# Results
# 2013
Quarterly Report

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# NET PROFIT TOTALS EUR 2,572 MILLION (-7%) AFFECTED BY REGULATORY IMPACTS IN SPAIN

## Gross Margin increases to EUR 12,577 million

- Driven by the Liberalised and Renewables businesses that have been affected by the regulatory changes in Spain, the evolution in Brazil and adverse foreign exchange rate movements.
- Flat Net Operating Expenses.

## EBITDA (-6.8%) and Net Profit (-7.0%) fall affected by the regulatory changes in Spain

- The Spanish estimated regulatory impacts (pre-tax) totalled EUR 801 million.
- EBITDA amounts to EUR 7,205 million (-6.8%) affected by higher levies (+33%) in Spain (+ EUR 521 million).
- EBIT falls 44% to 2,434.7 million due to the asset write downs within the Renewables pipeline and Gas assets.
- Balance Sheet revaluation in accordance with Law 16/2012: Net effect EUR 1,535 million included within Corporate Tax.

## Financial Strength

- Funds from Operations* (FFO) totals EUR 5,619 million and investments amount to EUR 3,053 million.
- Net debt reduction of EUR 2,271 million during the last 12 months. Leverage stands at 44.2%**.

* Net Profit + Minority Results + Amortiz.&Prov. – Equity Income – Net Non-Recurring Results + Fin. Prov - tax deduction adjustments and others– Elimination of balance sheet revaluation tax effect.
** Including tariff deficit. Excluding tariff deficit leverage is 42.8%.

# Core Business Figures

| Operating Data | | 12M 2013 | 12M 2012 | % |
|---|---|---|---|---|
| **Net production** | **GWh** | **136,347** | **134,758** | **1,2** |
| Hydro | GWh | 17,685 | 11,928 | 48,3 |
| Nuclear | GWh | 22,889 | 26,025 | -12,0 |
| Coal | GWh | 12,590 | 15,928 | -21,0 |
| Gas Combined Cycle | GWh | 42,442 | 42,763 | -0,7 |
| Cogeneration | GWh | 6,843 | 6,331 | 8,1 |
| Renewables | GWh | 33,899 | 31,784 | 6,7 |
| **Installed capacity** | **MW** | **45,009** | **45,984** | **-2,1** |
| Hydro | MW | 9,867 | 9,888 | -0,2 |
| Nuclear* | MW | 3,410 | 3,410 | 0,0 |
| Coal | MW | 3,178 | 4,330 | -26,6 |
| Gas Combined Cycle | MW | 13,073 | 13,073 | 0,0 |
| Cogeneration | MW | 1,233 | 1,248 | -1,2 |
| Renewables | MW | 14,247 | 14,034 | 1,5 |
| **Distributed Electricity** | **GWh** | **214,809** | **214,042** | **0,4** |
| **Electricity customers** | **No (mil.)** | **28,6** | **28,1** | **1,7** |
| **Gas customers** | **No (mil.)** | **3,66** | **3,61** | **1,5** |
| **Gas supplies** | **GWh** | **88,717** | **84,493** | **5,0** |
| **Gas storage** | **bcm** | **2,5** | **2,5** | **0,0** |
| **Employees** | **No** | **30,680** | **31,400** | **-2,3** |

* Includes Garoña plant.

| Operating Data | | 12M 2013 | 12M 2012 | % |
|---|---|---|---|---|
| **Spain** | | | | |
| **Net production** | **GWh** | **58,076** | **57,127** | **1.7** |
| Hydro | GWh | 14,795 | 9,040 | 63.7 |
| Nuclear | GWh | 22,889 | 26,025 | -12.0 |
| Coal | GWh | 2,348 | 4,396 | -46.6 |
| Gas combined cycle | GWh | 1,697 | 2,831 | -40.1 |
| Cogeneration | GWh | 2,490 | 2,624 | -5.1 |
| Renewables | GWh | 13,857 | 12,211 | 13.5 |
| **Installed capacity** | **MW** | **25,488** | **25,486** | **0.01** |
| Hydro | MW | 8,807 | 8,811 | -0.04 |
| Nuclear* | MW | 3,410 | 3,410 | - |
| Coal | MW | 874 | 874 | - |
| Gas combined cycle | MW | 5,893 | 5,893 | - |
| Cogeneration | MW | 394 | 405 | -2.7 |
| Renewables | MW | 6,109 | 6,094 | 0.3 |
| **Distributed Electricity** | **GWh** | **91,656** | **94,410** | **-2.9** |
| **Gas Supplies** | **GWh** | **16,785** | **22,765** | **-26.3** |
| Consumers | GWh | 13,468 | 14,498 | -7.1 |
| Gas combined cycle | GWh | 3,317 | 8,267 | -59.9 |
| **Electricity Users** (managed supply points) | **No (mill.)** | **10.86** | **10.85** | **0.03** |
| Liberalised market | No | 5.82 | 4.95 | 17.6 |
| Last resort supply | No | 5.03 | 5.90 | -14.7 |
| **Gas Users** (managed supply points) | **No (mill.)** | **0.781** | **0.813** | **-3.9** |
| **United Kingdom** | | | | |
| **Production** | **GWh** | **19,936** | **19,072** | **4.5** |
| Hydro | GWh | 665 | 722 | -8.0 |
| Coal | GWh | 10,241 | 11,532 | -11.2 |
| Gas combined cycle | GWh | 6227 | 4,531 | 37.4 |
| Cogeneration | GWh | 9 | 10 | -5.0 |
| Renewables | GWh | 2794 | 2,277 | 22.7 |
| **Installed Capacity** | **MW** | **6,342** | **7,252** | **-12.5** |
| Hydro | MW | 563 | 563 | - |
| Coal | MW | 2,304 | 3,456 | -33.3 |
| Gas combined cycle | MW | 1,967 | 1,967 | - |
| Cogeneration | MW | 31 | 31 | - |
| Renewables | MW | 1,477 | 1,235 | 19.7 |
| **Distributed Electricity** | **GWh** | **37,750** | **37,903** | **-0.4** |
| **Gas Storage** | **bcm** | **0.1** | **0.1** | **-1.5** |
| **Gas Supplies** | **GWh** | **50,315** | **42,757** | **17.7** |
| Consumers | GWh | 36,206 | 32,248 | 12.3 |
| Gas Combined Cycle | GWh | 14,110 | 10,509 | 34.3 |
| **Electricity Users** (customers) | **No (mill.)** | **3.49** | **3.49** | **0.1** |
| **Gas Users** (customers) | **No (mill.)** | **2.3** | **2.2** | **3.7** |

| Operating Data | | 12M 2013 | 12M 2012 | % |
|---|---|---|---|---|
| **United States** | | | | |
| **Production** | **GWh** | **17,994** | **16,716** | **7.7** |
| Hydro | GWh | 402 | 297 | 35.3 |
| Gas combined cycle | GWh | 3 | 82 | -96.6 |
| Cogeneration | GWh | 2,878 | 2,279 | 26.3 |
| Renewables | GWh | 14,712 | 14,057 | 4.7 |
| **Installed capacity** | **MW** | **6,408** | **6,408** | **-** |
| Hydro | MW | 116 | 116 | - |
| Gas combined cycle | MW | 163 | 163 | - |
| Cogeneration | MW | 636 | 636 | - |
| Renewables | MW | 5,493 | 5,493 | - |
| **Gas storage USA** | **bcm** | **1.80** | **1.80** | **-** |
| **Gas storage Canada** | **bcm** | **0.64** | **0.64** | **-** |
| **Distributed Electricity** | **GWh** | **33,187** | **32,722** | **1.4** |
| **Gas supplies** | **GWh** | **21,617** | **18,971** | **13.9** |
| **Electricity Users** (managed supply points) | **No (mill.)** | **1.84** | **1.83** | **0.3** |
| **Gas Users** (managed supply points) | **No (mill.)** | **0.60** | **0.59** | **0.6** |
| **Latinamerica** | | | | |
| **Production** | **GWh** | **38,562** | **39,254** | **-1.8** |
| Hydro | GWh | 1,824 | 1,868 | -2.4 |
| Gas combined cycle | GWh | 34,516 | 35,319 | -2.3 |
| Cogeneration | GWh | 1,466 | 1,418 | 3.4 |
| Renewables | GWh | 757 | 649 | 16.5 |
| **Installed capacity** | **MW** | **6,027** | **5,910** | **2.0** |
| Hydro | MW | 381 | 398 | -4.3 |
| Gas combined cycle | MW | 5,050 | 5,050 | - |
| Cogeneration | MW | 172 | 176 | -2.3 |
| Renewables | MW | 424 | 285 | 48.7 |
| **Distributed Electricity** (under management) | **GWh** | **52,215** | **49,006** | **6.5** |
| **Customers** (managed supply points) | **No (mill.)** | **12.4** | **11.9** | **4.0** |
| **Rest of the world** | | | | |
| **Production** | **GWh** | **1,779** | **2,589** | **-31.3** |
| Renewables | GWh | 1,779 | 2,589 | -31.3 |
| **Installed capacity** | **MW** | **744** | **928** | **-19.9** |
| Renewables | MW | 744 | 928 | -19.9 |

Note: Installed capacity, production and number of employees according to consolidation criteria.

## Stock Market Data

| Stock Market Data | | 12M 2013 | 12M 2012 |
|---|---|---|---|
| Market capitalisation | € Million | 28,922 | 25,753 |
| Earnings per share (6,239,975,000 shares at 12/31/13 and 6,138,893,000 shares at 12/31/2012) | € | 0.41 | 0.45 |
| Net operating cash flow per share | € | 0.901 | 1.015 |
| P.E.R. | Times | 11.25 | 9.31 |
| Price/Book value (capitalisation to NBV at end of period) | Times | 0.82 | 0.78 |

## Economic/Financial Data

| Income Statement | | 12M 2013 | 12M 2012 |
|---|---|---|---|
| Revenues | € Million | 32,807.9 | 34,201.2 |
| EBITDA | € Million | 7,205.0 | 7,726.6 |
| EBIT | € Million | 2,434.7 | 4,376.9 |
| Net Profit | € Million | 2,571.8 | 2,765.1 |
| Net Operating Expenses/Gross Margin | % | 30.2 | 30.1 |

| Balance Sheet | | Dec. 2013 | Dec. 2012* |
|---|---|---|---|
| Total Assets | € Million | 92,411 | 96,816 |
| Shareholders' Equity | € Million | 35,361 | 33,207 |
| Net Adjusted Financial Debt (1) | € Million | 28,053 | 30,324 |
| ROE | % | 7.5% | 8.3% |
| Financial Leverage (2) | % | 44.2% | 47.7% |
| Net Debt/Equity Ratio | Times | 0.79 | 0.91 |

(1) Includes tariff deficit, TEI

(2) Net Debt/Net Debt + Shareholder's Equity Includes tariff deficit financing. Excluding tariff deficit financing, leverage at December 2013 would be at 42.8%.

* Restated

## Credit Rating of IBERDROLA Senior Debt

| AGENCY | RATING | OUTLOOK | DATE |
|---|---|---|---|
| Moody's | Baa1 | Negative | 9 November 2012 |
| Fitch IBCA | BBB+ | Rating Watch Negative | 16 July 2013 |
| Standard & Poors | BBB | Stable | 28 November 2012 |

## Operating Highlights for the period

Iberdrola's results in 2013 are to be viewed within a complex operational environment characterised by the difficult international macroeconomic situation, specifically in terms of weak electricity and gas demand in the Eurozone, together with the effect of recent regulatory and fiscal changes that have meant lower revenues from different businesses, especially in Spain.

In this respect, it is worth noting the following:

- In Spain, the period was marked by high hydroelectric and wind power levels compared with the same period of the previous year (+74.5% and +12.9%, respectively) together with a 2.2% drop in electricity demand, affecting mainly the residential and services market segments.

  In the United Kingdom, demand for electricity dropped by 1.3%, whereas demand for gas increased by 0.7%.

  Iberdrola USA's operational area on the East Coast of the United States saw a +1.4% increase in electricity demand and a +13.9% rise in gas demand.

  As for Brazil, the rate of growth of demand stood at 6.5%, compared with the same period of the previous year.

- During financial year 2013, international markets of raw materials evolved as follows:

  - The average price of Brent oil was $108.70 per barrel compared with $111.68 per barrel the previous year (-2.7%).
  - The average price of gas (Zeebrugge) over the period rose to 66.45 GBp/Therm, compared with 59.09 GBp/Therm in 2012 (+12.5%).
  - The average price of API2 coal was $86.98/MT compared with $89.86/MT (-3.2%) for the previous year.
  - The average cost of $CO_2$ allowances dropped from €8.45 /MT in 2012 to €4.68/MT in 2013 (-44.6%).

- During the period, the average evolution of Iberdrola's main currencies compared to the Euro was as follows: the Pound Sterling and the US Dollar devalued by 4.7% and 3.3% respectively, whereas the Brazilian Real dropped by 14.1%.

  - Iberdrola's total production in the period increased by 1.2% to 136,347 GWh. This figure includes 58,076 GWh (+1.7%) generated in Spain, 19,936 GWh (+4.5%) generated in the United Kingdom, 17,994 GWh (+7.7 %) generated in the United States, 38,562 GWh (-1.8%) generated in Latin America and the remaining 1,779 GWh generated in various countries through renewable energies (-31.3%).
  - As at the end of 2013, IBERDROLA had 45,009 MW installed generation capacity, 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 with the previous financial year:

- The strong impact on the Group's results due to the range of revenue cuts in Spain as a result of various regulatory measures. Thus, the combined effect on the different businesses in Spain included both in the Gross Margin item and in the Levies item, reached EUR 801 million in 2013, of which EUR 280 million correspond to the effects of applying RDL/2013 since July 2013 and EUR 521 million to generation taxes established by Law 15/2012.

- In this regard, one must note the sharp increase in the Group Levies item (+33%), due to the following:

  In the Generation business in Spain, as of 1 January, Law 15/2012 on fiscal measures for energy sustainability came into force. This law establishes a 7% tax charge on production and inclusion in the electrical energy system of a canon of 22% on the hydroelectric energy produced and a tax on the production of spent nuclear fuel. This had a significant effect on the business's levies item, which stood at EUR 413 million. In addition, it includes in the gross margin a green cent on production with gas and goal, amounting to EUR 35 million.

  The Renewables business was also affected by Law 15/2012 on fiscal measures for sustainability, whose effect on the business was a EUR 73 million increase in levies.

- Royal Decree Law 9/2013, which establishes a cut in the remuneration of the Distribution business in Spain (EUR -111 million), a reduction of the investment incentive with an impact on the Liberalised Business in Spain of EUR 47 million, also with an impact on the renewables business. In addition EUR 122 million has been included to reflect an estimation of the potential effect in the Special Regime.

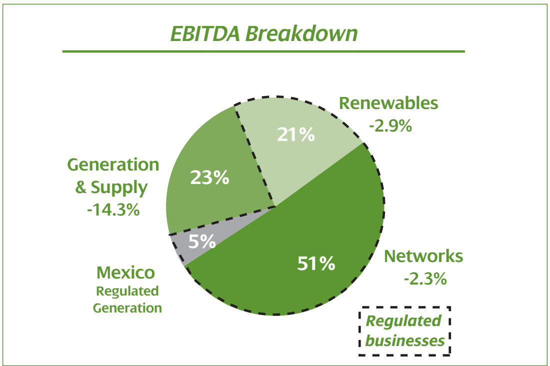
- In Brazil, the impact of the drought in 2013 had a total effect of EUR 294 million for distributors, of which EUR 291 million are financed by the Government (decree no. 7945 of March 2013) and the remaining EUR 3 million will be recovered by the distributors via annual rate reviews (Neoenergia in April and Elektro in August). The impact of the Tariff revision amounts to EUR -883 million (EUR -117 at Elektro and EUR -66 M in Neoenergía) being the main reason behind the drop in Brazil results.

- Asset write-down for the value of EUR 1,849 million before tax, corresponding to the review of the project pipeline both for Gas USA and Canada (EUR 1,072 million), Renewables (EUR 692.8 million) and others (EUR 84.1 million).

- Balance Sheet Revaluations: As established by Law 16/2012 of 27 December, the value for tax purposes of certain Spanish assets has been updated, increasing by EUR 6,323 million, in accordance with revaluation coefficients established by said law, in order to include the effect of inflation. The amortisation of this revaluation is tax deductible (EUR 1,854 million), in exchange for paying 5% tax on the EUR 6,323 million (EUR 316 million) today. Under the IFRS, the payment made corresponding to this 5% should be included in the accounts for this financial year, as should any fiscal savings of the revaluation (regardless of the saving occurring throughout the remaining useful life of the revalued assets). This amounted to a net positive impact on the results of the period of EUR 1,538 million, included in the Corporate Tax item.

- Modification of IAS 19: According to this standard which establishes a new accounting treatment for pensions, the 2012 results have also been adjusted for year-on-year comparison purposes. Thus, Net Profit reported at December 2012 was adjusted from EUR 2,840.7 million to EUR 2,765.1 million).

- Gross Operating Profit (EBITDA) in the period dropped by 6.8% to EUR 7,205.0 million, with a downward trend in the Networks business (-2.3%), in the Generation and Supply business (-14.3%) and in the Renewables business (-2.9%).




This change is mainly the result of:

- A flat Gross Margin, with improvements in both Liberalized (+2.1%) and Renewables (0.9%) offsetting the lower Regulated business gross margin (-1.7%) directly linked to the evolution of the Brazilian business which has been affected by the impact of the tariff reviews and the additional power procurements costs caused by the drought. The adverse foreign exchange rate impact at gross margin level amounts to EUR 352 million.

- Control over Net Operating Expenses (+0.2%), with an increase in the UK Networks business due to the adaptation of the accounting criterion to the standards followed by the new regulatory frameworks (including RIIO-T1 which came into effect on 1 April 2013). The greater Levies (+33.3%) are a result of the new charges introduced in Spain by Law 15/2012 for energy sustainability.

- Gross Operating Profit (EBITDA) is broken down as follows:

| | 12M 2013 | Weight % | Change % |
|---|---|---|---|
| Networks | 3,685.3 | 51.1% | -2.3% |
| Generation and Supply | 2,017.8 | 28.0% | -14.3% |
| Renewables | 1,573.1 | 21.8% | -2.9% |
| Rest | -71.2 | -1.0% | N/A |
| TOTAL | 7,205 | 100% | -6.8% |

- Net Profit amounted to EUR 2,571.8 million, down 7.0% compared to 2012. This item was negatively affected by the differing effects of the aforementioned write-downs and tax effect of balance sheet revaluations.

- Recurring Net Profit amounted to EUR 2,174.4 million (-9.0%) due to the negative evolution of the Net Profit.

- The optimisation of the financial profile and liquidity as strategic priorities can be summarised as follows:

    - Net debt fell EUR 2,271 million to EUR 28,053[1] million from December 2012.

      2013 Funds From Operations amounted to EUR 5,619 million.

    - Liquidity stood at EUR 10,826 million, enough to cover treasury needs for more than 30 months.

(1) Including TEI

# Operational performance for the period

## 1. NETWORKS BUSINESS

### 1.1. Spain

At the end of December 2013, Iberdrola Distribución Eléctrica had 10.9 million supply points and its total energy distribution amounted to 91,656 GWh, a 2.9% drop compared to the previous year.

In financial year 2013, the SAIFI supply quality indicator rose to 62.5 minutes. The increase observed in this index compared to 2012 is due to exceptional weather conditions in the Basque Country and the Region of Navarre.

The table shows the SAIFI (System Average Interruption Frequency Index) values and the CAIDI (Customer average interruption duration index) values compared to previous years:

| Year | TIEPI | NIEPI |
|---|---|---|
| 2010 | 72.7 | 1.7 |
| 2011 | 58.3 | 1.4 |
| 2012 | 58.4 | 1.2 |
| 2013 | 62.5 | 1.3 |

In 2013, a great effort was made to reduce network losses, with the number of supply point inspections increasing by 50% and increasing energy recovered by over 30%.

During this 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 (December 2013) | | Total | Voltage | | | |
|---|---|---|---|---|---|---|
| | | | Very high | High | Average | Low |
| Lines | Overhead (km) | 520 | 191 | 72 | 21 | 237 |
| | Underground (km) | 948 | 4 | 16 | 479 | 449 |
| Sub-stations | Transformers (units) | 18 | 12 | 4 | 2 | |
| | Capacity increase (MVA) | 1,267 | 930 | 80 | 21 | |
| | Substations (units) | 9 | | | | |
| Secondary sub-stations | Secondary substations (units) | 755 | | | | |
| | Capacity increase (MVA) | 171 | | | | |

In addition, more than one million meters with a remote management system have been brought into service, within the smart network STAR project.

