

Results

**2012**

Quarterly Report



**IBERDROLA**



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## NET PROFIT AMOUNTED TO EUR 2,840.7 MILLION

### The international business drives the Group's results

#### EBITDA totalled EUR 7,726.6 million (+1%).

- Sales increase by 8.1%, exceeding EUR 34,200 million on a declining demand scenario.
- The Renewables (+13.8%) business has been the growth driver.
- Regulated business in Spain was affected by the impact on Networks of RDL 13/2012 and on Generation caused by dry hydro conditions in the period.

#### Net Profit increased by 1.3%

- Asset's write-offs amounting to EUR 428.7 million were posted during the period.
- Reversals of tax provisions in the US, lower taxes in the United Kingdom and deductibility of goodwill in Brazil contribute to reducing Corporate Tax.

#### On the way to achieve 2012-2014 guidance

- Net Debt is at EUR 30,324 million, with a drop of almost EUR 1,400 million.
- Operating cash flow increased by 2.5% to EUR 6,196.4 million.
- Liquidity amounts to EUR 12,043 million, enough to cover needs for the next 36 months.
- Leverage was at 47.1% compared to 48.8% at the end of 2011.

## Core Business Figures

Operating Data		12M 2012	12M 2011	%
<b>Net production</b>	<b>GWh</b>	<b>134,396</b>	<b>145,146</b>	<b>-7.4</b>
Hydro	GWh	11,895	17,753	-33.0
Nuclear	GWh	26,026	24,290	7.1
Coal	GWh	15,610	12,946	20.6
Fuel-Oil	GWh	-	-	N/A
Gas Combined Cycle	GWh	42,666	55,162	-22.7
Cogeneration	GWh	6,415	6,274	2.2
Renewables	GWh	31,784	28,721	10.7
<b>Installed capacity</b>	<b>MW</b>	<b>46,039</b>	<b>46,032</b>	<b>2.5</b>
Hydro	MW	9,891	9,699	2.0
Nuclear*	MW	3,410	3,410	-
Coal	MW	4,330	4,709	-8.1
Fuel-Oil	MW	-	157	-100.0
Gas Combined Cycle	MW	13,049	13,030	0.1
Cogeneration	MW	1,326	1,337	-0.8
Renewables	MW	14,034	13,690	2.5
<b>Distributed Electricity</b>	<b>GWh</b>	<b>210,622</b>	<b>204,843</b>	<b>2.8</b>
<b>Electricity customers (managed supply points)</b>	<b>No (mil.)</b>	<b>28.10</b>	<b>27.54</b>	<b>0.02</b>
<b>Gas customers (managed supply points)</b>	<b>No (mil.)</b>	<b>3.57</b>	<b>3.34</b>	<b>0.07</b>
<b>Gas supplies</b>	<b>GWh</b>	<b>69,952</b>	<b>94,028</b>	<b>-0.26</b>
<b>Gas storage</b>	<b>bcm</b>	<b>2.51</b>	<b>2.41</b>	<b>0.04</b>
<b>Employees</b>	<b>No</b>	<b>31,338</b>	<b>31,885</b>	<b>-1.7</b>

\* Includes Garoña central.

Operating Data		12M 2012	12M 2011	%
<b>Spain</b>				
<b>Net production</b>	<b>GWh</b>	<b>57,127</b>	<b>63,714</b>	<b>-10.3</b>
Hydro	GWh	9,039	15,043	-39.9
Nuclear	GWh	26,026	24,290	7.1
Coal	GWh	4,396	2,689	63.5
Fuel-oil	GWh	-	-	N/A
Gas combined cycle	GWh	2,831	8,007	-64.6
Cogeneration	GWh	2,624	2,690	-2.4
Renewables	GWh	12,211	10,995	11.1
<b>Installed capacity</b>	<b>MW</b>	<b>25,476</b>	<b>25,613</b>	<b>-0.5</b>
Hydro	MW	8,811	8,619	2.2
Nuclear	MW	3,410	3,410	-
Coal	MW	874	1,253	-30.3
Fuel-oil	MW	-	157	-100.0
Gas combined cycle	MW	5,893	5,893	-
Cogeneration	MW	394	405	-2.7
Renewables	MW	6,094	5,875	3.7
<b>Distributed Electricity</b>	<b>GWh</b>	<b>94,522</b>	<b>96,336</b>	<b>-1.9</b>
<b>Gas Supplies</b>	<b>GWh</b>	<b>13,639</b>	<b>27,514</b>	<b>-50.4</b>
Consumers	GWh	8,102	10,334	-21.6
Gas combined cycle	GWh	5,537	17,180	-67.8
<b>Electricity Users (managed supply points)</b>	<b>No (mill.)</b>	<b>10.85</b>	<b>10.79</b>	<b>0.5</b>
Liberalised market	No	4.79	3.69	29.8
Last resort supply	No	6.06	7.1	-14.6
<b>Gas Users (managed supply points)</b>	<b>No (mill.)</b>	<b>0.81</b>	<b>0.78</b>	<b>3.6</b>
<b>United Kingdom</b>				
<b>Production</b>	<b>GWh</b>	<b>18,703</b>	<b>22,739</b>	<b>-17.7</b>
Hydro	GWh	689	553	24.7
Coal	GWh	11,214	10,257	9.3
Gas combined cycle	GWh	4,429	9,513	-53.4
Cogeneration	GWh	94	261	-64.1
Renewables	GWh	2,277	2,155	5.7
<b>Installed Capacity</b>	<b>MW</b>	<b>7,271</b>	<b>7,077</b>	<b>2.7</b>
Hydro	MW	566	566	-
Coal	MW	3,456	3,456	-
Gas combined cycle	MW	1,914	1,914	-
Cogeneration	MW	100	100	-
Renewables	MW	1,235	1,041	18.6
<b>Distributed Electricity</b>	<b>GWh</b>	<b>35,521</b>	<b>35,434</b>	<b>-0.2</b>
<b>Gas Storage</b>	<b>bcm</b>	<b>0.07</b>	<b>0.06</b>	<b>16.7</b>
<b>Gas Supplies</b>	<b>GWh</b>	<b>28,183</b>	<b>36,484</b>	<b>-22.8</b>
Consumers	GWh	20,014	19,337	3.5
Gas Combined Cycle	GWh	10,509	22,327	-52.9

Operating Data		12M 2012	12M 2011	%
<b>United Kingdom (Cont.)</b>				
<b>Electricity Users</b> (managed supply points)	<b>No (mill.)</b>	3.4	3.2	5.9
<b>Gas Users</b> (managed supply points)	<b>No (mill.)</b>	2.2	2.0	9.5
<b>United States</b>				
<b>Production</b>	<b>GWh</b>	<b>16,722</b>	<b>15,495</b>	<b>7.9</b>
Hydro	GWh	298	331	-10.0
Gas combined cycle	GWh	88	98	-10.3
Cogeneration	GWh	2,279	2,102	8.4
Renewables	GWh	14,057	12,964	8.4
<b>Installed capacity</b>	<b>MW</b>	<b>6,457</b>	<b>6,249</b>	<b>3.3</b>
Hydro	MW	116	116	-
Gas combined cycle	MW	212	212	-
Cogeneration	MW	636	636	-
Renewables	MW	5,493	5,284	3.9
<b>Gas storage USA</b>	<b>bcm</b>	<b>1.8</b>	<b>1.7</b>	<b>1.7</b>
<b>Gas storage Canada</b>	<b>bcm</b>	<b>0.64</b>	<b>0.65</b>	<b>-1.5</b>
<b>Distributed Electricity</b>	<b>GWh</b>	<b>31,573</b>	<b>31,201</b>	<b>1.2</b>
<b>Gas supplies</b>	<b>GWh</b>	<b>28,130</b>	<b>30,030</b>	<b>-6.3</b>
<b>Electricity Users</b> (managed supply points)	<b>No (mill.)</b>	<b>1.86</b>	<b>1.85</b>	<b>0.3</b>
<b>Gas Users</b> (managed supply points)	<b>No (mill.)</b>	<b>0.56</b>	<b>0.56</b>	<b>0.4</b>
<b>Latinamerica</b>				
<b>Production</b>	<b>GWh</b>	<b>39,255</b>	<b>40,989</b>	<b>-4.2</b>
Hydro	GWh	1,868	1,826	2.3
Gas combined cycle	GWh	35,319	37,544	-5.9
Cogeneration	GWh	1,418	1,221	16.1
Renewables	GWh	649	397	63.7
<b>Installed capacity</b>	<b>MW</b>	<b>5,908</b>	<b>5,864</b>	<b>0.8</b>
Hydro	MW	398	398	-
Gas combined cycle	MW	5,030	5,011	0.3
Cogeneration	MW	196	196	-
Renewables	MW	285	258	10.4
<b>Distributed Electricity</b> (under management)	<b>GWh</b>	<b>49,006</b>	<b>41,872</b>	<b>17.0</b>
<b>Customers</b> (managed supply points)	<b>No (mill.)</b>	<b>12.0</b>	<b>11.7</b>	<b>3.0</b>
<b>Rest of the world</b>				
<b>Production</b>	<b>GWh</b>	<b>2,589</b>	<b>2,210</b>	<b>17.2</b>
Renewables	GWh	2,589	2,210	17.2
<b>Installed capacity</b>	<b>MW</b>	<b>928*</b>	<b>1,231</b>	<b>-24.6</b>
Renewables	MW	928*	1,231	-24.6

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

\* Do not include wind farms sold in France and Germany in December 2012.



Market Data		12M 2012	12M 2011
Market capitalisation	€ Million	25,753	28,465
Earnings per share (6,138,893,000 shares at 12/31/12 & 5,882,490,000 shares at 12/31/12)	€	0.46	0.47
Net operating cash flow per share	€	1.009	1.028
P.E.R.	Times	9.07	10.1
Price/Book value (capitalisation to NBV at end of period)	Times	0.65	1.08

Economic/Financial Data			
Income Statement		12M 2012	12M 2011
Revenues	€ Million	34,201.2	31,648.0
EBITDA	€ Million	7,726.6	7,650.5
EBIT	€ Million	4,376.9	4,505.1
Net Profit	€ Million	2,840.7	2,804.5
Net Operating Expenses/Gross Margin	%	30.1%	29.2%

Balance Sheet		Dec. 2012	Dec. 2011
Total Assets	€ Million	96,989	96,905
Shareholders' Equity	€ Million	34,084	33,208
Net Adjusted Financial Debt <sup>(1)</sup>	€ Million	30,324	31,705
ROE	%	8.4%	8.6%
Financial Leverage <sup>(2)</sup>	%	47.1%	48.8%
Net Debt/Equity Ratio	Times	0.89	0.95

(1) Includes tariff deficit and TEI.

(2) Net Debt/ Net Debt+Shareholder's equity. Includes tariff deficit financing. Excluding tariff deficit, leverage at December 2012 is 45.0%.

Credit Rating of IBERDROLA Senior Debt			
Agency	Rating	Outlook	Date
Moody's	Baa1	Negative	November 9th 2012
Fitch IBCA (unsecured debt)	BBB+	Negative	November 19th 2012
Standard & Poors	BBB	Stable	November 28th 2012

## Highlights for the period

Iberdrola's results for the period must be seen within the framework of a complex operating environment characterised by a difficult macroeconomic situation on an international level.

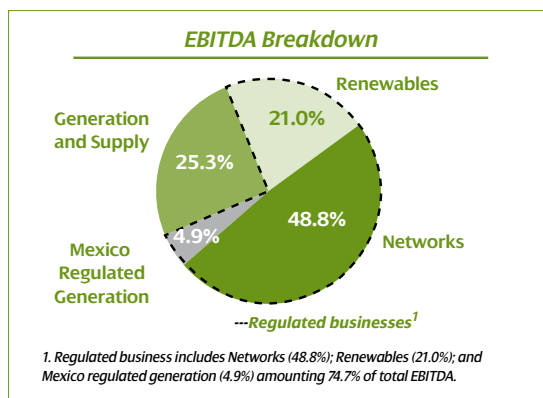
Regulatory modifications that lower the revenues of businesses, especially in Spain. In this respect, some of the factors that have influenced the financial year are the weak demand in electricity and a lower production. In this regard, we would like to highlight the following facts:

- In Spain, the period has been marked by lower hydro resources compared with the same period of the previous year (-34.1%) and a 1.4% drop in electricity demand, affecting all market segments. In the United Kingdom, electricity demand has increased slightly by 0.2%, while gas demand has significantly increased as a result of the weather. In Iberdrola USA's area of influence in the United States, the demand figures show a +1.2% increase in electricity and -6.3% decrease in gas, mainly due to mild weather conditions than in the previous year. As for Brazil, demand growth is 4.6% compared to the same period of the previous year.
- During 2012, commodities evolved as follows:
  - The average price of Brent oil was \$111.68 per barrel compared with \$110.91 per barrel last year (+0.7%).
  - The average price of gas (Zeebrugge) in the period amounts to 59.09 GBp/therm, compared to 59.17 GBp/therm in 2011 (-0.1%).
- The average price of API2 coal is at \$89.86/MT compared with \$115.07/MT for the same period of 2011 (-21.9%).
- The average cost of CO<sub>2</sub> rights has gone down from EUR 15.40 /MT in 2011 to EURO 8.27/MT in 2012 (-46.3%).
- During 2012, the average trend of the main foreign currencies for Iberdrola against the Euro has been as follows:
  - The Pound Sterling and the US dollar have appreciated by 6.6% and 7.7% respectively.
  - Whereas the Brazilian Real has depreciated by 7.8%.
- The total production of the Iberdrola Group in the period dropped by 7.4% to 134,396 GWh. This figure includes 57,127 GWh (-10.3%) generated in Spain, 18,703 GWh (-17.7%) in the United Kingdom, 16,722 GWh (+7.9%) in the United States, 39,255 GWh (-4.2%) in Latin America and the remaining 2,589 GWh generated in various countries through renewable energies (+17.2%).
- As at the end of 2012, Iberdrola has 46,039 MW installed of which 59.4% produces emission-free energy at low variable cost.
- The following exceptional highlights should be noted with regard to the period analysed:
  - Royal Decree-Law 13/2012, which reduces profits to the Distribution activity in Iberdrola Spain by EUR 233 million and lower capacity payments to the Generation business in Spain by EUR 15 million.

- Spanish Supreme Court ruling of 7 February, exempting generation companies from financing Social Bonus and recognising their right to be reimbursed any amounts paid for this item. This has a positive impact on the year of EUR 172 million in terms of Levies for the Generation Business in Spain.
- The Generation Business in the United Kingdom experienced a rise in the Cert/Cesp costs in order to comply with the governmental goal of reducing CO<sub>2</sub> emissions and focused on insulation of housing and improvement of energy efficiency in homes. This impact implies a tax increase of EUR 134 million, compared to 2011.
- Write-offs of wind farm promotion costs, as well as of the Alberta Hub project portfolio, which increase the provisions by EUR 193 million, and of the Gamesa stake, with an impact of EUR -191 million on the result through the equity accounting method.
- One-off effects related to weather conditions in Brazil and in the United States in the last quarter resulting in a non-recurring cost of EUR 122 million and that will be recovered in the following periods.
- Positive impacts on Corporate Income Tax, mainly due to the drop in tax rate in the United Kingdom, reversals of tax provisions following the agreements reached with the tax authorities in the United States (EUR 258.9 million), and to the deductibility of goodwill of Elektro Brazil

(EUR 274.6 million) that impact directly on a Corporate Income Tax figure EUR 713 million lower than financial year 2011.

- Gross Operating Profit (EBITDA) for the period increased by 1% to EUR 7,726.6 million. It is worth noting the positive trend of Generation (+3.7%) and Renewables (+13.8%) businesses, and the slight drop of Networks (-1.4%).



This change is mainly the result of:

- A 4.6% growth in the Gross Margin, thanks to the Group's management in a complex operational environment caused by the economic crisis, with declining demand in European regions where the Company operates.
- An increase in Net Operating Expenses of 7.7% based on the consolidation of the Brazilian company Elektro and non-recurring levies referred to the efficiency program, as well as to higher Levies (+6.9%) as a result of increased

expenses in the United Kingdom (EUR 138 million) for the Cert/Cesp item mentioned above and higher levies in Spain offset by lower social bonus spending. As for recurrent operating expenses, it is increased only by 1.5%.

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

	12M 2012	Weight %	Change %
Networks	3,773.7	48.84%	-1.40%
Generation and Supply	2,355.2	30.48%	3.70%
Renewables	1,620.3	20.97%	13.80%
Rest	-22.6	-0.29%	-117.25%
<b>TOTAL</b>	<b>7,726.6</b>	<b>100.00%</b>	<b>+1.0%</b>

- Net Profit rises to EUR 2,840.7 million, showing an increase of 1.3% compared with the figure of 2011. This item was positively affected by the change in Corporate Income Tax, due to the reversals of tax provisions in US and by the previously mentioned deductibility of the goodwill in Brazil, partially offset by the provisions and write-offs mentioned above.
- Recurring Net Profit amounted to EUR 2,464.8 million (-5.7%)
- The optimisation of Iberdrola's financial sound profile and liquidity as strategic priorities can be summarised as follows:
  - Net Debt dropped by almost EUR 1,400 million, reaching EUR 30,324 million.

- As of December 2012, Funds From Operations (FFO) came to EUR 6,196.4 million, reflecting an increase of 2.5% compared with the same period in 2011.
- Liquidity amounted to EUR 12,043 million, enough to cover treasury needs for more than 3 years.

## Operational performance for the period

### 1. NETWORKS BUSINESS

#### 1.1. Spain

At the end of 2012, Iberdrola manages more than 10.85 million supply points and the total distributed electricity amounted to 94,522 GWh, a 1.9% reduction compared to the same period of the previous year.

During 2012, the TIEPI supply quality indicator (*Interruption Time Equivalent to the Installed Capacity*) stood at 58 minutes, a figure which equals the best historical record, which corresponded to the previous year, and which therefore consolidates the quality levels reached following years of significant improvements to this index. The resulting availability of electricity supply is 99.99%.

The cumulative TIEPI evolution from 2009 is as follows:

Year	Cumulative TIEPI
2009	87.7
2010	72.7
2011	58.3
2012	58.4

The Investments made by the Networks business in Spain during this period are summarized in the following table:

Physical Units (December 2012)		TOTAL
<b>Electrical Substations brought into service</b>		12
<b>Extra-high Voltage</b>	Overhead line (km)	127.8
	Number of Transformers	3
	Capacity Increase (MVA)	145.5
<b>High Voltage</b>	Overhead line (km)	128.6
	Underground line (km)	38.4
	Number of Transformers	12
<b>Medium Voltage</b>	Capacity Increase (MVA)	222
	Overhead line (km)	167
	Underground line (km)	853.3
<b>Secondary Substations</b>	Capacity Increase (MVA)	9.45
	Number of Secondary Substations	1,260
<b>Low Voltage</b>	Capacity Increase (MVA)	595.64
	Overhead line (km)	385.8
	Underground line (km)	717.7

#### 1.2. United Kingdom

As at 31 December 2012, Iberdrola distributed to more than 3.4 million customers. The volume of distributed electricity during 2012 was 35,521 GWh, representing a 0.2% decline compared to the same period of the previous year.

During regulatory year 2011-2012 Scottish Power Distribution and Scottish Power Manweb improved their quality of supply, entitling them to a financial incentive. The mechanism that incentivises network reliability changed on 1 April 2012, incorporating different aspects of customer service that affect all network areas.

### 1.3. United States

#### 1.3.1. Distribution

At the end of December 2012, Iberdrola USA had 1.86 million electricity supply points in the United States. The distributed electricity during the year was 31,573 GWh, an increase of +1.2% compared with the same period of the previous year.

The Frequency index of average interruptions per consumer (*System Average Interruption Frequency Index, SAIFI*) of the different Iberdrola USA businesses is as follows:

	Cumulative SAIFI (no. of times)
Central Maine Power (CMP)	1.75
NY State Electric & Gas (NYSEG)	0.98
Rochester Gas & Electric (RGE)	0.73

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

	Cumulative CAIDI
Central Maine Power (CMP)	1.75
NY State Electric & Gas (NYSEG)	2.00
Rochester Gas & Electric (RGE)	1.79

The companies have closed the financial year with all their service quality indicators being within the limits required by the corresponding Commission.

#### 1.3.2. Transmission

##### Transmission Line in Maine

The project's construction works continue, which once completed will amount to USD 1,400 million. The investment associated with the project during the year totalled USD 340 million.

