

# First Half

## Results 2013

Quarterly Report



**IBERDROLA**



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## NET PROFIT AMOUNTED TO EUR 1,728.0 MILLION

### Gross Margin reached EUR 6,676.4 million, increasing by 5.8%

- Driven by a growth in all the businesses and countries except Brazil.
- Operating efficiency improved by 7.6%. Net Operating Expenses decreased by 2.2%.
- EBITDA totalled EUR 4,051.0 million (-0.9%), affected by higher Levies (+79.3%) and impacts distorting comparison with H1 2012; the latter recoverable in the course of 2013 and 2014 (temporary excess energy costs in Brazil and ECO energy efficiency Programme in the United Kingdom), as well as unfavourable exchange rates.
- Levies on Generation and Renewables increased by 144% due to tax increases in Spain and UK.

### Recurring Net Profit increased by 2.8% to EUR 1,402.0 million

- EBIT fell by 65.3% to EUR 881.7 million, consequence of extraordinary provisions related with the write-off of the value of certain Renewables and Gas assets (EUR 1,657 million).
- Financial Result improved by 15.2%, due to exchange hedging and lower average balance of Debt.
- Balance Sheet revaluation according to Law 16/2012: Net effect of EUR 1,538 million included in the Corporate Tax.

### 2012-2014 Outlook

- Funds From Operations (FFO) totalled EUR 3,171 million, exceeding the investment made in all businesses.
- Net debt Reduction by EUR 3,225 million during the last 12 months. The leverage stood at 45.0%. EUR 11,945 million of liquidity.
- Divestment reached EUR 1,200 million.
- Tariff deficit securitisation since October 2012 amounts EUR 2,200 million.

## Core Business Figures

Operating Data		H1 2013	H1 2012	%
<b>Net production</b>	<b>GWh</b>	<b>70,989</b>	<b>68,925</b>	<b>3.0</b>
Hydro	GWh	10,214	5,574	83.3
Nuclear	GWh	11,730	12,604	-6.9
Coal	GWh	6,589	8,286	-20.5
Gas Combined Cycle	GWh	20,434	22,319	-8.4
Cogeneration	GWh	3,398	3,232	5.1
Renewables	GWh	18,624	16,911	10.1
<b>Installed capacity</b>	<b>MW</b>	<b>44,950</b>	<b>46,459</b>	<b>-3.2</b>
Hydro	MW	9,883	9,695	1.9
Nuclear*	MW	3,410	3,410	-
Coal	MW	3,178	4,709	-32.5
Fuel-Oil	MW	-	157	-100.0
Gas Combined Cycle	MW	13,073	13,071	-
Cogeneration	MW	1,237	1,246	-0.7
Renewables	MW	14,169	14,171	-
<b>Distributed Electricity</b>	<b>GWh</b>	<b>107,097</b>	<b>107,498</b>	<b>-0.4</b>
<b>Electricity customers</b>	<b>No (mil.)</b>	<b>28.3</b>	<b>27.9</b>	<b>1.4</b>
<b>Gas customers</b>	<b>No (mil.)</b>	<b>3.59</b>	<b>3.39</b>	<b>5.8</b>
<b>Gas supplies</b>	<b>GWh</b>	<b>58,006</b>	<b>51,640</b>	<b>12.3</b>
<b>Gas storage</b>	<b>bcm</b>	<b>2.4</b>	<b>2.4</b>	<b>-</b>
<b>Employees</b>	<b>No</b>	<b>30,583</b>	<b>31,779</b>	<b>-3.8</b>

\* Includes Garoña central.

