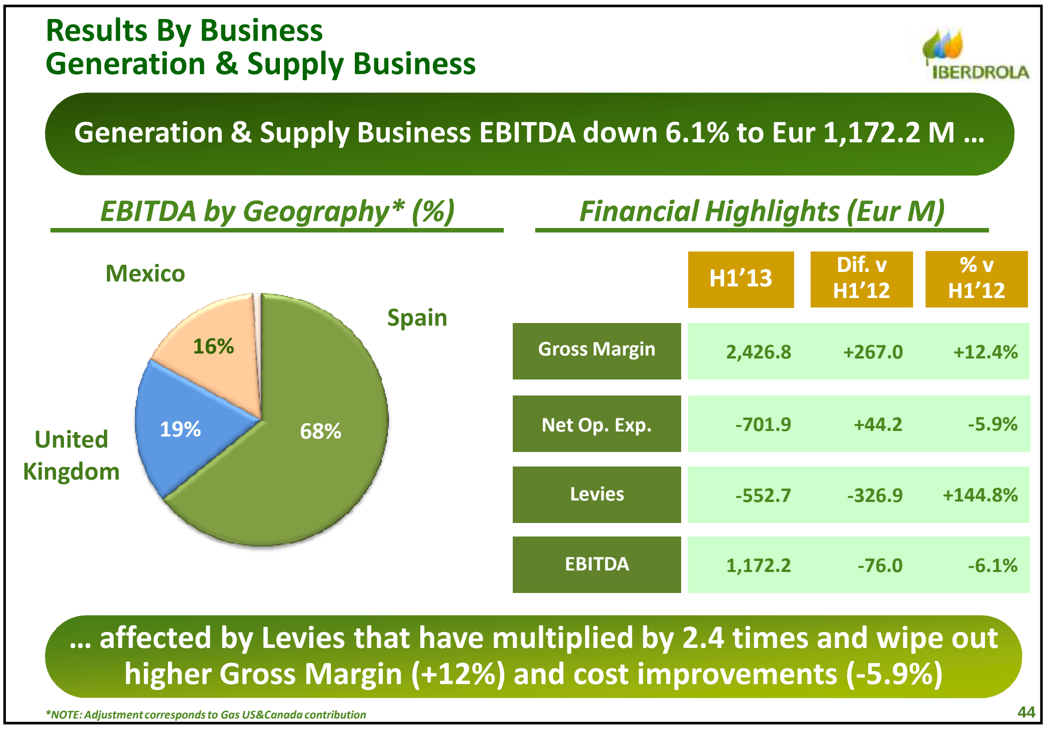
Networks Gross Margin falls 1.5% to Eur 2,855.6 M, due to a 22.9% fall in Brazil, not completely offset by the rest of geographies (+5.3%, to Eur 2,315.0 M)

Gross Margin

- **Spain (+6.0%):** 2013 Tariff Order for the first six months of the year
- **United Kingdom (+6.3%):** Higher revenues due to higher asset base, T&D (RIIO-T1 in place from April 2013)
- **United States (+3.7%):** Higher revenues due to Rate Cases, Maine line contribution and positive IFRS impacts
- **Brazil:** Higher demand (+5.8%) offset by:
  - Tariff review impacts (H1'13):
    - Elektro: Eur -70 M
    - Neoenergia: Eur -21 M
  - Temporary additional energy costs impact due to drought:
    - Distribution: Eur -43 M (to be recovered through annual tariff reviews)
    - Generation: Eur –4 M (not recoverable)

Net Op. Expenses

Improve 3.0% due to efficiency gains across all businesses



Results By Business
Generation & Supply Business

Generation & Supply Business EBITDA down 6.1% to Eur 1,172.2 M …

EBITDA by Geography* (%)

Financial Highlights (Eur M)

	H1'13	Dif. v H1'12	% v H1'12
Gross Margin	2,426.8	+267.0	+12.4%
Net Op. Exp.	-701.9	+44.2	-5.9%
Levies	-552.7	-326.9	+144.8%
EBITDA	1,172.2	-76.0	-6.1%

… affected by Levies that have multiplied by 2.4 times and wipe out higher Gross Margin (+12%) and cost improvements (-5.9%)

**NOTE: Adjustment corresponds to Gas US&Canada contribution*

Results By Business
Generation & Supply Business

Operating improvements derived from hydro conditions in Spain and higher customer base in UK offset weak demand in Spain (-3.8%) and the removal of CO_2 free allowances (Eur -60 M)

Gross Margin

- **Spain:** Gross Margin up +13.9% due to:
  - -Higher output (+5.1%). Hydro up 110.6% compensates -67.7% lower thermal and -6.9% lower nuclear
  - - Higher margins driven by lower costs due to extraordinary hydro conditions

- **United Kingdom:** Gross Margin up 12.7% as lower output compensated by higher retail customer base (+8%) and colder weather.