#### 1.3.3. Gas

The number of gas customers in the United States at close of December 2012 was 0.56 million, and gas supplied during the period amounted 28,130 GWh, down 6.3% from the same period in the previous year.

### 1.4. Brazil

The evolution of power demand of Brazilian Distributors during 2012 is as follows:

Energy Distributed (GWh) 100% of business	12M 2012	v. 12M 2011
Coelba	16,320	3.7%
Cosern	4,867	6.4%
Celpe	11,679	5.7%
Elektro (Complete year)	16,140	4.4%
<b>TOTAL</b>	<b>49,006</b>	<b>4.6%</b>

The following table shows the number of customers served by the distributors at the end of 2012 and the increase compared with the same period of the previous year:

Number of customers (million)	12M 2012	v. 12M 2011
Coelba	5.2	2.7%
Cosern	1.2	4.2%
Celpe	3.3	3.1%
Elektro	2.3	2.8%
<b>TOTAL</b>	<b>12.0</b>	<b>3.0%</b>

Regarding the regulated electricity generation, the installed capacity of the projects in operation at the end of 2012 is as follows:

Plant	MW *	Attributable MW **
Termope	520	203
Itapebi	450	175
Afluenta	18	8
Rio PCH	39	15
Sítio Grande	25	10
Baguari	140	28
Corumbá III	94	24
Goias Sul	48	19
Dardanelos	261	102
<b>TOTAL</b>	<b>1,595</b>	<b>584</b>

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

\*\* MW equivalent to the percentage of Iberdrola's consolidation.

As to the projects under construction, Belo Monte, Teles Pires and several Wind Farms, the construction is going according to schedule, with the planned commissioning dates still being valid.

Regarding the Baixo Iguaçu hydroelectric plant, the EPC building contract has been signed with CNO/Alstom. Construction works on the hydroelectric plant should start in February 2013.

The capacity and estimated dates of commissioning of Neoenergía's projects under construction at the end of the period are as follows:

Plant	MW *	Attributable MW **	Date
Baixo Iguaçu	350	137	2016
Teles Pires	1,820	356	2014
Belo Monte	11,233	438	2015 - 2018
Wind Farms	288	200	2013
<b>TOTAL</b>	<b>13,691</b>	<b>1,130</b>	

\* 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 2012, Iberdrola's installed capacity in Spain (excluding renewables) totalled 19,382 MW, broken down as follows:

SPAIN	MW
Hydro	8,811
Nuclear	3,410
Coal	874
Gas combined cycle	5,893
Cogeneration	394
<b>TOTAL</b>	<b>19,382</b>

Spanish Mainland Energy Balance is characterised by a decline of 1.4% in power demand, while generation under the Ordinary Regime has decreased by 3.0%.

With regard to Iberdrola, as at the end of 2012, production under the Ordinary Regime and cogeneration had dropped 14.8% to 44,916 GWh. The yearly performance by technology is as follows:

- Hydroelectric production amounted to 9,039 GWh, representing a decline of 39.9% compared with the same period of the previous year. As at 31 December, the hydroelectric reserve levels were 34.1% (equivalent to 3,846 GWh).
- Nuclear production reached 26,026 GWh, showing an increase of 7.1%.

- Coal-fired thermal power stations have recorded an increase of 1,706 GWh, amounting to 4,396 GWh.
- Meanwhile, combined cycle gas facilities production fell by 64.6% to 2,831 GWh.
- Lastly, cogeneration plants reached a production level of 2,624 GWh (-2.4%).

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

	12M 2012	12M 2011
Hydro	20.1%	28.5%
Nuclear	57.9%	46.1%
Coal	9.8%	5.1%
Gas combined cycle	6.3%	15.2%
Cogeneration	5.8%	5.1%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

With regard to energy supply at 31 December 2012, the portfolio managed by Iberdrola amounted to 14,561,480 contracts, which represents 879,574 more contracts than in the same period of 2011 (+6.4%). The breakdown is as follows:

Electricity contracts	10,661,980	
Gas contracts	813,524	
Contracts for other products and services	3,085,976	
<b>Total contracts</b>	<b>14,561,480</b>	<b>+6.4%</b>

By market type they can be broken down as follows:

	Contracts	%
Liberalised market	8,689,215	60
Last resort	5,872,265	40
<b>Total contracts</b>	<b>14,561,480</b>	<b>100</b>

The energy supplied (electricity and gas) amounted 65,579 GWh. The electricity supplied in the liberalised market during 2012 reached 41,625 GWh compared to the 41,271 GWh supplied in 2011 (+1%).

With regard to the group's natural gas procurement in 2012, the following points are worthy of note:

The period has been characterised by a lower level of demand for natural gas compared to the same period in 2011 in the various industrial, residential and electrical production sectors in the Spanish system.

The Company has adapted its deliveries of procurement contracts to current needs and has carried out a number of transactions for optimising its gas portfolio through various long term wholesale sale contracts.

BP and DONG ENERGY have been delivered gas volumes as per the long-term sale contracts signed.

### 2.1.2. Portugal

Iberdrola has supplied 5,730 GWh during 2012 compared to the 5,118 GWh supplied in 2011, being the second company in the market of Medium Voltage industrial and SME customers, and having started to enter in the residential sector.



## 2.2. United Kingdom

As at 31 December 2012, the installed capacity in the UK (excluding SPW Renewables) amounted to 6,036 MW, broken down as follows:

UNITED KINGDOM (SPW)	MW
Hydro	566
Coal	3,456
Gas combined cycle	1,914
Cogeneration	100
<b>TOTAL</b>	<b>6,036</b>

With respect to production from traditional electricity generation, during 2012 this fell by 20.2% to 16,426 GWh, compared to 20,584 GWh in the same period of the previous year.

The market share of Generation and Supply business in the fourth quarter of 2012 was 5.9%, compared to 6.9% in the previous year. The highlights are as follows, broken down by technology:

- Coal plant production increased by 9.3% to 11,214 GWh compared to 10,257 GWh of the previous year.
- The production of combined gas cycles dropped by 53.4% to 4,429 GWh compared to the previous year (9,513 GWh).
- Hydroelectric production increased by 24.7% to 689 GWh, from 553 GWh in the previous year.
- Production by cogeneration facilities (CHPs) fell to 94 GWh from 261 GWh.

As at 31 December 2012, 22,859 GWh of electricity and 32,248 GWh of gas were sold to customers, compared with 22,019 GWh of electricity and 28,392 GWh of gas sold during the same period of the previous year.

As at 31 December 2012, ScottishPower had 3.4 million electricity customers and 2.2 million gas customers, representing an increase of 0.4 million customers compared to the previous year.

The control of the terms of credit continues to be a key factor within 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

Installed capacity has reached 4,987 MW, broken down as follows:

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

In 2012 the operating installed capacity of La Laguna, located in Gómez Palacios (Durango), has been increased by 20 MW, and work

\*Source: Ofgem.

has started on the extension of 37 MW of the Enertek cogeneration plant located in Altamira (Tamaulipas), which is scheduled to be commissioned in 2014.

Electricity supplied in 2012 increased to 34,971 GWh, excluding the Renewables business in Mexico; 29,204 GWh were supplied to the Federal Electricity Committee, and 5,767 GWh to private sector consumer partners under a self-supply regime.

The load factor for Iberdrola's combined cycle plants in Mexico was 79.3%, which is equal to 6,989 equivalent hours. The reliability of the combined cycle and cogeneration plants in Mexico was higher than 97.4%, within the best standards in the industry.

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

Gas storage installations exploited by the Company in 2012 totalled 2.41 bcm; in addition, the Company had 2.20 bcm of contracted or managed capacity.

USA/CANADA	BCM
Enstor Katy Storage	0.63
Enstor Grama Ridge Storage	0.37
Freebird	0.27
Caledonia	0.50
Alberta Hub	0.64
<b>TOTAL OWNED CAPACITY</b>	<b>2.41</b>
<b>TOTAL CAPACITY UNDER MANAGEMENT OR CONTRACTED</b>	<b>2.20</b>
<b>TOTAL CAPACITY</b>	<b>4.61</b>

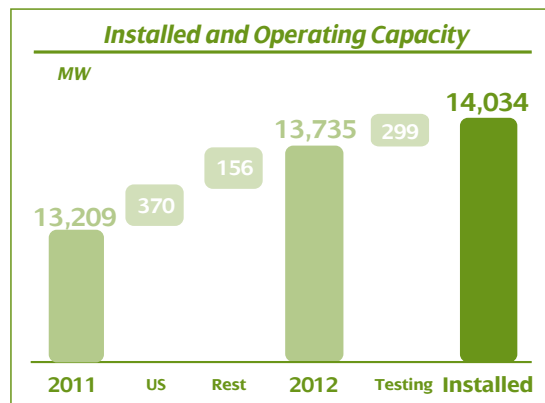
The Company also owns two storage facilities that are under development: (i) Enstor Waha Storage and Transportation, L.P. ("Waha"), facility located in the West of Texas, and (ii) Enstor Houston Hub and Storage Transportation, L.P. ("Houston Hub"), located near Houston, Texas.

### 3. RENEWABLES

At the end of 2012, the renewables business had an installed capacity of 14,034 MW, with an operating capacity of 13,735 MW.

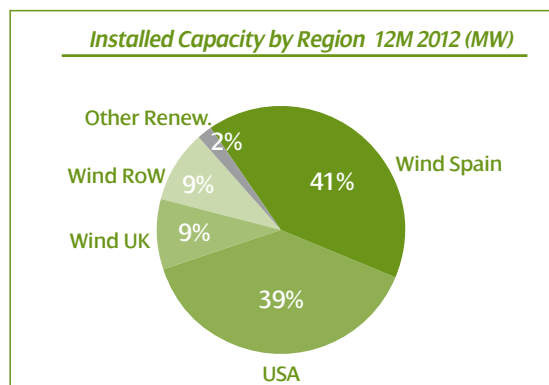
During the period, Iberdrola installed 710 MW renewables. Additionally, in the last weeks of 2012 the Company agreed, subject to the pertinent regulatory authorisations, the sale of its operating assets in France and Germany, which amounts to 366 consolidated MW. As a result of the additions and disposals mentioned, the net increase in installed capacity during the year totalled 344 MW, representing an increase of 2.5% compared to 2011.

At the end of the financial year, renewables has projects under construction for a total of 296 MW.



In turn, operating capacity amounted to 13,735 MW after adding, post disposals, 526 MW (4.0%).

Of the 14,034 MW installed at the end of 2012, 56.6% are placed outside Spain, through geographical diversification process being carried out by the company.



### 3.1. Onshore Wind Energy

After adding 344 MW over the last twelve months, Iberdrola has reached a total installed capacity of 13,619 MW. The geographical split is as follows: 5,735 MW for Spain, 5,443 MW for the United States, 1,234 MW for the United Kingdom and 1,207 MW for the Rest of the World.

#### Spain

At the end of 2012, installed capacity increased to 5,735 MW, 4.0% higher compared with the end of 2011.

The new capacity installed in Spain during 2012 totals 218 MW, broken down as follows: 88 MW in Castilla y León, 74 MW in Asturias, 28 MW in Aragón, 22 MW in Murcia and 6 MW in Andalucía.

#### United States

The Company has a presence in 18 States, with a total installed capacity of 5,443 MW. This installed capacity represents a 4.0 % growth over the last twelve months.

209 MW were installed throughout 2012.

#### United Kingdom and Republic of Ireland

Installed capacity at the end of 2012 amounted to 1,219 MW in the United Kingdom and 15 MW in the Republic of Ireland, after having installed 194 MW throughout 2012, which implies an 18.6% increase with regard to the end of 2011.

#### Rest of the world

Installed capacity at the end of 2012 amounts to 1,207 MW, broken down as follows:

	Consol MW
Italy	132
Portugal	92
Greece	255
Poland	185
Cyprus	20
Hungary	158
Romania	80
Brazil	76
Mexico	209
<b>Total</b>	<b>1,207</b>

In 2012, several farms have been constructed in France, Italy, Romania and Brazil, totalling 90 MW. In addition, the company has farms under construction in Brazil for a total of 103 MW, which will be installed throughout next year.

### 3.2. Offshore Wind Energy

Currently, Renewables is developing offshore wind projects for a total of 6,300 MW, mainly in the United Kingdom (76%), Germany (16%) and France (8%).

In the United Kingdom, the company is constructing the West of Duddon Sands project, located in the Irish Sea, with a capacity of 389 MW. Iberdrola shares the development of this area with the company Dong Energy.

In December 2009, as part of the “Round 3” Offshore Wind Energy Programme in the United Kingdom, the Crown Estate – the agency owning the land – granted the 50/50 joint venture comprising Iberdrola and Vattenfall, the exclusive right to develop offshore wind energy farms in the East Anglian area of the North Sea (Zone 5), for an estimated total of 7,200 MW.

Iberdrola is continuing with the development of the offshore project of Wikinger, in the Baltic Sea (Germany), aiming to start construction in 2015. It is estimated that around 400 MW could be installed in the location. During 2012, detailed engineering and geotechnical works are being carried out, having started works in the sea related to the geotechnical investigation campaign.

In April 2012, the joint venture of Iberdrola and the French company EOLE-RES was awarded by

the French Government with exclusive rights for the construction and exploitation of the offshore wind farm of Saint-Brieuc, with a total capacity of 500 MW. It will be located in front of Saint-Brieuc bay, in the French department of Côtes d’Armor, at a distance of 20 km from the shore. In 2012, the analysis of the technical and environmental conditions of the site, had begun.

### 3.3. Marine Energy

Iberdrola continues to develop marine technologies. After installing in 2011 the “Pelamis” P-2 prototype for harnessing wave energy, it has also taken part in the installation of the 1 MW Hammerfest Strøm prototype in the European Marine Energy Centre (EMEC) in Orkney. Both devices are currently in test phase.

Furthermore, the Sound of Islay project, with a 10 MW capacity, on the west coast of Scotland, is continuing its development according to plan. Iberdrola is completing the development of two other facilities, a tidal facility and a wave facility, with 95 MW and 50 MW, respectively.

### 3.4. Other Renewable Technologies

The Renewables business has installations of other renewable technologies in several countries, amounting to a total of 415 MW, broken down as shown in the following table:

Technology	MW	Country
Mini Hydro	306	Spain (176 MW O. Regime and 130 MW E Regime).
Photovoltaic	56	USA, Greece and Spain.
Hybrid Gas-Solar	50	Spain
Biomass	2	Spain
Wave	1	UK
<b>TOTAL MW</b>	<b>415</b>	

### 3.5. Gas cycle plants

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

USA	MW
Klamath Generating Plant	100
Klamath Cogeneration	536
<b>TOTAL MW</b>	<b>636</b>

## 4. SHAREHOLDER COMPENSATION

Iberdrola's General Shareholders' Meeting, held on 22 June 2012, approved a paid-up capital increase with the purpose of starting up a new shareholder compensation system called "***Iberdrola Dividendo Flexible***". This system replaces the supplementary payment of the dividend.

On 23 January 2013, the 6th edition of this remuneration programme was closed, where 64.9% of the capital of Iberdrola has chosen to receive shares from the Company free of charge,

without expenses or commissions, in exchange for a new title for every 23 allocated rights.

In order to cover the delivery of these new shares, the Company increased its share capital by 2.32%, equivalent to issuing 142.29 million new Iberdrola shares.

In addition, 35.1% of shareholders have chosen to receive the traditional cash dividend. Thus, they are agreeing to the purchase commitment undertaken by the Group, which guaranteed the payment of 0.143 Euros gross per share, with a tax withholding of 21%.

## 5. OTHER SIGNIFICANT EVENTS

### 5.1. Regulation in Spain

In the fourth quarter of 2012, a group of provisions which affect both the electricity industry as well as the natural gas industry were approved. This section presents the most significant changes.

#### Electricity

One of the quarter's most relevant provisions is *Law 15/2012, of 27 December, on tax measures for energy sustainability*. This law regulates three new taxes:

- *the tax on the value of electrical power production*, with a single rate of 7% applicable to production and incorporation to the electrical power system.
- *the tax on production of spent nuclear fuel and radioactive waste resulting from nuclear electric power generation*.

- *and the tax on **storage of spent nuclear fuel** and radioactive waste in centralised installations.*

Additionally, a tax is created **for the use of inland waters** to produce electrical power, applicable to the economic value of the hydroelectric power produced, with a rate of 22%. The tax shall be reduced by 90% for hydroelectric plants with a capacity equal to or lower than 50 MW, for pumping facilities with a capacity exceeding 50 MW, and in the form established by the specific regulations for those productions or installations that are to be incentivised for reasons of general energy policy.

In addition, this law modifies Law 38/1992 on Special Taxes to **review the tax treatment applicable to different energy products**, including:

- LPG destined for uses other than as fuel: EUR 15 /T.
- Natural gas destined for uses other than as fuel, as well as natural gas destined for use as fuel in stationary engines: EUR 0.65 / GJ. However a reduced rate of EUR 0.15 / GJ is established for natural gas destined for professional use, provided it is not used in electrical generation and cogeneration processes.
- Coal for the production of electrical power and cogeneration of electricity and heat: EUR 0.65/ GJ.
- Gas oil and fuel oil destined for the production of electrical power or for the cogeneration of

electrical power and heat in facilities whose production activity is within the scope of application of Law 54/1997: EUR 29.15 per 1,000 litres and EUR 12 /T respectively.

The Additional Second Provision establishes that each year the Government Budget laws will address financing the costs of the electrical system, an amount equivalent to the sum of the **estimation of annual income** corresponding to the State, derived from the taxes and levies included in this law plus the **estimated income for the greenhouse gas emission allowance auction**, up to a maximum of EUR 500 million.

Lastly, this law modifies Law 54/1997 of the Electricity Sector to exclude from the renewables premium regime the portion of electricity generated from fossil fuels in renewables facilities.

With regard to the **interruptibility service payment**, on 29 December the Spanish Official State Bulletin (BOE) published *Order IET/2804/2012, which modifies Order ITC/2370/2007 of 26 July, which regulates the interruptibility demand management service for consumers who purchase their power in the production market*. The current ministerial order modifies the payment mechanism for the interruptibility service for those consumers who have a contracted capacity of more than 100,000 kW, establishing up to a maximum of EUR 35 /MWh consumed. The rest of interruptible contract consumers may receive up to a maximum limit of EUR 20/MWh consumed.

The *Decision of 27 December 2012, of the General Administration of Energy Policy and*

*Mines establishes the **cost of electrical energy production and the last resort tariffs to be applied as from 1 January 2013** resulting in an average increase of the latter by 3%.*

On 28 December *Law 17/2012, of 27 December, regarding the **Government Budget for 2013*** was published, which suspends during 2013 the application of the compensation mechanism charged to the Government Budget for the extra cost of island and off-peninsula electrical power generation, without any right being generated or without it being required to make any compensation charged to the 2013 Budget as a consequence of these costs corresponding to 2012. It also establishes that, in the Government Budget Laws for each year, an amount equivalent to the **estimated annual income** derived from the taxes included in the Law on tax measures for energy sustainability, as well as 90% of the estimated income from the greenhouse emission allowance auction, up to a maximum amount of 450 million euros **will be destined to financing the costs of the electrical system related to the promotion of renewable energies**. In addition, 10% of the estimated income for the greenhouse emission allowance auction, up to a maximum of 50 million euros, is **linked to the policy for fighting climate change**.

Lastly, on the last day of the year, the *Royal Decree-Law 29/2012 of 28 December on improvement of management and social protection in the **Special System for Domestic Employees and other economic and social measures*** was published. In it, three important provisions are introduced, regarding the electricity sector:

1. Elimination of the first paragraph of section 1 of additional provision twenty-one of Law 54/1997 of the Electricity Sector, which established, as from 1 January 2013, the impossibility of an ex ante deficit.
2. Modification of **Law 54/1997 of the Electricity Sector to change the maximum deficit in 2012**. It is established that the *temporary deviations in the electricity system occurring in 2012, in **the amount resulting from the final settlement of the National Energy Commission, will be considered deficit** of the electricity system for 2012 and will generate collection rights that may be assigned by their holders to the Electricity Tariff Deficit Securitisation Fund. This in addition to the 1,500 million euro deficit already recognised in additional provision twenty-one of Law 54/1997, of 27 November, of the Electricity Sector.*
3. It is established that it shall be possible to **eliminate or modify the payment regime for the special regime installations** that have not complied with the terms for their commissioning or which have had alterations detected with regard to their origin.