Operating Data		H1 2013	H1 2012	%
<b>Spain</b>				
<b>Net production</b>	<b>GWh</b>	<b>30,775</b>	<b>28,377</b>	<b>8.5</b>
Hydro	GWh	8,702	4,132	110.6
Nuclear	GWh	11,730	12,604	-6.9
Coal	GWh	483	2,430	-80.1
Gas combined cycle	GWh	775	1,465	-47.1
Cogeneration	GWh	1,313	1,360	-3.4
Renewables	GWh	7,772	6,386	21.7
<b>Installed capacity</b>	<b>MW</b>	<b>25,470</b>	<b>25,735</b>	<b>-1.0</b>
Hydro	MW	8,807	8,619	2.2
Nuclear*	MW	3,410	3,410	-
Coal	MW	874	1,253	-30.3
Fuel-oil	MW	0	157	-100.0
Gas combined cycle	MW	5,893	5,893	-
Cogeneration	MW	394	401	-1.8
Renewables	MW	6,092	6,001	1.5
<b>Distributed Electricity</b>	<b>GWh</b>	<b>45,644</b>	<b>48,065</b>	<b>-5.0</b>
<b>Gas Supplies</b>	<b>GWh</b>	<b>10,541</b>	<b>11,267</b>	<b>-6.4</b>
Consumers	GWh	7,181	8,204	-12.5
Gas combined cycle	GWh	3,360	3,063	9.7
<b>Electricity Users</b> (managed supply points)	<b>No (mill.)</b>	<b>10.85</b>	<b>10.84</b>	<b>0.1</b>
Liberalised market	No	5.35	4.37	22.3
Last resort supply	No	5.51	6.47	-14.9
<b>Gas Users</b> (managed supply points)	<b>No (mill.)</b>	<b>0.798</b>	<b>0.795</b>	<b>0.4</b>
<b>United Kingdom</b>				
<b>Production</b>	<b>GWh</b>	<b>10,845</b>	<b>10,338</b>	<b>4.9</b>
Hydro	GWh	336	328	2.3
Coal	GWh	6,106	5,856	4.3
Gas combined cycle	GWh	2,949	3,032	-2.7
Cogeneration	GWh	4	4	13.9
Renewables	GWh	1,450	1,118	29.7
<b>Installed Capacity</b>	<b>MW</b>	<b>6,133</b>	<b>7,230</b>	<b>-15.2</b>
Hydro	MW	563	563	-
Coal	MW	2,304	3,456	-33.3
Gas combined cycle	MW	1,967	1,967	-
Cogeneration	MW	31	33	-5.8
Renewables	MW	1,268	1,211	4.7
<b>Distributed Electricity</b>	<b>GWh</b>	<b>19,387</b>	<b>19,190</b>	<b>1.0</b>
<b>Gas Storage</b>	<b>bcm</b>	<b>0.03</b>	<b>0.03</b>	<b>-</b>
<b>Gas Supplies</b>	<b>GWh</b>	<b>29,139</b>	<b>24,602</b>	<b>18.4</b>
Consumers	GWh	22,496	17,844	26.1
Gas Combined Cycle	GWh	6,643	6,758	-1.7

Operating Data		H1 2013	H1 2012	%
<b>United Kingdom (Cont.)</b>				
<b>Electricity Users</b> (customers)	<b>No (mill.)</b>	<b>3,490</b>	<b>3,485</b>	<b>0.1</b>
<b>Gas Users</b> (customers)	<b>No (mill.)</b>	<b>2.2</b>	<b>2.0</b>	<b>10.0</b>
<b>United States</b>				
<b>Production</b>	<b>GWh</b>	<b>9,647</b>	<b>9,314</b>	<b>3.6</b>
Hydro	GWh	248	187	32.6
Gas combined cycle	GWh	2	80	-97.5
Cogeneration	GWh	1,364	1,196	14.0
Renewables	GWh	8,034	7,852	2.3
<b>Installed capacity</b>	<b>MW</b>	<b>6,407</b>	<b>6,330</b>	<b>1.2</b>
Hydro	MW	115	115	-
Gas combined cycle	MW	163	163	-
Cogeneration	MW	636	636	-
Renewables	MW	5,493	5,416	1.4
<b>Gas storage USA</b>	<b>bcm</b>	<b>1.77</b>	<b>1.77</b>	<b>-</b>
<b>Gas storage Canada</b>	<b>bcm</b>	<b>0.64</b>	<b>0.64</b>	<b>-</b>
<b>Distributed Electricity</b>	<b>GWh</b>	<b>16,223</b>	<b>15,814</b>	<b>2.6</b>
<b>Gas supplies</b>	<b>GWh</b>	<b>18,326</b>	<b>15,771</b>	<b>16.2</b>
<b>Electricity Users</b> (managed supply points)	<b>No (mill.)</b>	<b>1.84</b>	<b>1.83</b>	<b>0.5</b>
<b>Gas Users</b> (managed supply points)	<b>No (mill.)</b>	<b>0.593</b>	<b>0.598</b>	<b>-0.9</b>
<b>Latinamerica</b>				
<b>Production</b>	<b>GWh</b>	<b>18,704</b>	<b>19,599</b>	<b>-4.6</b>
Hydro	GWh	929	927	0.2
Gas combined cycle	GWh	16,708	17,742	-5.8
Cogeneration	GWh	716	672	6.6
Renewables	GWh	351	258	36.1
<b>Installed capacity</b>	<b>MW</b>	<b>6,013</b>	<b>5,881</b>	<b>2.2</b>
Hydro	MW	398	398	-
Gas combined cycle	MW	5,050	5,048	-
Cogeneration	MW	176	176	-
Renewables	MW	388	258	50.3
<b>Distributed Electricity</b> (under management)	<b>GWh</b>	<b>25,843</b>	<b>24,429</b>	<b>5.8</b>
<b>Customers</b> (managed supply points)	<b>No (mill.)</b>	<b>12.1</b>	<b>11.8</b>	<b>3.1</b>
<b>Rest of the world</b>				
<b>Production</b>	<b>GWh</b>	<b>1,017</b>	<b>1,297</b>	<b>-21.6</b>
Renewables	GWh	1,017	1,297	-21.6
<b>Installed capacity</b>	<b>MW</b>	<b>928</b>	<b>1,284</b>	<b>-27.7</b>
Renewables	MW	928	1,284	-27.7