Tariff increase to recover higher non energy costs: Efficiency programs, CO_2, T&D, ROCs and carbon price floor

Net Op. Expenses

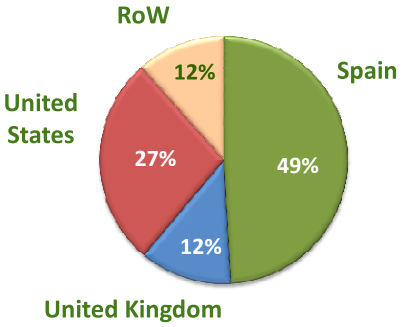
5.9% improvement, as a consequence of cost reductions and efficiency measures predominately in Spain

---

Results By Business
Renewables

EBITDA up 10.5% to Eur 937.5 M, driven by 10.1% higher output and cost control (-0.4%) …

EBITDA by Geography[1] (%)



Financial Highlights (Eur M)

	H1 2013	% v H1 2012
Gross Margin	1,318.1	+12.5%
Net Op. Exp.	-280.6	-0.4%
Levies	-100.0	+142.2%
EBITDA	937.5	+10.5%

… despite the increase in Spanish Levies (x4 times)

---

(1) Adjustment corresponds to Other Renewables

Results By Business
Renewables

Factors to be considered

Gross Margin

- **Capacity:** Operating capacity increases 3.5% to 14,028 MW
- **Output:** Higher output (+10%) due to better average load factor of 30.6% (+1.9 pp)
- **Prices:** Average weighted price improves 1.7% (to Eur 69.9/MWh) due to higher prices in all geographies except Spain
- **Spanish unitary price:** 3.5% reduction in the final achieved price (Eur –22 M v 2012) basically due to change to regulated tariff according to RDL 2/2013

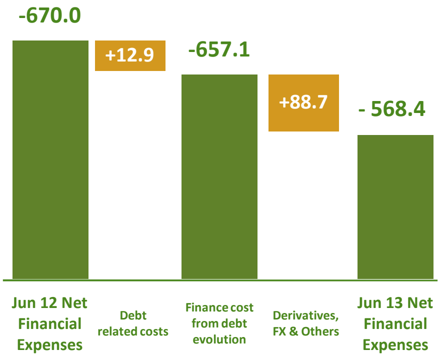
Efficiency

- **Net Operating Expenses/Average Operating Capacity:** 4.0% improvement in cost per MW

Net Financial Expenses - Group

Improvement in net financial costs of 15.2%* to Eur -568.4 M, as a consequence of a 4.4% decrease in the Average Net Debt …

Net Financial Exp. evolution (Eur M)



Financial Highlights

Debt related costs improve Eur 13 M
Cost of Debt: 4.66%

Eur +89 M impact of derivatives, including positive effect of fx derivatives (Eur 54 M)

Eur +51 M due to the recognition of accrued interest related to tariff deficit spread

… and the positive impact of the financial hedging (87% of BRL, 85% of USD and 70% of GBP are hedged)

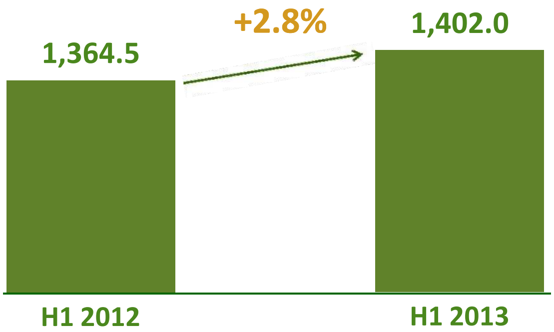
** 2012 adjusted according to IAS19*

Recurring Net Profit - Group

IBERDROLA

Recurring Net Profit up 2.8% to Eur 1,402 M as a consequence of resilient operational performance (EBITDA -0.9%) and the Net Financial Expenses improvement (-15.2%) …

Recurring Net Profit (Eur M)