### 1.2. United Kingdom

On 31 December 2013, Iberdrola had approximately 3.5 million electricity distribution supply points. The volume of distributed electricity during 2013 was 37,750 GWh, a 0.4% drop compared to the previous year.

Customer Minutes Lost (CML) were as follows:

| CML | 2013 | 2012 |
|---|---|---|
| Scottish Power Distribution (SPD) | 44.9 | 48.7 |
| Scottish Power Manweb (SPM) | 43.0 | 43.3 |

The number of consumers affected by interruptions per every 100 customers (Customer Interruptions, CI) are:

| CI | 2013 | 2012 |
|---|---|---|
| Scottish Power Distribution (SPD) | 52.3 | 54.2 |
| Scottish Power Manweb (SPM) | 39.1 | 33.7 |

## 1.3. United States

### 1.3.1. Distribution

At the end of December 2013, Iberdrola USA had 1.8 million supply points in the United States. The distributed volume of electricity during the year was 33,187 GWh, a 1.4% increase compared with the previous year.

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

| SAIFI | 2013 | 2012 |
|---|---|---|
| Central Maine Power (CMP) | 1.7 | 1.7 |
| NY State Electric & Gas (NYSEG) | 1.1 | 1.0 |
| Rochester Gas & Electric (RGE) | 0.7 | 0.7 |

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

| CAIDI | 2013 | 2012 |
|---|---|---|
| Central Maine Power (CMP) | 2.1 | 1.7 |
| NY State Electric & Gas (NYSEG) | 1.9 | 2.0 |
| Rochester Gas & Electric (RGE) | 1.8 | 1.8 |

The indicators of the three companies met in 2013 with the objectives established under the relevant regulatory agreements.

### 1.3.2. Transmission

#### Maine Transmission Line

Construction works continue for the transmission project involving interconnecting New England and Canada, with a total budget of USD 1,400 million. he investment made since the start of the project amounts to USD 1,146 million, of which 255 million corresponds to financial year 2013.

At the end of 2013, four of the five new 345 kV substations included in the project have been commissioned.

### 1.3.3. Gas

The number of gas users in the United States at the end of 2013 was 0.7 million, with supply during the period rising to 31,548 GWh, up by 13% from the previous year.

In the State of Maine, the subsidiary Maine Natural Gas (MNG) has commissioned its first gas pipeline of 34.5 km and now has 250 high consumption customers.

## 1.4. Brazil

The demand evolution for the Brazilian distributors during 2013 was as follows:

| Energy Distributed (GWh) 100% of business | 2013 | 2012 | Var. |
|---|---|---|---|
| Coelba | 17,645 | 16,320 | 8.1% |
| Cosern | 5,213 | 4,867 | 7.1% |
| Celpe | 12,694 | 11,679 | 8.7% |
| Elektro | 16,663 | 16,140 | 3.2% |
| **TOTAL** | **52,215** | **49,006** | **6.5%** |

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

| Number of customers (million) | 2013 | 2012 | Var. |
|---|---|---|---|
| Coelba | 5.4 | 5.2 | 3.1% |
| Cosern | 1.3 | 1.2 | 3.5% |
| Celpe | 3.3 | 3.3 | 2.7% |
| Elektro | 2.4 | 2.3 | 2.6% |
| **TOTAL** | **12.4** | **12.0** | **2.9%** |

With regard to regulated electricity generation, the capacity of the projects in operation as at December 2013 was as follows:

| Plant | MW * | Attributable MW ** |
|---|---|---|
| Termope | 520 | 203 |
| Itapebi | 450 | 175 |
| Afluente | 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 | 288 | 56 |
| **TOTAL** | **1,883** | **640** |

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

(**) MW equivalent to the percentage of Iberdrola's consolidation

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 | 2014 |
| Belo Monte | 11,233 | 438 | 2015-2018 |
| **TOTAL** | **13,403** | **930** | |

(*) MW equivalent to 100% of the plant's capacity.
(**) MW equivalent to the percentage of Iberdrola's consolidation.

## 2. GENERATION AND SUPPLY BUSINESS

### 2.1. Iberian Peninsula

#### 2.1.1. Spain

At the end of 2013, Iberdrola's installed capacity in Spain (excluding renewables) totalled 19,379 MW, broken down as follows:

| SPAIN | MW |
|---|---|
| Hydroelectric | 8,807 |
| Nuclear* | 3,410 |
| Coal | 874 |
| Gas combined cycles | 5,893 |
| Cogeneration | 394 |
| **TOTAL** | **19,379** |

* Includes Garoña

**Spanish Mainland Energy Balance** experienced a 2.2% drop in demand for electricity from the system, whereas generation under the Ordinary Regime dropped by 10.7%.

**With regard to Iberdrola,** during 2013, production under the Ordinary Regime dropped by 1.3% to 41,729 GWh. The yearly trend analysed by technology is as follows:

- Hydroelectric production reached 14,795 GWh, representing an increase of 63.7% over the previous year due to the higher rainfall in the period. As at 31 December 2013, hydroelectric reserve levels were 59.9% (equivalent to 6,760 GWh).
- Nuclear production reached 22,889 GWh, recording a 12% drop.
- Coal-fired thermal power stations recorded a 46.6% decrease, down to 2,348 GWh.

- Meanwhile, combined-cycle production fell by 40.1% to 1,697GWh.

In comparison, Iberdrola's Energy Production figures can be broken down as follows:

| | 12M 2013 | 12M 2012 |
|---|---|---|
| Hydro | 33.5% | 20.1% |
| Nuclear | 51.8% | 57.9% |
| Coal | 5.3% | 9.8% |
| Gas combined cycle | 3.8% | 6.3% |
| Cogeneration | 5.6% | 5.9% |
| **TOTAL** | **100%** | **100%** |

With regard to sales, as at 31 December 2013, the portfolio managed by Iberdrola included 14,948,426 contracts, a total of 386,946 more contracts than at the end of 2012 (+2.7%). The breakdown is as follows:

| | Contracts | % |
|---|---|---|
| Electricity contracts | 10,524,846 | |
| Gas contracts | 783,337 | |
| Contracts for other products and services | 3,640,243 | |
| **Total contracts** | **14,948,426** | **+2.7%** |

By market type, they can be broken down as follows:

| | Contracts | % |
|---|---|---|
| Liberalised market | 9,940,783 | 67% |
| Last resort | 5,007,643 | 33% |
| **Total contracts** | **14,948,426** | **100%** |

During financial year 2013, Iberdrola's total electricity sales amounted to 75,500 GWh, of which 48,900 GWh were sold in the liberalised market, 14.300 GWh correspond to the Last Resort Supply (Suministro de Último Recurso -SUR-) and the remaining 12,300 in other markets.

With regard to gas, in 2013, Iberdrola managed a total gas production of 4.3 bcm, of which 2.9 bcm were sold in wholesale transactions, 0.6 bcm were sold to end Customers and 0.8 bcm went towards electricity production.

With regard to the group's natural gas procurement, the following points are worthy of note:

- 2013 has been characterised by the natural gas demand in the whole of the Spanish system being lower than in 2012, mainly due to the drop in gas consumption in electricity production.

- 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.

- A figure of 1 bcm (one thousand million cubic metres) of gas supplied to BP and DONG ENERGY has been reached and surpassed, in accordance with the long-term sale contracts signed with these companies.

### 2.1.2. Portugal

Iberdrola has supplied 6,128 GWh during 2013, compared to 5,731 GWh supplied in 2012, being the number one trader in medium voltage companies and having started its entry into the residential sector.

## 2.2. United Kingdom

As at 31 December 2013, installed capacity in the UK amounted to 4,865 MW. This includes a reduction of 1,152 MW due to the closure of the Cockenzie Power Station on 15 March 2013.

The breakdown of installed capacity is as follows:

| UNITED KINGDOM (SPW) | MW |
|---|---|
| Hydro | 563 |
| Coal | 2,304 |
| Gas combined cycle | 1,967 |
| Cogeneration | 31 |
| **TOTAL** | **4,865** |

During 2013 production from traditional electricity generation in the United Kingdom, increased by 2.7% to 16,867 GWh, compared with 16,426 GWh in 2012.

The market share of the generation business in the last quarter of 2013 was 6.3%, compared to 5.9% in the previous year. The highlights by generation technology are as follows:

- Coal plant production dropped by 11.2% to 10,241 GWh compared to 11,532 GWh in the same period of the previous year, due to, among other reasons, the closure of Cockenzie in March 2013.

- Combined cycle gas production increased by 37.4% to 6,227 GWh compared to 4,531 GWh in 2012.

- Hydroelectric production dropped by 8.0% to 655 GWh, compared to 722 GWh in the previous year.

- Production using cogeneration technology (CHPs) dropped by 5.0% to 9 GWh from 10 GWh.

Regarding sales, during 2013, customers have been supplied with 22,271 GWh of electricity and 36,206 GWh of gas, compared to 22,859 GWh of electricity and 32,248 GWh of gas supplied during 2012.

At 31 December 2013, ScottishPower had 3.4 million electricity customers and 2.2 million gas customers, representing an increase of 100,000 million customers compared 31 December 2012.

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), compared to the sector average of 69%* .

## 2.3. Mexico

Iberdrola remains the leading private producer in the country with 4,987 MW in commercial operation, broken down as follows:

* Source: Ofgem.

| Capacity (MW) | MW |
|---|---|
| Monterrey | 1,040 |
| Altamira | 1,036 |
| Enertek | 120 |
| La Laguna | 535 |
| El Golfo | 1,121 |
| Tamazunchale | 1,135 |
| **TOTAL** | **4,987** |

2013 has seen a very significant re-launch of Iberdrola's activity in Mexico derived to a great extent from the tenders of the Federal Electricity Commission (Comisión Federal de Electricidad -CFE-). In December 2013, the CFE awarded Iberdrola the combined cycle plant of Baja California III, with a power capacity of 300 MW, and the offer for the tender of Norte III, with a power capacity of 900 MW was submitted. This tender was also awarded to Iberdrola in January 2014.

To this must be added the extension of 40 MW in Enertek, which shall commence operations during 2014 and the start of works this same year of a new unit in Monterrey, with a power capacity of 300 MW for private consumers.

The above-mentioned projects will allow Iberdrola to exceed 6,500 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.

Electricity supplied amounted to 34,212 GWh. Cumulative availability of the Mexico plants was 94%, with a reliability of 97%.

On the other hand, the low prices of natural gas continue, with an average price of 3.67 USD/MMBtu, considerably lower than prices in Europe and Japan. These low prices are one of the main growth drivers of the business in Mexico, converting expensive and inefficient fuel power plants into more efficient and cheaper gas combine cycles.

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

Gas storage facilities exploited by the Company in 2013 totalled 2.44 bcm. In addition, the Company had 2.01 bcm of contracted or managed capacity.

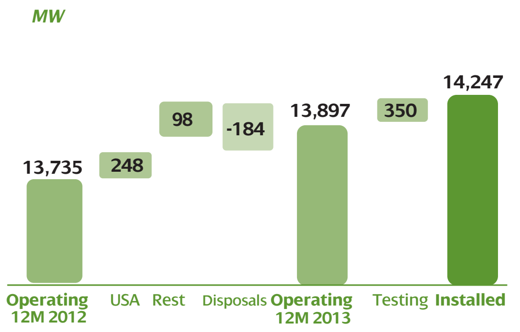
| USA/CANADA | BCM |
|---|---|
| Enstor Katy Storage | 0.63 |
| Enstor Grama Ridge Storage | 0.40 |
| Freebird | 0.27 |
| Caledonia | 0.50 |
| Alberta Hub | 0.64 |
| **TOTAL OWNED CAPACITY** | **2.44** |
| **TOTAL CAPACITY UNDER MANAGEMENT OR CONTRACTED** | **2.01** |
| **TOTAL CAPACITY** | **4.45** |

## 3. RENEWABLES

At the end of 2013, the renewables business had an installed capacity of 14,247 MW, with an operating capacity of 13,897 MW.

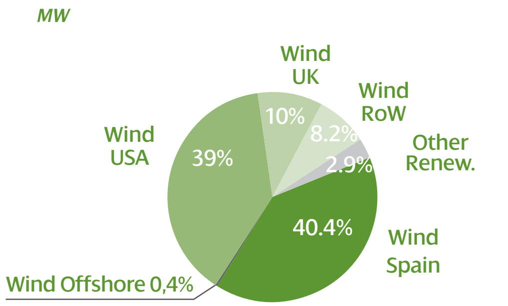
During the financial year, Iberdrola installed 397 MW in renewables. In addition, in the first quarter of 2013, the Company agreed to sell its operating assets in Poland, which amount to 184

MW. As a result of the additions and divestments mentioned, the net increase of installed capacity in the year amounts to 213 MW and represents a growth of 1.5%, compared with the end of 2012.




Operating capacity grew by +1.2% to 13,897 MW after adding, post divestment, 162 MW in operation.

Of the 14,247 MW installed at the end of the fourth quarter of 2013, 57% are outwith Spain, distributed as follows:




| | Installed (MW) |
|---|---|
| Wind Energy Spain: | 5,753 |
| Wind Energy USA | 5,443 |
| Wind Energy United Kingdom | 1,476 |
| Onshore | 1,419 |
| Offshore | 57 |
| Wind Energy RoW | **1,162** |
| **Total Wind Energy** | **13,834** |
| Total Onshore Wind Energy | 13,777 |
| Total Offshore Wind Energy | 57 |
| Other Renewables | 413 |
| **Total installed capacity** | **14,247** |

## 3.1. Onshore Wind Energy

Iberdrola reached a total installed onshore wind capacity of 13,777 MW after having added 342 MW of onshore wind capacity over the last twelve months and having divested 184 MW in the third quarter of 2013. The geographic breakdown of installed onshore wind capacity is as follows: 5,753 MW in Spain, 5,443 MW in the United States, 1,419 MW in the United Kingdom and Ireland and 1,162 MW in the Rest of the World.

### Spain

Installed capacity at the end of 2013 amounts to 5,753 MW.

### United States

The Company is present in 18 States, with a total installed capacity of 5,443 MW. At the end of 2013, there is a 202 MW project under construction whose installation is scheduled to complete in 2014.

### United Kingdom and Republic of Ireland

Installed capacity at the end of 2013 amounted to 1,404 MW in the United Kingdom and 15 MW in the Republic of Ireland, after having installed 185 MW during the year, a 15% increase compared with the end of 2012.

### Rest of the world

Installed capacity at the end of 2013 amounted to 1,162 MW, broken down as follows:

| | Consol MW |
|---|---|
| Italy | 132 |
| Portugal | 92 |
| Greece | 255 |
| Cyprus | 20 |
| Hungary | 158 |
| Romania | 80 |
| Brazil | 194 |
| Mexico | 231 |
| **Total** | **1,162** |

In 2013, it is important to note the installation of 117 MW in Brazil, 22 MW in Mexico and the beginning of the construction of a 70 MW farm in Mexico which shall be installed in 2014.

## 3.2. Offshore Wind Energy

Currently, the renewables business is developing offshore wind projects totalling 5,104 MW, mainly in the United Kingdom (74%), Germany (16%) and France (10%).

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 (* ), which is being jointly developed with Dong Energy. During 2013, the installation of the substation of the farm and the foundations of the turbines have been completed. In addition, works commenced on the grid connection of the farm and development of onshore infrastructures. In September, the installation of the wind turbines started and, at the end of the year, there were 114 MW installed, of which 57 MW correspond to Iberdrola. It is scheduled for commissioning during 2014.

Iberdrola continues with the analysis and development of the Wikinger offshore project, of up to 350 MW, in the Baltic Sea (Germany). The decision will be taken during 2014.

In the United Kingdom, Iberdrola is also analyzing and developing, through a 50% Joint Venture with Vattenfall, the “East Anglia” project for a total estimated 7,200 MW in the region of East Anglia, in the North Sea. In 2013, two offshore measurement towers were installed and the consenting, engineering and research work for the first phase of the project, called East Anglia ONE, with a capacity of 1,200 MW, is being carried out.

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 operation of the offshore wind farm of Saint-Brieuc, with a capacity of 500 MW. In 2013, the first phase of the geophysical and geotechnical works were completed.

* Total capacity. Attributable capacity is 194.5 MW.

### 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 and 130 MW Special Regime) |
| Photovoltaic | 56 | USA (50 MW) and Greece (6 MW) |
| Hybrid Gas-Solar | 50 | Spain |
| Wave | 1 | UK |
| **TOTAL MW** | **413** | |

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

### 3.4. Gas cycle plants

The Renewables business has 2 gas cycle plants located in the State of Oregon, USA, totalling 636 MW, broken down as shown in the following table:

| | MW |
|---|---|
| Klamath Generating Plant | 100 |
| Klamath Cogeneration | 536 |
| **TOTAL MW** | **636** |

## 4. SHAREHOLDER COMPENSATION

### Reduction of Share Capital

On 21 May 2013, Iberdrola's Board of Directors approved a 2.4% share capital reduction, in accordance with the proposal approved at the General Shareholders' Meeting held on 22 March in Bilbao.

This reduction of share capital was performed by redeeming treasury stock, and through a programme involving buying back shares for redemption.

### Iberdrola "*Dividendo Flexible*"

Within the framework of the seventh issue of its Iberdrola Flexible Dividend programme and on occasion of what would have been the dividend on account charged against the results of financial year 2013, Iberdrola announced, on 9 January 2014, the number of allocation rights required to obtain a new share of the Company free of charge, this being 36 rights.

As a result of the above-mentioned programme, 77.01% of Iberdrola's shareholders opted to receive bonus shares of the Group, with no withholding tax, under the "*Iberdrola Dividendo Flexible*" remuneration system, on occasion of the payment of the dividend on account corresponding to financial year 2013.

Iberdrola has issued 133.49 million new shares, under the scope of the second implementation of the capital increase planned in order to cover its remuneration system, which implies a 2.14% increase in the company's share capital. The securities were listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges on Friday 5 February 2014.

The other 22.99% of the Company's shareholders opted for cash remuneration. Thus, Iberdrola paid out EUR 108.72 million to cover the acquisition of free allocation rights at a guaranteed fixed price of EUR 0.126 gross per right, subject to a tax withholding of 21%.

## 5. OTHER SIGNIFICANT EVENTS

### 5.1. Regulation in Spain

In the fourth quarter of 2013, a group of provisions was approved affecting the energy sector. This section presents the most significant changes.

On the first day of the quarter, the *Decision of 24 September 2013 of the General Administration of Energy Policy and Mines* ***reviewing electrical energy production costs and last resort tariffs to be applied as from 1 October 2013*** was published. The purpose of this decision was to adapt the prices to the corresponding CESUR auction, maintaining the same access tariffs.

On 18 October, *Law 15/2013* was published. *The Law establishes the* ***funding from the General State Budget of certain costs of the electricity system****, brought about by the economic incentives for promoting electricity production from renewable energy sources and* ***awarding an extraordinary loan for the amount of EUR 2,200,000,000*** *in the budget of the Ministry of Industry, Energy and Tourism.* This loan was not actually granted, as the new Law on the Electricity Sector approved in December repealed this law.

On 1 November, *Order IET/2013/2013, of 31 October,* was published. The order ***regulates the competitive mechanism of allocation of the interruptibility demand management*** service which configures a procedure where the system operator continues to be in charge of the management of the service and of the implementation, monitoring and verification of all aspects regarding the provision of the service, adding as a new function **the organisation of auctions allocating interruptible capacity**.

On 19 December 2013, the **twenty-fifth CESUR auction was held for the first quarter of 2014.** On 20 December, the **National Markets and Competition Commission (CNMC) issued a statement where it** concluded that **it was not appropriate to validate the auction** in view of the concurrence of certain atypical circumstances. The following day, ***Resolution of 20 December 2013***, of the Secretary of State for Energy, was published. The Resolution determines that the price resulting from the ***twenty-fifth CESUR auction should not be considered in the determination of the estimated cost of the wholesale contracts****, having been cancelled* to all intents and *purposes.* Subsequently, on 28 December, ***Royal Decree-Law 17/2013*** was published, validated by means of *Resolution of 21 January 2014,* ***determining the price of electricity in the contracts subject to voluntary pricing for small consumers in the first quarter of 2014,*** according to which the Government establishes a transitory mechanism to fix the energy component, fixing it at 48.48 €/MWh for the base product and 56.27€/MWh for the peak product. Subsequently, ***Resolution of 30 December 2013****, of the General Directorate of Energy and Mining Policy, which* ***reviews the cost of electricity production and the voluntary***

***prices for small consumers* (PREVO, formerly the Tariff of Last Resort)** to be applied as from 1 January 2014, uses these energy prices as a basis for the calculation of the PREVO; the result is an **average increase of the energy component** of this tariff by **1.4%** as from 1 January.