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



Market Data		H1 2013	H1 2012
Market capitalisation	€ Million	24,865	22,213
Earnings per share (6,130,435,584 shares at 06/30/13 and 5,972,865,000 shares at 06/30/2012)	€	0.28	0.30
Net operating cash flow per share	€	0.517	0.552
P.E.R.	Times	8.98	7.30
Price/Book value (capitalisation to NBV at end of period)	Times	0.73	0.65

Economic/Financial Data			
Income Statement		H1 2013	H1 2012
Revenues	€ Million	16,836.2	16,992.6
EBITDA	€ Million	4,051.0	4,086.8
EBIT	€ Million	881.7	2,539.9
Net Profit	€ Million	1,728.0	1,763.1
Net Operating Expenses/Gross Margin	%	-26.4	-28.5

Balance Sheet		June 2013	Dec. 2012
Total Assets	€ Million	94,098	96,816
Shareholders' Equity	€ Million	35,153	34,085
Net Adjusted Financial Debt <sup>(1)</sup>	€ Million	28,803	30,324
ROE	%	8.0%	8.4%
Financial Leverage <sup>(2)</sup>	%	45.0%	47.1%
Net Debt/Equity Ratio	Times	0.82	0.89

(1) Includes tariff déficit and TEI.

(2) Net Debt/ Net Debt + Shareholder's equity. Includes tariff deficit financing. Excluding tariff deficit, leverage at June 2013 is 43.1%.

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 which materialised in a weak demand in electricity and gas in the Eurozone together with the effect of recent regulatory/fiscal modifications that lower the revenues of liberalised businesses, especially relevant in Spain and the UK.

In this regard, the following is worthy of note:

- In Spain, the period has been marked by an extraordinary hydroelectric and wind resource compared with the same period of the previous year (+119.6% and 20%, respectively) together with a 2.6% reduce in adjusted electricity demand, affecting all market segments.

In the United Kingdom, electricity demand has increased by 0.2%, while gas demand increased by 5.9%.

In Iberdrola USA's area of influence in the East Coast of the United States, the demand figures show a +1.7% increase in electricity and +15.4% in gas.

As for Brazil, demand growth at a rate of 5.8%, compared to the same period of the previous year.

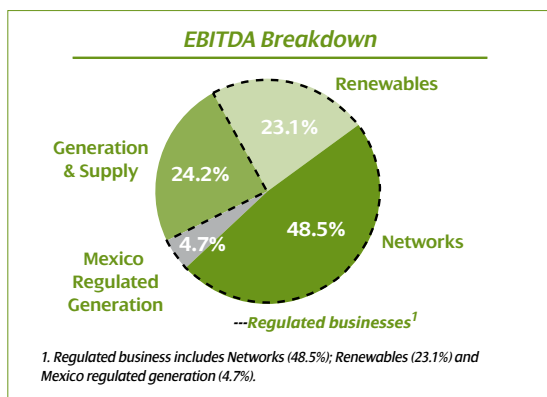
- During the first half of 2013, the international commodities markets evolved as follows:
  - The average price of Brent oil was \$107.88 per barrel compared with \$113.61 per barrel in the first half of last year (-5.0%).

- The average price of gas (Zeebrugge) in the period amounts to 66.33 GBp/therm, compared to 57.50 GBp/therm in 2012 (+15.4%).
- The average price of API2 coal is at \$90.85/MT compared with \$90.15/MT (+0.8%) for the same semester of the previous year.
- The average cost of CO<sub>2</sub> rights has gone down from EUR 8.47/MT in the first six months of 2012 to EUR 4.21/MT in the first half of 2013 (-50%).