In early February, it was published in BOE the Royal Decree-Law 2/2013, of February 1, on urgent measures in the electrical sector and the financial sector that includes two significant changes to the sector. First, it states that all those methodologies that link the annual revision of regulated retributions to CPI index, will replace it by the Consumer Price Index at constant tax excluding unprocessed food and energy products.

Moreover, it amends Royal Decree 661 of 2007 that allowed the special regime producers choose to receive either a fixed tariff or the market price plus a premium, stating that the economic system will be based solely in the regulated tariff option, without prejudice to the owners of the facilities to sell their energy freely on the market without receiving any premium. When the producer opts for the latter compensation system, it will not be possible to return to the regulated tariff alternative. However, the previous two alternatives are maintained for those facilities that were authorized and awarded due to its solar thermal technology innovativeness.

Additionally, the Council of Ministers of February 1 received a report on a Bill for granting a special loan from the Ministry of Finance and Public Administration to the Ministry of Industry, Energy and Tourism to fund the costs of renewable energy in 2013, for a maximum amount of 2,200 million euros. This amount would be integrated into the electrical system as required to fund these costs. The draft bill will be sent to the State Council for its mandatory report and continue its passage through the Parliament and then be integrated into the Law of State Budget 2013.



## Analysis of the Consolidated Profit and Loss Account

### 1. RELEVANT INFORMATION

#### 1.1. Organisational Model

Since 1 January 2012, the gas trading and storage business in the USA and Canada is included in the Generation and Supply Business. Until then it was included in the Renewables Business (gas trading and storage in the USA) and Other Businesses (gas storage in Canada).

#### 1.2. Energy Business: Spain

##### Tariff Deficit

In accordance with Royal Decree 5/2005 of 11 June, which establishes the provisional financing percentage corresponding to Iberdrola at 35.01% of the total for the Sector, the figure for this item amounted to EUR 2,409 million at December 2012.

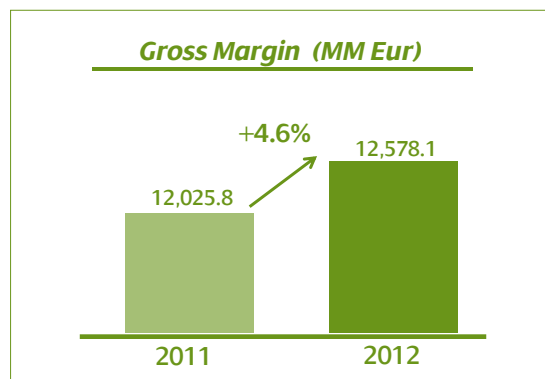
### 2. ANALYSIS OF THE CONSOLIDATED INCOME STATEMENT

The most relevant Results figures for 2012 are as follows:

Eur Millions	12M 2012	v. 12M 2011
REVENUES	34,201.2	+8.1%
GROSS MARGIN	12,578.1	+4.6%
BASIC MARGIN	12,698.8	+3.5%
EBITDA	7,726.6	+1.0%
EBIT	4,376.9	-2.8%
NET RECURRENT PROFIT	2,464.8	-5.7%
NET PROFIT	2,840.7	+1.3%
FUNDS FROM OPERATIONS	6,196.4	+2.5%

#### 2.1. Gross Margin and Basic Margin

Gross Margin reached EUR 12,578.1 million, showing an increase of 4.6% from financial year 2011. This positive evolution is mainly due to higher sales (+8.1%), greater international activity, together with the favourable evolution of exchange rates.



By business, we can highlight the following:

- **The Networks Business** increased its contribution by 2.2% amounting to EUR 5,667.9 million.
  - In Spain, its contribution decreased by 8.2% to EUR 1,856.7 million, as a direct result of the impact of the measures approved by the Government on 30 March, which cut the revenues recognised to distributors (RD 13/2012). The annual impact amounts to EUR 233 million.
  - In the United Kingdom: A 14.3% increase to EUR 1,152.3 million, as a result of the application of the DPCR5 (regulatory framework in force) and the revaluation of the Pound.

- The contribution from Iberdrola USA in the period amounted to EUR 1,422.4 million (+10.0%), as a consequence of the existing tariff improvement, as well as appreciation of the US dollar (+7.7%) and despite the lower gas demand and the adverse weather conditions in the last quarter.
- Gross Margin in Brazil increased by 1.3% to EUR 1,236.6 million, driven by the incorporation during 12 month of Elektro, in addition to the positive evolution of the margin (+EUR 108.7 million) of the distribution companies. In the opposite direction, it should be mentioned the the Elektro's tariff readjustments since August, the effects of the cost of energy, as a consequence of the drought affecting the country (EUR -70 million) and the evolution of the Real, with a 7.8% depreciation compared to 2011.
- **Generation and Supply Business** increases by 9.7% to EUR 4,416.9 million. By country, the following can be noted:
  - In Spain (1.4%), it amounted to EUR 2,781.3 million: the lower hydraulic production (-39.9%) is offset by the higher margins achieved. The Basic Margin decreased by 0.5% due to the effect of the deduction of CO<sub>2</sub> rights.
  - United Kingdom totalled EUR 1,083.0 million. The improvements achieved in terms of the procurement policy together with the better prices obtained and the greater sales due to an increase in the number of customers (+7.7%) to 5.6 million offset the lower production of the period.
- Mexico increased its Gross Margin by 9.5% to EUR 496.5 million due to an improvement of margins from private sales and to the rise in value of the US dollar.
- USA and Canada (gas): gross margin reached EUR 56.1 million (+47.4%) as a result of better margins and despite the difficult market conditions of the business in North America.
- **Renewables Business** increased its Gross Margin by 10.5% to EUR 2,284.7 million due to the increase of production (+10.7%), underpinned by a solid wind resource in all areas (26.3% average) and the improvement of prices (+2%). The operating capacity increased by 4% to 13,735 MW.
- Lastly, it should be noted that the contribution of **Other Businesses** fell to EUR 258.3 million, fundamentally due to the lower margin of the Engineering business as a result of a decrease in activity.

The Basic Margin for the period increased by 3.5% to EUR 12,698.8 million, as can be seen in the following table:

	12M 2012	12M 2011	%
GROSS MARGIN	12,578.1	12,025.8	4.6
Emission rights income	120.8	248.9	(51.5)
BASIC MARGIN	12,698.8	12,274.7	3.5

## 2.2. Gross Operating Result - EBITDA

Consolidated EBITDA grew by 1% to EUR 7,726.6 million.

In addition to the performance already described of the Gross and Basic margin, it should be noted that Net Operating Expenses increased by 7.7%, due to expenses incurred as a result of an efficiency program developed mainly in the Personnel Expenses item (EUR 160 million), the consolidation of Elektro and the evolution of exchange rates. Thus, Net Operating Expenses can be broken down as follows:

Net Operating Expenses			
<i>Eur M</i>	2012	% v. 2011	Recurring % v. 2011
Net Personnel Expenses	1,839.6	+11.9%	+1.7%
Net External Services	1,949.7	+4.0%	+1.3%
<b>Total</b>	<b>3,789.3</b>	<b>+7.7%</b>	<b>+1.5%</b>

- Net Personnel Expenses increased by 11.9%, to EUR 1,839.6 million.
- Net External Services increased by 4.0% to EUR 1,949.7 million.

In recurring terms, Net Operating Expenses increase by 1.5%, with Personnel growing by 1.7% and External Services by 1.3%.

The Levies item increased by 6.9%, totalling EUR 1,182.9 million due to the following effects:

- The impact during financial year 2012 on the Generation business, in the United Kingdom, of the acceleration of Cert/Cesp costs, in order to comply with the governmental goal of reducing CO<sub>2</sub> emissions and focused on insulation of housing and improvement of energy efficiency in homes. This implies an increase in levies of EUR 134 million.
- Spanish Supreme Court ruling of 7 February, exempting generation companies from financing the social bonus and recognises their right to be reimbursed any amounts paid for this item. This implies a positive effect of EUR 161 million in 2012.
- The increase of local and regional rates and levies experienced in Spain over the last years that in 2012 implies an increase of EUR 76 million (+6.9%). Notably however, the declaration of unconstitutionality of Castilla La Mancha “*Ecotasa*”, according to the ruling of October 2012, that led to lower levies for an amount of EUR 27 million.

## 2.3. Net Operating Result - EBIT

EBIT was EUR 4,376.9 million, a fall of 2.8 % in comparison with 2011.

Amortisations and Provisions rose by 6.5% to EUR 3,349.7 million.

The main variations are as follows:

- Amortisation increased by 7.6%, to EUR 2,815.8 million, basically due to the impact of the consolidation of Elektro, as well as to the investment process of the group, partially offset by a lower amortisation due to the lengthening

of the useful life of wind farms which, since 1 July 2011, extended the amortisation to 25 year (EUR 66 million) and other EUR 44 million due to plant closures in the Group.

- Provisions amounted to EUR 533.9 million (+1.1%). The greatest variations were caused by the write-offs of promotion costs related to the renewables pipeline (EUR 144 MM) and gas assets in USA, as well as the inclusion of one-offs provisions in Brazil for the recognition of non-payments.

## 2.4. Financial Result

The Net Financial Result was EUR -1,100.3 million a 3.6% increase in comparison to previous financial year. The following can be highlighted:

- An impact of EUR 19.8 million in financial expenses due to the higher net average balance (+4.2%) partially offset to the lower cost of financial debt down to 4.51%.
- EUR 54.9 million, mainly due to the impact of the exchange rate on the hedge derivatives of the results. The Group's policy is to partially hedge the results in currency. Thus, the depreciation of the Dollar and the British Pound in 2011 generated significant capital gains which this year doesn't exist, because both the Dollar and the British Pound have appreciated against the Euro.
- A reversal, in 2011, of a provision corresponding to 2008 deficit that is not applicable this year of EUR 85.0 million.

- The reversal of provisional funds associated to a tax contingency in Renewables USA of EUR 20.1 million.
- An impact of EUR 105.0 million deriving from the capital gains resulting from the accounting at market value of Iberdrola's stake in Medgaz.
- A greater compensation of the financed tariff deficit of EUR 0.7 million.
- An increase of EUR 4.5 million due to different reasons.

The following table shows the evolution:

	2012	2011
Debt Result	-1,430.9	-1,411.0
Interests deficit	+57.2	+56.5
Dividends, derivatives and DVMEs	+31.2	+86.1
2008 Reversal Deficit provision		+85.0
Tax contingency Renewables USA	+20.1	
Capital gains in Medgaz sale	+105.0	
Provisions and others	+116.9	+121.4
Financial result	-1,100.3	-1,061.9

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

The item for Results of Companies Consolidated by the Equity Method amounted to EUR -187.5 million due to a write-off of the stake owned in Gamesa for an amount of EUR 191.

## 2.6. Income from Non-Current Assets

Income from Non-Current Assets amounts to EUR -13.9 million, a decline of EUR 59.7 million in comparison to 2011. During the year, the most significant operations have been the sale of renewables assets in Germany and France as well as the sale of non regulated companies in USA.

## 2.7. Net Profit

As a result of everything mentioned above especially due to the write-offs of assets and provisions for an amount of EUR 428 million, Profit before tax was EUR 3,075.1 million (-11.0%).

The positive effect of the facts below should be taken into consideration in the evolution of the Net Profit:

- The reversal of tax provisions related to the Renewable business for an amount of EUR 259 million, following the positive ruling of tax litigation in the USA.
- The deductibility of Elektro goodwill in Brazil for EUR 274.6 million.

- 1% decline in the applicable tax rate in the United Kingdom, as a consequence of the measures to reactivate the economy introduced by the Government.

This three factors mentioned above, more than offset the impact of EUR 428.7 million for the asset writes-offs related to the restatement of the value of Gamesa, the cost of the development of renewables projects that will not be carried out and the portfolio of Alberta Hub projects, among others.

The minorities item improved due to the 20% share buyback of Iberdrola Renewables

As a result, Net Profit amounted to EUR 2,840.7 million, a 1.3% increase compared to 2011.

The Recurring Net Profit, that is, the net profit generated excluding the effect from non-recurrent items, decreased by 5.7% to EUR 2,464.8 million.

The Funds From Operations\* as at December 2012 were EUR 6,196.4 million, representing an 2.5% increase compared to the same period of the previous year.

On the other hand, the change experienced by the reference credit ratios\*\* is as follows:

	Excludes Tariff Deficit		Includes Tariff Deficit	
	Dec. 2012	Dec. 2011	Dec. 2012	Dec. 2011
Funds From Operations* (FFO) / Net Debt	22.2%	21.5%	20.4%	19.5%
Retained Cash Flow (RCF) / Net Debt	18.6%	18.9%	17.1%	17.2%

\* Net Financial Debt, including TEI.

\*\* Net Profit + Minority Results + Amort. and Prov. – Equity Accounting – Net Non-Recurring Results + Financial Provisions + Goodwill Deduction +/- Extraordinary Tax Provision Reversal.

\*\*\* FFO – Dividends.

## Results by Business

### 1. NETWORKS BUSINESS

The key figures for the Networks business are as follows:

(Eur Millions)	12M 2012	v. 12M 2011
Revenues	8,824.3	+5.9%
Gross Margin	5,667.9	+2.2%
EBITDA	3,773.7	-1.4%
EBIT	2,598.8	-7.4%

The Gross Margin of the Networks Business registered a 2.2% increase, as the growth in the United Kingdom and the United States offsets the decrease in Spain, consequence of the measures approved by the Government in the Royal Decree Law 13/2012 in March, and of the negative impacts that affected the fourth quarter of the year:

- Hurricane Sandy effect in the US (EUR -48 million), which will be recovered in the next rate case.
- Effect of the drought in Brazil (EUR -74 million): Thermal power capacity is being dispatched at higher prices than those passed through to the tariffs, which will be recovered over a year after the annual tariff reviews of Elektro in August and Neoenergia in April. However, until then, this has an impact on the profit and loss account and the business's cash flow, which is accounted under IFRS.

### 1.1. Spain

(Eur Millions)	12M 2012	v. 12M 2011
Revenues	1,856.7	-8.2%
Gross Margin	1,856.7	-8.2%
EBITDA	1,348.3	-13.3%
EBIT	968.0	-19.6%

#### a) Gross Margin

Gross Margin for Networks Business in Spain decreased by 8.2% to EUR 1,856.7 million, as a result of the lower regulated remuneration established in the Royal Decree Law 13/2012 which includes reductions in recognised revenues. The impact corresponding to financial year 2012 reached EUR 233 million.

#### b) Operating Profit/EBIT

EBITDA in this Business totalled EUR 1,348.3 million, a decrease of 13.3%. To the above mentioned change in Gross Margin, we must add a 6.5% increase in the Net Operating Expense, due basically to efficiency measures implemented in 2012 that will provide a positive expected impact in subsequent years. In addition, there was a 20.9% (EUR 16 million) increase in Levies, due to higher items corresponding to the so called "*public price tax*" and property taxes.

EBIT for the Networks Business in Spain totalled EUR 968.0 million (-19.6%). EUR 380.3 million (+8.3%) must be subtracted from the EBITDA figure, pertaining to amortisations and provisions that grow due to new investments put into operation.

## 1.2. United Kingdom

(Eur Millions)	12M 2012	v. 12M 2011
Revenues	1,195.1	+14.6%
Gross Margin	1,152.3	+14.3%
EBITDA	937.3	+12.6%
EBIT	729.3	+12.7%

### a) Gross Margin

The Gross Margin for the Networks Business in the UK (Energy Networks) increased by 14.3%, to EUR 1,152.3 million, this is due to greater investments executed amounting to EUR 516 million, as well as to the exchange rate of the British Pound (+6.6%).

### b) Operating Profit/EBIT

The Energy Networks EBITDA amounted to EUR 937.3 million (+12.6%).

Net Operating Expenses increased by 36.9% to EUR 114.1 million, due to operational standards from DPCR5 and to the exchange rate mentioned above.

Finally, amortisations and provisions represent EUR 208.0 million (+12.2%), due to new investments put into operation and the rise in value of the British Pound.

## 1.3. United States

(Eur Millions)	12M 2012	v. 12M 2011
Revenues	2,339.0	-4.5%
Gross Margin	1,422.4	+10.0%
EBITDA	660.2	+20.5%
EBIT	428.9	+22.2%

### a) Gross Margin

Iberdrola USA increased its gross margin contribution by 10.0% to EUR 1,422.4 million, due to the positive performance of the business as a result of the greater revenues from the rate cases in force, the increase of the contribution of Maine's transmission line and the appreciation of the dollar by 7.7% despite non Regulated assets disposal.

It should be noted that IFRS are based on cash criteria, while the US GAAP are based on accrual.

The breakdown is as follows:

#### • By business

(Eur Million)	12M 2012	v. 12M 2011
Electricity	1,216.4	13.9%
Gas	302.4	13.8%
Corporation and others (incl. IFRS adjustments)	-96.4	N/A
<b>TOTAL</b>	<b>1,422.4</b>	<b>10.0%</b>

#### • By company

(Eur Million)	12M 2012	v. 12M 2011
NYSEG	749.7	15.5%
RGE	422.7	10.9%
CMP	346.4	14.2%
Corporation and others (incl. IFRS adjustments)	-96.4	N/A
<b>TOTAL</b>	<b>1,422.4</b>	<b>10.0%</b>

### b) Operating Profit/EBIT

To the Gross Margin figures, Net Operating Expenses should be added, amount to EUR 510.4 million (-2.6%), and that boosts EBITDA figure

20.5% up to an amount of EUR 660.2 million, despite the expenses related to Hurricane Sandy (EUR -48 million) registered in the last quarter of 2012, offset by the effects of storms Irene and Lee in 2011, and the sale of some non-regulated companies. These extraordinary expenses shall be recovered in the next rate case.

Furthermore, EBIT totalled EUR 428.9 million (+22.2%), after deduction of amortisations and provisions representing EUR 231.2 million.

#### 1.4. Brazil

(Eur Million)	12M 2012	v. 12M 2011
Revenues	3,433.6	+21.7%
Gross Margin	1,236.6	+1.3%
EBITDA	827.9	-7.0%
EBIT	472.5	-21.8%

##### a) Gross Margin

In Brazil, the Gross Margin amounted to EUR 1,236.6 million (+1.3%). The factors behind this change are:

- The increase in distributed energy (+4.6%) in relation to the same period in 2011, broken down by company as follows: Coelba +4.5%, Cosern +6.4%, Celpe +5.7% and Elektro +3.0%.
- The consolidation of Elektro for the entire financial year in 2012 compared to eight months in 2011 (since 27 April). In August, the third tariff review of Elektro took place, in which the Brazilian regulator ANEEL approved a 6.05% reduction of rates (that favourably compared to a previous proposal of 6.2%).

- The aforementioned impact of the drought, as the dispatch from thermal power stations is made at a higher price than the ones recognised in the tariffs, has a temporary impact on the profit and loss account, given that this effect is recovered in following annual tariff reviews (Elektro in August and NeoEnergia in April). This significant effect, which has concentrated in the last quarter, reached EUR 74 million.
- The depreciation of the average exchange rate of the Brazilian Real by 7.8%.

##### b) Operating Profit / EBIT

EBITDA in the area amounted to EUR 827.9 million, with a 7.0% decline, being negatively affected by the devaluation of the Real (-7.8%), the regulatory review of Elektro in August and the impact of the drought.

Net Operating Expenses have increased by 23.6%, totalling EUR 404.8 million, basically due to the integration of Elektro (EUR -56 million), as well as to an increase both in inflation and in the market being served despite the depreciation of the Real.

EBITDA is broken down as follows:

(Eur Millions)	12M 2012	v. 12M 2011
Generation	114.7	-5.5%
Distribution	713.2	-7.2%
<b>TOTAL</b>	<b>827.9</b>	<b>-7.0%</b>

Amortisations and provisions totalled EUR 355.4 million (+24.1%) as a result of the incorporation of Elektro and a non recurrent increase in the bad debt provision figure through changes that affects, among other items, the new temporary



criteria for accounts receivable, new interruption of supply policies and those customers under the Low Income subsidy.

The EBIT of Brazil totalled EUR 472.5 million (-21.8%).

## 2. GENERATION AND SUPPLY BUSINESS

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

(Eur Millions)	12M 2012	v. 12M 2011
Revenues	23,568.3	+11.6%
Gross Margin	4,416.9	+9.7%
Basic Margin	4,537.7	+6.2%
EBITDA	2,355.2	+3.7%
EBIT	1,208.5	+16.2%

The Generation and Supply Business reflects good performance in all geographical areas, as lower production is more than offset by higher margins.