… that offset the negative exchange rate impact

Asset impairments

IBERDROLA

**Group EBIT down 65.3% to Eur 881.7 M,
due to Eur 1.6 bn higher Provisions …**

Asset impairments

Gas USA & Canada: Revised pipeline’s success probability and value adjustment with no growth considered (Provision of Eur -1,072 M)

Renewables USA and others: Revised pipeline’s success probability and value adjustment according to lower growth estimates (Provisions of Eur -585 M)

TOTAL ASSET IMPAIRMENTS (Gross): Eur -1,657 M

… mainly due to asset impairments in Gas USA & Canada and Renewables

Balance Sheet Revaluation

The value of certain Spanish assets for tax purposes has been increased by Eur 6.3 bn according to revaluation coefficients set by Law 16/2012 in order to include the effect of inflation …

The amortisation of this value increase is tax deductible from 2015 onwards (Eur 1,854 M) in exchange for paying a 5% tax on the Eur 6.3 bn (Eur 316 M)

Net result of the two abovementioned effects:
After tax gain of Eur +1,538 M

… resulting in an accretive financial transaction

Reported Net Profit - Group

Reported Net Profit down 2.0% to Eur 1,728.0 M …

Eur M

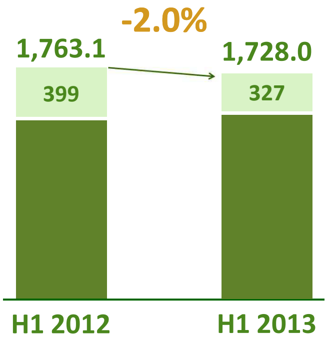
H1'12 Non Recurring impacts (Net)

Asset impairments: Eur -116 M¹

Non Recurring Results: Eur +12 M

Non Rec. Taxes: Eur +503 M¹

TOTAL: Eur +399 M



H1'13 Non Recurring impacts (Net)

Asset impairments: Eur -1,042 M
(Eur -1,657 M Gross impact)

Non Rec. Taxes: Eur -148 M²

Asset revaluation: Eur +1,538 M

Non Recurring Results: Eur -21 M

TOTAL: Eur +327 M

… as Non Recurring impacts were Eur 72 M higher in H1 2012

(1) H1'12 Assets impairments related basically to Gamesa / H1'12 Non Recurring Taxes related to UK Corporate Tax Rate, Elektro goodwill and reversal of provisions in the US
(2) H1'13 Non Recurring Taxes related to Asset Impairments and Others