- During the period, 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 depreciated by 3.2% and 0.7% respectively, whereas the Brazilian Real has depreciated by 10.9%.
- The total production of the Iberdrola Group in the period increased by 2.5% to 70,639 GWh. This figure includes 30,775 GWh (+8.5%) generated in Spain, 10,845 GWh (+4.9%) in the United Kingdom, 9,297 GWh (-0.2%) in the United States, 18,704 GWh (-4.6%) in Latin America and the remaining 1,017 GWh generated in various countries through renewable energies (-21.6%).
- As at the end of June 2013, Iberdrola has 44,950 MW installed of which 61% produces emission-free energy at very low variable cost.
- The following exceptional highlights should be note with regard to the first six months of the financial year analysed:
  - Sharp increase in the Levies item of the Group (+79.3%), due to:

- In the Generation business in Spain, since 1 January, Law 15/2012 on fiscal measures for energy sustainability is in force, which establishes a 7% tax charge on production and inclusion in the electrical energy system, a canon of 22% on the hydroelectric energy produced, a tax on the production of spent nuclear fuel and a green cent on the production of gas and coal. This has a significant effect on the business's levies figure, of EUR 208 million, except the green cent that is recorded in the Gross Margin.
- In the Generation Business in the United Kingdom there was also an increase in this item by EUR 95 million due to the new environmental programmes established (ECO), whose comparison shall tend to improve as the year progresses, given that the CERT/CESP programmes implemented in 2012 were developed mainly in the second half of the year.
- The Renewables business has also been affected by Law 15/2012 on fiscal measures for sustainability, whose effect on the business is an increase of levies by EUR 45 million.
- In Brazil, the impact of current operating conditions had a total effect of EUR 251 million for distributors in the semester, of which EUR 208 million are financed by the Government (decree no. 7945 of March 2013) and the remaining EUR 43 million will be recovered by the distributors via annual rate reviews (Neoenergia in April and Elektro in August).
- Write-off of assets for the value of EUR 1,657 million corresponding to the review of the portfolio of projects both of Gas USA and Canada (EUR 1,073 million) and of Renewables USA (EUR 585 million).
- Revaluation of Balance sheet: as established in Law 16/2012 of 27 December, the value for tax purposes of certain Spanish assets has been updated, increasing by EUR 6,323 million, in accordance with revaluation coefficients established by said law, in order to include the effect of inflation. The amortisation of this revaluation is tax deductible (EUR 1,854 million), in exchange for paying today a 5% tax on the EUR 6,323 million (EUR 316 million). Under the IFRS, the payment made corresponding to this 5% should be included in the accounts for this fiscal year, as should any fiscal savings of the revaluation (regardless of the saving occurring throughout the remaining useful life of the revalued assets). This is a net positive impact on the results of the first half of EUR 1,538 million, included in the Corporate Tax item.
- Modification of IAS 19; according to this standard which establishes a new accounting treatment for pensions, the figure for 2012 should also be adjusted for interannual comparison purposes. Thus, reported Net Profit moves from EUR 1,800.5 million to EUR 1,763.1 million (EUR -37 million).
- Gross Operating Profit (EBITDA) in the period decline by 0.9% to EUR 4,051.0 million, with

growth in the Renewables business (+10.5%) and a drop in the Generation (-6.1%) and Networks (-0.8%) businesses.



This change is mainly the result of:

- A 5.8% growth in the Gross Margin, with growth in all business and countries except Brazil. This growth is the result of the Group's management in a complex operational environment caused by the economic crisis, with declining demand in European regions where the Company operates, which has been more than offset by an excellent rainfall and wind resource in Spain.
- An improvement of Net Operating Expenses (-2.2%), with an increase in the UK Network business due to the adaptation of the accounting criterion to the standards of the new regulatory frameworks (RIIO-T1 and RIIO-ED1). The higher Levies (+79.3%) are a result of the new charges introduced in Spain by Law 15/2012 on energy sustainability, added to greater expenses in the United Kingdom related to the ECO energy efficiency programme.

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

	H1 2013	Weight %	Change %
Networks	1,965.0	48.5%	-0.8%
Generation and Supply	1,172.2	28.9%	-6.1%
Renewables	937.5	23.1%	+10.5%
Rest	-23.9	-0.5%	N/A
<b>TOTAL</b>	<b>4,051.0</b>	<b>100%</b>	<b>-0.9%</b>

- A 15.2% improvement in the financial result as a result of the lower average debt along with the effects of active management in currency hedging.
- Net Profit totalled EUR 1,728.0 million, a decline of 2.0% compared with the figure of the first half of 2012. This item was affected by different effects of write-offs and revaluation of balance sheet mentioned above.
- Recurring Net Profit amounted to EUR 1,402.0 million (+2.8%)
- The optimisation of financial soundness profile and liquidity as strategic priorities can be summarised as follows:
  - Net Debt dropped by more than EUR 3,200 million since June 2012, to EUR 28,803 million.
  - As of June 2013, Funds From Operations (FFO) came to EUR 3,171.1 million, reflecting a decrease of 3.9%.
  - Liquidity amounted to EUR 11,945 million, enough to cover treasury needs for almost 3 years.