On 27 December, the Spanish State Bulletin (BOE) published ***Law 24/2013, of 26 December, on the Electricity Sector*** revoking previous Law 54/1997. The main **changes** are as follows:

- It establishes, as the governing principle, the **principle of economic and financial sustainability** of the electricity system, limiting the imbalances due to revenue deficit in such a manner that the amount cannot exceed 2% of the estimated income for the financial year in question and the debt accrued due to imbalances may not exceed 5% of those revenues. In the event that these limits are not complied with, the corresponding tariffs or charges shall be reviewed. The part of the imbalance that is not offset by the raise in access tariffs and charges will be financed by all the subjects of the settlement system based on the collection rights they generate. The amounts paid for this item shall be returned in the settlements corresponding to the 5 following years, applying an interest rate equivalent to the market interest rate. Unlike the previous system, these imbalances shall not be financed exclusively by the large operators and the collection rights corresponding to the revenue deficit may not be assigned to the Electricity System's Tariff Deficit Securitisation Fund as from 1 January 2014. As to the revenue surplus that could arise, it shall be used to offset imbalances from previous years and, while there are debts pending from previous years, access tolls or charges may not be revised downwards.

- In relation to **electricity planning,** the law maintains its binding nature for the transmission network, incorporating tools to align the level of investment with the economic cycle and the principles of economic sustainability.

- For activities **with regulated remuneration,** the necessary costs for an efficient, well-managed company to carry out the activity, by applying uniform criteria across the Spanish territory are taken into consideration.

- For **non-mainland electricity systems**, the law establishes the possibility of setting up a unique regime which will take into account exclusively the extra costs of these electricity systems incurred as a result of their isolated nature.

- The distinction between **ordinary regime and special regime** is abandoned and a unified regulation is applied, without prejudice to any exceptional considerations it may be necessary to establish.

- The **remuneration regime of renewable energies, cogeneration and waste** shall be based on the market participation of these facilities, complementing market revenues with specific regulated remuneration which shall allow these technologies to compete on an equal setting with the other technologies on the market. The law specifies criteria of priority of access and supply for the electricity generated through these technologies in accordance with the EU directives. In addition, the principle of reasonable rate of return is established, as is the criteria for reviewing the remuneration parameters every six years.

- The remuneration rate for **network activities and production activity** based on renewable energy sources, cogeneration and waste, for the first regulatory period, shall be those established in Royal Decree-Law 9/2013.
- With regard to the production activity and, more specifically, **the capacity mechanisms**, it is established that in this case **the aim will be to equip the system with an adequate cover margin** and provide incentives linked to the availability of **manageable power capacity**.
- The law creates the possibility of **temporary closure of generation facilities**, subject to the authorisations regime.
- As to **self-consumption,** the law establishes the obligation of these facilities to contribute towards financing the costs and services of the system in the same amount as the rest of the consumers.
- The law establishes the so-called **voluntary price for the small consumer**, as the maximum benchmark price at which consumers with a power capacity in their contract below a given level may contract their electricity, if they wish, subject to a bilateral negotiation with a supplier (former Last Resort Tariff).
- The law also defines the concept of **vulnerable consumer**, linked to certain social, consumption and purchasing power characteristics and establishes a series of measures to guarantee adequate protection of these consumers, who shall have access to a reduced rate, calculated as the voluntary price for the small consumer, minus the discount rate ("bono social"). The amount of this discount **shall be charged to the integrated business groups.**
- For 2013, it establishes a maximum deficit of EUR 3,600 million, without prejudice to any temporary imbalances that may arise in the settlement system. This deficit shall be financed by the large operators and will generate collection rights during fifteen years as from 1 January 2014, until these amounts have been settled. The amounts contributed for this item shall be returned, applying the market interest rate, which shall be established in the order by which the access tariffs and charges are reviewed. In order to finance these deficits, the corresponding collection rights may be transferred in accordance with the procedure determined by the Government in regulations.

On 28 December, Order IET/2442/2013 of 26 December was published, by which the ***remunerations for the second period of 2013 for electricity transmission and distribution activities*** are established, as are other measures in relation to the remuneration of the transmission and distribution activities of previous years. This order implements Royal Decree-Law 9/2013, where it was stated that the Minister of Industry, Energy and Tourism would approve the remuneration for the period from the entry into force of the RDL until 31 December 2013.

On 30 December, *Royal Decree 1047/2013, of 27 December* was published*, establishing the methodology for calculating the* ***remuneration for the electricity transmission business***. This royal decree is based on and consolidates the remunerative principles established in Royal Decree-Law 9/2013 and Law 24/2013. It establishes a way of remunerating transmission assets and establishes reviews of the set of technical and economic parameters for regulatory periods of six years. It also introduces efficiency criteria, both in the construction of infrastructures and in their operation and maintenance. In addition, it introduces criteria to control the investment volume and for cost control derived from the proliferation of regional and local regulations.

That same day, ***Royal Decree 1048/2013,*** *of 27 December,* was published, *establishing the methodology for calculating the* ***remuneration for the electricity distribution business.*** Like the previous one, this royal decree is based on and consolidates the remuneration principles established in Royal Decree-Law 9/2013 and in Law 24/2013. It establishes a new model that introduces a **maximum limit of annually recognised investment** in order to provide a reasonable estimate of the evolution of the costs of the system arising from this business and linking the remuneration to the investment plan presented and the investments actually made. In addition, it introduces parameters and establishes formulations that make it possible to improve efficiency both in the construction of infrastructures and in the operation and maintenance of networks. It includes incentives to improve losses and quality of service as well as a new one to reduce fraud. It also includes the economic regime of the **payments for rights for connections, links, verifications and actions on monitoring and metering equipment**, in order to group under the same royal decree all revenues received by electricity distribution companies.

Lastly, on 23 December, ***Law 22/2013 on the General State Budget for 2014*** was approved. The documents annexed to the draft bill include the following items to finance the costs of the electricity system: EUR 903 million to cover the extra cost of generation from non-mainland systems, EUR 2,907 million from taxes of Law 15/2012 on fiscal measures for energy sustainability and EUR 343.8 million for the estimated income from the auction of greenhouse gas emission allowances.

## 5.2. Regulation in the United Kingdom

### RIIO ED1

After having been excluded from the “fast-track” process, the two ScottishPower Energy Networks distribution subsidiaries, SPD and SPM, will continue their negotiations with Ofgem to define the terms of the next regulatory period. The revised business plan which incorporates the new proposals will be sent to the regulator in March 2014, and the final decision is due to be published in December 2014. The framework will enter into force on 1 April 2015 for a duration of 8 years (April 2023).

The proposals to be submitted will include significant investments which will create jobs and will play an important role in the UK’s transition to a low carbon emission economy, whilst also bringing significant reliability and service improvements, and cost savings for customers.

## 5.3. Regulation in the United States

### NYSEG and RGE (New York State) Distribution Rate Case

December 2013 marked the end of the regulatory period established for companies in New York. However, as the regulations allow an extension of the terms beyond the final date of the period, for 2014 the same premises established in the agreement of 2010 will apply.

### CMP (State of Maine) Distribution Case Rate

On 1 May, CMP submitted to the Maine regulatory body, MPUC, the request for a new rate agreement for the five-year regulatory period starting on 1 July 2014. Negotiations with the regulatory committee are expected to continue during the first six months of 2014.

## 5.4. Regulation in European Union

On 19 December, ***Decision no. 1359/2013/EU*** *of the European Parliament and of the Council of 17 December 2013* was published in the DOUE. ***The Decision modifies Directive 2003/87/EC clarifying provisions on the timing of auctions of greenhouse gas allowances***. This decision allows the Commission to postpone the release on the $CO_2$ emission allowance trading market of a maximum amount of 900 million allowances.

# Analysis of the Consolidated Profit and Loss Account

## 1. RELEVANT INFORMATION

### Regulatory impacts in Spain

The results of financial year 2013 include the following regulatory impacts resulting from several measures introduced since last financial year:

- Law 15/2012: EUR 521 million
- RDL 9/2013: EUR 280 million

### Write-down of assets

During 2013, the development costs corresponding to gas assets in the USA and the portfolio of renewable energy projects have been written down and their value has been adjusted according to the construction outlook, consequently reducing the necessary size of the project portfolio.

### Amendment of International Accounting Standard (IAS) 19

As a result of the entry into force, as of 1 January 2013, of the amendments to IAS 19 "Employee Benefits" approved by EU Regulation 475/2012, requiring the retrospective application to financial year 2012, the Iberdrola Group has re-stated the comparative periods of the financial statements so that, as required in turn by IAS 8, the information is homogeneous across periods.

### Tariff Deficit

Royal Decree 5/2005 of 11 June establishes the provisional financing percentage corresponding to Iberdrola at 35.01% of the total for the Sector. The figure financed by Iberdrola in cumulative terms as at 31 December 2013 amounted to EUR 1,571 million, broken down as follows: EUR 1,040 million financed and EUR 531 million corresponding to non-collected tax and $CO_2$ emission allowances pending to be tranfered to the system by the Treasury. In January 2014, EUR 359 million were already collected.

### Updating of balance sheets

Law 16/2012 established the option of a voluntary update of balance sheets. In other words, it offered the possibility of revaluing assets (for tax purposes) in accordance with coefficients pre-established by the Spanish Administration, in order to include the effects of inflation.

Some of Iberdrola's subsidiaries in Spain have adopted this option and have updated the value of certain assets. In addition, the same law establishes that the amortisation of the revaluation applied is tax-deductible as of 2015 and throughout the remaining useful life of the assets. Lastly, the regulations establish the payment of a levy of 5% of the amount revalued in the financial year of the update. This payment of EUR 316 million was made in the third quarter.

## 2. ANALYSIS OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

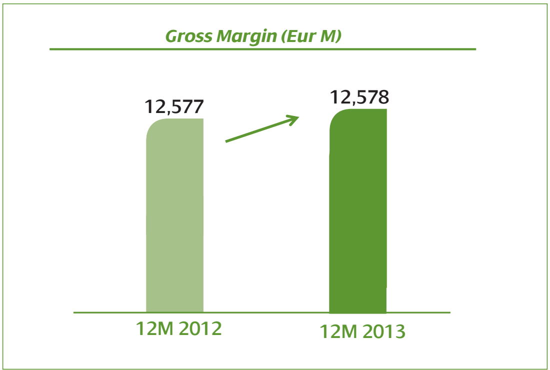
The key figures for the financial year 2013 are as follows:

| Eur Millions | 12M 2013 | v. 12M 2012 |
|---|---|---|
| REVENUES | +32,807.9 | -4.1% |
| GROSS MARGIN | +12,576.7 | 0.0% |
| EBITDA | +7,205.0 | -6.8% |
| EBIT | +2,434.7 | -44.4% |
| RECURRING NET PROFIT | +2,174.4 | -9.0% |
| NET PROFIT | +2,571.8 | -7.0% |
| OPERATING CASH FLOW | +5,619.3 | -9.8% |

## 2.1. Gross Margin

Gross Margin totalled EUR 12,576.7 million, flat with regard to that obtained in 2012.

It should be noted that the adverse exchange rate movement for the main currencies (USD: -3.3%; GBP: -4.7%; Real: -14.1%) had a negative impact of EUR 352 million. Excluding this effect, Gross Margin rose by 2.8%.




Its growth is mainly the result of the following:

- The **Networks business** reduced its contribution by 1.7%, down to EUR 5,571.1 million.

The most significant events in 2013, compared to 2012 were:

- In Spain, the gross margin increases 2.6% to EUR 1,904.8 million despite the negative impact of the new RDL 9/2013, which reduced revenues by EUR 111 million.

- The United Kingdom registered a 3.5% increase to EUR 1,192.5 million as a result of a greater asset base being remunerated as a consequence of the investments made, derived from applying the DPCR5 (the regulatory framework in force), as well as transmission investments under RIIO-T1, in force since April 2013, despite the effect of the devaluation of the GBP by 4.7%.

- The contribution of Iberdrola USA in the period was EUR 1,468.8 million (+3.3%), as a result of the Rate Cases in force, the growing contribution of the Maine HV line and other impacts derived from the US GAAP-IFRS conversion. The effect of the drop in value of the US Dollar (-3.3%) amounted to EUR 49 million.

- Brazil's Gross Margin dropped by 18.7% to EUR 1,004.9 million, despite the greater demand in Iberdrola's areas of activity (+6.5%). This trend is a direct consequence of:

    - The review of rates by Elektro and the distributors of Neoenergia (EUR -183 million).

    - The trend of the Real, with a drop of -14.1% with regard to 2012 (EUR -141 million).

- The increase of the net energy cost (Total costs-compensations) due to the drought, of EUR 3 million.

- **Generation and Supply Business,** increased by 2.1% to EUR 4,511.6 million.

  - In Spain, it amounted to EUR 2,999.4 million (+7.8%) due to greater sales with larger margins as a result of the generation mix of the period, despite lower production under the ordinary regime (-1.3%), where the greater hydroelectric production (+63.7%) almost offset the lower thermal production (-40.1%) and nuclear production (-12%)

  - The United Kingdom reached EUR 1,044.9 million (-3.5%). Affected by the impact of the Carbon Price Floor that levies coal and gas purchases, the closure of Cockenzie, which was replaced by generation from CCGTs and also by the foreign exchange impact GBP (EUR -49 million). This has been partially offset by the improved contribution from the supply business.

  - Mexico's Gross Margin dropped by 8.7% to EUR 453.1 million, as a result of the devaluation of the USD (-3.3%) and the revocation of a contract with a private client (EUR -30 million), which was not offset by the business' operational improvement.

  - USA and Canada (gas) reached a gross margin of EUR 14.2 million, affected by positive reversals in 2012 that did not occur in 2013 and worsen the comparison.

- **Renewables Business** increased its Gross Margin by 0.9% to EUR 2,304.4 million. The main causes of this trend are:

  - Increase of operating capacity to 13,897 MW (+1.2%) despite divestitures made during 2013 (184 MW)

  - Higher production (+6.7%) resulting from a greater wind energy resource in all areas (average load factor of 27.7%).

  - Regulatory changes in the financial year modifying the renewable retribution, with an estimated impact of EUR 122 million, although they are still pending of approval.

- The contribution of **Other Businesses** reached EUR 236.1 million.

## 2.2. Gross Operating Result - EBITDA

Consolidated EBITDA dropped by 6.8% to EUR 7,205.0 million. In addition to the Gross Margin trend explained above, Net Operating Expenses almost flat (+0.2%) as a result of the efficiency programmes put into practice. In summary, EBITDA performance is due to the impact of higher Taxes (EUR 1,576.5 million; +33.3%) in the period and the negative effect of the exchange rate (EUR -210 million).

Net Operating Expenses can be broken down as follows:

- Net Personnel Expenses have increased by 2.8% to reach EUR 1,891.5 million.

- Net External Services dropped by 2.4%, to EUR 1,903.7 million, but are negatively affected by the increase in costs in Brazil as a result of inflation (EUR -43 million) and the adaptation of the accounts to the new regulatory standards in the United Kingdom (EUR -78 million), among others, and positively affected by the exchange rate effect (EUR +115 million).

- Positive impact of exchange rate (Eur 121 million).

**Net Operating Expenses**

*Eur M*

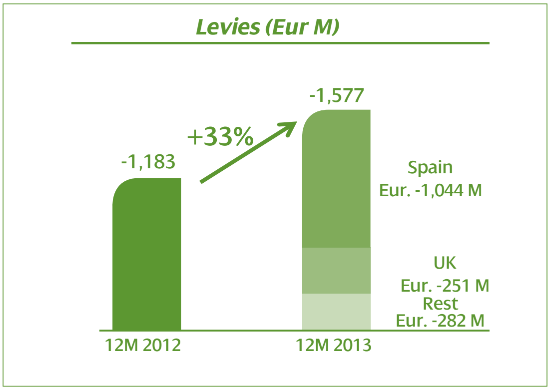
| | FY 2013 | % v. FY 2012 | FY 2013 (IFRS 11) |
|---|---|---|---|
| Net Personnel Expenses | -1,891.5 | +2.8% | -1,742.3 |
| Net External Services | -1,903.7 | -2.4% | -1,724.5 |
| **Total** | -3,795.2 | -0.2% | -3,466.8 |

The Taxes item increased by 33.3%, totalling EUR 1,576.5 million due to the following effects:

- The new fiscal measures for energy sustainability in Spain, contained in Law 15/2012, amounted to EUR 486 million, broken down as follows:
  - 7% tax on Generation, EUR +250 million.
  - 22% tax on hydroelectric production, EUR +128 million.
  - Taxes on nuclear waste, EUR +108 million.

- From the above breakdown, EUR 413 million correspond to the Generation and Supply business and EUR 73 million to the Renewables business.

- In the United Kingdom, the levies item amounts to EUR 251 million, mainly as a result of the new energy efficiency programmes established (ECO).




- Lastly, the Supreme Court ruling of 7 February 2012 (exempting generation companies from financing rates subsidies and recognising their right to be reimbursed for any amounts paid for this item) had a positive impact in 2012 of EUR 100 million, with no corresponding amount in 2013, and which is partially offset by the Ecotax resolution of Castilla-La Mancha region.

### 2.3. Net Operating Result - EBIT

EBIT totalled EUR 2,434.7 million, a fall of 44.4 % in comparison with 2012.

Amortisations and Provisions rose by 42.4%, totalling EUR 4,770.3 million.

In this regard, the main comments are as follows:

- Amortisation decreased by -2.9%, to EUR 2,734.8 million. Its trend is mainly due to the group's investment process.

- Provisions amounted to EUR 2,035.6 million. The greatest variations are a result of the write-down of the development costs related to the renewables project portfolio, as the likelihood of success of the pipeline was reviewed and its value was adjusted according to lower growth estimates (EUR 511 million), as well as a result of the review of the value of gas assets in the United States and Canada due to the situation above described (EUR 1,849 million).

## 2.4. Financial Result

The net financial result was EUR -1,292 million, which is 6.7% greater than that generated in the same period of the previous financial year. The following impacts are worth noting:

**Positive impacts**

- The average balance of net debt dropped by 7.5%, whereas average cost stood at 4.60%.

- Derivatives improved by EUR +47 million, mainly thanks to the impact of currency hedging.

**Negative impacts**

- The impact of the lower remuneration due to the lower balance of the receivable tariff deficit amounted to EUR -26 million.

- Greater provisions for updating pensions, reversal in 2012 of tax contingencies (both in the United Kingdom), and the reduction of capitalised cost represented EUR -70 million.

- The 2012 result included the market value of the stakes in Medgaz and Euskaltel after having reached agreements for their sale, which, along with other impacts led to a comparatively lower result of EUR -115 million.

The breakdown is as follows:

| | Dec. 13 | Dec. 12 | Difference |
|---|---|---|---|
| Debt-related interest expense | -1,348.8 | -1,430.9 | 82.1 |
| Dividends, derivatives and foreign exchange movements | 78.6 | -31.2 | 47.3 |
| Interest received on tariff deficit | 31.1 | 57.2 | -26.1 |
| Provisions and capitalised interest | -76.1 | -5.8 | -70.3 |
| Others | 23.2 | 137.8 | -114.6 |
| Financial result | -1,292.0 | -1,210.4 | -81.6 |

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

Results of Companies Consolidated by the Equity Method show a positive performance, totalling EUR 72.2 million, thanks to Gamesa's result improvement and the partial reversion of provisions made in 2012 regarding Iberdrola' stake in Gamesa.

## 2.6. Income from Non-Current Assets

Income from Non-Current Assets recorded EUR-24.9 million of losses, EUR 11.5 million higher than that in 2012. During 2013, the most significant transactions were the sale of the portfolio of renewables projects in Turkey and Poland, the sale of Licán in Chile, Neosky and renewables assets in France and Germany.

### 2.7. Net Profit

As a result of the above movements, Profit before tax amounted to EUR 1,190.0 million (-59.9%).

With regard to the Corporate Tax item, this amounted to EUR 1,423.6 million. Law 16/2012 established the option of undergoing, on a voluntary basis, an updating of balance sheet valuation. In other words, it offered the possibility of revaluing assets (for tax purposes) in accordance with pre-established coefficients in order to include the effects of inflation. Some of Iberdrola's subsidiaries in Spain have adopted this option and have updated the value of certain assets. In addition, the same regulations establish that the accounting amortisation of the revaluation made shall be tax-deductive as of 2015 and throughout the remaining useful life of the assets. Lastly, the law establishes a payment of a levy of 5% of the revalued amount in the financial year when the update is effected.

As a result of this Balance Sheet Revaluation, Iberdrola has increased by EUR 6,323 million the value for tax purposes of certain assets in Spain. Tax-deductive amortisation amounts to EUR 1,854 million. The 5% levy amounts to EUR 316 million. Therefore, the net effect included in the "Company tax" item amounts to EUR 1,538 million.