### 2.1. Spain

(Eur Millions)	12M 2012	v. 12M 2011
Revenues	14,358.4	+15.1%
Gross Margin	2,781.3	+1.4%
Basic Margin	2,832.8	-0.5%
EBITDA	1,605.4	+2.2%
EBIT	957.9	-10.4%

To analyse this market performance, the following aspects arising in the **Spanish Mainland Electricity System** during 2012 must be kept in mind:

- A 1.4% decline in mainland demand.

- A hydroelectric production much lower than the recorded the previous year (19,448 GWh; -29.5%) partially offset by greater nuclear (61,433; +6.4%) and coal (54,705; +25.8%) production
- Special Regime production amounting to 102,428 GWh (+10.9%).
- All of the above, together with the Royal Decree related to the restrictions resolution process through the introduction of the domestic coal, has contributed in two ways: A 3.0% reduction in Ordinary Regime production and an increase in average energy prices.

Under these economic circumstances, the Gross Margin for Iberdrola's Generation and Supply Business registered a decrease of 0.5%, totalling EUR 2,832.8 million, affected by a reduction of 50.6% in the allocation of allowances.

Within the context of this development, we can point out the following:

- Total business revenues amounted to EUR 14,358.4 million, up 15.1%, as a result of the improvement of the sale price, despite lower production volumes. With respect to the application of the energy, 92% corresponded to forward sales at a fixed price, while just 8% were spot market sales.
- The cost of procurement rose 19.8%, as a result of the impact caused by the lower hydro production compared to the previous year.

- RDL 13/2012 that reduces capacity payments and capacity guarantee payments by EUR 15 million.
- Hydroelectric reserves as of 31 December 2012 were at 3,846 GWh (34.1%).
- In addition, the amount for CO<sub>2</sub> rights consumed reached EUR 48.1 million, -54.5% lower than that figure corresponding to the year 2011. The average price per right was EUR 6.91/MT, compared to EUR 13.83/MT for 2011.
- Finally, the positive effect of resettlements in 2011 of EUR 54 million which are not present in 2012.

The Basic Margin totals EUR 2,832.8 million with a decrease of 0.5%. To the figure posted in Gross Margin, EUR 51.6 million in revenue should be added by way of subsidy for allocated CO<sub>2</sub> rights being these a 50.6% lower than the ones allocated last year.

### b) Operating Profit / EBIT

EBITDA increased 2.2% to EUR 1,605.4 million. This figure includes the positive effect on Levies from the Supreme Court Rule of 7 February, exempting generation companies from financing the Bono Social and recognising their right to be reimbursed for the amounts paid for this concept, which had an impact of EUR +161 million on this year, and for the declaration of unconstitutionality of the 'Ecotasa' of Castilla-La Mancha, which had a positive impact of EUR 27 million in 2012.

Operating Expenses increased by 10.2% due to non-recurrent expenses. Personnel Expenses increased by 18.6% (due to the efficiency improvement plan) and External Services a 4.8%.

Below is a breakdown by technologies of the Levies per MWh paid by the Generation business in Spain during financial year 2012:

	Hydro	Nuclear	CCGT	Coal
Levies	EUR 9.25 MWh	EUR 12.59 MWh	EUR 6.31 MWh	EUR 2.81 MWh

Amortisations and Provisions increased by 29.2% to EUR 647.5 million, including the effect of the accelerated amortisation of certain generation assets (EUR -44 million). EBIT decrease by 10.4% compared to the previous financial year, totalling EUR 957.9 million.

## 2.2. United Kingdom

(Eur Millions)	12M 2012	v. 12M 2011
Revenues	8,702.8	+11.4%
Gross Margin	1,083.0	+37.1%
Basic Margin	1,152.2	+23.3%
Levies	(240.4)	+134.5%
EBITDA	360.6	+11.8%
EBIT	22.9	N/A

### a) Gross Margin

The Scottish Power's Generation and Supply business Gross Margin reached EUR 1,083.0 million. Noteworthy:

- Lower production (-17.7%) as a result of stoppages in thermal plants and also due to the situation of the market margins (lower gas spreads).

- Partial recovery of the Supply business due to an increase in the number of customers (6% electricity and 10% gas), and lower costs of commodities caused by the end of the fuel contracts signed in 2008 at higher prices, which had an impact on margins, as well as the increase in the exchange rate (6.6%). This price increase was exclusively to absorb the non-energy cost, that continue to rise in the UK.

### b) Operating Profit/EBIT

EBITDA for Generation & Supply amounted to EUR 360.6 million.

Net Operating Expenses reached EUR 551.2 million. Personnel expense items totalled EUR 186.2 million and External Services amounted to EUR 365.0 million.

The increase in Levies, which reached EUR 240.4 million, is due mainly to higher CERT and CESP costs by order of the British regulatory authority OFGEM. These programmes are aimed at reducing CO<sub>2</sub> emissions and are focused on insulating housing and improving energy efficiency at homes. Expenses incurred for CERT/ CESP in 2012 amount to EUR 222 million (+134 vs 2011)

Lastly, amortisations and provisions amounted to EUR 337.6 million.

### 2.3. Mexico (Regulated Generation)

(Eur Millions)	12M 2012	v. 12M 2011
Revenues	1,174.1	-13.3%
Margen Bruto	496.5	+9.5%
EBITDA	380.1	+5.0%
EBIT	313.0	+4.5%

### a) Gross Margin

In Mexico, Gross Margin amounts to EUR 496.5 million (+9.5%), due to an improvement on margins despite the variations in the availability of the plants, the positive resettlements of previous years and the rise in the value of the dollar (+7.7%).

### b) Operating Profit/EBIT

EBITDA in Mexico amounted to EUR 380.1 million, a 5.0% increase.

Net Operating Expenses increased by 27.4%, to EUR 115.4 million, affected by non-recurring expenses for legal procedures and the evolution of the US dollar (functional currency).

Lastly, EBIT of the business amounted to EUR 313.0 million, an increase of 4.5%, in line with EBITDA.

### 2.4. USA and Canada (gas)

(Eur Millions)	12M 2012
Revenues	61.4
Margen Bruto	56.1
EBITDA	9.1
EBIT	(85.3)

The Generation and Supply business in the USA and Canada incorporates gas assets in the United States which were previously included in Renewables, and the Canada assets which were previously included in Other Businesses.

### a) Gross Margin

In this business, Gross Margin amounted to EUR 56.1 million as a result of the extension of the margins in the rental of own storage of gas and

the trading margin obtained in the transmission activities.

### b) Operating Profit / EBIT

EBITDA of the gas business in the USA and Canada recorded a positive result of EUR 9.1 million. Net Operating Expenses totalled EUR 44.0 million.

Finally, EBIT of the business totalled EUR -85.3 million, due to the extraordinary amortizations of Alberta Hub gas assets.

## 3. RENEWABLES

(Eur Millions)	12M 2012	v. 12M 2011
Revenues	2,461.6	+9.9%
Gross Margin	2,284.7	+10.5%
EBITDA	1,620.3	+13.8%
EBIT	711.9	+12.9%

### a) Gross Margin

During 2012, the Renewables business showed a performance with significant growth. Thus, Gross Margin amounted to EUR 2,284.7 million with an increase of 10.5% resulting from:

- An increase in operating capacity at the end of the period totalling 13,735 MW (+4.0%), which led, together with a high load factor average cycle, to a 10.7% increase in production to 31,784 GWh.
- The average load factor, which was 26.3% higher compared to the same period of the previous year, when 25.7% was recorded. The load factor in Spain was 23.6%, 2.1 percentage points higher than that registered in the same

period of the previous year. The United States showed a load factor, at 30.4%. In the United Kingdom, the load factor registered is 23.9% and in ROW of 24.8%.

- The average renewable price over the period amounted to EUR 71.0/MWh, showing an increase of 2.0% resulting from the increase of the price in the Rest of the World and the positive effect of the rise of the dollar and the pound, which have offset the reduction of the price in local currency in the US and the UK.

By business, the Gross Margin trend has been as follows:

- **Wind Energy Spain:** Gross Margin for the period was at EUR 992.7 million (+12.6%), as a result of a 12.8% increase in production, despite a slight decline in price (-0.2%).
- **Wind Energy USA:** Gross Margin increased by 7.9%, reaching EUR 608.9 million, thanks to the increase in wind energy production (+7.6%). A 7.1% decline in the price in dollars (without PTCs) was offset by the rise of the US dollar.
- **Wind Energy United Kingdom:** Gross Margin amounted to EUR 237.8 million (+0.2%). This slight growth was mainly due to the fact that the increase in production (5.7%) and the effects of the exchange rate were offset by the decline of the price in pounds by 7.0%.
- **Wind Energy Rest of the World:** The increase in production (+23.9%) together with higher prices (+3.6%) drove the Gross Margin up by 28.4%, placing it at EUR 322.0 million.

- **Thermal Business in the United States:** The end of several capacity guarantee contracts has affected results for thermal business. Thus, Gross Margin has dropped from EUR 68.4 million in 2011 to EUR 40.4 million at the end of 2012.
- **Mini-hydro and Other Renewables:** Gross Margin amounted to EUR 82.9 million, reflecting an increase of solar production in the US partially offset by a decrease of mini-hydro production in Spain.

#### b) Operating Profit/EBIT

- EBITDA registered a significant increase of 13.8%, totalling EUR 1,620.3 million. In addition to the increase in Gross Margin of +10.5% mentioned above, it should be added a significant contention of Net Operating Expenses, with a slight increase of 0.1% to EUR 576.0 million, substantially below that of the average operating power (+6.8%). Meanwhile, the Levies item shows an increase of 30.6% (EUR +20.7 million).
- A 14.5% increase of amortisations and provisions took place, higher than the average operating power growth (+6.8%), as a consequence of the write-off of projects for EUR 147 million in 2012, compared to EUR 46 million in 2011, partially offset by the extension of the useful life of the wind farms.
- Thus, EBIT amounted to EUR 711.9 million, 12.9% above the figure for the same period of 2011.

## 4. OTHER BUSINESSES

(Eur Millions)	12M 2012	v. 12M 2011
Revenues	580.9	-47.5%
Gross Margin	258.3	-40.6%
EBITDA	44.4	-73.6%
EBIT	8.1	-94.9%

#### a) Gross Margin

Gross Margin amounted to EUR 258.3 million, 40.6% less than in the same period of 2011. The drop in the Gross Margin for Non-energy businesses was mainly due to the Engineering business, as a direct result of the lower contracts.

#### b) Operating Profit / EBIT

EBITDA amounted to EUR 44.4 million. Net Operating Expenses of these businesses amounted to EUR 209.8 million (-18.5%)

Amortisations and Provisions rose to EUR 36.3 million.

## 5. CORPORATION

This basically includes eliminations of inter-group expenses between the Corporation and the businesses, as well as services provided by the Corporation to different Businesses. EBITDA for the period amounted to EUR -66.9 million.

## Balance Sheet Analysis

### January-December 2012

(Eur Millions)	Dec. 2012	v. Dec. 2011
TOTAL ASSETS	96,816	-0.1%
TANGIBLE FIXED ASSETS	53,423	1.9%
INTANGIBLE ASSETS	19,403	-4.3%
LONG-TERM INVESTMENTS	2,548	-10.8%
SHAREHOLDERS' EQUITY	34,085	2.6%
ADJUSTED NET DEBT <sup>(1)</sup>	30,324	-4.4%

(1) Includes tariff deficit and includes TEI.

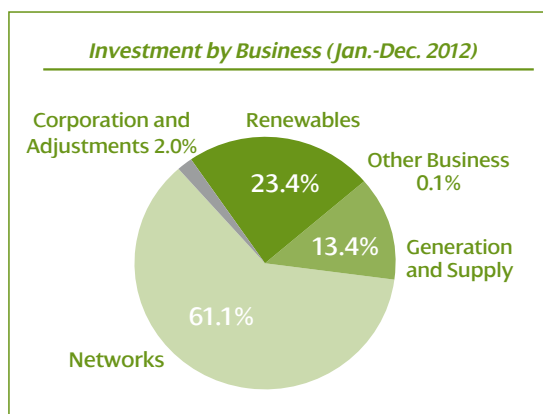
The Balance Sheet for Iberdrola as at 31 December 2012 shows Total Assets of EUR 96,816 million, highlighting its sustained and solid balance sheet strength.

### 1. FIXED ASSETS

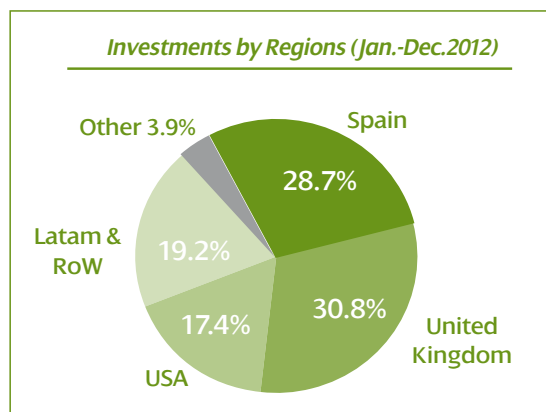
During the period from January to December 2012 total investments net of grants amounted to EUR 3,259.4 million, showing a gradual reduction of the investments compared with the same period of 2011, when net organic investments totalled EUR 3,537.4 million. These can be broken down as follows:

(Eur Millions)	Jan.-Dec. 2012	%
<b>Networks Business</b>	1,990.9	61.1%
Spain	350.3	
UK	515.9	
USA Iberdrola	632.1	
Brazil	492.6	
<b>Renewables</b>	763.3	23.4%
<b>Generation and Supply</b>	437.8	13.4%
Spain	301.5	
UK	101.7	
Mexico	29.2	
USA and Canada	5.4	
<b>Other Businesses</b>	1.7	0.1%
Engineering	0.6	
Non-Energetic	1.1	
<b>Corporate and Adjustments</b>	65.7	2.0%
<b>Total investment</b>	3,259.4	100.0%

Investments in the period were focused on Regulated and Renewables businesses, with the two items combined accounting 85% of total investments in the period.



By geographical area, the investment of the period is breakdown according to the following chart:



Regarding the Regulated Business, investments over the period totalled EUR 1,990.9 million. Noteworthy are the investments in Iberdrola USA Networks, directed to the CMP transmission line and to a lesser extent to electricity and gas distribution, amounting to EUR 632.1 million over the year. For its part, EUR 515.9 million was invested in ScottishPower Networks and EUR 492.6 million in Brazil, the latter financed to a great extent by funds generated in Brazil. Finally, EUR 350.3 million was invested by Networks Spain.

In the “Renewables” section, worthy of note are the investments in the United Kingdom for a total of EUR 371.2 million, those made in Spain for EUR 231.1 million and those also made in Brazil and Mexico for EUR 105.6 million. The wind energy investment in the United States before subsidies was EUR 251.9 million.

With respect to investments in Generation and Supply Business, these can be broken down into those made in Spain for a total of EUR 301.5 million generally in hydro and nuclear, in the United Kingdom for EUR 101.7 million and in Mexico for EUR 29.2 million.

## 2. SHARE CAPITAL

After the execution of the paid-up capital increase for the ‘*Dividendo Flexible*’ on 19 July 2012, the Share Capital at 31 December 2012 comprises 6,138,893,000 bearer shares with a nominal value of EUR 0.75 each.

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

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

The figure of EUR 414 million (net amount), as at 31 December 2012, is the result of historic business in the United States.

## 4. FINANCIAL DEBT

The adjusted net financial debt as at 31 December 2012 decreases by EUR 1,381 million to EUR 30,324 million vs EUR 31,705 million at 31 December 2011 as a result to the containment of investments and a favourable international business progress thanks to geographical diversification. The financial leverage is at 47.1% compared to 48.8% in the same period of the previous year. If financing of the tariff deficit is not taken into account, which in the case of Iberdrola amounted to EUR 2,409

million at 31 December 2012, the adjusted net financial debt would be EUR 27,915 million and the adjusted leverage would be 45.0% from EUR 28,715 million and 46.74% at 31 December 2011.

The adjusted net financial debt would decrease to EUR 29,458 million if cash pending to be collected from disposals of operating assets in France and Germany and Medgaz are included, as well as funds received from 2013 tariff deficit securitizations.

Eur M	2012 Proform	2012	2011
<b>Net debt</b>	<b>30,324</b>	<b>30,324</b>	<b>31,705</b>
Disposals	450		
Deficit securitization	416		
<b>Net debt</b>	<b>29,458</b>	<b>30,324</b>	<b>31,705</b>
Tariff deficit	-1,993	-2,409	-2,991
<b>Adjusted Net debt</b>	<b>27,465</b>	<b>27,915</b>	<b>28,714</b>

Despite the strength of the business structure of Iberdrola, the credit rating of the company has been downgraded during 2012, as a result, on one hand, of the deterioration of European market conditions, the downgrade of Spain sovereign risk, and on the other hand, the impact on net debt figures of the suspension of the deficit securitization program for much of the year.

The rating breakdown is as follows:

Credit Rating of IBERDROLA Senior Debt			
Agency	Rating	Outlook	Date
Moody's	Baa1	Negative	Nov. 9th 2012
Fitch IBCA (unsecured debt)	BBB+	Negative	Nov. 19th 2012
Standard & Poors	BBB	Stable	Nov. 28th 2012

With respect to the change in the Company's financial cost, at 31 December 2012, it was at 4.51% compared to 4.58% in the same period of the previous year, mainly due to the lower interest rates of the market in all OECD countries, offset by the increase in risk spreads.

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

	Dec. 2012	Dec. 2011
<b>Euro</b>	<b>56.5%</b>	<b>59.8%</b>
Dollar	17.4%	17.9%
British pound	23.0%	19.6%
Brazilian real and other currencies	3.1%	2.7%
<b>Fixed Rate</b>	<b>64.5%</b>	<b>54.6%</b>
Floating Rate (1)	31.4%	41.5%
<b>Capped Rate</b>	<b>4.1%</b>	<b>3.9%</b>

(\*) Including TEI. Net Debt including net investment hedging derivatives and excluding tariff deficit.

(\*\*) Excluding TEI. Gross Debt.

(1) Without the deficit (EUR 2,409 million), the floating rate % would be reduced to 25.9% in December 2012.

In accordance with the policy of minimising the financial risks of the Company, the foreign currency risk has continued to be mitigated through the financing of the international



businesses in local currencies (British pound, Brazilian real, US dollar, etc.) or in their functional currencies (US dollar, in the case of Mexico).

The debt\* structure per company is shown in the following Table:

	Dec. 2012	Dec. 2011
Holding	74.5%	76.9%
UK	7.9%	6.6%
USA	8.2%	7.5%
Brazil	5.8%	5.0%
Mexico	1.5%	1.6%
Other	2.1%	2.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(\*) Gross Debt. Including TEI.

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

	Dec. 2012	Dec. 2011
Euro market	40.9%	34.1%
Dollar market	16.2%	16.7%
British pound market	10.3%	8.8%
Remaining bonds	2.2%	2.1%
Notes	3.2%	4.2%
EIB	8.0%	8.1%
Project Finance	4.8%	4.6%
TEI	1.5%	1.8%
Bank loans	13.0%	19.6%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

(\*) Gross Debt. Including TEI.

Lastly, the change in **financial leverage** has been as follows:

Eur M	Dec. 2012	Dec. 2011
Shareholders' Equity	34,089	33,208
Gross Debt*	33,848	34,464
Cash flow and equivalents	3,044	2,091
Derivatives Asset and others	480	668
<b>Adjusted Net Debt</b>	<b>30,324</b>	<b>31,705</b>
Leverage	47.1%	48.8%
Tariff deficit	2,409	2,991
Adjusted Net Debt (excl. Deficit)	27,915	28,715
<b>Leverage (excl. Deficit)</b>	<b>45.0%</b>	<b>46.4%</b>

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

## 5. WORKING CAPITAL

Working capital increased by EUR 178 million since December 2011. This has been driven, by a decrease in inventories and an increase in 'accounts payables' partially offset by a decrease of the tariff deficit pending collection, thanks to the securitisations carried out during the first and last quarter of 2012.

	Dec. 2012	Dec. 2011	Change
Assets held for sale	216	132	84.1
Nuclear Fuel	310	327	(16.8)
Inventories	1,896	2,113	(216.7)
Accounts Receivables	5,686	5,365	321.4
Temporary financial investments	3,960	4,651	(690.9)
Other Tax receivables	740	857	(117.5)
<b>CURRENT ASSETS*:</b>	<b>12,808</b>	<b>13,445</b>	<b>(636)</b>

\* Do not include Cash and Debt Derivatives.