## Operational performance for the period

### 1. NETWORKS BUSINESS

#### 1.1. Spain

At the end of June 2013, Iberdrola had 10.9 million supply points and the total distributed electricity amounted to 45,644 GWh, a 5.0% reduction compared to the same period of the previous year.

During the second quarter of 2013, the TEIPI supply quality indicator (*Interruption Time Equivalent to the Installed Capacity*) rose to 34.8 minutes. The increase in this indicator is due to adverse weather conditions in the first quarter of 2013, which have caused numerous incidents across Iberdrola Networks service area.

The table below shows the TIEPI evolution from 2010:

Year	Cumulative TIEPI
2010	39.9
2011	27.6
2012	26.9
2013	34.8

The investments made by the Networks business in Spain during the first half of 2013 is summarised in the following table:

	Physical Units (June 2013)	TOTAL
<b>Electrical Substations brought into service</b>		4
<b>Extra-high Voltage</b>	Overhead line (km)	51.7
	Underground line (km)	3.0
	Number of Transformers	7
	Capacity Increase (MVA)	590
<b>High Voltage</b>	Overhead line (km)	16.5
	Underground line (km)	4.2
	Number of Transformers	3
	Capacity Increase (MVA)	71
<b>Medium Voltage</b>	Overhead line (km)	14.8
	Underground line (km)	292.2
	Number of Transformers	1
	Capacity Increase (MVA)	18
<b>Secondary Substations</b>	Number of Secondary Substations	405
	Capacity Increase (MVA)	119.5
<b>Low Voltage</b>	Overhead line (km)	113.8
	Underground line (km)	205.1

#### 1.2. United Kingdom

As at 30 June 2013, Iberdrola distributed to more than 3.5 million electricity customers. The volume of distributed electricity during the first six month of 2013 was 19,387 GWh, representing an increase of 1.0% in relation to the same period of the previous year.

During regulatory year 2012-2013 Scottish Power Distribution and Scottish Power Manweb have improved their service levels, so that they received an economic incentive

### 1.3. United States

#### 1.3.1. Distribution

At the end of June 2013, Iberdrola USA had 1.8 million electricity supply points in the United States. The distributed electricity volume to date was 16,223 GWh, an increase of 2.6% compared with the same period of the previous year.

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

	Cumulative SAIFI
Central Maine Power (CMP)	0.81
NY State Electric & Gas (NYSEG)	0.48
Rochester Gas & Electric (RGE)	0.29

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

	Cumulative CAIDI
Central Maine Power (CMP)	2.04
NY State Electric & Gas (NYSEG)	1.91
Rochester Gas & Electric (RGE)	1.70

#### 1.3.2. Transmission

##### Transmission Line in Maine

The project's construction works continue, for a total amount of USD 1,400 million. The investment made in the first half of 2013 amounts to USD 118.2 million and the investment expected at the end of the year is USD 256 M.

#### 1.3.3. Gas

The number of gas customers in the United States at the end of June 2013 was 0.6 million, and gas supplied during the period amounted to 18,326

GWh, up 9.3% from the same period in the previous year.

#### 1.4. Brazil

The evolution of power demand of Brazilian Distributors in the first half of 2013 was as follows:

Energy Distributed (GWh) 100% of business	H1 2013	v. H1 2012	%
Coelba	8,794	8,284	6.2%
Cosern	2,574	2,391	7.7%
Celpe	6,322	5,826	8.5%
Elektro	8,153	7,928	2.8%
<b>TOTAL</b>	<b>25,843</b>	<b>24,429</b>	<b>5.8%</b>

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

Number of customers (million)	H1 2013	v. H1 2012
Coelba	5.27	5.11
Cosern	1.23	1.18
Celpe	3.29	3.19
Elektro	2.33	2.29
<b>TOTAL</b>	<b>12.13</b>	<b>11.77</b>

Regarding the regulated electricity generation, the installed capacity of the projects in operation as at June 2013 is as follows:

Plant	MW *	Attributable MW **
Termope	520	203
Itapebi	450	175
Afluenta	18	8
Rio PCH	39	15
Sitio Grande	25	10
Baguari	140	28
Corumbá III	94	24
Goias Sul	48	19
Dardanelos	261	102
Wind Farms	80	56
<b>TOTAL</b>	<b>1,675</b>	<b>640</b>

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

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

The capacity of Neoenergia's projects under construction at the end of the period is as follows:

Plant	MW *	Attributable MW **	Date
Baixo Iguaçú	350	137	2016
Teles Pires	1,820	356	2014
Belo Monte	11,233	438	2015-2018
Wind Farms	208	145	2013
<b>TOTAL</b>	<b>13,611</b>	<b>1,076</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 the first half of 2013, Iberdrola's installed capacity in Spain (excluding renewables) totalled 19,379 MW, broken down as follows:

SPAIN	MW
Hydro	8,807
Nuclear	3,410
Coal	874
Gas combined cycle	5,893
Cogeneration	394
<b>TOTAL</b>	<b>19,379</b>

#### Spanish Mainland Energy Balance is

characterised by a decline of 3.8% (2.6% adjusted) in the power demand system, while generation under the Ordinary Regime decreased by 17%.

**With regard to Iberdrola**, during the first half of 2013, production under the Ordinary Regime increased 5.1% to 21,690 GWh. The yearly performance by technologies is as follows:

- Hydroelectric production amounted to 8,702 GWh, representing an increase of 110.6% compared with the same period of the previous year due to the higher rainfall during the period. As at 30 June 2013, hydroelectric reserve levels were 78.9% (equivalent to 8,903 GWh).
- Nuclear production reached 11,730 GWh, representing a decline of 6.9%.

- Coal-fired thermal power stations have recorded a 80.1% decrease, amounting to 483 GWh.
- Meanwhile, combined cycle facilities production fell by 47.1% to 775 GWh.

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

	H1 2013	H1 2012
Hydro	37.8%	18.8%
Nuclear	51.0%	57.3%
Coal	2.1%	11.0%
Gas combined cycle	3.4%	6.7%
Cogeneration	5.7%	6.2%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

Regarding to supply, as at 30 June 2013, the portfolio managed by Iberdrola amounted to 14,882,741 contracts, which represents 764,387 more contracts than in the same period of 2012 (+5.4%). The breakdown is as follows:

Electricity contracts	10,640,369	
Gas contracts	797,725	
Contracts for other products and services	3,444,647	
<b>Total contracts</b>	<b>14,882,741</b>	<b>+5.4%</b>

By market type they can be broken down as follows:

	Contracts	%
Liberalised market	9,461,666	64%
Last resort	5,421,075	36%
<b>Total contracts</b>	<b>14,882,741</b>	<b>100%</b>

The energy supplied (electricity and gas) amounted to 30,082 GWh. The electricity supplied in the liberalised market during the first half of 2013 reached 19,152 GWh compared to the 20,773 GWh supplied in the same period of 2012 (-7.8%).

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

- The first half of the year has been characterised by a lower level of demand for natural gas in the whole Spanish system compared to the same period in 2012, mainly due to the drop in gas consumption in electricity production.
- 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 wholesale sales.
- The figure of 1 bcm (one billion cubic metres) of gas supplied to BP and DONG ENERGY has been reached, in accordance with the long-term sale contracts signed with these companies.



- Iberdrola has completed the sale of its 20% stake in Medgaz to CEPSA and Sonatrach. Last month of June the sale of the 20% stake in the share capital of Medgaz was completed, as well as the transfer of the creditor position of the partner loan awarded by Iberdrola Generación to Medgaz. Following the announcement of the agreement reached with Fluxys last December and as a result of the execution of the priority acquisition rights by the two shareholders of Medgaz, Cepsa and Sonatrach, this transaction has been materialised in two tranches. The first of them took place on 20 June and corresponds to the acquisition by Cepsa of a stake of 9.40% of share capital of the company and the subrogation in the proportional part of the mentioned loan for an aggregate amount of approximately EUR 67.62 million. The second tranche took place on 28 June and correspond to the acquisition by Sonatrach of a 10.60% stake of the share capital of Medgaz and the subrogation in the proportional part of the mentioned loan for an aggregate amount of EUR 76.26 million.

### 2.1.2. Portugal

Iberdrola has supplied 2,864 GWh during the first six months of 2013, compared to the 2,885 GWh supplied during the same period of 2012, 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 30 June 2013, installed capacity in the United Kingdom (excluding SPW Renewables) amounted to 4,865 MW. This includes a reduction of 1,152 MW due to the closure of Cockenzie last 15th March 2013.