The reduction in the tax rate in the United Kingdom by 3% applied in September 2013 should be noted. This is a reduction on top of that already applied in September 2012.

Recurring Net Profit, that is, profit generated before the effect of non-current items, amounted to EUR 2,174 million.

Lastly, Net Profit totalled EUR 2,571.8 million, down 7.0% compared to 2012.

Funds Generated from Operations* as at December 2013 stood at EUR 5,619 million, a drop of 9.8% compared to the same period of the previous year. On the other hand, the change experienced by the reference credit ratios** is as follows:

| | Excluding Deficit | | Including Deficit | |
|---|---|---|---|---|
| | Q4 2013 | Q4 2012 | Q4 2013 | Q4 2012 |
| Retained Cash Flow (RCF)***/Net Debt* | 17.9% | 18.7% | 16.9% | 17.2% |
| Funds Generated from Operations (FFO)** / Net Debt* | 21.2% | 22.4% | 20.0% | 20.5% |
| Net Debt*/EBITDA | 3.7x | 3.6x | 3.9x | 3.9x |

* Includes TEI.
** Net Profit + Minority Results + Amortiz.&Prov. – Equity Income – Net Non-Recurring Results + Fin. Prov - tax deduction adjustments and others– Elimination of balance sheet revaluation tax effect
*** FFO – Dividends.

# Results by Business

## 1. NETWORKS BUSINESS

The key figures for the Networks business are as follows:

| (Eur Millions) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Revenues | +8,153.6 | -7.6% |
| Gross Margin | +5,571.1 | -1.7% |
| EBITDA | +3,685.3 | -2.3% |
| EBIT | +2,521.0 | -3.0% |

The Networks business recorded a decrease in Gross Margin (-1.7%), as the drop in Brazil (-18.7%) was not offset by the growth in the remaining geographic areas.

### 1.1. Spain

| (Eur Millions) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Revenues | +1,904.8 | +2.6% |
| Gross Margin | +1,904.8 | +2.6% |
| EBITDA | +1,450.3 | +7.6% |
| EBIT | +1,069.2 | +10.5% |

#### a) Gross Margin

Gross Margin for the Networks Business in Spain increased by 2.6%, to EUR 1,904.8 million, despite the negative impact of Royal Decree Law 9/2013 by recognition of a higher asset base due to investments made in the year n-2 (EUR -111 million).

#### b) Operating Profit/EBIT

EBITDA in this Business totalled EUR 1,450.3 million, a 7.6% increase.

In addition to the improvement in Gross Margin, EBITDA was driven by the positive impact of the efficiency measures applied in 2012, which led to a 12.1% reduction in Net Operating Expenses.

EBIT for the Networks Business in Spain totalled EUR 1,069.2 million (+10.5%). Amortisations and provisions totalled EUR 381.1 million (+0.2%), pertaining to amortisations and provisions due to new assets commissioned.

### 1.2. United Kingdom

| (Eur Millions) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Revenues | +1,228.0 | +2.8% |
| Gross Margin | +1,192.5 | +3.5% |
| EBITDA | +939.0 | +0.2% |
| EBIT | +684.4 | -6.2% |

#### a) Gross Margin

Gross Margin of the Networks Business in the United Kingdom (Energy Networks) increased by 2.8% to EUR 1,228.0 million due to a greater regulatory asset base and the increase of Distribution and Transmission access charges. The effect of the devaluation of the GBP amounted to EUR -56 million.

#### b) Operating Profit/EBIT

EBITDA reached EUR 939.0 million (+0.2%). Net Operating Expenses increased by 59% to EUR 181.1 million due to accounting adjustments to adapt to the regulatory frameworks, leading to a lower capitalisation rate.

Personnel expenses amounted to EUR 71.6 million, and net external services reached EUR 109.5 million.

Lastly, amortisations and provisions totalled EUR 254.6 million (+22.4%), mainly as a consequence of the new investments in operation, as well as accounting adjustments made to adapt to the aforementioned regulatory standards.

### 1.3. United States

| (Eur Millions) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Revenues | +2,301.8 | -1.6% |
| Gross Margin | +1,468.8 | +3.3% |
| EBITDA | +718.2 | +8.8% |
| EBIT | +491.4 | +14.6% |

#### a) Gross Margin

Iberdrola USA increased its contribution to the gross margin by 3.3%, to a total of EUR 1,468.8 million as a result of the higher revenues due to the Rate Cases, rate readjustments and the increase of the contribution of the Maine transmission line, despite the drop in the value of the dollar (-3.3%)

The breakdown is as follows:

- **By business**

| (Eur Million) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Electricity | 1,286.3 | 5.7% |
| Gas | 283.7 | -6.2% |
| Corporation and others (incl. IFRS adjustments) | -101.2 | 4.9% |
| **TOTAL** | **1,468.8** | **3.3%** |

- **By company**

| (Eur Million) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| NYSEG | 711.0 | -5.2% |
| RGE | 460.6 | 9.0% |
| CMP | 398.3 | 15.0% |
| Corporation and others (incl. IFRS adjustments) | -101.2 | 4.9% |
| **TOTAL** | **1,468.8** | **3.3%** |

#### b) Operating Profit/EBIT

Net Operating Expenses increased by 2.5% to EUR 523.1 million. EBITDA increased by 8.8% to EUR 718.2 million, basically due to improvement in business (EUR +80 million) and IFRS adjustments (EUR +2 million), negative impact from the devaluation of the USD (EUR 24 million).

Furthermore, EBIT totalled EUR 491.4 million (+14.6%), following the charge for amortisations and provisions totalling EUR 226.8 million.

### 1.4. Brazil

| (Eur Million) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Revenues | +2,718.9 | -20.8% |
| Gross Margin | +1,004.9 | -18.7% |
| EBITDA | +577.8 | -30.2% |
| EBIT | +276.1 | -41.6% |

### a) Gross Margin

In Brazil, Gross Margin reached EUR 1,004.9 million (-18.7%) despite the increase in distributed electricity (+6.5%) compared with 2012.

Breakdown of distributed electricity by company: Coelba +7.2%, Cosern +7.1%, Celpe +8.7% and Elektro +3.2%.

The factors behind this trend are as follows:

- The tariff review of Neoenergia amounting to EUR -66 million and of Elektro amounting to EUR -117 million. For Elektro, this includes both the impact of the tariff reduction and the return of part of the excess amount charged during the period from August 2011 to August 2012 as a result of the delay in the implementation of the aforementioned tariff modification. This is despite the 8.9% increase in Elektro tariffs in the second half of 2013.

- The temporary impact of the excess energy costs during 2013 had a net effect on the distribution business of only EUR 3 million, which shall be recovered through rates in future annual reviews (Neoenergia in April and Elektro in August). Of the total effect of EUR 294 million, EUR 291 million has been financed by the Government following Decree No. 7945, approved in March 2013. In addition, the generation business had a negative impact of EUR 0.3 million, even though it was positively affected by an increase in prices as a result of inflation.

- The drop in the average exchange rate of the Brazilian Real by 14.1%. (EUR -141 million).

### b) Operating Profit / EBIT

EBITDA for the region totalled EUR 577.8 million, with a 30.2% drop, being negatively affected by the regulatory review of Elektro in August 2012 and of Neoenergia since April 2013, as well as by the aforementioned temporary impact of the excess energy costs.

Net Operating Expenses reached EUR 423.8 million (4.7%), driven by higher inflation, market growth and an increase of the plan of inspections, offset by the devaluation of the Real.

EBITDA is broken down as follows:

| (Eur Millions) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Generation | 86.5 | -24.6% |
| Distribution | 491.4 | -31.1% |
| **TOTAL** | **577.8** | **-30.2%** |

Amortisations and provisions amounted to EUR 301.8 million (-15.1%), as a result of the drop in loan provisions included in 2012.

EBIT of Brazil totalled EUR 276.1 million (-41.6%).

## 2. GENERATION AND SUPPLY BUSINESS

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

| (Eur Millions) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Revenues | +22,914.2 | -2.8% |
| Gross Margin | +4,511.6 | +2.1% |
| Levies | -999.7 | +57.7% |
| EBITDA | +2,017.8 | -14.3% |
| EBIT | +3.0 | -99.8% |

On a global level, the Generation and Supply Business was affected mainly by higher levies, which more than doubled in Spain.

### 2.1. Spain

| (Eur Millions) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Revenues | +13,452.7 | -6.3% |
| Gross Margin | +2,999.4 | +7.8% |
| Levies | -832.7 | +113.8% |
| EBITDA | +1,372.4 | -14.5% |
| EBIT | +803.6 | -16.1% |

#### a) Gross Margin

The following aspects arising in the **Spanish Mainland Electricity System** during 2013 must be taken into account:

- A 2.2% decline in mainland adjusted demand.

- Special regime production higher than the previous year (111,054 GWh; +8.6%).

- All of the above, together with the Royal Decree establishing restrictions for burning domestic coal, led to a 10.7% drop in Ordinary Regime production.

Gross Margin for Iberdrola's Generation and Supply Business recorded a 7.8% increase, totalling EUR 2,999.4 million.

With regard to this trend in Iberdrola, the following can be noted:

- Lower production (-1.3%), where hydro production (+63.7%) did not manage to offset the drop in the production of gas (-40.1%), coal (-46.6%) and nuclear (-12%).

- Greater margins due to lower production costs as a result of the extraordinary hydro production levels.

- The cost of Procurement decreased by 11.7%, impacted by greater rainfall compared to the same period of 2012.

- With regard to the energy sales, 80% corresponded to forward sales at a fixed price, whilst 20% were spot market sales.

- Hydroelectric reserves as of 31 December 2013 were 6,760 GWh (59.9%).

- In addition, there was no free allocation of $CO_2$ allowances in financial year 2013.

### b) Operating Profit / EBIT

EBITDA dropped by 14.5% to EUR 1,372.4 million because, although Operating Expenses dropped (-5.2%), the increase in Levies (+113.8%) more than offset this effect as well as the Gross Margin growth experienced by this business.

As mentioned, Operating Expenses dropped by 5.2% due to the efficiency measures adopted in 2012. Personnel Expenses decreased by 9.5%, whilst External Services dropped by 2.0%.

The Levies item multiplied by more than two and a half, to EUR 832.7 million, as a result of:

- Law 15/2012 on fiscal measures for energy sustainability, in force since 1 January, which establishes a 7% tax on energy produced (EUR 177 million), a 22% levy on hydroelectric production (EUR 128 million) and a tax on spent nuclear fuel production (EUR 108 million), with a negative impact of EUR 413 million. The green cent on gas and coal production is reflected in the Gross Margin (EUR 35 million).
- A positive impact (EUR 52 million) of the ruling of the Constitutional Court on the Ecotax of Castilla-La Mancha, which does not offset the positive impact of EUR 100 million in 2012 due to the favourable ruling regarding the Rates Subsidy ("*Bono Social*").
- The financing of energy savings and efficiency plans, in accordance with Royal Decree Law 14/2010, amounted to EUR 33 million in the period.
- Higher regional taxes, amounting to EUR 41 million.

Amortisations and Provisions dropped by 12.2% to EUR 568.8 million.

As a result of the above, EBIT dropped by 16.1% compared with the end of 2012, totalling EUR 803.6 million.

The regulatory impacts over recent financial years have affected the business as follows, as at the end of 2013:

| Item | Legal rule | Amount (Eur million) | Included in |
|---|---|---|---|
| Green cent | Law 15/2012 | 35.0 | Gross Margin |
| Taxes on Generation | Law 15/2012 | 177.0 | Levies |
| 22% levy on hydroelectric production | Law 15/2012 | 128.0 | Levies |
| Taxes on nuclear waste | Law 15/2012 | 108.0 | Levies |
| Estimation of effects | RDL 9/2013 | 47.0 | Gross Margin |
| TOTAL | | 495.0 | |

## 2.2. United Kingdom

| (Eur Millions) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Revenues | +8,695.4 | -0.1% |
| Gross Margin | +1,044.9 | -3.5% |
| Levies | -162.7 | -32.3% |
| EBITDA | +320.5 | -11.1% |
| EBIT | +50.2 | 119.1% |

### a) Gross Margin

Gross Margin for ScottishPower's Generation & Supply business amounted to EUR 1,044.9 million (-3.5%).

The following points are worth noting:

- Greater production (+4.5%) despite the closure of the Cockenzie plant in March 2013.
- As of 1 April 2013, the "Carbon Tax" came into force, whereby a levy is charged for purchases of coal and gas, with an impact of GBP 34 million.
- The different production mix, which led to the replacement of coal production with CCGT production.
- Slight recovery of the Retail Business due to the increase in tariffs as a means of recovering non-energy costs (energy efficiency programmes, $CO_2$, ROCs, transmission and distribution costs and Carbon Price Floor), as well as an increase in customer numbers.

### b) Operating Profit/EBIT

EBITDA for Generation & Supply totalled EUR 320.5 million with a decrease of 11.1%.

Net Operating Expenses amounted to EUR 561.7 million (+1.9%). This is mainly due to improved efficiency of personnel expenses, following the measures implemented in 2012. Thus, Personnel expense items totalled EUR 195.8 million (+5.1%) and External Services totalled EUR 365.9 million (+0.3%).

Levies amounted to EUR 162.7 million, a drop of EUR 77.7 million compared with financial year 2012, mainly due to lower energy efficiency costs, as required by the British regulatory body (OFGEM). These programmes are aimed at reducing $CO_2$ 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 amounted to EUR 270.2 million.

## 2.3. Mexico (Regulated Generation)

| (Eur Millions) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Revenues | +1,293.4 | +10.2% |
| Gross Margin | +453.1 | -8.7% |
| EBITDA | +347.6 | -8.6% |
| EBIT | +278.7 | -10.9% |

### a) Gross Margin

In Mexico, Gross Margin totalling EUR 453.1 million (-8.7%), continuing the good power station availability and affected by the decline in the USD dollar, as well as the revocation of contracts with private clients (EUR -30 million).

### b) Operating Profit/EBIT

EBITDA reached EUR 347.6 million (-8.6%), Net Operating Expenses dropped by 9.5%, to EUR 104.4 million. The amortisations and provisions item increased (+2.6%) due to reversals of positive adjustments in 2012.

Lastly, EBIT of the business amounted to EUR 278.7 million, a drop of 10.9%.

## 2.4. USA and Canada (gas)

| (Eur Millions) | 12M 2013 |
|---|---|
| Revenues | +15.1 |
| Gross Margin | +14.1 |
| EBITDA | -22.6 |
| EBIT | -1,129.6 |

### a) Gross Margin
In this business, Gross Margin totalled EUR 14.2 million as a result of the margins in the rental of gas storage, which was more than offset by the worse trading margin obtained in the transmission operations.

### b) Operating Profit / EBIT
EBITDA of the gas business in the USA and Canada recorded a negative result of EUR -22.6 million as Net Operating Expenses are higher than Gross Margin and amounted to EUR 33.7 million.

Lastly, EBIT for the business amounted to EUR -1,129.6 million, affected by write-downs made in 2013 to the amount of EUR 1,072 million, as a result of the review of the value of the business's project pipeline.

## 3. RENEWABLES

| (Eur Millions) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Revenues | +2,491.0 | +1.2% |
| Gross Margin | +2,304.4 | +0.9% |
| EBITDA | +1,573.1 | -2.9% |
| EBIT | +108.7 | -84.7% |

### a) Gross Margin
During financial year 2013, Gross Margin grew by +0.9% to EUR 2,304.4 million. This growth can be attributed to the following:

- An increase in operating capacity at the end of the period, which reached 13,897 MW (+1.2%).
- A 6.7% increase in production, reaching 33,899 GWh, as a result of an average load factor of 27.7%, higher than the load factor of the previous year, at 26.3%. The load factor in Spain was 25.8%, 2.2 percentage points higher than the previous year. Likewise, USA had a solid load factor, at 30.6%, a rise by +0.2 percentage points compared with the end of the previous year. In the United Kingdom, the load factor was 25.5%, 1.6% higher than in 2012. The Rest of the World (RoW) had a load factor of 25.7%, 0.9% higher than the load factor of the previous year.
- The average price of renewables in the period reached 66.5 EUR/MWh, a 5.8% decrease derived mainly from the lower average price in Spain, as a result of the fiscal and regulatory measures, (EUR 195 million) which did not offset the rise in the price in the United States, the United Kingdom and the Rest of the World.

By business, the Gross Margin trend was as follows:

- **Wind Energy Spain**: Gross Margin for the period was EUR 954.3 million, a drop of 3.9%, due to the strong increase in production (+12.3%) being insufficient to offset the impact of the regulatory changes in Spain, which removed, in the first half of the year, the pool+premium pricing option in favour of the tariff option and, as of the second quarter, eliminated the special regime, approving a new support scheme in its place. Both changes had a negative impact on the average price obtained in the financial year.

- **Wind Energy USA**: Gross Margin grew by 7.8% reaching a total of EUR 656.6 million, due to a 4.7% increase in production, an 8.4% increase in the local currency achieved price and a negative exchange rate effect of 3.3%.

- **Wind Energy United Kingdom**: Gross Margin grew significantly to EUR 306.6 million (+28.9%) as a result of the increase in capacity and improved load factor, leading to a 22.7% increase in production and an increase in per unit price (+10.0%) in local currency, partially offset by a 4.7% negative exchange rate effect.

- **Wind Energy Rest of the World**: The drop in production (-21.7%) resulting from the divestments carried out was not offset by the increase in prices (+1.4%), which led the Gross Margin to drop by -20.6%, totalling EUR 255.7 million.

- **Mini-Hydro and other Renewables**: Gross Margin came to EUR 81.7 million (-1.3%), internalising a very significant increase in mini-hydro production in Spain (+42.8%) as a result of the high rainfall, which almost offset the drop in prices derived from the regulatory changes in Spain.

- **Thermal Business in the United States:** Gross Margin reached EUR 49.6 million at the end of 2013, a 22.8% improvement.

### b) Operating Profit/EBIT

- EBITDA dropped 2.9% to EUR 1,573.1 million, mainly as a result of the changes reform in Spain and the sale of assets. In addition to the increase in Gross Margin (+0.9%), Net Operating Expenses were contained and decreased by 2.8% to EUR 560.1 million, despite an increase in average operating capacity (1.6%). However, the levies item showed an increase of 93.7% (EUR +82.8 million), mainly due to the fiscal measures approved by the Spanish Government in Law 15/2012 for Energy Sustainability.

- The amortisations and provisions item totalled EUR 1,464.4 million. This item includes provisions to the amount of EUR 699 million, corresponding mainly to one-off write-downs of the wind project pipeline in the USA, as well as of development costs activated in different regions. Amortisations, excluding this effect and without including those corresponding to PPAs, amounted to 0.9% and totalled EUR 666.9 million.

- Lastly, EBIT, adversely impacted by the one-off write-downs, totalled EUR 108.7 million. Excluding this impact, Recurring EBIT would be EUR 807.7 million.

## 4. OTHER BUSINESSES

| (Eur Millions) | 12M 2013 | v. 12M 2012 |
|---|---|---|
| Revenues | +566.9 | -2.4% |
| Gross Margin | +236.1 | -8.6% |
| EBITDA | +6.6 | -85.1% |
| EBIT | -49.0 | N/A |

### a) Gross Margin

Gross Margin amounted to EUR 236.1 million, 8.6% higher than in 2012.

### b) Operating Profit / EBIT

EBITDA totalled EUR 6.6 million. Net Operating Expenses of these businesses amounted to EUR 227.7 million, an 8.5% increase.

Amortisations and Provisions amounted to EUR 55.7 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. EBITDA for the period amounted to EUR -77.8 million.

# Balance Sheet Analysis

## January-December 2013

| (Eur Millions) | Dec.2013 | v. Dec. 2012[1] |
|---|---|---|
| TOTAL ASSETS | 92,411 | -4.6% |
| FIXED AND OTHER NONCURRENT ASSETS | 52,760 | -1.2% |
| INTANGIBLE ASSETS | 17,177 | -11.5% |
| LONG-TERM INVESTMENTS | 3,742 | 46.9% |
| SHAREHOLDERS' EQUITY | 35,361 | 6.5% |
| ADJUSTED NET DEBT[2] | 28,053 | -7.5% |

(1) Restated.
(2) Includes tariff deficit and TEI.

Iberdrola's Balance Sheet at 31 December 2013 shows Total Assets of EUR 92,411 million, highlighting the maintenance of its solid asset strength.