	Dec. 2012	Dec 2011	Change
Provisions	435	573	(138.5)
Derivate financial instruments	313	330	(16.6)
Trade payables and other current liabilities	7,449	7,841	(392.1)
Tax payables	1,012	1,280	(267.7)
<b>CURRENT LIABILITIES (*):</b>	<b>9,208</b>	<b>10,023</b>	<b>(815)</b>

\*Do not include financial debt and debt derivatives

<b>NET WORKING CAPITAL</b> (Reduction)/Increase	<b>3,600</b>	<b>3,422</b>	<b>178</b>
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## 6. FUNDS FROM OPERATIONS

The Funds From Operations as at 31 December 2012 were at EUR 6,196.4 million, compared with EUR 6,047.3 million in the same period of the previous year.

	FY 2012	FY 2011	%
Net Profit (+)	2,840.7	2,804.5	1.3%
Amortisation and depreciation (-)	-3,349.7	-3,145.4	6.5%
Companies by equity method (-)	-187.5	-34.5	N/A
Income from non-current assets (-)	-13.9	45.8	N/A
Tax Income from non-current assets (-)	-5.9	1.0	N/A
Financial Provisions (-)	-3.3	1.2	N/A
Minority interests (-)	-27.9	-100.7	-72.3%
Tax deductibility Goodwill (+)	179.5	179.5	0%
Deferred Tax Eliminations (-)	325.8	169.4	92.3%
Medgaz inclusion within Financial Results (-)	86.2	0.0	N/A
<b>FFO</b>	<b>6,196.4</b>	<b>6,047.3</b>	<b>2.5%</b>

## 7. FINANCE TRANSACTIONS

### Summary of the main financial transactions carried out in 2012

Issuer	Transaction	Amount (millions)	Currency	Due date
<b>Iberdrola S.A.</b>	EIB	100	EUR	10 years
<b>Iberdrola Finanzas</b>	EMTN	400	EUR	4 years
<b>Iberdrola International</b>	EMTN / Exchange	1,000	EUR	6.5 years
	EMTN	250	CHF	5 years
	EMTN	32	EUR	10 years
	EMTN	750	EUR	5 years
	EMTN/Extension	250	EUR	5 years
	EMTN/Extension	400	EUR	6 years
	German Market	55	EUR	10 years
	German Market	50	EUR	3 years
	Syndicated loan	1,000	EUR	5 years
<b>Iberdrola Finance Ireland</b>	Structured EMTN	81	EUR	Various
<b>SP Manweb</b>	Fixed Notes	350	GBP	15 years
<b>Neoenergia</b>	Debentures	650	BRL	20 years
	Loans	760	BRL	24 years
<b>Elektro</b>	Debentures	650	BRL	5, 7 and 10 years
<b>Iberdrola USA</b>	Syndicated loan	300	USD	5 years
	FMB and USPP	200	USD	10 years
	FMB and USPP	300	USD	30 years

#### 4th Quarter Financing

##### Bond Issues on the Euromarket

Iberdrola closed a bond issuance for the value of 400 million euros, which implies an extension of the issuance of 1,000 million euros made last April, maturing in October 2018. The cost has been set at 4.238%, improving the transaction made in April, which set a coupon at 4.25%. Demand has exceeded the initial offer by three times, and has finally been

placed among 118 investors: 85.6% foreign and 14.4% Spanish.

##### Brazilian market

The Central Hidrelétrica Teles Pires (in which Iberdrola holds a 19.54% stake) has made available in October a total of approximately Brl 760 million from several TJLP-linked loans with the BNDES, with a maturity term of around 24 years.

## Balance Sheet

### 2012 (Unaudited)

<b>ASSETS</b>	Dec. 2012	Dec. 2011	Change
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>	<b>19,403</b>	<b>20,272</b>	<b>-869</b>
Goodwill	8,309	8,273	36
Other intangible assets	11,094	12,000	-905
<b>Investment properties</b>	<b>520</b>	<b>523</b>	<b>-3</b>
<b>Property, plant and equipment</b>	<b>53,423</b>	<b>52,406</b>	<b>1,017</b>
Property, plant and equipment in use	48,924	45,999	2,925
Property, plant and equipment under construction	4,499	6,407	-1,908
<b>Non current financial investments</b>	<b>2,548</b>	<b>2,858</b>	<b>-310</b>
Investments accounted through the equity method	438	765	-327
Non-current financial investments	675	697	-22
Other non-current financial investments	1,031	907	124
Derivative financial instruments	403	489	-86
<b>Non-current receivables</b>	<b>468</b>	<b>539</b>	<b>-71</b>
<b>Deferred tax assets</b>	<b>4,515</b>	<b>4,546</b>	<b>-31</b>
<b>Total non-current assets</b>	<b>80,877</b>	<b>81,144</b>	<b>-267</b>
<b>CURRENT ASSETS</b>			
<b>Assets held for sale</b>	<b>216</b>	<b>132</b>	<b>84</b>
<b>Nuclear fuel</b>	<b>310</b>	<b>327</b>	<b>-17</b>
<b>Inventories</b>	<b>1,896</b>	<b>2,113</b>	<b>-217</b>
<b>Current trade and other receivables</b>	<b>5,686</b>	<b>5,364</b>	<b>322</b>
<b>Current financial assets</b>	<b>4,047</b>	<b>4,877</b>	<b>-830</b>
Current financial investments	130	20	110
Other current financial investments	3,401	4,098	-697
Derivative financial instruments	516	759	-243
<b>Tax receivables</b>	<b>253</b>	<b>566</b>	<b>-313</b>
<b>Other tax receivables</b>	<b>487</b>	<b>291</b>	<b>196</b>
<b>Cash and equivalents</b>	<b>3,044</b>	<b>2,091</b>	<b>953</b>
<b>Total current assets</b>	<b>15,939</b>	<b>15,761</b>	<b>178</b>
<b>TOTAL ASSETS</b>	<b>96,816</b>	<b>96,905</b>	<b>-89</b>

<b>EQUITY AND LIABILITIES</b>	<b>Dec. 2012</b>	<b>Dec. 2011</b>	<b>Change</b>
<b>EQUITY:</b>	<b>34,085</b>	<b>33,208</b>	<b>877</b>
<b>Of shareholders of the parent</b>	<b>33,760</b>	<b>32,888</b>	<b>872</b>
Share capital	4,604	4,412	192
Premium Reserve	14,668	14,668	-
Unrealised asset and liability revaluation reserve	-493	-386	-107
Other reserves	14,005	12,980	1,024
Treasury shares	-500	-384	-116
Translation differences	-1,364	-1,207	-157
Net profit of the year	2,841	2,805	36
<b>Of minority interests</b>	<b>325</b>	<b>320</b>	<b>5</b>
<b>EQUITY INSTRUMENTS WITH CHARACTERISTICS OF A FINANCIAL LIABILITY</b>	<b>370</b>	<b>582</b>	<b>-212</b>
<b>NON-CURRENT LIABILITIES</b>			
<b>Deferred income</b>	<b>5,786</b>	<b>5,230</b>	<b>556</b>
<b>Provisions</b>	<b>3,928</b>	<b>3,427</b>	<b>501</b>
Provisions for pensions and similar obligations	1,902	1,372	530
Other provisions	2,026	2,055	-29
<b>Financial debt</b>	<b>28,851</b>	<b>30,454</b>	<b>-1,602</b>
Financial debt - loans and others	28,751	30,282	-1,531
Derivative financial instruments	101	172	-71
<b>Other non-current payables</b>	<b>516</b>	<b>395</b>	<b>121</b>
<b>Deffered tax liabilities</b>	<b>9,093</b>	<b>9,742</b>	<b>-649</b>
<b>Total non-current liabilities</b>	<b>48,174</b>	<b>49,248</b>	<b>-1,073</b>
<b>EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY</b>	<b>107</b>	<b>-</b>	<b>107</b>
<b>CURRENT LIABILITIES</b>			
<b>Liabilities held for sale</b>	<b>84</b>	<b>-</b>	<b>84</b>
<b>Provisions</b>	<b>435</b>	<b>572</b>	<b>-137</b>
Provisions for pensions and similar obligations	7	9	-3
Other provisions	429	563	-135
<b>Financial Debt</b>	<b>5,101</b>	<b>4,174</b>	<b>927</b>
Financial debt loans and others	4,622	3,600	1,021
Derivative financial instruments	479	574	-95
<b>Trade and other payables</b>	<b>8,461</b>	<b>9,121</b>	<b>-661</b>
Trade payables	6,113	6,044	69
Tax payables	618	818	-200
Other tax payables	394	462	-68
Other current liabilities	1,336	1,797	-462
<b>Total current liabilities</b>	<b>14,080</b>	<b>13,868</b>	<b>212</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>96,816</b>	<b>96,905</b>	<b>-89</b>

## Profit and Loss

Dec. 2012 NIIF Format (Audited)

	Eur M		
	Dec. 2012	Dec. 2011	%
<b>REVENUES</b>	<b>34,201.2</b>	<b>31,648.0</b>	<b>8.1</b>
PROCUREMENTS	(21,458.8)	(19,293.9)	11.2
Emission rights consumed	(164.3)	(328.3)	(50.0)
<b>GROSS MARGIN</b>	<b>12,578.1</b>	<b>12,025.8</b>	<b>4.6</b>
Emission rights allocated	120.8	248.9	(51.5)
<b>BASIC MARGIN</b>	<b>12,698.8</b>	<b>12,274.7</b>	<b>3.5</b>
<b>NET OPERATING EXPENSES</b>	<b>(3,789.3)</b>	<b>(3,517.2)</b>	<b>7.7</b>
<b>Net Personnel Expense</b>	<b>(1,839.6)</b>	<b>(1,643.4)</b>	<b>11.9</b>
Personnel	(2,390.9)	(2,151.5)	11.1
Capitalized personnel costs	551.3	508.1	8.5
<b>Net External Services</b>	<b>(1,949.7)</b>	<b>(1,873.8)</b>	<b>4.0</b>
External Services	(2,377.8)	(2,275.0)	4.5
Other Operating Income	428.1	401.1	6.7
<b>LEVIES</b>	<b>(1,182.9)</b>	<b>(1,107.1)</b>	<b>6.9</b>
<b>EBITDA</b>	<b>7,726.6</b>	<b>7,650.5</b>	<b>1.0</b>
AMORTISATIONS AND PROVISIONS	(3,349.7)	(3,145.4)	6.5
<b>EBIT</b>	<b>4,376.9</b>	<b>4,505.1</b>	<b>(2.8)</b>
<b>Financial Expenses</b>	<b>(2,437.3)</b>	<b>(2,530.7)</b>	<b>(3.7)</b>
<b>Financial Income</b>	<b>1,337.0</b>	<b>1,468.8</b>	<b>(9.0)</b>
<b>FINANCIAL RESULT</b>	<b>(1,100.3)</b>	<b>(1,061.9)</b>	<b>3.6</b>
<b>RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD</b>	<b>(187.5)</b>	<b>(34.5)</b>	<b>442.9</b>
<b>RESULTS FROM NON-CURRENT ASSETS</b>	<b>(13.9)</b>	<b>45.8</b>	<b>(130.4)</b>
<b>PBT</b>	<b>3,075.1</b>	<b>3,454.4</b>	<b>(11.0)</b>
Corporate Tax	(206.5)	(549.2)	(62.4)
Minorities	(27.9)	(100.7)	(72.3)
<b>NET PROFIT</b>	<b>2,840.7</b>	<b>2,804.5</b>	<b>1.3</b>

## Results by Business (Unaudited)

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)	(18,987.1)	(176.9)	(322.6)	1,184.3
Emission Rights Consumed	-	(164.3)	-	-	-
<b>GROSS MARGIN</b>	<b>5,667.9</b>	<b>4,416.9</b>	<b>2,284.7</b>	<b>258.3</b>	<b>(49.7)</b>
Emission Rights Allocated	-	120.8	-	-	-
<b>BASIC MARGIN</b>	<b>5,667.9</b>	<b>4,537.7</b>	<b>2,284.7</b>	<b>258.3</b>	<b>(49.7)</b>
<b>NET OPERATING EXPENSES</b>	<b>(1,444.2)</b>	<b>(1,548.6)</b>	<b>(576.0)</b>	<b>(209.8)</b>	<b>(10.7)</b>
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)
<b>EBITDA</b>	<b>3,773.7</b>	<b>2,355.2</b>	<b>1,620.3</b>	<b>44.4</b>	<b>(66.9)</b>
Amortisation and Provisions	(1,174.9)	(1,146.7)	(908.4)	(36.3)	(83.4)
<b>EBIT / Operating Profit</b>	<b>2,598.8</b>	<b>1,208.5</b>	<b>711.9</b>	<b>8.1</b>	<b>(150.3)</b>
Financial Result	(323.8)	(65.7)	(160.0)	(5.8)	(545.1)
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
<b>PBT</b>	<b>2,351.2</b>	<b>1,154.8</b>	<b>474.1</b>	<b>(209.9)</b>	<b>(695.2)</b>
Corporate tax and minority shareholders	(306.2)	(304.8)	138.5	18.3	219.8
<b>NET PROFIT</b>	<b>2,045.1</b>	<b>850.0</b>	<b>612.7</b>	<b>(191.6)</b>	<b>(475.4)</b>

December 2011	Networks	Generation and Supply	Renewables	Other Businesses	Corporation and adjust.
Revenues	8,336.2	21,123.1	2,239.0	1,107.5	(1,157.8)
Procurement	(2,791.7)	(16,769.2)	(172.1)	(672.5)	1,111.6
Emission Rights Consumed	-	(328.3)	-	-	-
<b>GROSS MARGIN</b>	<b>5,544.5</b>	<b>4,025.5</b>	<b>2,067.0</b>	<b>435.0</b>	<b>(46.2)</b>
Emission Rights Allocated	-	248.9	-	-	-
<b>BASIC MARGIN</b>	<b>5,544.5</b>	<b>4,274.5</b>	<b>2,067.0</b>	<b>435.0</b>	<b>(46.2)</b>
<b>NET OPERATING EXPENSES</b>	<b>(1,324.5)</b>	<b>(1,378.7)</b>	<b>(575.3)</b>	<b>(257.6)</b>	<b>19.0</b>
Net Personnel Expense	(643.3)	(521.2)	(137.4)	(150.6)	(190.9)
Personnel	(1,012.9)	(548.0)	(181.5)	(201.6)	(207.5)
Capitalized personnel costs	369.7	26.7	44.1	51.1	16.6
Net External Services	(681.3)	(857.5)	(437.9)	(107.0)	209.8
External Services	(916.6)	(1,032.8)	(464.7)	(111.8)	250.9
Other operating income	235.3	175.3	26.7	4.8	(41.1)
Levies	(394.5)	(625.0)	(67.7)	(8.9)	(10.9)
<b>EBITDA</b>	<b>3,825.4</b>	<b>2,270.7</b>	<b>1,423.9</b>	<b>168.5</b>	<b>(38.1)</b>
Amortisation and Provisions	(1,019.5)	(1,230.6)	(793.3)	(11.0)	(91.0)
<b>EBIT / Operating Profit</b>	<b>2,806.0</b>	<b>1,040.2</b>	<b>630.6</b>	<b>157.5</b>	<b>(129.1)</b>
Financial Result	(230.6)	(136.9)	(213.2)	(7.4)	(473.7)
Results of companies consolidated by equity method	9.0	13.9	-	(57.4)	-
Results of non-current assets	49.1	(0.6)	(4.9)	1.7	0.5
<b>PBT</b>	<b>2,633.4</b>	<b>916.5</b>	<b>412.5</b>	<b>94.4</b>	<b>(602.4)</b>
Corporate tax and minority shareholders	(482.5)	(9.4)	37.4	6.3	(201.7)
<b>NET PROFIT</b>	<b>2,150.8</b>	<b>907.2</b>	<b>449.9</b>	<b>100.7</b>	<b>(804.1)</b>

## Networks Business (Unaudited)

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)
Emission Rights Consumed	-	-	-	-
<b>GROSS MARGIN</b>	<b>1,856.7</b>	<b>1,152.3</b>	<b>1,422.4</b>	<b>1,236.6</b>
Emission Rights Allocated	-	-	-	-
<b>BASIC MARGIN</b>	<b>1,856.7</b>	<b>1,152.3</b>	<b>1,422.4</b>	<b>1,236.6</b>
<b>NET OPERATING EXPENSES</b>	<b>(414.9)</b>	<b>(114.1)</b>	<b>(510.4)</b>	<b>(404.8)</b>
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)
<b>EBITDA</b>	<b>1,348.3</b>	<b>937.3</b>	<b>660.2</b>	<b>827.9</b>
Amortisations, Provisions and other	(380.3)	(208.0)	(231.2)	(355.4)
<b>EBIT / Operating Profit</b>	<b>968.0</b>	<b>729.3</b>	<b>428.9</b>	<b>472.5</b>
Financial Result	(33.3)	(81.7)	(106.6)	(102.2)
Results of companies consolidated by equity method	2.1	-	-	6.1
Results of non-current assets	5.1	(0.2)	63.6	(0.4)
<b>PBT</b>	<b>941.9</b>	<b>647.4</b>	<b>385.9</b>	<b>376.1</b>
Corporate tax and minority shareholders	(232.9)	(68.6)	(195.1)	190.4
<b>NET PROFIT</b>	<b>709.0</b>	<b>578.8</b>	<b>190.8</b>	<b>566.5</b>

December 2011	SPAIN	UNITED KINGDOM	US	BRAZIL
Revenues	2,022.3	1,043.3	2,449.3	2,821.4
Procurement	-	(35.3)	(1,155.9)	(1,600.5)
Emission Rights Consumed	-	-	-	-
<b>GROSS MARGIN</b>	<b>2,022.3</b>	<b>1,008.0</b>	<b>1,293.4</b>	<b>1,220.8</b>
Emission Rights Allocated	-	-	-	-
<b>BASIC MARGIN</b>	<b>2,022.3</b>	<b>1,008.0</b>	<b>1,293.4</b>	<b>1,220.8</b>
<b>NET OPERATING EXPENSES</b>	<b>(389.6)</b>	<b>(83.4)</b>	<b>(524.1)</b>	<b>(327.5)</b>
Net Personnel Expenses	(207.7)	(35.3)	(243.6)	(156.6)
Personnel	(334.4)	(153.1)	(322.9)	(202.6)
Capitalized personnel costs	126.7	117.7	79.3	46.0
Net External Services	(181.9)	(48.0)	(280.5)	(170.9)
External Services	(319.3)	(94.4)	(287.1)	(215.8)
Other operating income	137.4	46.4	6.6	44.9
Levies	(77.3)	(92.4)	(221.6)	(3.2)
<b>EBITDA</b>	<b>1,555.4</b>	<b>832.3</b>	<b>547.7</b>	<b>890.2</b>
Amortisations, Provisions and other	(351.2)	(185.3)	(196.7)	(286.3)
<b>EBIT / Operating Profit</b>	<b>1,204.1</b>	<b>647.0</b>	<b>351.0</b>	<b>603.9</b>
Financial Result	(31.9)	(60.4)	(64.8)	(73.5)
Results of companies consolidated by equity method	3.1	-	-	5.9
Results of non-current assets	3.6	0.1	14.0	31.4
<b>PBT</b>	<b>1,178.9</b>	<b>586.6</b>	<b>300.2</b>	<b>567.7</b>
Corporate tax and minority shareholders	(282.7)	48.0	(114.0)	(133.8)
<b>NET PROFIT</b>	<b>896.2</b>	<b>634.6</b>	<b>186.2</b>	<b>433.8</b>