The breakdown of installed capacity is as follows:

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

With respect to production from traditional electricity generation, during the first six months of 2013 this increased by 2% to 9,396 GWh, compared to 9,220 GWh in the same period of the previous year.

The market share of the Generation business in the first half of 2013 was 6.5%, compared to 6.2% in the previous year. The highlights are as follows, broken down by technology:

- Coal plant production raised by 4.3% to 6,106 GWh compared to 5,856 GWh in the same period of the previous year, despite the closure of Cockenzie in March 2013.
- The production of combined gas cycles dropped by 2.7% to 2,949 GWh compared to 3,032 GWh of the first half of 2012.

- Hydroelectric production increased by 2.3% to 336 GWh, from 328 GWh in the previous year.
- Production by cogeneration facilities (CHPs) increased by 13.9% to 4.5 GWh from 3.9 GWh.

As at 30 June 2013, ScottishPower had 3.4 million electricity customers and 2.2 million gas customers, representing an increase of 0.4 million customers compared to the same period of the previous year (+7.7%).

Regarding supply, at 30 June 2013, were sold 12,909 GWh of electricity and 22,496 GWh of gas to customers, compared to 12,403 GWh of electricity and 17,844 GWh of gas sold during the same period of 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

Iberdrola remains the first private producer in the country with 4,987 MW in installed capacity, broken down as follows:

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

The plan for a 40 MW extension in Enertek continues according to schedule

Electricity demand in Mexico dropped to 1.1% in 2013, compared to 2% in 2012.

Electricity supplied amounted to 16,550 GWh, which is equal to 6,729 equivalent hours on an annual basis. Cumulative availability of the Mexico plants was 92.3%.

Natural gas prices remain low in historical terms, although there has been a significant increase compared to 2012, with an average price of 3.7 USD/MM Btu, which is in any case much lower than prices in Europe and Japan.

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

Gas storage installations exploited by the Company in the first half of 2013 totalled 2.41 bcm; in addition, the Company had 2.1 bcm of contracted or managed capacity.

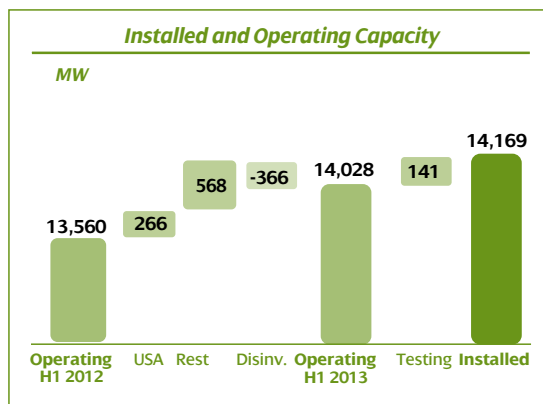
\* Source: Ofgem

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>2.10</b>
<b>TOTAL CAPACITY</b>	<b>4.51</b>

### 3. RENEWABLES

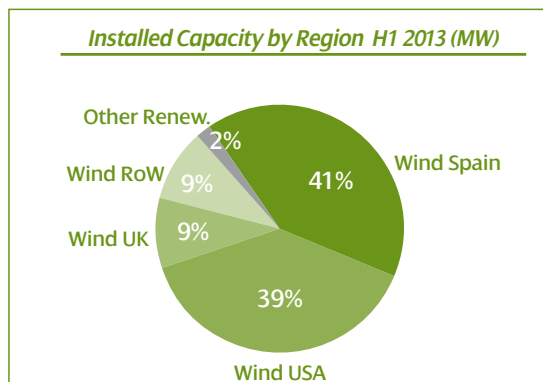
During the last 12 months, Iberdrola installed 364 MW renewables, and in the last quarter of 2012, the Company agreed to sell its operating assets in France and Germany, which amount to 366 MW. As a result, the installed capacity stood at the end of the first half of 2013, at 14,169 MW.

In addition, in the first quarter of 2013 the Company agreed, subject to the pertinent regulatory authorisations, the sale of its operating assets in Poland, which amount to 185 MW. This divestment shall be implemented during the third quarter of 2013.



In turn, operating capacity grows by 3.5% to 14,028 MW after adding 834 operating MW and divesting 366 MW in the last twelve months.