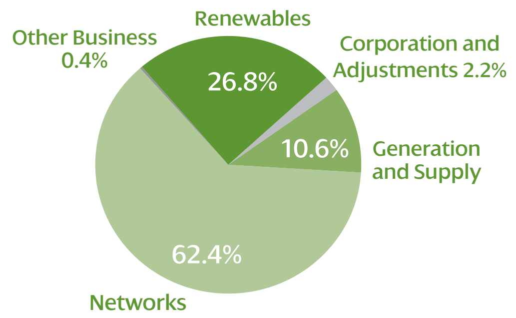
### 1. FIXED ASSETS

Total net investments during the period from January to December 2013 amounted to EUR 3,053 million compared with the EUR 3,259 invested in 2012, as a consequence of the contained investment levels established in recent years. Investments can be broken down as follows:

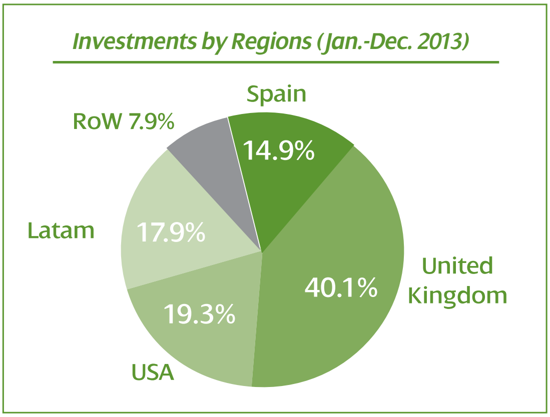
| (Eur Millions) | Jan.-Dec. 2013 | % |
|---|---|---|
| **Networks Business** | **1,907** | **62.4%** |
| Spain | 283 | |
| UK | 587 | |
| Iberdrola USA | 543 | |
| Brazil | 493 | |
| **Renewables Business** | **743** | **24.3%** |
| **Generation and Supply** | **325** | **10.6%** |
| Spain | 147 | |
| UK | 120 | |
| Mexico | 53 | |
| USA and Canada | 4 | |
| **Other Businesses** | **12** | **0.4%** |
| Engineering | 1 | |
| Non-Energy | 11 | |
| **Corporation and Adjustments** | **68** | **2.2%** |
| **Total investment** | **3,053** | **100.0%** |

Investments in the period focused on Regulated Business and on Renewables activities, with the two combined items accounting for 87% of total investments in the period.

*Investment by Business (Jan.-Dec. 2013)*



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




As regards Regulated Business, the investments in the period amounted to a total of EUR 1,907 million, or 62.4% of total investments. The most significant investments were in ScottishPower Networks, with a total of EUR 587 million invested, and EUR 493 million invested in Brazil, the latter financed with funds generated in the country. Meanwhile, investment in Iberdrola USA was directed mainly towards the CMP transmission line and, to a lesser extent, to electricity and gas distribution, amounting to EUR 543 million in the period. Lastly, investment in Networks Spain totalled EUR 283 million.

Under the "Renewables" section, almost 63% of investment in the period was aimed at wind energy projects in the United Kingdom, with EUR 412 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 120 million, in Spain, for EUR 147 million, mainly in hydroelectric and nuclear power, and in Mexico for EUR 53 million.

## 2. SHARE CAPITAL

After execution of the paid-up capital increase for the Flexible Dividend on 19 July 2013, Share Capital of the company as at 31 December 2013 amounted to 6,239,975,000 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 related to investment in renewable energies in the United States.

The figure of EUR 285 million (net amount), as at 31 December 2013, is a result of historic transactions in the United States.

## 4. FINANCIAL DEBT

Adjusted net financial debt at 31 December 2013 dropped by EUR 2,271 million to EUR 28,053 million compared with the EUR 30,324 million at 31 December 2012, as a result of the positive cash generation of the business (EUR 2,566 million), containment in investment, the positive progress of divestments (EUR 745 million) and the funds received from securitisations (EUR 2,806 million). Financial leverage stood at 44.2% compared with 47.7% in the same period of the previous year.

Excluding financing of the tariff deficit and the delay in the transfer of funds from generation taxes and $CO_2$ emission rights, which in the case of Iberdrola amounted to EUR 1,571 million at 31 December 2013, adjusted net financial debt ise EUR 26,482 million and adjusted leverage 42.8%, compared with the EUR 27,915 million and 45.7% at 31 December 2012, respectively.

The breakdown of the tariff deficit amount at 31 December 2013 is as follows:

| | |
|---|---|
| Tariff Deficit generated in 2013 | 1,040 |
| Tariff deficit of 2013 to be offset with taxes on generation collected by the Treasury | 531 |
| **Total** | **1,571** |

The credit ratings of IBERDROLA are as follows:

| Credit Rating of IBERDROLA Senior Debt | | | |
|---|---|---|---|
| **Agency** | **Rating** | **Outlook** | **Date** |
| Moody´s | Baa1 | Negative | 9 Nov. 2012 |
| Fitch IBCA | BBB+ | Rating Watch Negative | 16 July 2013 |
| Standard & Poors | BBB | Stable | 28 Nov. 2012 |

The Company's financing cost during 2013 was 4.60%.

The structure of the debt by currency* and interest rate** is as follows:

| | Dec. 2013 | Dec. 2012 |
|---|---|---|
| Euro | 56.1% | 56.5% |
| Dollar | 16.5% | 17.4% |
| British Pound | 23.3% | 23.1% |
| Brazilian Real and other currencies | 4.1% | 3.0% |
| | | |
| Fixed Rate | 55.5% | 64.5% |
| Floating Rate (1) | 39.9% | 31.4% |
| Capped Rate | 4.6% | 4.1% |

(*) Includes TEI. Net Debt including net investment hedging derivatives and excluding tariff deficit.
(**) Excludes TEI. Gross Debt.
(1) Without the deficit (EUR 1,571 million), the floating rate % would be reduced to 36.4% in December 2013.

In accordance with the policy of minimising the financial risks of the Company, foreign currency risk has continued to be mitigated through the financing of 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 level of structural subordination within the debt* structure of the Group is as follows:

| | Dec. 2013 | Dec. 2012 |
|---|---|---|
| Holding | 73.6% | 74.5% |
| UK | 8.6% | 7.9% |
| USA | 7.8% | 8.2% |
| Brazil | 6.3% | 5.8% |
| Mexico | 1.5% | 1.5% |
| Others | 2.2% | 2.1% |
| **Total** | **100%** | **100%** |

(*) Gross Debt. Including TEI.

This debt* can be broken down by financing source as follows:

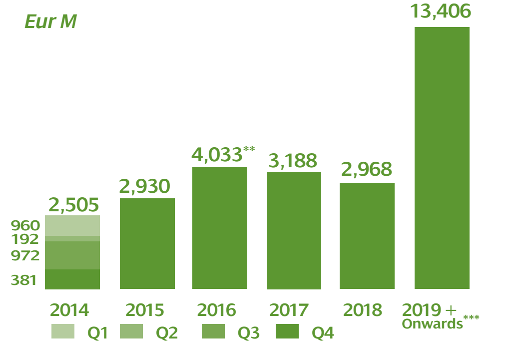
| | Dec. 2013 | Dec. 2012 |
|---|---|---|
| Euro market | 41.8 | 40.9 |
| Dollar market | 17.0 | 16.2 |
| British Pound market | 11.2 | 10.3 |
| Remaining bonds | 2.4 | 2.2 |
| Notes | 2.3 | 3.2 |
| EIB | 8.6 | 8.0 |
| Project Finance | 5.0 | 4.7 |
| TEI | 1.1 | 1.5 |
| Bank loans | 10.6 | 13.0 |
| **TOTAL** | **100%** | **100%** |

(*) Gross Debt. Including TEI.

Iberdrola has a strong liquidity position at the end of 2013, exceeding EUR 10,800 million (equivalent to more than 30 months of the company's financing needs).

| Credit Line Maturities | Límit | Withdrawn | Available |
|---|---|---|---|
| **2014** | 873 | 4 | 869 |
| **2015** | 2,194 | 44 | 2,150 |
| **2016 & onwards** | 6,117 | 19 | 6,098 |
| **Total Credit Lines** | **9,184** | **67** | **9,117** |
| **Cash & Short Term Fin. Invest.** | | | 1,709 |
| **Total Adjusted Liquidity** | | | **10,826** |

Iberdrola has a varied debt maturity profile, with an average maturity of approximately six years, as a result, among other factors, of the active management of liabilities carried out during this financial year. The following chart shows the debt maturity profile* of Iberdrola at the end of 2013.




* Does not include drawn credit lines.
** Includes Eur 745 M with option to extend 1 + 1 years and Eur 595 M with option to extend 1 year.
***Assumes rollover of commercial paper outstanding balance of Eur 670 M.

Lastly, the trend in **financial leverage** was as follows:

| Eur M | Dec. 2013 | Dec. 2012(1) |
|---|---|---|
| Shareholder's Equity | 35,361 | 33,207 |
| Gross Debt* | 30,123 | 33,850 |
| Cash | 1,709 | 3,044 |
| Asset derivatives and others | 361 | 482 |
| Adjusted Net Debt | 28,053 | 30,324 |
| Leverage | 44.2% | 47.7% |
| Tariff deficit | 1,571 | 2,409 |
| Adjusted Net Debt (excl. Deficit) | 26,482 | 27,915 |
| Leverage (excl. Deficit) | 42.8% | 45.7% |

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

## 5. WORKING CAPITAL

Working capital shows a decrease of EUR 1,143 million since December 2012 as a result mainly of several different effects partially offsetting one another:

- A significant reduction in 'Current Financial Investments", due to:
    - Securitisations of tariff deficit that were pending collection.
    - Reclassification to long term accounts of the 2013 tariff deficit until securitisation process for this tariff deficit is in place.
- Lower Accounts Payables mainly due to an accounting reclassification amounting to EUR 878 million in 2012 corresponding to the scrip dividend.

| | Including Tariff Deficit | | |
|---|---|---|---|
| | Dec. 2013 | Dec. 2012[1] | Var. |
| Assets held for sale | 199.0 | 215.8 | (16.8) |
| Nuclear Fuel | 387.6 | 310.4 | 77.2 |
| Inventories | 2,050.6 | 1,895.8 | 154.8 |
| Commercial debtors and other accounts receivable | 4,611.4 | 5,686.2 | (1,074.8) |
| Current financial investments | 876.5 | 3,531.6 | (2,655.2) |
| Asset derivative financial instruments | 169.8 | 428.9 | (259.1) |
| Public Administrations | 1,025.0 | 739.7 | 285.3 |
| **CURRENT ASSETS*:** | **9,320.0** | **12,808.5** | **(3,488.5)** |

* Does not include cash or debt asset derivatives.

| | Dec. 2013 | Dec. 2012[1] | Var. |
|---|---|---|---|
| Liabilities associated with assets held for sale | 95.1 | 83.5 | 11.5 |
| Provisions | 353.8 | 434.5 | (80.7) |
| Liability derivative financial instruments | 244.4 | 419.9 | (175.5) |
| Commercial creditors and other accounts payable | 5,836.4 | 8,326.6 | (2,490.1) |
| Public Administrations | 1,401.0 | 1,012.1 | 389.0 |
| **CURRENT LIABILITIES**:** | **7,930.8** | **10,276.6** | **(2,345.8)** |

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

| | | | |
|---|---|---|---|
| **NET WORKING CAPITAL** | **1,389.2** | **2,531.9** | **(1,142.7)** |

## 6. FUNDS GENERATED FROM OPERATIONS

Funds Generation from Operations at 31 December 2013 dropped to EUR 5,619.3 million, compared with EUR 6,231.0 million in the same period of the previous year, mainly as a result of the regulatory impacts in Spain.

| | Dec. 2013 | Dec. 2012 [1] | Var. |
|---|---|---|---|
| Net Profit (+) | 2,571.8 | 2,765.1 | -7% |
| Amortisations (-) | -4,770.3 | -3,349.7 | 42% |
| P/L Equity (-) | 72.2 | -187.5 | -138% |
| Extraordinary, net of taxes (-) | -12.6 | -19.8 | -36% |
| Minority P/L (-) | -41.8 | -27.9 | -50% |
| Financial provisions activation (-) | -151.3 | -113.5 | 33% |
| Adjustment of tax deductible items and other effects (-) | -321.2 | -232.5 | 38% |
| Removal of tax effects of updating balances (-) | 1,535.2 | 0.0 | - |
| **FFO** | **5,619.3** | **6,231.0** | **-9.8%** |

(1) Restated.

## 7. FINANCE TRANSACTIONS

### Summary of the main financial transactions carried out during 2013

| Issuer | Transaction | Amount | Currency | Maturity date |
|---|---|---|---|---|
| Iberdrola International | EMTN / Exchange | 1,000 | EUR | 8 years |
| | Hybrid bond market | 525 | EUR | Undated |
| | EMTN / Exchange | 600 | EUR | 7.5 years |
| | EMTN | 450 | Nok | 10 years |
| | EMTN / Exchange | 500 | EUR | 8 years |
| | Syndicated loan / Extension | 536 | EUR | +1 year |
| | Syndicated loan / Renegotiation | 2,000 | EUR | +4 year |
| Iberdrola Financiación | Transfer of loan to a Credit line | 745 | EUR | N/A |
| Iberdrola Finance Ireland | Structured EMTN | 47 | EUR | Various |
| Iberdrola USA | FMB and USPP | 225 | USD | 30 years |
| Elektro | EIB Loan | 115 | EUR | 12 years |
| Iberdrola Distribución | EIB Loan | 200 | EUR | N/A |

### 4th Quarter Financing

**Bond Issues on the Euromarket**

During the fourth quarter, Iberdrola completed its fifth bond swap transaction (the third in 2013) in order to extend debt maturity, improve cash flow position and spread its medium term debt maturity profile.

In this new transaction, bonds were initially issued totalling EUR 500 million with a term of eight years (maturity in January 2022). Due to the strong demand, which was six times oversubscribed, the coupon was set at 3%, one of the lowest established by the company in Euro transactions. At the same time, repurchase offers were made for different company bonds in circulation for their subsequent swap for the new bond.

As a result of the above, Iberdrola managed to reduce debt maturities by EUR 233 million in 2015 and by EUR 267 million in 2016 .

**Syndicated loan**

In December 2009, Iberdrola took out a syndicated loan for EUR 3,000 million, maturing in 2014. In order to optimise its cash flow position, in the month of November the company renegotiated this transaction to extend the loan's' maturity date to November 2018 and reduce the amount to EUR 2,000 million. The applicable margin above Euribor is 0.90% per annum any is adjustable depending on the Company's credit rating, constituting the lowest margin in recent financial years for a transaction of similar characteristics of a Spanish corporation.

## 8. CREDIT RATING

| | Moodys | | | 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+ | Rating Watch | July 2013 |
| Iberdrola Finance Ireland Ltd. | Baa1 | Negative | Nov. 2012 | BBB | Stable | Nov. 2012 | BBB+ | Rating Watch | July 2013 |
| Iberdrola Finanzas S.A.U. | Baa1 | Negative | Nov. 2012 | BBB | Stable | Nov. 2012 | BBB+ | Rating Watch | July 2013 |
| Iberdrola Finanzas S.A.U. (National Scale) | | | | | | | AAA (mex) | Stable | Nov. 2012 |
| Iberdrola International B.V. | Baa1 | Negative | Nov. 2012 | BBB | Stable | Nov. 2012 | BBB+ | Rating Watch | July 2013 |
| Iberdrola USA Corporation | Baa1 | Negative | Jan. 2014 | BBB | Stable | Nov. 2012 | BBB | Negative | Nov. 2013 |
| Iberdrola Renewables Holdings Inc. | Baa1 | Negative | Nov. 2012 | BBB | Stable | Nov. 2012 | | | |
| CMP | A3 | Stable | Jan. 2014 | BBB+ | Stable | April 13 | A- | Stable | Nov. 2013 |
| NYSEG | A3 | Stable | Jan. 2014 | BBB+ | Stable | April 13 | BBB+ | Stable | Nov. 2013 |
| RG&E | A3 | Stable | Jan. 2014 | BBB+ | Stable | April 13 | BBB- | Positive | Nov. 2013 |
| Scottish Power Ltd. | Baa1 | Negative | Nov. 2012 | BBB | Stable | Nov. 2012 | BBB+ | Rating Watch | July 2013 |
| Scottish Power UK Plc. | Baa1 | Negative | Nov. 2012 | BBB | Stable | Nov. 2012 | BBB+ | Rating Watch | July 2013 |
| Scottish Power UK Holding 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 | | | |
| Scottish Power Generation Ltd. | Baa1 | Negative | Nov. 2012 | BBB | Stable | Nov. 2012 | | | |
| Scottish Power Transmission Ltd. | Baa1 | Negative | Nov. 2012 | BBB | Stable | Nov. 2012 | | | |
| Scottish Power Manweb Plc. | Baa1 | Negative | Nov. 2012 | BBB | Stable | Nov. 2012 | | | |
| Scottish Power Distribution Ltd. | Baa1 | Negative | Nov. 2012 | BBB | Stable | Nov. 2012 | | | |
| Scottish Power Distribution Finance Ltd. | Baa1 | Negative | Nov. 2012 | | | | | | |
| Scottish Power Energy Management Ltd. | Baa1 | Negative | Nov. 2012 | BBB | Stable | Nov. 2012 | | | |
| Scottish Power 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 11 | BBB- | Stable | March 2010 | | | |
| Cosern | | | | BBB- | Stable | March 2010 | | | |
| Neoenergía (National Scale) | | | | brAAA | Stable | March 2010 | | | |
| Celpe (National Scale) | | | | brAAA | Stable | March 2011 | | | |
| Coelba (National Scale) | | | | brAAA | Stable | March 2010 | | | |
| Cosern (National Scale) | | | | brAAA | Stable | March 2010 | | | |
| Elektro (National Scale) | | | | brAAA | Stable | July 2011 | | | |

IBERDROLA

# Balance Sheet
# December 2013 (Unaudited)

| ASSETS | December 2013 | December 2012* | Variation |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| **Intangible assets** | **17,177** | **19,403** | **-2,226** |
| Goodwill | 7,804 | 8,309 | -505 |
| Other intagible assets | 9,373 | 11,094 | -1,721 |
| **Investment properties** | **581** | **520** | **61** |
| **Property, plant and equipment** | **52,760** | **53,423** | **-663** |
| Property, plant and equipment in use | 48,084 | 48,924 | -840 |
| Property, plant and equipment under construction | 4,676 | 4,499 | 177 |
| **Non current financial investments** | **3,742** | **2,548** | **1,194** |
| Investments accounted through the equity method | 482 | 438 | 44 |
| Non-current financial investments | 817 | 675 | 142 |
| Other non-current financial investments | 2,167 | 1,031 | 1,136 |
| Derivative financial instruments | 275 | 403 | -128 |
| **Non-current receivables** | **422** | **468** | **-47** |
| **Deferred tax assets** | **6,610** | **4,515** | **2,095** |
| **Total non-current assets** | **81,293** | **80,877** | **415** |
| **CURRENT ASSETS** | | | |
| **Assets held for sale** | **199** | **216** | **-17** |
| **Nuclear fuel** | **388** | **310** | **77** |
| **Inventories** | **2,051** | **1,896** | **155** |
| **Current trade and other receivables** | **5,636** | **6,426** | **-789** |
| Income Tax receivables | 233 | 253 | -20 |
| Other tax receivables | 792 | 487 | 306 |
| Trade and other receivables | 4,611 | 5,686 | -1,075 |
| **Current financial assets** | **1,135** | **4,047** | **-2,912** |
| Current financial investments | 5 | 130 | -126 |
| Other current financial investments | 872 | 3,401 | -2,529 |
| Derivative financial instruments | 259 | 516 | -257 |
| **Cash and cash equivalents** | **1,709** | **3,044** | **-1,335** |
| **Total current assets** | **11,118** | **15,939** | **-4,821** |
| **TOTAL ASSETS** | **92,411** | **96,816** | **-4,405** |

| EQUITY AND LIABILITIES | December 2013 | December 2012* | Variation |
|---|---|---|---|
| **EQUITY:** | **35,361** | **33,207** | **2,154** |
| **Of shareholders of the parent** | **34,585** | **32,882** | **1,703** |
| Share capital | 4,680 | 4,604 | 76 |
| Unrealised asset and liability revaluation reserve | -297 | -493 | 195 |
| Other reserves | 30,108 | 27,870 | 2,238 |
| Treasury shares | -303 | -500 | 197 |
| Translation differences | -2,174 | -1,364 | -810 |
| Net profit of the year | 2,572 | 2,765 | -193 |
| **Hybrid Capital** | **551** | **0** | **551** |
| **Of minority interests** | **225** | **325** | **-100** |
| **EQUITY INSTRUMENTS WITH CHARACTERISTICS OF A FINANCIAL LIABILITY** | **244** | **370** | **-127** |
| **NON-CURRENT LIABILITIES** | | | |
| **Deferred income** | **5,697** | **5,786** | **-89** |
| **Provisions** | **4,249** | **3,928** | **321** |
| Provisions for pensions and similar obligations | 1,458 | 1,902 | -444 |
| Other provisions | 2,791 | 2,026 | 765 |
| **Financial Debt** | **25,922** | **28,851** | **-2,929** |
| Financial Debt - loans and others | 25,582 | 28,428 | -2,847 |
| Derivative financial instruments | 340 | 423 | -82 |
| **Other non-current payables** | **622** | **516** | **107** |
| **Defferred tax liabilities** | **8,388** | **9,093** | **-706** |
| **Total non-current liabilities** | **44,878** | **48,175** | **-3,297** |
| **EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY** | **86** | **107** | **-21** |
| **CURRENT LIABILITIES** | | | |
| **Liabilities held for sale** | **95** | **84** | **12** |
| **Provisions** | **354** | **435** | **-81** |
| Provisions for pensions and similar obligations | 21 | 7 | 15 |
| Other provisions | 332 | 428 | -96 |
| **Financial Debt** | **4,157** | **5,101** | **-944** |
| Financial Debt - loans and others | 3,687 | 4,456 | -768 |
| Derivative financial instruments | 470 | 645 | -176 |
| **Trade and other payables** | **7,237** | **9,339** | **-2,101** |
| Trade payables | 4,780 | 6,113 | -1,333 |
| Tax payables | 477 | 618 | -140 |
| Other tax payables | 924 | 394 | 529 |
| Other current liabilities | 1,057 | 2,213 | -1,157 |
| **Total current liabilities** | **11,843** | **14,957** | **-3,114** |
| **TOTAL EQUITY AND LIABILITIES** | **92,411** | **96,816** | **-4,405** |