## Generation and Supply (Unaudited)

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	(11,529.1)	(7,503.5)	(677.6)	(5.3)	728.4
Emission Rights Consumed	(48.1)	(116.2)	-	-	-
<b>GROSS MARGIN</b>	<b>2,781.3</b>	<b>1,083.0</b>	<b>496.5</b>	<b>56.1</b>	<b>-</b>
Emission Rights Allocated	51.6	69.2	-	-	-
<b>BASIC MARGIN</b>	<b>2,832.8</b>	<b>1,152.2</b>	<b>496.5</b>	<b>56.1</b>	<b>-</b>
<b>NET OPERATING EXPENSES</b>	<b>(838.0)</b>	<b>(551.2)</b>	<b>(115.4)</b>	<b>(44.0)</b>	<b>-</b>
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)	-
<b>EBITDA</b>	<b>1,605.4</b>	<b>360.6</b>	<b>380.1</b>	<b>9.1</b>	<b>-</b>
Amortisations, Provisions and other	(647.5)	(337.6)	(67.1)	(94.4)	-
<b>EBIT / Operating Profit</b>	<b>957.9</b>	<b>22.9</b>	<b>313.0</b>	<b>(85.3)</b>	<b>-</b>
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)	-
<b>PBT</b>	<b>955.4</b>	<b>12.0</b>	<b>285.7</b>	<b>(98.3)</b>	<b>-</b>
Corporate tax and minority shareholders	(285.0)	30.9	(79.3)	28.5	-
<b>NET PROFIT</b>	<b>670.4</b>	<b>42.9</b>	<b>206.4</b>	<b>(69.8)</b>	<b>-</b>

Eur M

December 2011	SPAIN	UNITED KINGDOM	MEXICO	US & CANADA	Interco
Revenues	12,474.0	7,810.3	1,354.4	33.3	(548.8)
Procurement	(9,624.2)	(6,797.7)	(900.9)	4.8	548.8
Emission Rights Consumed	(105.7)	(222.7)	-	-	-
<b>GROSS MARGIN</b>	<b>2,744.1</b>	<b>789.9</b>	<b>453.5</b>	<b>38.1</b>	<b>-</b>
Emission Rights Allocated	104.4	144.6	-	-	-
<b>BASIC MARGIN</b>	<b>2,848.5</b>	<b>934.5</b>	<b>453.5</b>	<b>38.1</b>	<b>-</b>
<b>NET OPERATING EXPENSES</b>	<b>(760.2)</b>	<b>(509.4)</b>	<b>(90.6)</b>	<b>(18.6)</b>	<b>-</b>
Net Personnel Expenses	(300.1)	(196.8)	(16.1)	(8.2)	-
Personnel	(323.1)	(199.5)	(16.1)	(9.2)	-
Capitalized personnel costs	23.0	2.7	-	1.0	-
Net External Services	(460.1)	(312.6)	(74.4)	(10.3)	-
External Services	(530.2)	(401.5)	(86.8)	(15.0)	0.6
Other operating income	70.1	88.9	12.4	4.7	(0.6)
Levies	(517.6)	(102.5)	(1.0)	(3.9)	-
<b>EBITDA</b>	<b>1,570.7</b>	<b>322.5</b>	<b>361.9</b>	<b>15.6</b>	<b>-</b>
Amortisations, Provisions and other	(501.3)	(617.5)	(62.3)	(49.4)	-
<b>EBIT / Operating Profit</b>	<b>1,069.4</b>	<b>(294.9)</b>	<b>299.6</b>	<b>(33.8)</b>	<b>-</b>
Financial Result	(89.3)	(19.1)	(27.4)	(1.2)	-
Results of companies consolidated by equity method	6.6	-	7.2	-	-
Results of non-current assets	0.2	0.1	(0.7)	(0.1)	-
<b>PBT</b>	<b>986.9</b>	<b>(313.9)</b>	<b>278.7</b>	<b>(35.1)</b>	<b>-</b>
Corporate tax and minority shareholders	(274.5)	301.2	(93.7)	57.7	-
<b>NET PROFIT</b>	<b>712.4</b>	<b>(12.7)</b>	<b>185.0</b>	<b>22.6</b>	<b>-</b>

## Quarterly Results (Unaudited)

	Eur M			
2012	JAN-MARCH 2012	APR-JUNE 2012	JUL-SEP 2012	OCT-DEC 2012
<b>REVENUES</b>	<b>9,331.0</b>	<b>7,661.5</b>	<b>8,243.1</b>	<b>8,965.5</b>
PROCUREMENTS	(5,876.1)	(4,719.1)	(5,226.3)	(5,637.4)
Emission rights consumed	(66.5)	(21.7)	(34.5)	(41.7)
<b>GROSS MARGIN</b>	<b>3,388.4</b>	<b>2,920.8</b>	<b>2,982.4</b>	<b>3,286.5</b>
Emission rights allocated	40.6	19.8	31.3	29.1
<b>BASIC MARGIN</b>	<b>3,429.0</b>	<b>2,940.5</b>	<b>3,013.7</b>	<b>3,315.6</b>
<b>NET OPERATING EXPENSES</b>	<b>(877.1)</b>	<b>(924.1)</b>	<b>(927.6)</b>	<b>(1,060.5)</b>
<b>Net Personnel Expense</b>	<b>(450.7)</b>	<b>(436.0)</b>	<b>(479.7)</b>	<b>(473.2)</b>
Personnel	(590.0)	(577.0)	(622.2)	(601.7)
Capitalized personnel costs	139.4	141.0	142.5	128.5
<b>Net External Services</b>	<b>(426.4)</b>	<b>(488.1)</b>	<b>(447.9)</b>	<b>(587.3)</b>
External Services	(531.1)	(586.3)	(536.0)	(724.3)
Other Operating Income	104.7	98.2	88.2	137.1
<b>LEVIES</b>	<b>(186.5)</b>	<b>(295.0)</b>	<b>(395.1)</b>	<b>(306.3)</b>
<b>EBITDA</b>	<b>2,365.4</b>	<b>1,721.4</b>	<b>1,691.0</b>	<b>1,948.8</b>
AMORTISATIONS AND PROVISIONS	(741.7)	(805.3)	(800.4)	(1,002.4)
<b>EBIT</b>	<b>1,623.7</b>	<b>916.1</b>	<b>890.6</b>	<b>946.4</b>
<b>Financial Expenses</b>	<b>(733.6)</b>	<b>(558.2)</b>	<b>(526.8)</b>	<b>(618.0)</b>
<b>Financial Income</b>	<b>409.8</b>	<b>266.6</b>	<b>246.2</b>	<b>413.7</b>
<b>FINANCIAL RESULT</b>	<b>(323.8)</b>	<b>(291.7)</b>	<b>(280.6)</b>	<b>(204.2)</b>
<b>RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD</b>	<b>2.4</b>	<b>(138.5)</b>	<b>1.6</b>	<b>(53.1)</b>
<b>RESULTS FROM NON-RECURRING ASSETS</b>	<b>5.9</b>	<b>10.8</b>	<b>53.8</b>	<b>(84.4)</b>
<b>PBT</b>	<b>1,308.2</b>	<b>496.8</b>	<b>665.4</b>	<b>604.7</b>
Corporate Tax	(274.9)	288.1	(59.3)	(160.5)
Minorities	(11.0)	(6.6)	(6.0)	(4.2)
<b>NET PROFIT</b>	<b>1,022.3</b>	<b>778.2</b>	<b>600.2</b>	<b>440.0</b>

	Eur M			
2011	JAN-MARCH 2011	APR-JUNE 2011	JUL-SEP 2011	OCT-DEC 2011
<b>REVENUES</b>	<b>8,483.7</b>	<b>7,066.4</b>	<b>7,818.1</b>	<b>8,279.8</b>
PROCUREMENTS	(5,149.3)	(4,145.5)	(5,005.4)	(4,993.7)
Emission rights consumed	(78.7)	(63.1)	(98.8)	(87.8)
<b>GROSS MARGIN</b>	<b>3,255.7</b>	<b>2,857.9</b>	<b>2,713.9</b>	<b>3,198.3</b>
Emission rights allocated	65.3	46.2	63.9	73.6
<b>BASIC MARGIN</b>	<b>3,321.0</b>	<b>2,904.1</b>	<b>2,777.8</b>	<b>3,271.9</b>
<b>NET OPERATING EXPENSES</b>	<b>(784.7)</b>	<b>(919.9)</b>	<b>(884.5)</b>	<b>(928.0)</b>
<b>Net Personnel Expense</b>	<b>(407.8)</b>	<b>(438.1)</b>	<b>(434.7)</b>	<b>(362.8)</b>
Personnel	(531.8)	(552.5)	(567.0)	(500.2)
Capitalized personnel costs	123.9	114.4	132.3	137.4
<b>Net External Services</b>	<b>(376.9)</b>	<b>(481.9)</b>	<b>(449.9)</b>	<b>(565.2)</b>
External Services	(486.0)	(570.5)	(524.0)	(694.4)
Other Operating Income	109.1	88.6	74.2	129.3
<b>LEVIES</b>	<b>(262.9)</b>	<b>(252.7)</b>	<b>(312.4)</b>	<b>(279.0)</b>
<b>EBITDA</b>	<b>2,273.3</b>	<b>1,731.4</b>	<b>1,580.8</b>	<b>2,064.9</b>
AMORTISATIONS AND PROVISIONS	(670.4)	(707.6)	(692.4)	(1,074.9)
<b>EBIT</b>	<b>1,602.9</b>	<b>1,023.8</b>	<b>888.4</b>	<b>990.0</b>
<b>Financial Expenses</b>	<b>(824.8)</b>	<b>(522.6)</b>	<b>(382.7)</b>	<b>(800.7)</b>
<b>Financial Income</b>	<b>598.3</b>	<b>224.9</b>	<b>109.1</b>	<b>536.6</b>
<b>FINANCIAL RESULT</b>	<b>(226.5)</b>	<b>(297.7)</b>	<b>(273.6)</b>	<b>(264.1)</b>
<b>RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD</b>	<b>7.1</b>	<b>11.6</b>	<b>10.3</b>	<b>(63.6)</b>
<b>RESULTS FROM NON-RECURRING ASSETS</b>	<b>21.2</b>	<b>(0.4)</b>	<b>20.7</b>	<b>4.3</b>
<b>PBT</b>	<b>1,404.7</b>	<b>737.3</b>	<b>645.9</b>	<b>666.5</b>
Corporate Tax	(325.6)	(167.8)	(58.7)	3.0
Minorities	(64.3)	(20.7)	(7.8)	(7.9)
<b>NET PROFIT</b>	<b>1,014.8</b>	<b>548.9</b>	<b>579.3</b>	<b>661.6</b>

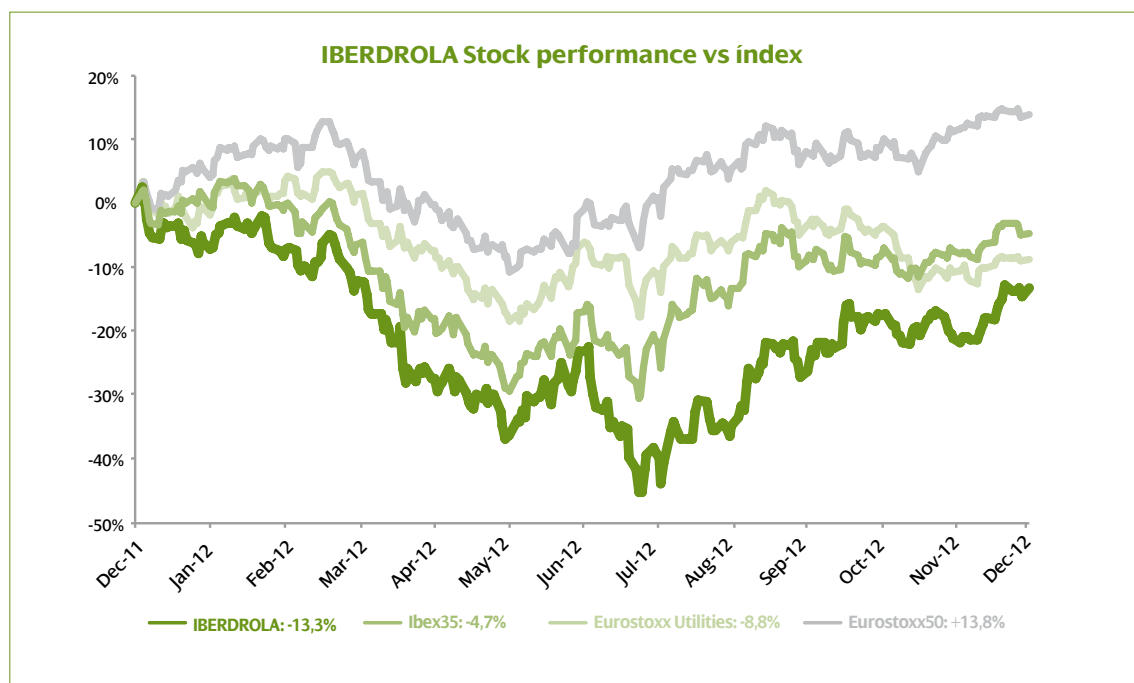
## Statement of Origin and Use of Funds

2012 (Unaudited)

Eur M

	December 2012	December 2011	Difference
EBIT	4,377	4,505	(128)
Amortisations	2,816	2,617	199
Provisions	534	528	6
Other personnel and capitalised costs	(308)	(466)	158
<b>Operating Cash Flow</b>	<b>7,419</b>	<b>7,184</b>	<b>235</b>
Interest paid	(1,628)	(1,609)	(19)
Interest received	339	401	(62)
Dividends received from affiliates	23	9	14
Taxes	(686)	(745)	59
<b>Cash Flow</b>	<b>5,467</b>	<b>5,240</b>	<b>227</b>
Dividend paid	(178)	(175)	(3)
Acquisition of free-of-charge share allocation rights	(834)	(551)	(283)
<b>Retained Cash Flow</b>	<b>4,455</b>	<b>4,514</b>	<b>(59)</b>
Total Cash Flow allocations:			
<i>Investments</i>	<i>(3,676)</i>	<i>(4,002)</i>	<i>326</i>
<i>Treasury stock</i>	<i>(126)</i>	<i>(115)</i>	<i>(11)</i>
<i>Non core divestments</i>	<i>6</i>	<i>3</i>	<i>3</i>
<i>Disposal of Group Companies</i>	<i>258</i>	<i>144</i>	<i>114</i>
<i>Taxes on investment activities</i>	<i>(6)</i>		<i>(6)</i>
<i>Pension &amp; Others</i>	<i>(318)</i>	<i>(347)</i>	<i>29</i>
Total Cash Flow allocations	(3,862)	(4,317)	455
Capital subsidies	447	536	(89)
Change in working capital and others	(585)	829	(1,414)
<b>Decrease/(Increase) in debt</b>	<b>455</b>	<b>1,562</b>	<b>(1,107)</b>
Exchange rate conversion differentials	160	(253)	413
Capital Issue	(1)	1,903	(1,904)
Renewables minorities acquisition		(2,516)	2,516
Elektro financial debt perimeter modification		(502)	502
Elektro acquisition financing		(1,672)	1,672
<b>Decrease/(Increase) in gross debt</b>	<b>614</b>	<b>(1,479)</b>	<b>2,093</b>
Financial debt	509	(1,549)	2,058
Capital inst. w/nature of financial liability	105	70	35

## Stock Market Evolution



IBERDROLA Share	12M 2012	12M 2011
Number of shares outstanding	6,138,893,000	5,882,490,000
Price at the end of the period	4.195	4.839
Average Price of the period	3.69	5.57
Average daily volume	49,087,316	39,287,252
Maximum volume (06-25-2012 / 03-14-2011)	435,328,652	136,881,802
Minimum volume (12-24-2012/ 07-04-2011)	10,020,273	12,732,431
Dividends paid (€)	0.341	0.337
Interim (01-20-2012/12-22-2010)	0.146 <sup>(1)</sup>	0.146 <sup>(1)</sup>
Additional dividend (07-04-2012/ 07-23-2012 and 08-01-2011)	0.190 <sup>(2)</sup>	0.186 <sup>(2)</sup>
Shareholders' Meeting attendance bonus	0.005	0.005
Dividend yield <sup>(3)</sup>	8.13%	6.96%

(1) Iberdrola guaranteed fixed price for the rights.

(2) Cash dividend of EUR 0.03 (07-04-2012) and (07-13-2011), and fixed guaranteed price by Iberdrola of EUR 0.160 (07-23-2012), EUR 0.156 (08-01-2011).

(3) 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.

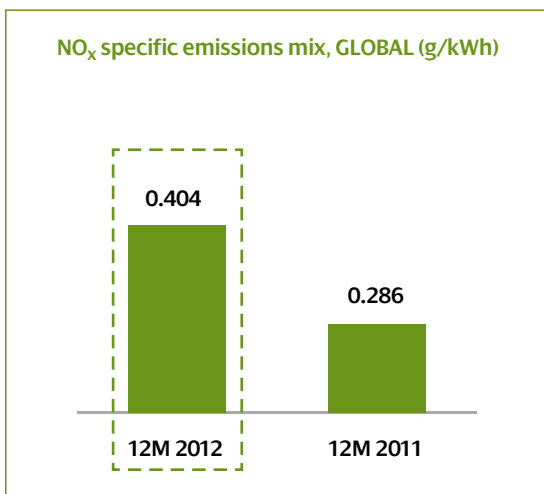
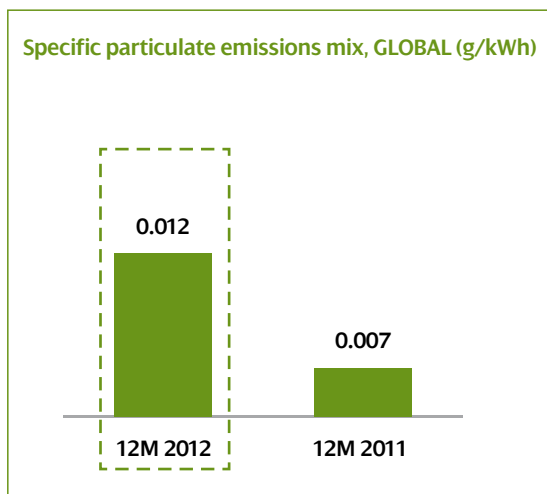
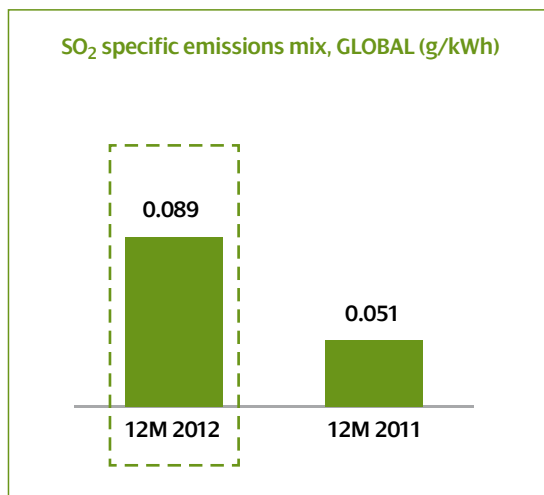
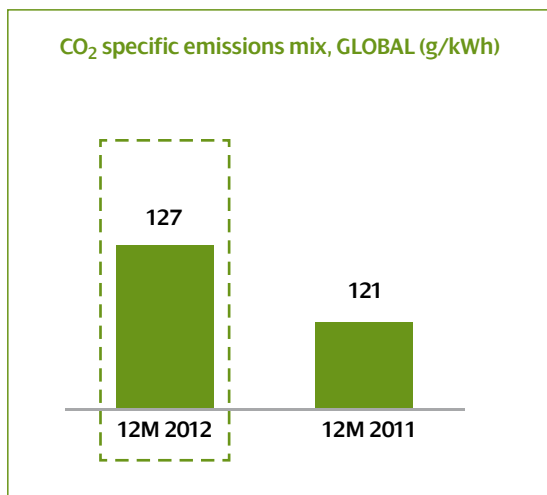
### 1. SUSTAINABILITY INDICATORS

Sustainability Indicators	12M 2012	12M 2011
Contribution to GDP (Gross Margin) (*)	0.56%	0.58%
Contribution to GDP (Net Revenues) (*)	1.70%	1.56%
Investments in equipment (EUR million)	3,259.4	3,537.4
Investment in clean generation over the total investments in generation (%)	85%	89%
Net profit (EUR million)	2,840.7	2,804.5
Dividend yield (%) (**)	8.13%	6.96%
CO <sub>2</sub> emissions in the period (gr. CO <sub>2</sub> /kWh). Total	264	248
CO <sub>2</sub> emissions in the period (gr. CO <sub>2</sub> /kWh). Spain	127	121
CO <sub>2</sub> emissions in the period (gr. CO <sub>2</sub> /kWh). SPW	722	588
Total emission-free production (GWh)	69,705	70,764
Spain emission-free production (GWh)	47,276	50,328
Emission-free production out of total production (%)	52%	49%
Spain emission-free production out of total production (%)	83%	79%
Total emission-free installed capacity (MW)	27,336	26,799
Spain emission-free installed capacity (MW)	18,315	17,904
Total emission-free installed capacity (%)	59.4%	58.2%
Spain emission-free installed capacity (%)	72%	70%

(\*) Source: Iberdrola Results and National Quarterly Accounting for Spain – INE. (Last data published Q3 2012).