Agenda

Highlights of the period

Regulatory update

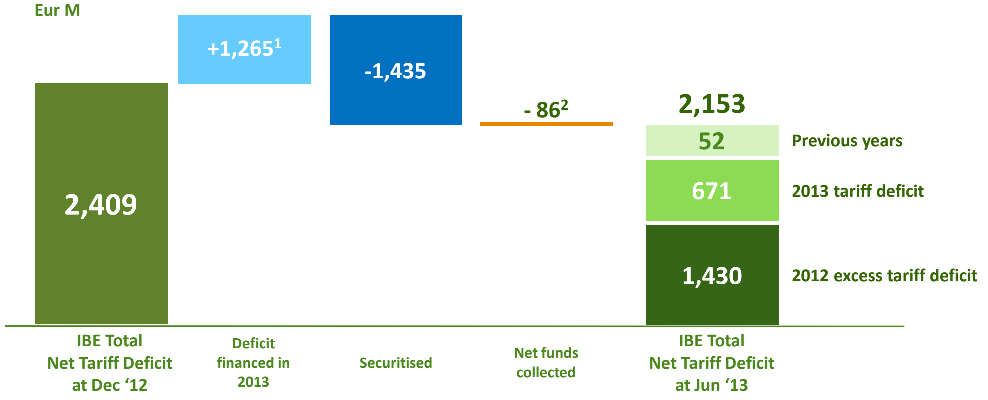
Analysis of results

Financing

Conclusion

Tariff Deficit

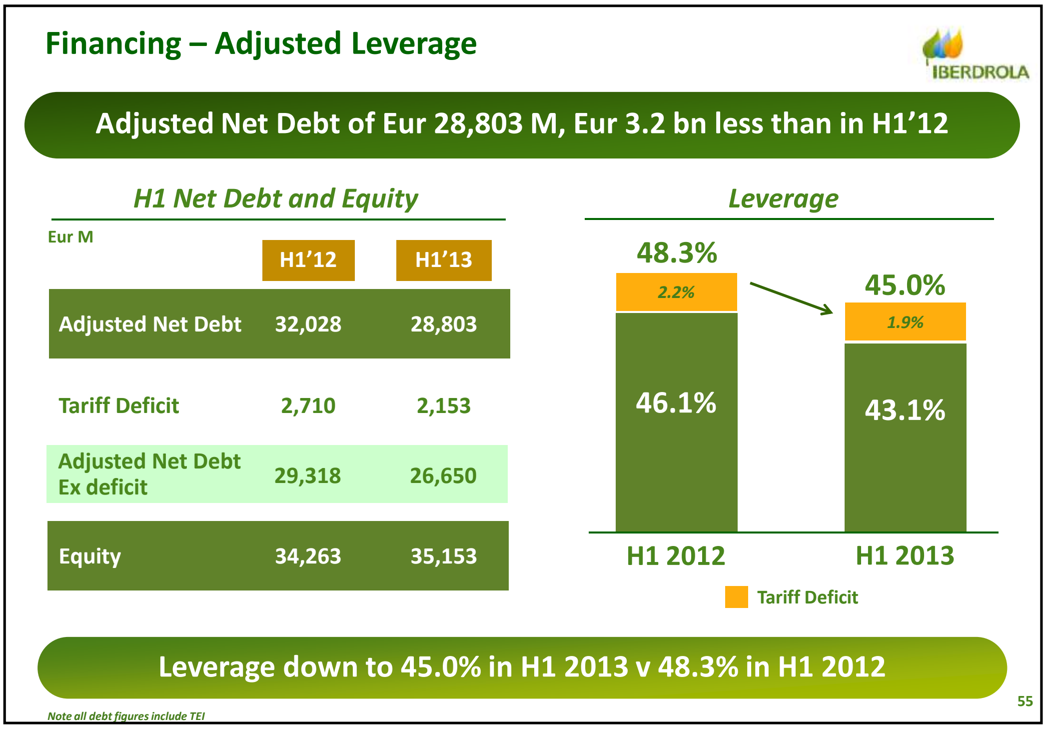
RDL 9/2013 defines the amount of 2012 extra deficit to be ceded to FADE (Eur 4.1 bn), in order to be securitised, and grants it with the State guarantee



According to new draft Law, from 2014 onwards Iberdrola will only finance circa 10-15% of the temporary deficits that may arise

(1) *Includes Eur 594 M deficit financed for 2012 and Eur 671M deficit financed for 2013. Includes Eur 400 M 2012 island deficit.*

(2) *Includes Eur 162 M of deficit received in quotas, Eur 20 M of interests and Eur 57 M spread*