* Restated

IBERDROLA

# Profit and Loss
# December 2013 (Unaudited)

Eur M

| | Dec. 2013 | Dec. 2012 | % |
|---|---|---|---|
| **REVENUES** | **32,807.9** | **34,201.2** | **(4.1)** |
| PROCUREMENTS | (20,231.2) | (21,623.1) | (6.4) |
| **GROSS MARGIN** | **12,576.7** | **12,578.1** | **(-.0)** |
| Emission rights allocated | - | 120.8 | (100.0) |
| **BASIC MARGIN** | **12,576.7** | **12,698.8** | **(1.0)** |
| **NET OPERATING EXPENSES** | **(3,795.2)** | **(3,789.3)** | **0.2** |
| **Net Personnel Expense** | **(1,891.5)** | **(1,839.6)** | **2.8** |
| Personnel | (2,385.6) | (2,390.9) | (0.2) |
| Capitalized personnel costs | 494.2 | 551.3 | (10.4) |
| **Net External Services** | **(1,903.7)** | **(1,949.7)** | **(2.4)** |
| External Services | (2,316.7) | (2,377.8) | (2.6) |
| Other Operating Income | 413.0 | 428.1 | (3.5) |
| **LEVIES** | **(1,576.5)** | **(1,182.9)** | **33.3** |
| **EBITDA** | **7,205.0** | **7,726.6** | **(6.8)** |
| AMORTISATIONS AND PROVISIONS | (4,770.3) | (3,349.7) | 42.4 |
| **EBIT** | **2,434.7** | **4,376.9** | **(44.4)** |
| **Financial Expenses** | **(2,122.1)** | **(2,120.0)** | **0.1** |
| **Financial Income** | **830.1** | **909.6** | **(8.7)** |
| **FINANCIAL RESULT** | **(1,292.0)** | **(1,210.4)** | **6.7** |
| **RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD** | **72.2** | **(187.5)** | **(138.5)** |
| **RESULTS FROM NON-CURRENT ASSETS** | **(24.9)** | **(13.9)** | **78.6** |
| **PBT** | **1,190.0** | **2,965.1** | **(59.9)** |
| Corporate Tax | 1,423.6 | (172.1) | (927.2) |
| Minorities | (41.8) | (27.9) | 50.2 |
| **NET PROFIT** | **2,571.8** | **2,765.1** | **(7.0)** |

# Results by Business (Unaudited)

Eur M

| December 2013 | Networks | Generation and Supply | Renewables | Other Businesses | Corporation and adjust |
|---|---|---|---|---|---|
| Revenues | 8,153.6 | 22,914.2 | 2,491.0 | 566.9 | (1,317.7) |
| Procurement | (2,582.5) | (18,402.6) | (186.6) | (330.8) | 1,271.2 |
| **GROSS MARGIN** | **5,571.1** | **4,511.6** | **2,304.4** | **236.1** | **(46.5)** |
| Emission Rights Allocated | - | - | - | - | - |
| **BASIC MARGIN** | **5,571.1** | **4,511.6** | **2,304.4** | **236.1** | **(46.5)** |
| NET OPERATING EXPENSES | (1,492.6) | (1,494.1) | (560.1) | (227.7) | (20.7) |
| Net Personnel Expense | (759.0) | (554.8) | (173.5) | (153.0) | (251.3) |
| Personnel | (1,159.0) | (592.1) | (190.9) | (177.2) | (266.4) |
| Capitalized personnel costs | 400.0 | 37.4 | 17.4 | 24.2 | 15.1 |
| Net External Services | (733.6) | (939.3) | (386.6) | (74.7) | 230.6 |
| External Services | (994.7) | (1,065.5) | (441.6) | (78.0) | 263.2 |
| Other operating income | 261.1 | 126.2 | 55.0 | 3.3 | (32.6) |
| LEVIES | (393.2) | (999.7) | (171.2) | (1.8) | (10.6) |
| **EBITDA** | **3,685.3** | **2,017.8** | **1,573.1** | **6.6** | **(77.8)** |
| Amortisation and Provisions | (1,164.3) | (2,014.9) | (1,464.3) | (55.7) | (71.2) |
| **EBIT / Operating Profit** | **2,521.0** | **3.0** | **108.8** | **(49.0)** | **(149.0)** |
| Financial Result | (407.2) | (181.3) | (157.0) | (22.4) | (524.1) |
| Results of companies consolidated by equity method | 1.5 | (0.2) | - | 70.9 | - |
| Results of non-current assets | 6.1 | - | 11.6 | (47.6) | 5.1 |
| **PBT** | **2,121.4** | **(178.6)** | **(36.6)** | **(48.1)** | **(668.1)** |
| Corporate tax and minority shareholders | (138.8) | 1,167.3 | 139.5 | 16.6 | 197.3 |
| **NET PROFIT** | **1,982.6** | **988.7** | **102.9** | **(31.5)** | **(470.8)** |

Eur M

| December 2012 | Networks | Generation and Supply | Renewables | Other Businesses | Corporation and adjust. |
|---|---|---|---|---|---|
| Revenues | 8,824.3 | 23,568.3 | 2,461.6 | 580.9 | (1,234.0) |
| Procurement | (3,156.4) | (19,151.4) | (176.9) | (322.6) | 1,184.3 |
| **GROSS MARGIN** | **5,667.9** | **4,416.9** | **2,284.7** | **258.3** | **(49.7)** |
| Emission Rights Allocated | - | 120.8 | - | - | - |
| **BASIC MARGIN** | **5,667.9** | **4,537.7** | **2,284.7** | **258.3** | **(49.7)** |
| NET OPERATING EXPENSES | (1,444.2) | (1,548.6) | (576.0) | (209.8) | (10.7) |
| Net Personnel Expense | (718.0) | (579.8) | (163.1) | (127.3) | (251.4) |
| Personnel | (1,135.7) | (613.7) | (192.7) | (177.1) | (271.8) |
| Capitalized personnel costs | 417.7 | 33.8 | 29.6 | 49.8 | 20.4 |
| Net External Services | (726.3) | (968.8) | (412.8) | (82.5) | 240.7 |
| External Services | (980.9) | (1,153.9) | (446.3) | (86.6) | 289.8 |
| Other operating income | 254.6 | 185.1 | 33.4 | 4.1 | (49.1) |
| Levies | (450.0) | (633.9) | (88.4) | (4.0) | (6.5) |
| **EBITDA** | **3,773.7** | **2,355.2** | **1,620.3** | **44.4** | **(66.9)** |
| Amortisation and Provisions | (1,174.9) | (1,146.7) | (908.4) | (36.3) | (83.4) |
| **EBIT / Operating Profit** | **2,598.8** | **1,208.5** | **711.9** | **8.1** | **(150.3)** |
| Financial Result | (381.5) | (65.7) | (160.2) | (5.8) | (597.2) |
| Results of companies consolidated by equity method | 8.2 | 15.5 | - | (211.3) | - |
| Results of non-current assets | 68.0 | (3.5) | (77.8) | (0.9) | 0.2 |
| **PBT** | **2,293.6** | **1,154.8** | **473.9** | **(209.9)** | **(747.4)** |
| Corporate tax and minority shareholders | (284.6) | (304.8) | 138.6 | 18.3 | 232.6 |
| **NET PROFIT** | **2,009.0** | **850.0** | **612.5** | **(191.6)** | **(514.8)** |

# Networks Business (Unaudited)

Eur M

| December 2013 | SPAIN | UNITED KINGDOM | US | BRAZIL |
|---|---|---|---|---|
| Revenues | 1,904.8 | 1,228.0 | 2,301.8 | 2,718.9 |
| Procurement | - | (35.5) | (833.0) | (1,714.0) |
| **GROSS MARGIN** | **1,904.8** | **1,192.5** | **1,468.8** | **1,004.9** |
| Emission Rights Allocated | - | - | - | - |
| **BASIC MARGIN** | **1,904.8** | **1,192.5** | **1,468.8** | **1,004.9** |
| NET OPERATING EXPENSES | (364.7) | (181.1) | (523.1) | (423.8) |
| Net Personnel Expenses | (221.1) | (71.6) | (248.0) | (218.3) |
| Personnel | (345.3) | (197.2) | (353.8) | (262.6) |
| Capitalized personnel costs | 124.2 | 125.7 | 105.8 | 44.4 |
| Net External Services | (143.5) | (109.5) | (275.1) | (205.5) |
| External Services | (296.3) | (160.1) | (292.6) | (246.2) |
| Other operating income | 152.8 | 50.6 | 17.5 | 40.7 |
| Levies | (89.9) | (72.4) | (227.6) | (3.3) |
| **EBITDA** | **1,450.3** | **939.0** | **718.2** | **577.8** |
| Amortisations, Provisions and other | (381.1) | (254.6) | (226.8) | (301.8) |
| **EBIT / Operating Profit** | **1,069.2** | **684.4** | **491.4** | **276.1** |
| Financial Result | (69.4) | (124.4) | (125.7) | (87.6) |
| Results of companies consolidated by equity method | 2.0 | - | - | (0.6) |
| Results of non-current assets | - | 0.2 | (2.5) | 8.4 |
| **PBT** | **1,001.8** | **560.2** | **363.2** | **196.2** |
| Corporate tax and minority shareholders | 82.0 | 18.4 | (175.7) | (63.5) |
| **NET PROFIT** | **1,083.8** | **578.6** | **187.4** | **132.7** |

Eur M

| December 2012 | SPAIN | UNITED KINGDOM | US | BRAZIL |
|---|---|---|---|---|
| Revenues | 1,856.7 | 1,195.1 | 2,339.0 | 3,433.6 |
| Procurement | - | (42.9) | (916.6) | (2,197.0) |
| **GROSS MARGIN** | **1,856.7** | **1,152.3** | **1,422.4** | **1,236.6** |
| Emission Rights Allocated | - | - | - | - |
| **BASIC MARGIN** | **1,856.7** | **1,152.3** | **1,422.4** | **1,236.6** |
| NET OPERATING EXPENSES | (414.9) | (114.1) | (510.4) | (404.8) |
| Net Personnel Expenses | (257.4) | (52.4) | (211.2) | (197.0) |
| Personnel | (385.8) | (186.9) | (311.2) | (251.7) |
| Capitalized personnel costs | 128.4 | 134.6 | 100.1 | 54.6 |
| Net External Services | (157.5) | (61.8) | (299.2) | (207.8) |
| External Services | (304.4) | (117.9) | (303.7) | (254.8) |
| Other operating income | 147.0 | 56.1 | 4.5 | 47.0 |
| Levies | (93.5) | (100.8) | (251.9) | (3.8) |
| **EBITDA** | **1,348.3** | **937.3** | **660.2** | **827.9** |
| Amortisations, Provisions and other | (380.3) | (208.0) | (231.2) | (355.4) |
| **EBIT / Operating Profit** | **968.0** | **729.3** | **428.9** | **472.5** |
| Financial Result | (33.3) | (81.7) | (153.0) | (113.5) |
| Results of companies consolidated by equity method | 2.1 | - | - | 6.1 |
| Results of non-current assets | 5.1 | (0.2) | 63.6 | (0.4) |
| **PBT** | **941.9** | **647.4** | **339.5** | **364.8** |
| Corporate tax and minority shareholders | (232.9) | (68.6) | (177.4) | 194.3 |
| **NET PROFIT** | **709.0** | **578.8** | **162.2** | **559.1** |

# Generation and Supply (Unaudited)

Eur M

| December 2013 | SPAIN | UNITED KINGDOM | MEXICO | US & CANADA | Interco |
|---|---|---|---|---|---|
| Revenues | 13,452.7 | 8,695.4 | 1,293.4 | 15.1 | (542.4) |
| Procurement | (10,453.4) | (7,650.4) | (840.2) | (1.0) | 542.4 |
| **GROSS MARGIN** | **2,999.4** | **1,044.9** | **453.1** | **14.2** | **-** |
| Emission Rights Allocated | - | - | - | - | - |
| **BASIC MARGIN** | **2,999.4** | **1,044.9** | **453.1** | **14.2** | **-** |
| NET OPERATING EXPENSES | (794.3) | (561.7) | (104.4) | (33.7) | - |
| Net Personnel Expenses | (322.1) | (195.8) | (20.6) | (16.2) | - |
| Personnel | (346.0) | (208.6) | (21.0) | (16.5) | - |
| Capitalized personnel costs | 23.9 | 12.8 | 0.4 | 0.3 | - |
| Net External Services | (472.1) | (365.9) | (83.8) | (17.4) | - |
| External Services | (522.6) | (437.5) | (92.2) | (18.2) | 4.9 |
| Other operating income | 50.4 | 71.5 | 8.4 | 0.7 | (4.9) |
| Levies | (832.7) | (162.7) | (1.1) | (3.1) | - |
| **EBITDA** | **1,372.4** | **320.5** | **347.6** | **(22.6)** | **-** |
| Amortisations, Provisions and other | (568.8) | (270.2) | (68.9) | (1,107.0) | - |
| **EBIT / Operating Profit** | **803.6** | **50.2** | **278.7** | **(1,129.6)** | **-** |
| Financial Result | (120.9) | (13.6) | (22.8) | (24.1) | - |
| Results of companies consolidated by equity method | (0.3) | 0.1 | - | - | - |
| Results of non-current assets | (0.8) | 0.7 | 0.1 | - | - |
| **PBT** | **681.6** | **37.5** | **256.0** | **(1,153.7)** | **-** |
| Corporate tax and minority shareholders | 852.6 | 43.8 | (61.2) | 332.1 | - |
| **NET PROFIT** | **1,534.2** | **81.2** | **194.8** | **(821.6)** | **-** |

Eur M

| December 2012 | SPAIN | UNITED KINGDOM | MEXICO | US & CANADA | Interco |
|---|---|---|---|---|---|
| Revenues | 14,358.4 | 8,702.8 | 1,174.1 | 61.4 | (728.4) |
| Procurement | (11,577.1) | (7,619.8) | (677.6) | (5.3) | 728.4 |
| **GROSS MARGIN** | **2,781.3** | **1,083.0** | **496.5** | **56.1** | **-** |
| Emission Rights Allocated | 51.6 | 69.2 | - | - | - |
| **BASIC MARGIN** | **2,832.8** | **1,152.2** | **496.5** | **56.1** | **-** |
| NET OPERATING EXPENSES | (838.0) | (551.2) | (115.4) | (44.0) | - |
| Net Personnel Expenses | (356.0) | (186.2) | (18.0) | (19.6) | - |
| Personnel | (380.5) | (194.2) | (18.5) | (20.4) | - |
| Capitalized personnel costs | 24.5 | 8.0 | 0.5 | 0.9 | - |
| Net External Services | (482.0) | (365.0) | (97.4) | (24.4) | - |
| External Services | (571.6) | (455.6) | (104.9) | (24.4) | 2.7 |
| Other operating income | 89.7 | 90.6 | 7.5 | - | (2.7) |
| Levies | (389.5) | (240.4) | (1.0) | (3.0) | - |
| **EBITDA** | **1,605.4** | **360.6** | **380.1** | **9.1** | **-** |
| Amortisations, Provisions and other | (647.5) | (337.6) | (67.1) | (94.4) | - |
| **EBIT / Operating Profit** | **957.9** | **22.9** | **313.0** | **(85.3)** | **-** |
| Financial Result | (15.8) | (16.2) | (20.9) | (12.7) | - |
| Results of companies consolidated by equity method | 13.8 | - | 1.6 | - | - |
| Results of non-current assets | (0.5) | 5.3 | (8.0) | (0.3) | - |
| **PBT** | **955.4** | **12.0** | **285.7** | **(98.3)** | **-** |
| Corporate tax and minority shareholders | (285.0) | 30.9 | (79.3) | 28.5 | - |
| **NET PROFIT** | **670.4** | **42.9** | **206.4** | **(69.8)** | **-** |

# Quarterly Results (Unaudited)

Eur M

| 2013 | JAN-MARCH 2013 | APR-JUNE. 2013 | JULY-SEPT. 2013 | OCT.-DEC. 2013 |
|---|---|---|---|---|
| **REVENUES** | **9,221.9** | **7,614.3** | **7,380.6** | **8,591.1** |
| PROCUREMENTS | (5,648.1) | (4,511.6) | (4,597.8) | (5,473.6) |
| **GROSS MARGIN** | **3,573.8** | **3,102.6** | **2,782.8** | **3,117.5** |
| Emission rights allocated | - | - | - | - |
| **BASIC MARGIN** | **3,573.8** | **3,102.6** | **2,782.8** | **3,117.5** |
| **NET OPERATING EXPENSES** | **(883.9)** | **(878.1)** | **(887.7)** | **(1,145.5)** |
| **Net Personnel Expense** | **(433.6)** | **(446.1)** | **(439.9)** | **(571.9)** |
| Personnel | (559.1) | (576.5) | (564.1) | (685.9) |
| Capitalized personnel costs | 125.5 | 130.4 | 124.2 | 114.1 |
| **Net External Services** | **(450.3)** | **(432.1)** | **(447.8)** | **(573.6)** |
| External Services | (552.4) | (542.0) | (531.9) | (690.5) |
| Other Operating Income | 102.1 | 110.0 | 84.1 | 116.9 |
| **LEVIES** | **(410.5)** | **(453.0)** | **(404.1)** | **(308.9)** |
| **EBITDA** | **2,279.5** | **1,771.5** | **1,491.0** | **1,663.1** |
| AMORTISATIONS AND PROVISIONS | (765.4) | (2,403.8) | (737.9) | (863.2) |
| **EBIT** | **1,514.0** | **(632.3)** | **753.0** | **799.9** |
| **Financial Expenses** | **(761.1)** | **(428.1)** | **(352.6)** | **(580.3)** |
| **Financial Income** | **487.0** | **133.8** | **41.4** | **168.0** |
| **FINANCIAL RESULT** | **(274.1)** | **(294.3)** | **(311.3)** | **(412.3)** |
| **RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD** | **(0.1)** | **4.2** | **1.9** | **66.1** |
| **RESULTS FROM NON-RECURRING ASSETS** | **4.7** | **(33.8)** | **19.3** | **(15.0)** |
| **PBT** | **1,244.5** | **(956.2)** | **463.0** | **438.8** |
| Corporate Tax | (356.5) | 1,817.0 | 97.4 | (134.3) |
| Minorities | (8.7) | (12.1) | (13.6) | (7.4) |
| **NET PROFIT** | **879.3** | **848.76** | **546.7** | **297.0** |