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

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



## 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 12	Worldwide leader
FTSE 4Good	First utility with nuclear assets to meet standards for ftse 4Good
Carbon disclosure Leadership Index	Iberdrola Selected
Carbon disclosure Performance Index	A category Iberdrola
Storebrand Investment SRI	Best in class, 2nd global utility
Global 100 Most Sustainable Corp. in the World 2012	Iberdrola, among the 100 most sustainable companies in the world for seventh consecutive year.
Global Roundtable on Climate Change	Iberdrola, one of the developers
Sustainability Yearbook 2012	Classified as "Gold Class" in the electricity sector
European Business Awards 2012	Ruban D'Honneur 2012 in the Environment and Sustainability category
Green Rankings 2012 Newsweek	Iberdrola, one of the 8 Spanish companies and 18 global utilities selected
MERCO 2012	Leader among Spanish utilities: electricity, gas, and water industry
Norges Bank Investment Management	Recognition to Iberdrola for reporting on risks related to climate change
Clean Tech & Energy Awards 2012 The New Economy	Iberdrola "Best Clean Energy Company (Europe) 2012" for second consecutive year
International Green Awards 2012	Iberdrola silver award in the "Most sustainable large corporate in 2012" category
OEKOM Research	Prime Category

### 3. CONTRIBUTION TO SOCIAL DEVELOPMENT

The most significant actions of Iberdrola during 2012, with regard to social commitment, have been as follows:

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

- **Code of Ethics Update**

Iberdrola's Code of Ethics has been updated. It contains information regarding the company's commitment towards the principles of corporate ethics and transparency in all scopes of action. This new version also includes the functions of the Code of Ethics Committee within the Company's Corporate Government System. Within the framework of internal diffusion of the new Code, training sessions have been held for the management team regarding this update. More than 300 members of the team attended these sessions.

- **Iberdrola, leader of the Dow Jones Sustainability Index**

Iberdrola has been listed as the best company in the world in the utilities sector in the prestigious Dow Jones Sustainability Index for 2012 (DJSI). This Index deemed to be the main point of reference worldwide for recognising the contribution of companies to sustainable development, recognises Iberdrola's effective global strategy by placing it at the top of the Index and making it the only power company in the world selected in all 13 years since the creation of the DJSI.

- **Iberdrola included in the Global 100 for the 7th consecutive year**

Iberdrola is the only Spanish electricity company included in the *2012 Global 100 Index of Most Sustainable Corporations in the World*, presented in Davos (Switzerland) during the World Economic Forum. The 2012 index only includes four Spanish companies.

- **Iberdrola, included in the Carbon Disclosure Project (CDP) Indices**

For the first time, the Company is included in both the *Carbon Performance Leadership* and the *Carbon Disclosure Leadership* Indices, produced by CDP. Iberdrola has been selected for inclusion in both Indices for its performance in terms of sustainability, its relationships with stakeholders, its strategy for fighting climate change and its transparent communication, both internally and externally.

- **Award for Iberdrola's information transparency**

Our Company has been chosen, for the second consecutive year, as the private company with the best information policy, according to a survey carried out with more than 100 media established in Spain.

#### 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.

- **Shareholders and Financial Community**

Our company has set up two new channels for communication with its shareholders:

- ✓ *Quick Shareholders Guide*: a space to access all information of interest from the Group's corporate website.
- ✓ *On Line Shareholders (OLS)*: an interactive system accessible from the corporate website, offering access to Company information, enquiries and the possibility of exercising the rights to information, representation and remote voting for the General Shareholders' Meeting, as well as following it live.

OLS also includes an *Ethics Mailbox* to inform the Company of behaviour that could be deemed contrary to the Code of Ethics or the Corporate Governance System of Iberdrola.

- **Customers**

Elektro has received the prestigious 2012 National Abradee Award, awarded by the Brazilian Association of Electric Power Distributors, which distinguishes it as Brazil's best electric power distributor. Elektro has also obtained the awards for the *Customer Satisfaction* and *Operational Management* categories.

In addition, within its Energy Efficiency Plan, Elektro is carrying out a Programme for replacing incandescent bulbs with compact fluorescent lights among residential, low

income customers with the right to subsidised rates. It will replace more than 60,000 bulbs, benefiting more than 12,000 customers in different Brazilian cities.

Iberdrola has extended to the whole Spanish territory its adhesion to the Consumer Arbitration System, which was previously effective in 11 Spanish Regions (Comunidades Autónomas). The aim of this system is to improve service to clients, through effective, fast, free and friendly resolution of possible conflicts and claims.

Our Company has incorporated a video-interpretation service in sign-language for deaf clients. This service enables communication with the Company through a platform that provides real time connection through video with sign-language interpreters. This is the first initiative of this kind that has been implemented in the energy sector in Spain.

- **Suppliers**

Iberdrola has become a member, as a "*Entidad Amiga*", of the *RSE-PYME Initiative*, promoted by the Official Credit Institute (ICO) and the Spanish UN Global Compact Network. It has disseminated this Initiative among more than 1,000 supply companies nationally, offering them training, free advisory services and an IT tool to facilitate the development of CSR programmes and the drafting of sustainability reports.

- **Entrepreneurs**

ScottishPower was one of the headline partners of the renowned Global Entrepreneurship Congress (GEC) held in Liverpool. The aim of the Congress is to provide new ideas to

promote economic growth. More than 3,000 international delegates attended, as well as personalities from the world of politics, business and successful entrepreneurs.

- **Environment**

Elektro has signed an agreement with the Secretariat for Energy and the Secretariat for Economic Development of São Paulo to create the “*Energy Efficiency*” discipline at Technical Schools and Technology Colleges in this Brazilian State.

- **Social Networks**

Iberdrola, within the framework of its commitment to social networks and new channels of communication, has launched a corporate blog to share the Company’s news across the world, offering information about its projects and initiatives.

### 3.3.- Staff

- **Volunteer Programme**

Within Iberdrola’s Volunteer Programme, in which more than 2,000 professionals of the Group take part and which has offers thousands of volunteering opportunities, the following actions can be highlighted from the period:

- ✓ **International Volunteer Programme.** Iberdrola held its 3<sup>rd</sup> International Volunteer Day, in which 800 employees from Spain, the United Kingdom, the United States, Brazil and Mexico participated. In addition, it has set up the initiative *Iberdrola-Sao Paulo 2.0*, an international cooperation project that aims to provide training to a group of teenagers (aged between 12 to 14) in Brazil at risk

of social exclusion, in collaboration with *Fundación Deporte Integra*.

- ✓ **Iberdrola Tree Days.** Iberdrola held its fifth Tree Day in Bermeo (Vizcaya), in collaboration with the Gorabide Association and the Lurgaia Foundation. In addition, Elektro has promoted among its employees and customers a tree planting campaign, offering advice on its cultivation.
- ✓ **Volunteer Days.** A series of volunteer days devoted to games and sports and aimed at people with disabilities in Navarra, Madrid, Castilla-León, Valencian Community, Castilla-La Mancha, Murcia, Extremadura, Galicia and the Basque Country have been held.

- **Family-Friendly Company at the Iberdrola Group**

Iberdrola has renewed its Family-Friendly Company certification, with a package of more than 70 cutting-edge measures supporting the reconciliation of work and family life. This has allowed it to obtain the *B+ Proactive Company* category, which is the highest certification possible.

In its search for reconciling the professional and personal lives of its employees and as a member of the group of family-responsible businesses, Iberdrola Engineering offers its professionals a set of activities organised by the *Fundación +Familia*.

- **Elektro, chosen as Brazil’s best company to work for**

Elektro has been selected as the *Best Company to Work For in 2012*, by the guide *Você S/A*.

The selection procedure combines employee surveys, visits to facilities and meetings with professionals of the management teams of the more than 500 Brazilian companies that have participated in this year's publication.

### 3.4 Community Action

#### a) Training and Research

##### **Call for scholarships in the United States**

Within the framework of its Research Scholarships and Grants Programme, on 15 November Fundación Iberdrola opened a call for scholarships for masters in Energy and the Environment in the United States.

These scholarships are intended to graduates or students with a degree, of Spanish, British or American nationality, who can extend their studies in the prestigious universities of Rochester and Maine during academic year 2013-2014.

The deadline for applications is 15 February 2013.

#### b) Sustainability and Biodiversity

##### **Collaboration in the Recovery of Endangered Species Programmes of the Region of Madrid**

From October to December the Region of Madrid organized a cycle of 10 conferences on black storks, with a view to spreading knowledge of these birds, the conservation problems they face and the measures being taken in the region to improve their situation. The conferences were accompanied by a

travelling exhibition and were held at the environmental education centres in the region.

Out of three planned ringings of the Spanish Imperial Eagle to fit GPS devices, it was possible to carry out two in November and December, pending the third. The information provided by these devices will be valuable for identifying and delimiting the breeding and home range areas, and subsequently estimate the population of prey in those areas.

##### **Jaime I Award for Environmental Protection**

Fundación Iberdrola has sponsored the Jaime I Award for Environmental Protection, which this year has been bestowed on Professor Juan Luis Ramos Martín for his work on the use of microbes in environmental and biotechnological applications to eliminate pollutants.

The event was held in November in La Lonja of Valencia, and was presided by H.M. Queen Doña Sofía.

#### c) Art and Culture

##### **National Prado Museum Restoration Project**

Fundacion Iberdrola sponsored the restoration of the St. John the Baptist by Titian, which will go on display for the first time until 10 February next at the Prado Museum, along with two other replicas of the same composition from the Galleria dell'Accademia in Venice and the Monastery of El Escorial. The exhibition provides comprehensive information on the extraordinary restoration of the painting.

### **Lighting of the church of “Nuestra Señora de la Asunción” in Valdemorillo**

Fundación Iberdrola has carried out the exterior illumination works of the parish church of Nuestra Señora de la Asunción, located in the Madrid municipality of Valdemorillo, within the framework of collaboration with the town council.

The works include illumination of both façades, which provide access to the church and the bell tower, using led lights that will ensure energy efficiency and an excellent chromatic reproduction.

### **“Románico Atlántico” Project**

The intervention carried out to restore the chapel of Cristo de la Misericordia in Hinojosa de Duero (Salamanca) was completed. The intervention focused mainly on renovating the interior lightning, bringing considerable saving in energy consumption and in the surroundings of the chapel. The inauguration took place on 3 October.

Since the beginning of the Plan, 49% of the budget for Castilla-León has been executed and 20% in Portugal. A total of nine churches have been completed (6 in Castilla-León and 3 in Portugal).

### **Collaboration between the ScottishPower Pipe Band and the Royal Bagpipe Band of the County Council of Ourense**

In November the ScottishPower Pipe Band and the Royal Bagpipe Band of the County Council of Ourense held a special twinning ceremony at the city’s University campus to foster musical and cultural cooperation between the two bands. The event marked the beginning of a

Celtic collaboration of the two pipe bands, which are among the world’s best in their field.

The event was attended by the founder and chief artistic director of the Royal Bagpipe Band, Xosé Lois Foxo, and Pipe Major from the ScottishPower Pipe Band, Chris Armstrong.

### **ScottishPower Story Generator Competition**

In December, ScottishPower, in collaboration with the Edinburgh International Book Festival, launched, for the second consecutive year, the Story Generator competition, whose aim is to promote reading, writing and creativity among secondary school students.

Students were given the first sentence of the book Code Name Verity, by renowned children’s writer Elizabeth Wein as the starting point to create their own story. More than 35 schools from all over Scotland registered to take part in the competition, which was won by Wellington School, in Ayr. The prize consisted of a donation of books.

### **Duke of Edinburgh’s Award (DofE)**

In November, ScottishPower organised the Duke of Edinburgh’s Award prize giving ceremony at Glasgow’s City Chambers, celebrating the achievements of more than 200 local teenagers.

A total of 201 teenagers aged 16 to 18 received their Bronze DofE Awards, including members of ScottishPower’s Skills for Work Programme and Engineering Foundation Programme, and 15 teenagers received a Silver Award.

#### d) Cooperation and Solidarity

##### “Energy for Solidarity” Social Aid

During the fourth quarter, the projects of all 44 private non-profit organisations benefiting from social aid in Fundación IBERDROLA's third call have made adequate progress. Each project has received financing of up to 20,000 euros, never exceeding 50% of its entire budget, which provides a significant boost to continue contributing to the well-being and quality of life of the groups at risk of social exclusion that they are benefiting.

##### Award from ASIDO Cartagena

In November, Fundación Iberdrola was granted the “Amigo Solidario” of the Association for Comprehensive Care for People with Down's Syndrome in Cartagena and their Families (ASIDO), received during its 11th annual gala. This award acknowledges the support provided by Fundación Iberdrola to ASIDO, who received social aid from the foundation as part of the “Energy for Solidarity” programme.

##### Donation of 2,000 kg of food to the Association El Socorro de los Pobres de Toledo

Fundación Iberdrola has donated 2,000 kg of food to the charity El Socorro de los Pobres de Toledo which delivers to needy citizens in the city of Toledo and surrounding villages. Thanks to this aid, 2,000 families can face their basic food needs.

##### Your Champions Awards 2012

In December The “Your Champions” Awards ceremony, run in partnership between ScottishPower and Trinity Mirror Newspapers, was held. This year they recognised the heroes

of the local communities of Cheshire, Wirral and North-East Wales.

The highlight of the event was the announcement of the Champion of Champions award, which this year went to gymnast Beth Tweddle, in recognition of her charity work and her Bronze Medal in the 2012 London Olympics.

#### 4. CORPORATE GOVERNANCE

Iberdrola's corporate governance highlights during financial year 2012 were as follows:

- On 13 January 2012, Iberdrola informed the CNMV (Spanish Securities Market Commission) of the opening of a digital space, accessible from its corporate website ([www.iberdrola.com](http://www.iberdrola.com)), called *Quick Shareholder's Guide*. This tool allows shareholders to access, among other contents, to the key economic and financial information on the Company, as well as Group strategy and information regarding shareholder rights (especially with regard to dividend policy) or to access information regarding General Shareholders' Meetings.

In addition, within this digital space, a section called *Shareholder Services* is provided, where shareholders can raise any questions they may have regarding the various matters related to Iberdrola Group's share price and policies.

- In connection to the second execution of the increase of paid-up share capital related to the *Iberdrola Dividendo Flexible* system and following the significant events published on 26 October and 30 December 2011, Iberdrola reported on 17 January the issue of 90,375,000

new shares with a per unit nominal value of EUR 0.75, with the nominal amount of capital increase of EUR 67,781,250.00, a 1.536% increase with regard to the share capital prior to the second capital increase execution.

As a result, updated share capital stands at EUR 4,479,648,750, represented by 5,972,865,000 shares with a nominal value of EUR 0.75 each, fully subscribed and paid-up.

- On 18 January 2012, Iberdrola Finanzas, S.A., under its *Euro Medium Term Note Programme* debt issue, closed a notes issue on the Euromarket, with the guarantee of Iberdrola, amounting to EUR 400 million.
- In connection with the negotiations held between SP Transmission Limited (ScottishPower) and representatives of the British regulator Ofgem (Office of Gas and Electricity Markets) within the process of approval of the retribution conditions applicable to electricity transmission business, on 24 January 2012, Iberdrola informed the CNMV that the British regulator officially announced that ScottishPower's proposal is eligible for fast-track processing and that it considers that, in general, it provides good value to clients. As a result, a recognized investment is approved for the amount of 2,600 million pounds sterling, which means that the regulatory value of ScottishPower's transmission assets shall increase by 220% to 3,200 million pounds sterling.
- On that same date, Iberdrola announced the agreement to deliver shares to the Group's employees as part of the variable remuneration accrued in financial year 2011.
- On 25 January 2012, the subsidiary Iberdrola International B.V., closed a notes issuance on the Swiss market, with the guarantee of Iberdrola, for an initial amount of 250 million Swiss francs.
- On 30 January 2012, the Company submitted its energy production figures for the year 2011.
- The Board of Directors of Iberdrola, in its meeting of 20 February 2012, prepared the individual and consolidated annual accounts and management reports of the Company, corresponding to the financial year ending 31 December 2011, as well as the proposals to distribute a dividend in cash 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 23 February 2012, Iberdrola submitted its Results Presentation and *Annual Corporate Governance Report* corresponding to financial year 2011 to the CNMV.
- On 27 March 2012, Iberdrola announced a notes issue on the euromarket and an exchange of notes. In this regard, the subsidiary Iberdrola International B.V., closed a notes issuance on the euromarket, with the guarantee of Iberdrola, for an amount of EUR 1,000 million. These notes shall be exchanged entirely or partly for the notes acquired by Barclays Bank plc, as a result of the repurchase offer made by this bank, in accordance with the terms and conditions established in the corresponding

Tender Offer Memorandum dated 27 March 2012.

Subsequently, on 4 April, Iberdrola announced that on 11 April 2012, there would be an exchange of 9,041 Series 100 notes issued on that date by Iberdrola International B.V. with the guarantee of Iberdrola.

- On 13 April, Iberdrola submitted its energy production figures corresponding to the first quarter of 2012.
- On 3 May, Iberdrola informed the decision of Standard & Poor's credit rating agency to keep the long-term credit rating of Iberdrola at "BBB+" and the short-term credit rating of Iberdrola at "A-2". In addition, the credit rating agency revised the outlook of Iberdrola from "Negative" to "Stable".
- On 9 May 2012, Iberdrola informed to the CNMV the execution by the subsidiary of Iberdrola, Iberdrola International B.V., a financial transaction consisting of a term loan amounting to EUR 536 million and a revolving credit facility amounting to EUR 464 million, with the unconditional and irrevocable guarantee of Iberdrola, S.A.
- On 10 May 2012, Iberdrola submitted its Results Presentation for the first quarter of 2012 to the CNMV.
- Iberdrola published on 22 May 2012 the estimated timetable for the first execution of the increase of the paid-up share capital relating to the *Iberdrola Dividendo Flexible system*.

The Board of Directors of Iberdrola agreed on 22 June 2012 to carry out the first implementation of the paid-up in capital increase approved by the General Shareholders' Meeting of the Company held on that same date under item six on the agenda.

Subsequently, on 29 June, Iberdrola informed of the decision of the Board of Directors to proceed to modify the object of purchase commitment of free-of-charge allocation rights that Iberdrola has assumed in relation to the first implementation of increase of paid-up share capital. As a result, the aforementioned purchase commitment will be extended to the free-of-charge allocation rights freely allocated to those who are registered in the book-entry records of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (IBERCLEAR) at 23:59, Madrid time, on the day of publication of the notice of the first implementation of the paid-up capital increase in the Official Bulletin of the Commercial Registry; with the exception of those rights that have been transferred on the market.

Moreover, on 2 July, a document was published as a supplement to the information memorandum regarding the first implementation of the paid-up capital increase charged to reserves approved by the General Shareholders' Meeting of 22 June 2012.

Lastly, on 19 July 2012, Iberdrola reported the issue of 166,028,000 new paid-up shares of the Company within the framework of the first implementation of the paid-up capital increase ("*Iberdrola Dividendo Flexible*").

- On 11 July 2012, the Company submitted its energy production figures for the first half of 2012.
- On 12 July the Company reported to the CNMV the signing of an agreement with the North American company Direct Energy Services, LLC, for the indirect transfer of 100% of Energetix, Inc. and NYSEG Solutions, Inc. for a combined price of 110.2 million dollars. Both are unregulated gas and electricity retail companies based in the state of New York (United States of America).
- On 25 July 2012, Iberdrola submitted its Presentation of Results for the first semester of 2012 to the CNMV.
- On 2 August, Iberdrola informed the decision of Fitch Ratings credit rating agency to keep the long-term credit rating of Iberdrola at “BBB+” and the short-term credit rating of Iberdrola at “F2”. In addition, it decided to maintain its Rating Watch as “Negative” for both long-term and short-term ratings.
- On 10 September 2012, Iberdrola, S.A., through its subsidiary Iberdrola International B.V., closed an issuance of notes in the Euromarket guaranteed by Iberdrola, for an amount of EUR 750 million.
- Iberdrola reported on 19 September 2012 the signing of an agreement with a wholly owned subsidiary of the Japanese company Mitsui & Co. Ltd. for the indirect transfer of its 13.25% shareholding interest in Gas Natural México S.A. de C.V. that is a company whose corporate purpose is the distribution, marketing and transport of natural gas in Mexico.
- On 9 October 2012, the Company submitted its energy production figures for the third quarter of the year.
- On 15 October 2012, Iberdrola, S.A, through its subsidiary Iberdrola International B.V., closed an issuance of notes in the Euromarket, guaranteed by Iberdrola S.A., for an amount of EUR 400 million.
- Iberdrola published on 23 October the estimated timetable for the second execution of the increase of the paid-up share capital relating to the *Iberdrola Dividendo Flexible* system.