Financing – Adjusted Leverage

IBERDROLA

Adjusted Net Debt of Eur 28,803 M, Eur 3.2 bn less than in H1'12

H1 Net Debt and Equity

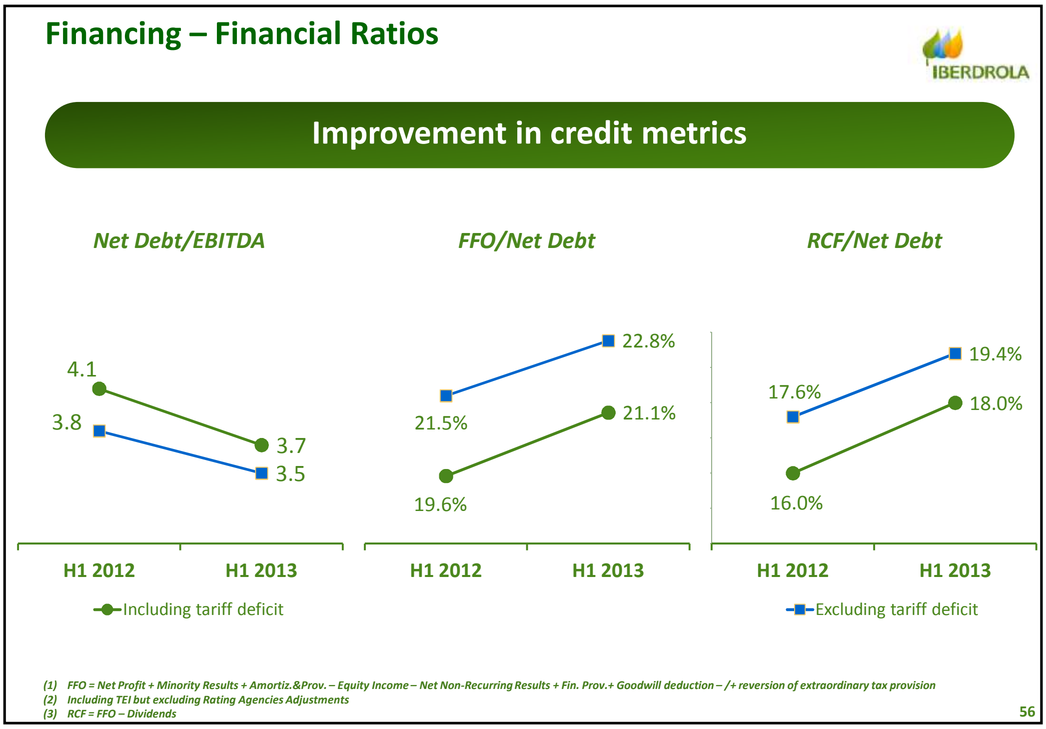
Eur M

	H1'12	H1'13
Adjusted Net Debt	32,028	28,803
Tariff Deficit	2,710	2,153
Adjusted Net Debt Ex deficit	29,318	26,650
Equity	34,263	35,153

Leverage

Leverage down to 45.0% in H1 2013 v 48.3% in H1 2012

Note all debt figures include TEI



Financing – Financial Ratios

IBERDROLA

Improvement in credit metrics

(1) FFO = Net Profit + Minority Results + Amortiz.&Prov. – Equity Income – Net Non-Recurring Results + Fin. Prov.+ Goodwill deduction – /+ reversion of extraordinary tax provision
(2) Including TEI but excluding Rating Agencies Adjustments
(3) RCF = FFO – Dividends

Net Debt pro forma as of July 11th 2013

Net Debt of Eur 28.5 bn, including pending cash receipts from Polish wind farms (Eur 226 M) and Chile Hydro Licán (Eur 42 M), expected to be collected in Q3'13

Eur M

	H1 2012	H1 2013	H1 2013 Proforma
Net Debt	32,028	28,803	28,803
Divestments to be collected			268
Net Debt	32,028	28,803	28,535
Tariff Deficit	-2,710	-2,153	-2,153
Adjusted Net Debt	29,318	26,650	26,382

Including tariff deficit to be securitised, Net Debt of Eur 26,382 MM, with Eur 800 M of pending divestments

---

Financing – Liquidity

Strong Liquidity position close to Eur 12 bn …

Eur M

Credit Line Maturities	Limit	Withdrawn	Available
2013	830	4	826
2014	2,809	3	2,806
2015&onwards	6,276	79	6,196
Total Credit Lines	**9,915**	**86**	**9,829**
Cash & Short Term Fin. Invest.			2,116
Total Adjusted Liquidity			**11,945**

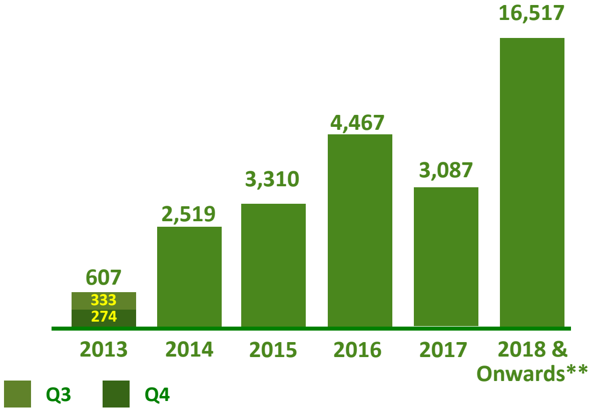
… covering almost 3 years of financing needs

Financing - Financial Profile

Average maturity of Debt: 6.2 years

Eur M

Debt maturity profile*



**Does not include drawn credit lines*

***Assumes rollover of commercial paper outstanding balance of Eur 1,371 M*

Agenda

Highlights of the period

Regulatory update

Analysis of results

Financing

Conclusion

Conclusion

IBERDROLA

Improvements in business management allow…

- Gross Margin increase
- Efficiency improvements
- Financial management

EBITDA amounts to Eur 4,051 M (-0.9%)
Net Profit amounts to Eur 1,728 M (-2.0%)

… the shareholders' remuneration policy to be maintained in 2013

IBERDROLA

Download the Iberdrola Investor Relations app now

IBERDROLA

IBERDROLA IR

www.iberdrola.com

Available on Google Play

Available on the App Store (iPhone)

Available on the App Store (iPad)

Discover the energy that goes with you !