Eur M

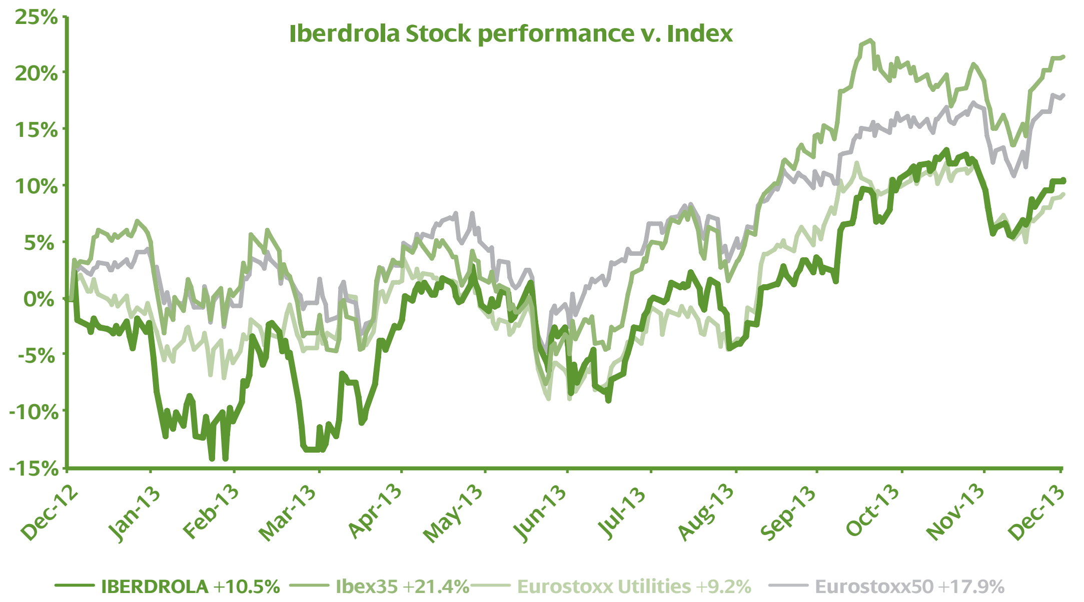
| 2012 | JAN-MARCH 2012 | APR-JUNE. 2012 | JULY-SEPT. 2012 | OCT.-DEC. 2012 |
|---|---|---|---|---|
| **REVENUES** | **9,331.0** | **7,661.5** | **8,243.1** | **8,965.5** |
| PROCUREMENTS | (5,942.6) | (4,740.8) | (5,260.7) | (5,679.0) |
| **GROSS MARGIN** | **3,388.4** | **2,920.8** | **2,982.4** | **3,286.5** |
| Emission rights allocated | 40.6 | 19.8 | 31.3 | 29.1 |
| **BASIC MARGIN** | **3,429.0** | **2,940.5** | **3,013.7** | **3,315.6** |
| **NET OPERATING EXPENSES** | **(877.1)** | **(924.1)** | **(927.6)** | **(1,060.5)** |
| **Net Personnel Expense** | **(450.7)** | **(436.0)** | **(479.7)** | **(473.2)** |
| Personnel | (590.0) | (577.0) | (622.2) | (601.7) |
| Capitalized personnel costs | 139.4 | 141.0 | 142.5 | 128.5 |
| **Net External Services** | **(426.4)** | **(488.1)** | **(447.9)** | **(587.3)** |
| External Services | (531.1) | (586.3) | (536.0) | (724.3) |
| Other Operating Income | 104.7 | 98.2 | 88.2 | 137.1 |
| **LEVIES** | **(186.5)** | **(295.0)** | **(395.1)** | **(306.3)** |
| **EBITDA** | **2,365.4** | **1,721.4** | **1,691.0** | **1,948.8** |
| AMORTISATIONS AND PROVISIONS | (741.7) | (805.3) | (800.4) | (1,002.4) |
| **EBIT** | **1,623.7** | **916.1** | **890.6** | **946.4** |
| **Financial Expenses** | **(733.6)** | **(558.2)** | **(526.9)** | **(618.6)** |
| **Financial Income** | **409.8** | **212.0** | **219.0** | **386.1** |
| **FINANCIAL RESULT** | **(323.8)** | **(346.2)** | **(307.9)** | **(232.4)** |
| **RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD** | **2.4** | **(138.5)** | **1.6** | **(53.1)** |
| **RESULTS FROM NON-RECURRING ASSETS** | **5.9** | **10.8** | **53.8** | **(84.4)** |
| **PBT** | **1,308.2** | **442.2** | **638.1** | **576.5** |
| Corporate Tax | (274.9) | 305.2 | (50.7) | (151.7) |
| Minorities | (11.0) | (6.6) | (6.0) | (4.2) |
| **NET PROFIT** | **1,022.3** | **740.76** | **581.4** | **420.6** |

# Statement of Origin and Use of Funds December 2013 (Unaudited)

Eur M

| | December 2013 | December 2012 | Difference |
|---|---|---|---|
| EBIT | 2,435 | 4,377 | (1,942) |
| Amortisations | 2,735 | 2,816 | (81) |
| Provisions | 2,036 | 534 | 1,502 |
| Other personnel and capitalised costs | (285) | (308) | 23 |
| **Operating Cash Flow** | **6,920** | **7,419** | **(499)** |
| Interest paid | (1,599) | (1,628) | 29 |
| Interest received | 204 | 293 | (89) |
| Dividends received from affiliates | 96 | 69 | 27 |
| Tax | (975) | (686) | (289) |
| **Cash Flow** | **4,645** | **5,467** | **(821)** |
| Dividends paid | (184) | (178) | (6) |
| Acquisition of free-of-charge share allocation rights | (678) | (834) | 157 |
| **Retained Cash Flow** | **3,784** | **4,455** | **(671)** |
| Total Cash Flow allocations: | | | |
| *Investments* | *(3,053)* | *(3,259)* | *206* |
| *Treasury stock* | *(369)* | *(126)* | *(243)* |
| *Non core divestments* | *28* | *6* | *22* |
| *Disposal of Group Companies* | *717* | *258* | *459* |
| *Taxes on investment activities* | *12* | *(6)* | *18* |
| *Pension & Others* | *(437)* | *(337)* | *(100)* |
| Total Cash Flow allocations | (3,102) | (3,465) | 363 |
| Change in working capital and others | 440 | 233 | 207 |
| **Decrease/(Increase) in recurrent debt** | **1,122** | **1,223** | **(101)** |
| Exchange rate differentials | 633 | 160 | 473 |
| Capital issue | (1) | (1) | - |
| Hybrid issuance | 517 | | 517 |
| **Decrease/(Increase) in financial net debt** | **2,271** | **1,382** | **889** |
| Financial debt | 2,105 | 1,256 | 849 |
| Capital inst. w/nature of financial liability | 167 | 126 | 41 |

# Stock Market Evolution




| IBERDROLA Share | 12M 2013 | 12M 2012 |
|---|---|---|
| Number of shares outstanding | 6,239,975,000 | 6,138,893,000 |
| Price at the end of the period | 4.630 | 4.195 |
| Average Price of the period | 4.11 | 3.69 |
| Average daily volume | 39,907,666 | 49,087,316 |
| Maximum volume (07-04-2013 /06-25-2012) | 316,948,776 | 435,328,652 |
| Minimum volume (08-26-2013/ 12-24-2012)) | 8,014,080 | 10,020,273 |
| Dividends paid (€) | 0.308 | 0.341 |
| Gross Interim (01-22-2013 / 01-20-2012) | 0.143 (1) | 0.146 (1) |
| Additional Dividend (07-03 and 07-22-2013 / 07-04 y 07-23-2012) | 0.160 (2) | 0.190 (2) |
| Shareholders' Meeting attendance bonus | 0.005 | 0.005 |
| Dividend yield (3) | 6.65% | 8.13% |

(1) Iberdrola fixed guaranteed price for the rights.
(2) Cash dividend of EUR 0.03 (07-03-13) and fixed guaranteed price by Iberdrola (07-22-13) = EUR 0.130, and (07-23-12) EUR 0.160.
(3) Two 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.

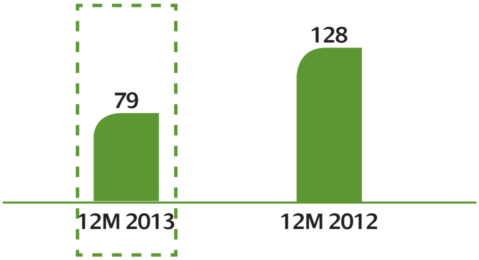
## 1. SUSTAINABILITY INDICATORS

| Sustainability Indicators | 12M 2013 | 12M 2012 |
|---|---|---|
| Contribution to GDP (Gross Margin) (*) | 0.62% | 0.57% |
| Contribution to GDP (Net Revenues) (*) | 1.66% | 1.73% |
| Net Investments in equipment (EUR million) | 3,053.1 | 3,259.4 |
| Investment in clean generation over the total investments in generation (%) | 82% | 85% |
| Net profit (EUR million) | 2,571.8 | 2,765.1 |
| Dividend yield (%) (**) | 6.65% | 8.13% |
| $CO_2$ emissions in the period (gr. $CO_2$ /kWh). Total | 236 | 265 |
| $CO_2$ emissions in the period (gr. $CO_2$ /kWh). Spain | 79 | 128 |
| $CO_2$ emissions in the period (gr. $CO_2$ /kWh). SPW | 654 | 728 |
| Total emission-free production (GWh) | 74,473 | 69,735 |
| Spain emission-free production (GWh) | 51,541 | 47,276 |
| Emission-free production out of total production (%) | 55% | 52% |
| Spain emission-free production out of total production (%) | 89% | 83% |
| Total emission-free installed capacity (MW) | 27,524 | 27,332 |
| Spain emission-free installed capacity (MW) | 18,326 | 18,315 |
| Total emission-free installed capacity (%) | 61% | 59% |
| Spain emission-free installed capacity (%) | 72% | 72% |

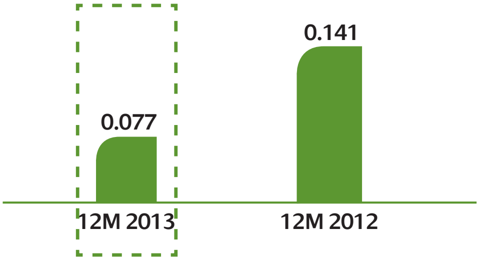
(*) Source: Iberdrola Results and National Quarterly Accounting for Spain – INE (Last data published in Q3 2013)
(**) Last two dividends paid and Shareholders' Meeting attendance bonus / end-of-period price.

## Development of specific thermal mix emissions, Global: $CO_2$, $SO_2$, particles and $NO_X$.

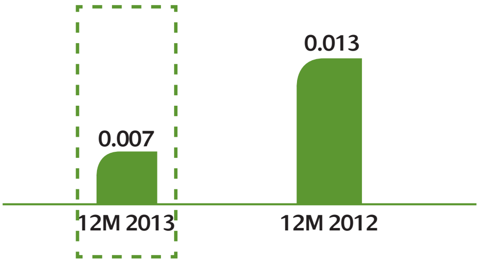
*$CO_2$ specific emissions Mix, GLOBAL (g/kWh)*



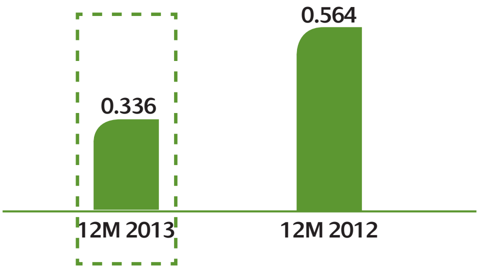

*$SO_2$ specific emissions mix, GLOBAL (g/kWh)*




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




*$NO_X$ Specific emissions mix, GLOBAL (g/kWh)*

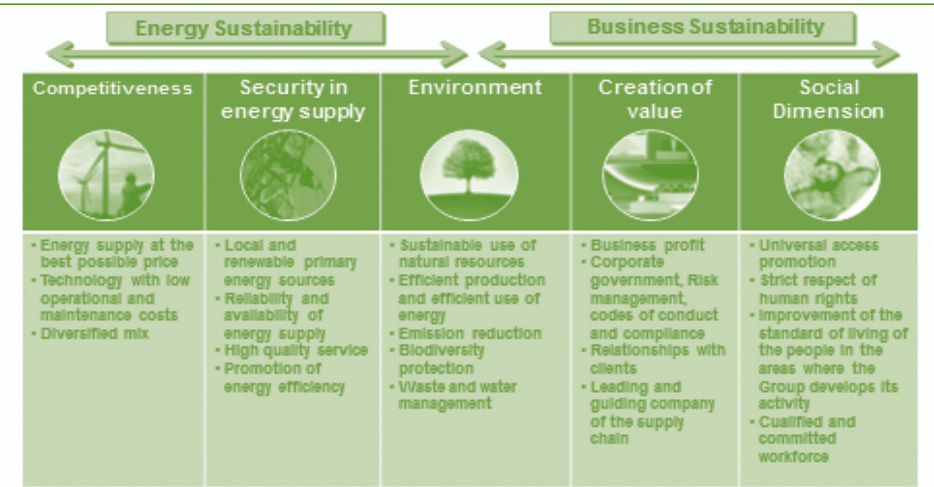


## 2. INDICES, RANKINGS AND RECOGNITIONS

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

| Sustainability and Corporate Responsibility | |
|---|---|
| | Rating |
| Dow Jones Sustainability World Index 13 | Iberdrola member in all editions |
| FTSE 4Good | First utility with nuclear assets to meet standards for ftse 4good |
| Carbon Diclosure Leadership Index | Iberdrola selected |
| Global Roundtable on Climate Change | IBERDROLA one of the developers |
| Sustainability Yearbook Robeco Sam 2013 | Classified as "gold class" in the electricity sector. |
| OEKOM Research | Prime category |
| European Business Awards 2013-2014 | Ruban d´honeur 2013 in the environment and sustainability category. |
| Award for leadership in New Energy 2013 | Leadership in New Energy. |
| MERCO 2012 | Leader among spanish utilities: electricity, gas, and water industry |
| New York Stock Exchange, NYSE Euronext & Vigeo | Iberdrola selected |
| ET Global 800 Carbon Ranking | Iberdrola first spanish utility |
| Two Tomorrows ( DNV) | Iberdrola to score |
| RSC Observatory | Iberdrola first position |

A Sustainability Policy Approved by the Board of Directors at a meeting held on 17 December 2013.



## 3. CONTRIBUTION TO SOCIAL DEVELOPMENT

IBERDROLA's most significant actions with regard to social commitment in 2013 have been:

### 3.1. Corporate Social Responsibility (CSR) Plans, Policies and Recognition

- **IBERDROLA México, Socially Responsible Company 2013**
  IBERDROLA México has been awarded the *ESR* (Socially Responsible Company) *Seal of Distinction 2013* by the Centro AliaRSE, in recognition of its track record of commitment towards society.

- **IBERDROLA USA, recognised for customer satisfaction**
  For the first time, the three companies that make up IBERDROLA USA were classed among the Top five in the annual Study by the renowned market research company, J.D.Power and Associates, in the category of customer satisfaction.

- **ScottishPower ranked best energy supplier**
  Energylinx, a website that compares companies in the energy sector, ranked ScottishPower as the best energy supplier in January 2013. The monthly survey by Energylinx is based on the opinions of its customers.

- **Elektro chosen as Brazil's best company to work for**
  Elektro has been recognised as *Brazil's Best Company to Work For*, according to the 2013 ranking of the magazine "Época / Great Place to Work". In addition, it has been chosen as the *best company in the energy sector* by the "Guía Você S/A 2013", which also ranks the best companies to work for in Brazil.

- **IBERDROLA receives award for its support in social projects**
  Cocemfe (Confederation of People with Physical and Organic Disabilities) has awarded IBERDROLA for its support in social projects and programmes that improve the quality of life of people with disabilities.

### 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.

- **SP Energy Networks**
  A variety of stakeholders (customers, consumer groups, local authorities and other groups) have held a series of working meetings to contribute opinions in the preparation of SP Energy Networks' 2015-2023 investment plans. Issues such as the following were addressed: Storm protection investment, investment in customers with low service cover, Customer Service activities, protection against floods, etc.

- **Entrepreneurs**
  IBERDROLA and the ICAI have signed an agreement to encourage entrepreneurship support, establishing a framework that enables access to funding for new innovative companies. This agreement is framed within the IBERDROLA Chair in Energy and Innovation at the Universidad de Comillas.

### 3.3. Staff

- **International Volunteer Programme**
  With regard to IBERDROLA's Volunteer Programme, organised through the *International Volunteer Portal* (a website that serves as a meeting point to reinforce the global community of volunteers of the Group), the following can be highlighted for this period:

  - **IBERDROLA International Volunteer Day.** Many community aid activities have been carried out such as, for instance, the works for improvement of infrastructures and facilities at different educational centres, undertaken by employees of IBERDROLA México.

  - **6th IBERDROLA Tree Day**. The sixth Tree Day was held in Bermeo (Vizcaya), in collaboration with the Asociación Gorabide and the Fundación Lurgaia, to create the Iberdrola Forest, which shall eventually cover an area of five hectares.

  - **1st Environmental Volunteering Day in Madrid**. IBERDROLA volunteers, together with members of the Downs Syndrome Foundation, planted the first trees of the future Iberdrola Forest in Madrid.

  - **Volunteer Days**. A series of games and sports days have been held for people with disabilities in Navarra, Madrid, Castilla-León, Valencian Community, Galicia, Castilla-La Mancha, Murcia, the Basque Country and Extremadura.

  - **International Solidarity Day.** Participation in the Solidarity Race in Madrid. This race aims to promote the Millennium Development Goals Declaration (promoted by the United Nations). Several solidarity activities aimed at underprivileged groups are associated with the race.

  - **"Lights and Action" Project.** A group of young people from Madrid at risk of social exclusion have received training by employees at our Company in order to favour their access to the job market.

  - **"School Meal Grants" Programme.** Collaboration with this *Aldeas Infantiles* Programme, which aims to fund school meals for children whose families have trouble covering the costs of their food.

  - **"IBERDROLA Operation Kilo"** initiative. Every two months, IBERDROLA launches this initiative to collect food to contribute to alleviating the difficult situation many families are going through as a result of the economic crisis. The food is distributed through aid organisations such as *Cáritas, Casa Caridad* and the *Banco de Alimentos.*

  - **"Know Your Law" Programme.** An initiative promoted by the Regional Government of Madrid in which IBERDROLA is participating. It aims to teach Spanish legal principles to citizens from other countries. In order to do so, it offers immigrants free courses taught by law professionals from volunteer law firms and collaborating companies.

- **Courses related to CSR for IBERDROLA Group employees, provided through the corporate Intranet**
  Four on-line Corporate Social Responsibility (CSR) courses have been made available to all employees of the Group with the aim of divulging these advanced business management concepts and practices among the staff. The four courses are, as follows: Corporate Social Responsibility, Human Rights, Code of Ethics and IBERDROLA Equality Plan.

## 3.4 Community Action

- **Seminar on Good Governance and Management Practices of Corporate Foundations**
  Fundación IBERDROLA has worked with the Asociación Española de Fundaciones (Spanish Foundations Association) in the organisation of its Seminar on Good Governance and Management Practices of Corporate Foundations, held in Madrid.

### a) Training and Research

**Call for scholarships in the United States**

- *Masters Courses at the Universities of Rochester and Maine.* Six young Spaniards and Americans will have the chance to continue their education in the fields of energy and the environment during academic year 2014-2015.

- Doctorate studies at the University of New Mexico. Three young Spaniards will to further their studies in the field of Smart Grids. These scholarships are awarded by the University of New Mexico, with the backing of Fundación IBERDROLA, within the framework of the Prince of Asturias Chair of Information Sciences and Related Technologies.

**Support for Scholarship and Study Grant Scheme at Comillas Pontifical University ICAI-ICADE**
These scholarships enable access to university education for young capable students with insufficient financial resources. Every year, the scheme benefits 300 future professionals, thanks to the university's own funds and both public and private contributions.

**Grants for Paralympic Athletes**
A total of 7 Spanish athletes will be able to continue their undergraduate or postgraduate studies in 2013-2014.

**Grants from the Instituto Tecnológico de Monterrey, Mexico**
4 grants have been awarded for young people with insufficient financial resources to study engineering at the Institute's Altamira campus.

### b) Sustainability and Biodiversity

**King Jaime I Award for Environmental Protection**
The 2013 Award went to Professor Xavier Querol for his scientific contribution towards the improvement of air quality and reduction of the impact of pollution on the population.

**Economic Assessment Programme of the services supplied by the ecosystems of Spain**
Collaboration with the Fundación de la Universidad Autónoma de Madrid [Autonomous University of Madrid Foundation] and the Biodiversity Foundation [*Fundación Biodiversidad*] within the framework of the

Millennium Ecosystem Assessment programme founded by the UN. The progress of the project was presented at the 'WILD10', 10th World Wilderness International Congress, held in Salamanca.