Subsequently, on 17 September, the Company reported to the CNMV an increase, for an amount of EUR 250 million, the issuance of notes in the Euromarket announced on 10 September 2012.

The Board of Directors of Iberdrola agreed on 20 November 2012 to carry out the second execution of the paid-up in capital increase approved by the General Shareholders' Meeting held on 22 June 2012.

Subsequently, on 28 December 2012, the Company published a supplement to the information memorandum regarding the second execution of the paid-up capital increase charged to reserves approved by the General Shareholders' Meeting.



The second implementation of the paid-up capital increase was carried out during the month of January 2013, on the occasion of what would have been the traditional payment of the interim dividend corresponding to 2012. As a result, 142,271,000 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 capital increase execution.

- On 24 October 2012, Iberdrola submitted its Presentation of Results for the third quarter of 2012 and the Company outlook for the period 2012-2014 to the CNMV.
- On 28 November 2012, the Company informed about the decision of Standard & Poor's credit rating agency to establish the long-term credit rating of Iberdrola as "BBB" (from "BBB+") and to maintain the "A-2" short-term credit rating of Iberdrola. In addition, the credit rating agency revised the Outlook for the Company from "Negative" to "Stable".
- Iberdrola informed the CNMV on 7 December 2012 of the subscription of an agreement with the German company MVV Energie AG for the acquisition of all of the onshore operating assets of Iberdrola in Germany.

The operation will be implemented through the sale by Iberdrola Renovables Energía, S.A. of its 100% stake of the share capital of Iberdrola Renovables Deutschland, GmbH. Iberdrola Renovables Deutschland, GmbH is the direct owner of four operating wind farms, as well as the holder of the 100% of the company Windpark Jülicher Land GmbH, the owner, in turn, of three operating wind farms. The buyer will also

acquire Iberdrola's credits with regard to the two aforementioned companies which hold the farms.

On 28 December, the Company reported that it reached an agreement with the Belgian company Fluxys SA/NV for the transfer of the indirect shareholding interest held by Iberdrola in Medgaz, S.A., through its wholly-owned subsidiary Iberdrola Generación, S.A., which represents 20% of the share capital of Medgaz. The sale price of the aforementioned stake (including subrogation of the loan granted to Medgaz, S.A.) amounts to EUR 146 million.

- The Company reported that, on 29 December 2012, it reached an agreement to sell all of the onshore operating assets owned by Iberdrola in France. This operation is structured through the sale of 100% of the share capital of Iberdrola Renovables France, S.A.S., which owns, directly or indirectly, 32 onshore operating wind farms. The sale of these operating assets shall be made for an amount of EUR 350 million, plus an additional contingent payment of up to EUR 50 million.
- On 29 December 2012, the government of the Plurinational State of Bolivia approved the Supreme Decree 1448, which nationalised, in favour of the Empresa Nacional de Electricidad ("ENDE"), the shares that Iber Bolivia de Inversiones, S.A. ("IberBolivia") had in the companies Electricidad de La Paz, S.A. (Electropaz), Luz y Fuerza de Oruro, S.A. (ELFEO), Compañía Administradora de Empresas Bolivianas, S.A. (CADEB) and Empresa de Servicios Edeser, S.A. IberBolivia is a company in which Iberdrola (through Iberdrola Inversiones, S.A.) held 63.39 % of shares. IberBolivia was the direct shareholder of

the following companies: Electropaz (89.5 %), ELFEO (92.84 %), CADEB (93.49 %) and Edeser (88.90 %).

Article 2. III of the Supreme Decree instructs ENDE to pay the value of all of the nationalised shares with the amounts that “shall be established as a result of a valuation process to be carried out by an independent company, commissioned by ENDE, within 180 working days from the publication” of the Decree. The Agreement for the promotion and reciprocal protection of investments between the Kingdom of Spain and the Republic of Bolivia of 2001 demands that the compensation should be equivalent to the market value of the investment at the time immediately prior to its expropriation.

### Board of Directors

The Board of Directors of Iberdrola, in its session held on 24 April 2012, accepted the resignation of the directors Mr José Ignacio Berroeta Echevarría and Mr Ricardo Álvarez Isasi.

In turn, it approved the co-opted appointment, following a favourable report from the Nominating and Compensation Committee, of Mr José Luis San Pedro Guerenabarrena as executive director and Mr Ángel Jesús Acebes Paniagua as an external director, replacing Mr José Ignacio Berroeta Echevarria and Mr Ricardo Álvarez Isasi, respectively.

In addition, Mr José Luis San Pedro Guerenabarrena was appointed to the position of Chief Operating Officer of the company, with joint and several powers for the management of all the business areas of the group.

In addition, following a favourable report from the Nominating and Compensation Committee, the following agreements were adopted regarding the structure of the Board of Directors committees:

- Appoint Mr José Luis San Pedro Guerenabarrena as member of the Delegate Executive Committee, replacing Mr José Ignacio Berroeta Echevarría.
- Appoint Mr Santiago Martínez Lage, who ceased as member and secretary of the Audit and Risk Supervision Committee, as member of the Nominating and Compensation Committee and appoint Ms. Inés Macho Stadler as chairman of that Committee, all in order to replace the position left by Mr José Ignacio Berroeta Echevarria.
- Appoint Mr Ángel Jesús Acebes Paniagua as member and secretary of the Audit and Risk Supervision Committee, replacing Mr. Santiago Martínez Lage.
- Appoint Ms. Samantha Barber as chairman of the Corporate Social Responsibility Committee, replacing Mr. Ricardo Álvarez Isasi.

In its session held on 23 May 2012, the Company's Board of Directors accepted the resignation presented by Mr. José Luis Olivas Martínez from his position as External Proprietary, and member of the Delegate Executive Committee.

On that same date, based on the proposal of significant shareholder Banco Financiero y de Ahorros, S.A and following a favourable report of the Nominating and Compensation Committee, the Board of Directors agreed to co-opt Mr.

Francisco Pons Alcoy as External Proprietary and as member of the Delegate Executive Committee, replacing Mr. José Luis Olivas Martínez.

On 22 June 2012, the Board of Directors of Iberdrola approved the re-election of Mr. Xabier de Irala Estévez, Ms. Inés Macho Stadler, Mr José Luis San Pedro Guerenabarrena and Mr Francisco Pons Alcoy as members of the Delegate Executive Committee.

The Board of Directors of Iberdrola, in its session held on 21 August, acknowledged the resignation of Mr. Francisco Pons Alcoy from his positions as director of the Company and member of the Executive Committee.

In that same session, the Board agreed the co-opted appointment, at the proposal of the significant shareholder “Banco Financiero y de Ahorros, S.A.” and following the issuance of a favourable report by the Nominating and Compensation Committee, of Mr. Manuel Lagares Gómez-Abascal as external proprietary director and as member of the Executive Committee to fill the vacancy created by the resignation of Mr. Francisco Pons Alcoy.

In addition, on 25 September 2012, the Board of Directors agreed to appoint Mr. Rafael Sebastián Quetglas as secretary non member of the Audit and Risk Supervision Committee.

### General Shareholders' Meeting

In its meeting of 8 May 2012, the Board of Directors of Iberdrola agreed to convene the General Shareholders' Meeting to be held at first session on 22 June 2012, or, if the necessary quorum is not attained, at the second session on

23 June 2012. In addition, the Board approved the payment of a gross attendance bonus of EUR 0.005 per share to 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 10 May 2012.

On 22 June 2012, the General Shareholders' Meeting of the Company was held at first session, with a quorum of 83.27% of the share capital (21.43% present and 61.84% represented), with the approval of each and every agreement put to vote that had been included in the meeting agenda published on 8 May 2012, as detailed below:

Resolutions relating to the annual financial statements, the management of the Company, and re-election of the Company's Auditor

The shareholders acting at the General Shareholders' Meeting have approved the annual financial statements for fiscal year 2011 of Iberdrola and of its consolidated group, the management reports of the Company and its consolidated group, as well as the corporate management and the activities of the Board of Directors during such fiscal year 2011.

Likewise, the shareholders acting at the General Shareholders' Meeting have approved the reelection of “Ernst & Young, S.L.” as auditor of the Company and of its consolidated group for fiscal year 2012, including the authorization in favor of the Board of Directors to enter into the respective services agreement with “Ernst & Young, S.L.”.

### Resolutions relating to shareholder compensation

The shareholders acting at the General Shareholders' Meeting have approved the application of results proposed by the Board of Directors, which includes the payment of the dividend for the fiscal year ended 2011, in the gross amount of three Euro cents (0.030) per share, with the right to receive it.

In addition, the shareholders acting at the General Shareholders' Meeting have approved a fully-paid increase in the share capital by means of the issuance of new ordinary shares of the Company at a maximum reference market value of two thousand eighteen million Euros, for the free-of-charge allocation of new shares to the shareholders of the Company.

This capital increase has been adopted for the purposes of offering all of the Company's shareholders, under each installment of the increase, newly-issued bonus shares or, ultimately, and through the transfer of the free-of-charge allocation rights that they receive for the shares they hold, the possibility to obtain equivalent value to that of the traditional dividend payments, without the Company's shareholder compensation policy being altered as a result.

Resolutions relating to the composition of the Board of Directors and express authorizations and delegations requested for the Board of Directors

The shareholders acting at the General Shareholders' Meeting have approved the ratification of the following appointments on an interim basis:

- a) Appointment of Mr. José Luis San Pedro Guerenabarrena as director, with the status of "executive director" and with his term of office expiring on March 26, 2015, i.e. the date of the term of office of the member previously in such position, Mr. José Ignacio Berroeta Echevarría, whom he replaces.
- b) Appointment of Mr. Ángel Jesús Acebes Paniagua as director, with the status of "other external director" and with his term of office expiring on March 26, 2015, i.e. the date of the term of office of the member previously in such position, Mr. Ricardo Álvarez Isasi, whom he replaces.

Likewise, the shareholders acting at the General Shareholders' Meeting have approved the reelection, for the bylaw-mandated period of four years, of the following directors of the Company, who will be classified as set out below:

- a) Mr. Xabier de Irala Estévez, with the status of "external proprietary director".
- b) Mr. Iñigo Víctor de Oriol Ibarra, with the status of "external independent director".
- c) Mrs. Inés Macho Stadler, with the status of "external independent director".
- d) Mr. Braulio Medel Cámara, with the status of "external independent director".
- e) Mrs. Samantha Barber, with the status of "external independent director".

In addition, the shareholders acting at the General Shareholders' Meeting have approved the appointment of Mr. Francisco Pons Alcoy as director, with the status of "external proprietary director", for the bylaw-mandated period of four years.

The shareholders acting at the General Shareholders' Meeting have approved likewise, the grant of the following express authorizations and delegations of power to the Board of Directors:

- Authorization, for a term of five years, to issue:
  - a) bonds or simple debentures and other fixed-income securities of a like nature (other than notes), as well as preferred stock, up to a maximum amount of twenty billion Euros, and
  - b) notes up to a maximum amount at any given time, independently of the foregoing, of six billion Euros, including the authorization for the Company to guarantee, within the limits set forth above, new issuances of securities by subsidiaries.
- Authorization to apply for the listing on and delisting from Spanish or foreign, official or unofficial, organized or other secondary markets of the shares, debentures, bonds, notes, preferred stock or any other securities issued or to be issued, and to adopt such resolutions as may be necessary to ensure the continued listing of the shares, debentures or other securities of the Company that may then be outstanding.
- Authorization to create and fund associations and foundations, up to the annual aggregate amount of twelve million Euros and for a maximum period that will expire on the date of

the General Shareholders' Meeting at which the annual financial statements for fiscal year 2012 are approved.

### **Resolutions relating to amendments of the By-Laws and Regulations**

Furthermore, the shareholders acting at the General Shareholders' Meeting have approved:

- a) The amendment of articles 19.1, 19.4, 20.1, 20.2, 20.4 and 23.3 of the By-Laws; and
- b) The amendment of articles 8.1, 8.3, 8.4, 9.2, 12.10 (formerly, 12.9), 13.3, 14.1, 14.2, 28.1, 32.1, and 35.2 of the Regulations for the General Shareholders' Meeting of the Company, and the inclusion of two new articles 12.9 and 13.5.

Resolutions regarding the approval of the corporate website

Likewise, the shareholders acting at the General Shareholders' Meeting have approved the corporate website of Iberdrola, the address of which is: [www.iberdrola.com](http://www.iberdrola.com).

### **Resolution relating to general matters**

Additionally, the shareholders acting at the General Shareholders' Meeting have resolved to authorize the Board of Directors, which may delegate such powers to any one or more of the Executive Committee, Mr. José Ignacio Sánchez Galán, Chairman & Chief Executive Officer, and Mr. Julián Martínez-Simancas Sánchez, General Secretary and Secretary of the Board of Directors, to formalize and execute all resolutions adopted by the shareholders at the General

Shareholders' Meeting, for conversion thereof into a public instrument, and for the interpretation, correction and supplementation thereof or further elaboration thereon until the required registrations have been carried out.

### Consultative vote on the Annual director compensation report

Lastly, the Annual director compensation report has been submitted to the consultative vote of the shareholders acting at the General Shareholders' Meeting, being supported by a large majority of the shareholders present in person or by proxy at the General Shareholders' Meeting.

### CORPORATE GOVERNANCE SYSTEM

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

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

Corporate policies develop the principles reflected in the Company's corporate governance System and contain the guidelines that govern the activities of the Company and the companies of its Group, as well as their directors, executives

and employees, within the context of the Strategic Plan and the vision and values of the Company with regard to corporate governance and regulatory compliance, risk and social responsibility.

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

During financial year 2012, the following updates and reviews of the Corporate Governance System of Iberdrola were made:

- *In its Meeting held on 24 January 2012, the Board of Directors of Iberdrola 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).*
- In addition, on 27 March, the Board of Directors approved the Summary of the Protocol of action for the investigation of possible illicit use of confidential information (insider trading) and the revision of the *Code of Ethics*.
- On 24 April 2012, the partial reform of the Corporate Governance System was agreed, which implied (i) the partial modification of the *General Corporate Governance Policy* and of the *Internal Regulations on the Structure and Functions of the Operating Committee* to incorporate into the Corporate Governance System the figure of COO - Executive Director, and (ii) the partial modification of the *Crime Prevention and Anti-Fraud Policy* and of the *Internal Regulations for Conduct in the Securities Markets* within the framework of the constant

process of updating and improving the different documents that make up the Corporate Governance System.

- On 8 May 2012, the partial reform of the *Code for the separation of activities of the companies of the Iberdrola group carrying out regulated activities in Spain* was approved to implement the recent reforms introduced in Law 54/1997, of November 27, on the Electricity Industry and in the Law 34/1998, of October 7, on the Hydrocarbon Industry by the Royal Decree-law 13/2012, of March 30, by means of which the directives related to internal market in electricity and gas and to electronic communications matters are implemented, and by means of which measures for the correction of the deviations for imbalances between the costs and the incomes of the electric and gas sector are taken.

The Company approved the following modifications on 12 June 2012 (i) partial amendment of the Code of ethics within the framework of the updating and continuous improvement of the various documents composing the corporate governance System and designate the members of the Code of Ethics Committee; (ii) modification of several articles and inclusion of new article 23.5 of the *Regulations of the Board of Directors* to incorporate the *subholding* companies into the structure of the group and improve the coordination mechanisms between the different management bodies of the Company; (iii) incorporation of a new section to article 7 of the *Regulations of the Nominating and Compensation Committee* in order to confer to the committee the competence to report in advance the resolutions concerning the compensation of

the independent directors of other companies of the group; and (iv) modification of the *Internal rules on composition and duties of the Operating Committee*, the *Policy for the definition and coordination of the Iberdrola group and foundations of corporate organization*, the *Crime prevention and anti-fraud policy* and the *General corporate governance policy* in order to better reflect the structure of the group and include in the latter a new paragraph relating to the Code of ethics.

- As a result of the agreements adopted by the General Shareholders Meeting on 22 June 2012, the *By-Laws* and the *Regulations of the General Shareholders Meeting* were modified.
- In connection with the first implementation of the paid-up capital increase (*Iberdrola Dividendo Flexible*), dated 19 July 2012, article 5 of the *By-Laws* of the Company was modified.
- On 18 December 2012 the Board of Directors of Iberdrola approved the reform of the Corporate Government System for the purpose of creating the Compliance Unit, which is provided with its own regulations and which is assigned the competencies of the Code of Ethics Committee and the Regulatory Compliance Unit, both of which disappeared.

As a consequence, the following modifications and approvals take place: (i) modification of the *Regulations of the Board of Directors* and the *Regulations of the Corporate Social Responsibility Committee*; of the *General Corporate Governance Policy*, the *Information and Relations with Shareholders and Markets Policy* and the *Crime Prevention and Anti-Fraud Policy*; modification of the *Internal Regulations for Conduct in the*

*Securities Markets*; as well as the modification of the following texts: *Procedure for Conflicts of Interest and Operations Linked to Directors, Significant Shareholders and Top Management, Internal Regulations for the Treatment of Inside Information (Insider Trading), Action Protocol for Investigating Possible Unlawful Uses of Inside Information (Insider Trading), Summary of the Action Protocol for Investigating Possible Unlawful Uses of Inside Information (Insider Trading), Action Protocol for the Management of News and Rumours, Code for the Separation of Activities of the Companies of the Iberdrola Group Carrying Out Regulated Activities in Spain*; (ii) approval of a new text of the *Code of Ethics* and, lastly, (iii) the approval of the new *Regulations of the Compliance Unit*.

Lastly, on 29 January, the Board of Directors of Iberdrola approved the review of corporate policies, modifying: the *General Corporate Governance Policy, the General Risk Control and Management Policy, the Summary of Corporate Risk Policies, the Summary of Specific Risk Policies of the group businesses, the Environmental Policy and the Occupational Risk Prevention Policy*.

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

### Information Transparency

One of the core principles underlying Iberdrola's corporate governance practices is to ensure maximum transparency in financial

and nonfinancial information provided to shareholders, investors and markets. In this respect, there has been a high level of activity during 2012 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, with the option of addressing them to any of the committees of the Board of Directors, as well as notifying the Regulatory Compliance Unit of any conduct that may imply non-compliance with the corporate governance System, through the Ethics Mailbox.



**CNMV: Relevant Events from October to December 2012**

<b>Date</b>	<b>Event</b>	<b>Registration No.</b>
10/09/2012	The company reports its Energy Production figures for nine months of 2012.	174614
10/15/2012	The company reports on the issuance of notes on the Euromarket by Iberdrola International, B.V. for a principal amount of EUR 400 million.	174824
10/23/2012	The company reports on the estimated dates for the second implementation of the paid-up capital increase relating to the compensation system Iberdrola Dividendo Flexible.	175563
10/24/2012	The Company issues information on the results of the third quarter of 2012.	175574 175576
10/24/2012	The company provides presentations on 'Investor Day 2012'.	175583/175585 175587 175590/175591
11/20/2012	The company reports on the second implementation of the paid-up capital increase approved by the General Shareholders' Meeting of 22 June 2012.	177464
11/28/2012	Standard & Poor's fixes the long-term credit rating of Iberdrola, S.A. at BBB, maintains its short-term rating at A-2 and reviews its outlook from Negative to Stable.	177950
12/07/2012	The company reports on the sale of its onshore operating assets in Germany to MVV Energie AG.	178466
12/18/2012	The company reports on the partial reform of the Corporate Governance System of Iberdrola, S.A.	178834
12/28/2012	Iberdrola reports on the sale of its indirect equity stake in Medgaz.	180576
12/28/2012	The company provides a Supplement to the information memorandum relating to the second implementation of the paid-up capital increase charged to reserves approved by the General Shareholders' Meeting of Iberdrola, S.A. of 22 June 2012.	180622
12/31/2012	The company reports on the sale of Iberdrola's onshore operating assets in France to General Electric, MEAG and EDF Energies Nouvelles.	180629







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