**Bird migration monitoring programme**

In 2013, 15 birds were tagged, compared to the 9 originally planned, thanks to the cost reduction achieved. Transmitters were placed on 1 white stork, 4 European rollers, 5 booted eagles, 2 red kites and 3 European scops owls. GPS monitoring devices were used to tag the birds, except in the case of the scops owls for which geolocators were used due to their size.

In addition, a further 37 birds were tagged within the MIGRA Programme, thanks to the collaboration of other bodies.

The migratory journeys are available on the project's website *www.migraciondeaves.org*

**Royal Scottish Geographical Society, United Kingdom**

Its "Inspiring People" programme has organised 90 lectures by 37 speakers from September to March 2014 at 13 different locations across Scotland.

**Museum of the Earth, United States**

The Museum has organised various interactive activities and exhibitions to show visitors about life on Earth since its origins and how our species is affecting the natural world.

**Center for Environmental Initiatives, United States**

In December, this organisation carried out several activities aimed at encouraging sustainability, by promoting the implementation of environmentally-aware practices and improving water quality in the region of Lake Ontario.

### c) Art and Culture

**Atlantic Romanesque Project**

Restoration work has started on the shrine of *La Virgen de La Bandera* in Fermoselle (Zamora), also known as the church of San Juan. The first works will focus on the restoration of two Baroque tableaux at the sides of the temple, made from gilded and polychrome wood. The procedure will continue with the renovation and modernisation of the church's electrical installation and will be completed with a monitoring system in order to guarantee that both the church and the treasures inside it are conserved in optimum conditions.

In addition, the first phase of the procedure in the surroundings of the church of San Pedro de la Nave in El Campillo has started. The project proposes a new management model for the building, combining tourist visits and the appropriate conservation of the temple.

In Portugal, December saw the completion of the works on the Covas do Barroso church (Boticas).

**Museo del Prado [National Prado Museum] Restoration Project**

Fundación IBERDROLA sponsored the restoration of El Greco's "The Disrobing of Christ", which was presented to the public on 28 October. The piece was restored in the studio at the Museo del Prado as part of an agreement entered into with the Chapter of the Cathedral of Toledo, where the painting is on display, and the Fundación El Greco 2014, which organises the events commemorating the 4th centenary of the painter's death.

**Restoration Programme of the Bilbao Fine Arts Museum**

During 2013, two panel paintings by Nicolás Solana, "La Ascensión" and "Noli me tangere", were treated. The paintings both belong to the Aragonese School and date from the first third of the 15th century. Six works on paper by Joan González were also treated, as was the large-sized painting "Pórtico", from around 1905, by Aurelio Arteta and the 1967 painting Cardinal I, by Balerdi. The completion of these works was presented at the Museum on 2 December.

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

The first four 16th century tapestries have been washed after removing the covers and many areas of patching. Progress has been made with applying the dye to the fabric that will be used to cover some of the existing lacunae. Once it had been prepared, the first tapestry was placed on the loom to start the restoration work proper. The Department of Education and Culture of the Regional Government of Valencia visited the Royal Tapestry Factory in Madrid to verify progress of the works on-site.

**Lighting of the Humilladero of the village of Allo in Navarra**

The artistic lighting of this 1575 building, designated as an outstanding building of high historical value by the Regional Government of Navarre, was officially inaugurated on 27 December. The use of state-of-the-art LED light fittings to the exterior and interior of the building ensure the sustainability and energy efficiency of the new lighting.

**Exterior lighting at the Church of Saint John the Baptist in Aranda de Duero**

The new artistic exterior lighting at the Church of Saint John the Baptist, inaugurated on 19 December, brings out certain architectural elements such as the bell tower and the main façade. State-of-the-art LED light fittings have been used to ensure the sustainability and energy efficiency of the installation.

**Tàpies Exhibition at the Guggenheim Bilbao Museum**

On 3 October, the "Antoni Tàpies. From Object to Sculpture (1964-2009)" exhibition was inaugurated. The exhibition brings together almost one hundred works on the occasion of the first anniversary of the artist's death. It is the first thorough and in-depth review of one of the most revealing facets of a fundamental artist of the second half of the 20th century: his production of sculptures over almost five decades.

**Thais Gulin concert, Fundación Hispano Brasileña**

In October, popular Brazilian singer Thais Gulin offered two free concerts in Spain organised by the Brazilian and Hispanic Cultural Foundation, at the Guggenheim Bilbao Museum and Casa América. Fundación IBERDROLA works with the Brazilian and Hispanic Cultural Foundation, whose mission is to promote and develop Brazilian culture in Spain.

### Clwyd Theatre Cymru, United Kingdom

"The Hub" is an innovative one-week project undertaken in November at the Rhosnesni secondary school in Wrexham, where a group of supporting actors visited the students to support their curriculum.

### Edinburgh International Book Festival, United Kingdom

Knoxland primary school students received a visit from writer and illustrator John Fardell as part of the "Swap Shop" programme, a book swap initiative held within the framework of the Edinburgh International Book Festival. Each pupil donated 50 pence and swapped their favourite books with other class mates. The funds raised went to the non-profit organisation Aberlour, which helps vulnerable children and families in Scotland.

### ScottishPower Pipe Band, United Kingdom

The ScottishPower Pipe Band visited Santiago de Compostela to perform its tunes at the pilgrim mass held at the Cathedral. The band, which came third in the last World Championships, performed a repertoire of traditional pieces during the religious ceremony. At the end of the mass, they offered a concert, together with the Royal Pipe Band of Ourense Provincial Council, at the city's Municipal Auditorium.

### Goodwill Theatre, USA

This year, the theatre organised more than 65 events in collaboration with IBERDROLA USA Foundation, including cabaret, classical theatre, theatre for children and young people, classical piano, jazz, puppets and other private events.

### Roberson Museum, USA

In collaboration with IBERDROLA USA Foundation, this museum organises various art, history and science programmes and exhibitions aimed at an audience of all ages. Its museum programme, together with its educational resources, can be considered as the best in the Southern Tier of New York.

### Golden Kimono, Brazil

The Marcos Mercadante Judo Association held a gala ceremony on 12 December, at the Teatro Estadual Maestro Francisco Paulo Russo to pay homage to the best judokas of 2013, as well as to the sponsors and beneficiaries of the "Golden Kimono" project. More than 400 people attended the homage, with the special participation of Olympic champion Rogerio Sampaio.

### Energia en Movimento, Brazil

On 13 December, the young people who take part in the "Energia en Movimento" project in the city of Capão Bonito visited the Cisne Negro Dance Company. Thanks to this visit, the students got the chance to find out what happens behind the scenes of one of the best contemporary dance companies in the country. They also attended the show "The Nutcracker, 30 years and the revival of the eternal".

## d) Cooperation and Solidarity

### Social Grants

The 46 beneficiaries of the 4th Call for Social Grants are making progress in the development of their projects, as per schedule. Two examples of collaboration are:

- ***Ilundain Haritz Berri Foundation - Animal-Assisted Therapy Programme.*** A pioneering initiative in the field of animal-assisted therapy aimed at young people with serious emotional problems to encourage them to establish stable and unconditional affective and emotional relationships that convey to them positive experiences on which to gradually build their self-perception, in order to gradually extrapolate them to other situations in their lives and thus manage to adapt to their surroundings.

- ***Cáritas Bilbao - Integration programme.*** This initiative helps people at risk of social exclusion by providing them with personalised attention in situations that are not covered by institutional aid. In order to do so, it establishes an itinerary for each case and accompanies the beneficiaries to achieve their social integration. The project also includes financial support by means of clothing and food vouchers, opportunities for socialising and taking part in social initiatives.

**Duke of Edinburgh's Award, United Kingdom**

More than 300 young people in the Glasgow area received the Bronze and Silver Awards at the special ceremony of the Duke of Edinburgh's Award held in Glasgow. This programme aims to encourage young people to develop self-confidence, volunteer to help their local community and improve their professional aspirations for the future.

**"Your Champions" Awards, United Kingdom**

ScottishPower Foundation, in collaboration with the Trinity Mirror group, recognised the work carried out by anonymous heroes in Cheshire, Wirral and North East Wales in an emotional "Your Champions" awards ceremony held in Chester. The first prize went to Raymond Tungwell, from Rachub, who has spent over 40 years raising funds to help children with cancer.

**United Way of Broome County, USA**

This organisation has worked with several groups with a view to identifying the social or health services needs of the community. In addition, it has collaborated with other organisations in setting up and maintaining a data register to assess social needs and establish priorities in sectors such as education or health.

**Industrial Brigade Course Donation, Mexico**

The Civil Protection and Fire Brigade of Tamazunchale received a donation of a 32 hour Industrial Brigade Training course, including theory and practice, which was provided by the Asociación Nacional de la Industria Química A.C. at the Training School of the Emergency Brigades of the city of Celaya, Guanajuato.

## 4. CORPORATE GOVERNANCE

The Corporate Governance highlights for financial year 2013 were as follows:

– On 18 January 2013, the second execution 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 2012. As a result, 142,291,000 shares with a per-unit nominal value of EUR 0.75 were issued without a share premium, representing, approximately, a 2.32% increase with regard to the share capital prior to the increase.

– The Board of Directors of IBERDROLA, in its meeting of 13 February 2013, prepared the annual accounts and individual management reports of the Company and consolidated with its subsidiaries, corresponding to the financial year ending 31 December 2012, 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 14 February 2013, 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 to this, since that date, IBERDROLA periodically reported to the CNMV on the share buyback programme until 20 May 2013, the date when it ended. As a result, the Company acquired a total of 68,488,267 treasury shares (1.09%) of IBERDROLA share capital, in implementation of the share buyback programme.

– On 14 February, the Company submitted to the CNMV its results and the *Annual Corporate Governance Report* corresponding to financial year 2012.

– On 23 April 2013, IBERDROLA published the approximate schedule for the first implementation of the paid-up capital increase in relation to the *Iberdrola Dividendo Flexible* system, which was subsequently modified in accordance with the notification sent to the CNMV dated 21 May.

– On 24 April, the Company submitted to the CNMV its Presentation of Results for the first quarter of 2013.

– On 21 May 2013, the Company notified the CNMV of the agreement to implement the reduction in share capital through the redemption of treasury stock and the buyback of treasury stock for redemption, approved by the General Shareholders' Meeting held on 22 March 2013, under point ten of the agenda.

Subsequently, on 27 May, the CNMV was informed that the public deed regarding the reduction of share capital, by means of the amortisation of treasury stock and the ensuing amendment of IBERDROLA'S *Articles of Association*, had been recorded.

– Also on 21 May, IBERDROLA approved the implementation of the first increase of paid-up capital approved by the General Shareholders' Meeting in 2013, under section A, point six of the agenda.

Subsequently, on 1 July 2013, the Company published an appendix to the memorandum regarding the first increase of paid-up capital approved by the General Shareholders' Meeting of 22 March 2013.

Lastly, on 19 July 2013, IBERDROLA notified the CNMV of the implementation of the first paid-up capital increase, through which the *Iberdrola Dividendo Flexible* is realised.

- On 24 July 2013, the Company submitted to the CNMV its Presentation of Results for the first half of 2013.

- On 23 October 2013, the Company notified the agreement to review the dividend policy of the Company, establishing the percentage of results of each financial year that shall be distributed to the shareholders at between 65% and 75%, in line with that of companies with similar business profiles, and including the possibility that the *Iberdrola Dividendo Flexible* remuneration system may be accompanied by amortisations of treasury stock to offset the dilution derived from the issue of new shares.

- Also on 23 October, IBERDROLA published the approximate schedule for the second implementation of the paid-up capital increase in relation to the *Iberdrola Dividendo Flexible* system, approved by the General Shareholders' Meeting held on 22 March 2013.

  On 19 November, IBERDROLA notified the CNMV of the agreement of implementation of the second increase of paid-up capital approved by the General Shareholders' Meeting of 2013, under section B, point six of the agenda. Subsequently, on 9 January 2014, the supplement to the corresponding brochure regarding the aforementioned second increase of paid-up capital was published.

  Lastly, on 28 January 2014, IBERDROLA notified the CNMV of the implementation of the second paid-up capital increase, through which the *Iberdrola Dividendo Flexible* is realised.

- On 23 October, the Company submitted to the CNMV its Presentation of Results for the third quarter of 2013.

- On 19 November 2013, the IBERDROLA Board of Directors approved to offer its employees the possibility of receiving, in Company shares, the annual variable remuneration corresponding to financial years 2013 and 2014.

## GENERAL SHAREHOLDERS' MEETING

The IBERDROLA Board of Directors, in its meeting of 13 February 2013, agreed to convene the General Shareholders' Meeting to be held at the first session on 22 March 2013, or, if the necessary quorum was not attained, at the second session on 23 March 2013. 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 14 February 2013.

On 22 March 2013, the Company's General Shareholders' Meeting was held at first session, with a quorum of 81.09% (15.85% present and 65.24% 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 2012, 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 2012.

  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 2013.

- **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 2012, of three Euro cents (EUR 0.030), gross, per share with distribution rights.

  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 EUR 883 and EUR 1,021 million, respectively, for the free-of-charge allocation of the new shares to the Company's shareholders.

  These capital increases were agreed in order to offer all the shareholders 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 shareholders' compensation policy.

- **Agreements regarding the structure of the Board of Directors and the express authorisations and delegations requested for said body**
  – The General Shareholders' Meeting ratified the appointment of Mr. Manuel Lagares Gómez-Abascal as director, classed as an external director representing significant shareholders, for the statutory term of four years.

  – In addition, the General Shareholders' Meeting approved the authorisation to set up and endow associations, entities and foundations up to a total amount of EUR 12 million per year and for a maximum term that shall conclude on the date of the General Shareholders' Meeting that approves the annual accounts of financial year 2013.

- **Agreements relating to changes in the Articles of Association and Regulations**
  The General Shareholders' Meeting also approved:

  a) the modification of article 6 of the *Articles of Association* in accordance with article 497 of the Capital Companies Law.

  b) the modification of articles 39, 42 and 43 of the *Articles of Association* to introduce technical improvements in the regulation of the operation of the Board of Directors and its Committees.

- **Agreement regarding capital decrease**
  The General Shareholders' Meeting approved a decrease of share capital through the amortisation of 87,936,576 treasury shares in Iberdrola's portfolio, representing 1.40% of share capital, and the purchase of a maximum of 62,811,840 additional treasury shares, representing up to 1% of share capital, through a repurchase programme for the amortisation.

- **Agreement relating to general matters**
  In addition, the General Shareholders' Meeting agreed 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, 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 Remunerations of Directors***
  Lastly, the *Annual Report on Remunerations of Directors* was subjected 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

IBERDROLA'S Board of Directors is comprised of fourteen (14) members, two (2) of which are executive directors, another two (2) of which are external proprietary directors and the remaining ten (10) are external independent directors.

On 22 March 2013, external director Mr Manuel Lagares Gómez-Abascal ceased to form part of the Executive Committee, reducing the number of members of said Committee to five.

On 23 April 2013, IBERDROLA'S Board of Directors accepted the resignation of Mr Víctor de Urrutia Vallejo as Vice-President and Director of the Company and member of its Executive Committee.

In turn, the appointment by co-option of Ms Georgina Kessel Martínez as external independent director, in replacement of Mr Urrutia Vallejo, was approved following a favourable report from the Nominating and Compensation Committee.

In addition, it was agreed to re-appoint director Mr Ángel Jesús Acebes Paniagua as external independent director, effective as of 24 April 2013.

On 23 July 2013, the Board of Administration approved, at the proposal of the Nominating and Compensation Committee, the appointment of Mr Acebes Paniagua as a member of the Executive Committee. On his part, Mr Acebes Paniagua resigned as member of the Audit and Risk Supervision Committee.

In addition, on the same date, the Board of Directors agreed, also at the proposal of the Nominating and Compensation Committee, to appoint director Ms Georgina Kessel Martínez as a new member of the Audit and Risk Supervision Committee.

On 22 October 2013, IBERDROLA notified the re-election, for a period of three years as of 23 November 2013, of Mr Julio de Miguel Aynat and Mr Sebastián Battaner Arias as members of the Audit and Risk Supervision Committee; of Ms Inés Macho Stadler and Mr Íñigo Víctor Oriol Ibarra as members of the Nominating and Compensation Committee; and of Ms Samantha Barber, Mr Braulio Medel Cámara and Ms María Helena Antolín Raybaud as members of the Corporate Social Responsibility Committee.

In addition, it was agreed to re-elect, for the same period of time, Ms Macho Stadler and Ms Barber as chairs of the Nominating and Compensation Committee and the Corporate Social Responsibility Committee, respectively, as well as Mr Miguel Aynat as chair of the Audit and Risk Supervision Committee.

## 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 good governance recommendations that are generally recognised 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 financial year 2013, the following updates and reviews to IBERDROLA'S Corporate Governance System were made:

– On 18 January 2013, article 5 of the *Articles of Association* was modified as a result of the second execution of the paid-up capital increase within the framework of the *Iberdrola Dividendo Flexible* system.

– On 19 January 2013, the Company approved the review and update of the Risk Policies (*General Risk Control and Management Policy, the Summary of Corporate Risk Policies* and the *Summary of Specific Risk Policies of the Group Businesses*).

– On 13 February 2013, the Board of Directors agreed to the review and update of the *Policy of Remuneration of Directors* and of the *Policy of Remuneration of High Management.*

– As a result of the agreements adopted by the General Shareholders' Meeting held on 22 March 2013, the *Articles of Association* of the Company were modified. In addition, on the same date, the Board of Directors agreed to the modification of the *Board of Directors Regulations* in order to coordinate its content with the modifications to the *Articles of Association.*

– On 23 April 2013, the Board of Directors reviewed and updated the *Policy of Remuneration of Directors.*

– Following the implementation of the reduction of share capital through redemption of treasury stock and buyback of treasury stock for redemption, notified to the CNMV on 21 May, article 5 of the *Articles of Association* was modified.

– On 18 June, the Board of Directors approved the new *Purchasing Policy* of the Company. The approval of this new policy required adapting the *General Risk Control and Management Policy* and the *Summary of Corporate Risk Policies.*

– On 18 July 2013, article 5 of the *Articles of Association* was modified as a result of the implementation of the first paid-up capital increase within the framework of the *Iberdrola Dividendo Flexible* system.

– On 23 September 2013, the Board of Directors approved a new *Corporate Security Policy*, which is part of the *Corporate Social Responsibility Policies.*

– Subsequently, on 22 October, the new *Dividend Policy* was approved, as part of the *Corporate Governance and Regulatory Compliance Policies.*

– On 19 November 2013, the Board of Directors approved the review of the *General Corporate Governance Policy* and the *Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation.*

– On 17 December, IBERDROLA's Board of Directors approved a partial reform of the *Board of Directors Regulations*, within the framework of the global review of IBERDROLA's Corporate Governance System.

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 which also offers the option of downloading them for consultation onto an e-book reader or any other mobile device.

**Transparency of Information**

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 2013 to ensure that institutional investors and financial analysts are kept fully informed.

## On-Line Shareholders (OLS)

The On-Line Shareholders (OLS) interactive system has been made 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: Relevant Events from October to December 2013

| Date | Event | Registration No. |
|---|---|---|
| 10/02/2013 | The Company reports on the date for submitting results of the third quarter of 2013. | 193391 |
| 10/10/2013 | The Company reports its Energy Production figures as at the end of the third quarter of 2013. | 193709 |
| 10/22/2013 | The Company reports on the re-election of members and chairs of the consulting committees of the Board of Directors. | 194235 |
| 10/23/2013 | The Company reports on the agreements of the Board of Directors regarding the dividend policy and information on the terms of the implementation of the second increase in paid-up capital within the "*Iberdrola Dividendo Flexible*" system. | 194273 |
| 10/23/2013 | The Company issues information regarding the Results of the third quarter of 2013. | 194276<br>194279 |
| 10/30/2013<br>11/11/2013 | The Company reports on the issuance of notes on the Euromarket by Iberdrola International and on the swap of bonds issued by Iberdrola Finanzas. | 194595<br>195071 |
| 11/19/2013 | The Company sends information regarding the delivery of Iberdrola shares to the employees of the group as part of the annual variable remuneration corresponding to financial years 2013 and 2014. | 195424 |
| 11/19/2013 | The Company reports on the second implementation of the increase in paid-in share capital approved by the General Shareholders' Meeting of 22 March 2013 and the publication of the corresponding information memorandum. | 195437 |
| 11/26/2013 | The Company reports on the reconfiguration of the revolving credit for the amount of EUR 3,000 million dated 22 December 2009. | 195894 |
| 12/17/2013 | The Company reports on the partial reform of the Regulations of the Board of Directors, within the framework of the review of the Corporate Governance System. | 197045 |
| 12/23/2013 | The Company reports on the sale of Iberdrola, S.A.'s share in the Belgian company NNB Development Company, S.A. | 197457 |

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