Of the 14,169 MW installed at the end of the first half of 2013, 57% is outside Spain, thanks to a process of geographic diversification being carried out by the company, broken down as follows:



Capacity (MW)	MW
Wind Spain	5,735
Wind USA	5,443
Wind U.K.	1,267
Wind RoW	1,310
Other Renewables	413
<b>TOTAL</b>	<b>14,169</b>

### 3.1. Onshore Wind Energy

After adding 364 MW of wind capacity over the last twelve months, which practically offset the divestments of 366 MW in the last quarter of 2012, Iberdrola has reached a total installed capacity of 13,755 MW. The geographical split is as follows: 5,735 MW Spain, 5,443 MW United States, 1,267 MW United Kingdom and Ireland and 1,310 MW Rest of the World.

#### Spain

At the end of the first half of 2013, installed capacity increased to 5,735 MW, 1.6% higher compared with the first half of 2012.

The new capacity installed in Spain during the last twelve months totals 92 MW, broken down as follows: 64 MW in Asturias, 22 MW in Aragon and 6 MW in Andalucia.

#### United States

The Company has presence in 18 States, with a total installed capacity of 5,443 MW. During the last twelve months, 77 MW have been installed, which implies a 1.4% increase.

#### United Kingdom and Republic of Ireland

Installed capacity at the end of the first half of 2013 amounted to 1,252 MW in the United Kingdom and 15 MW in the Republic of Ireland, after having installed 57 MW in the last twelve months, which implies a 4.7% increase with regard to the same period of 2012.

In addition, there are projects under construction for a total of 159 MW in the United Kingdom, where it is noteworthy the Harestanes project in Scotland, with 136 MW of capacity, already in the installation phase.

#### Rest of the world

Installed capacity at the end of the first half of 2013 amounts to 1,310 MW, broken down as follows:

	Consol MW
Italy	132
Portugal	92
Greece	255
Poland	185
Cyprus	20
Hungary	158
Romania	80
Brazil	179
Mexico	209
<b>Total</b>	<b>1,310</b>

\* Sale agreed, subject to the pertinent regulatory authorisations.

During this period, noteworthy is the 103 MW installed in Brazil and the beginning in Mexico the construction of wind farms for a total of 92 MW.

### 3.2. Offshore Wind Energy

Currently, Renewables is developing offshore wind projects for a total of 6,110 MW, mainly in the United Kingdom (79%), Germany (13%) 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 the first half of 2013, part of the wiring construction began, both onshore and offshore, as well as the works with ships on the seabed and the installation of the foundations. The wind farm is expected to be finished by 2014.

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. In 2011, the connection was established and in 2013, the building permit application has been submitted for the first phase of the project East Anglia ONE, of 1,200 MW of capacity, and further paperwork, engineering and research is being carried out and the contract for the supply and installation of two offshore prospecting towers have been awarded.

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 on the location. During 2013, detailed

engineering, environmental and geotechnical works are being carried out.

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 kilometres from the shore. In 2012, the analysis of the technical and environmental conditions of the site had begun, and in 2013 the geophysical and geotechnical works have started.

### 3.3. Marine Energy

Iberdrola continues with the development of marine technologies to use wave energy following the installation of the Orcadian Wave Farm (1 MW) in 2011. Also, in 2011 the “Pelamis” P-2 prototype was installed for harnessing wave energy. Iberdrola also took part in the installation of the 1 MW Hammerfest Strøm prototype in the European Marine Energy Centre (EMEC) in Orkney, through a joint venture with Andritz Hydro Hammerfest.

Furthermore, the Sound of Islay project, with a 10 MW capacity, on the West coast of Scotland, is continuing its development, making use of the experience acquired in the project Hammerfest Strøm. Iberdrola is completing the development of two other facilities, a tidal facility (Ness of Duncansby) and a wave facility (Marwick Head) that could reach 95 MW and 50 MW, respectively.

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\* Consolidated capacity. Attributable capacity reached 194.5 MW.

### 3.4. Other Renewable Technologies

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

Technology	MW	Country
Mini Hydro	306	Spain (176 MW O. Regime and 130 MW E Regime).
Photovoltaic	56	USA (50 MW) and Greece (6 MW)
Hybrid Gas-Solar	50	Spain
Wave	1	UK
<b>TOTAL MW</b>	<b>413</b>	

### 3.5. Gas cycle plants

The Renewables business has two gas cycle plants located in the state of Oregon, 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

### Share Capital Reduction

On 21 May 2013, Iberdrola Board of Directors approved a share capital reduction of 2.4%, according to the proposal validated by the General Shareholders' Meeting held on March 22 in Bilbao.

The share capital reduction will be carried out through the amortization of treasury stock and a share repurchase plan for subsequent amortization.

### Iberdrola Dividendo Flexible

Within the framework of the seventh edition of the Iberdrola Dividendo Flexible and instead of what would have been the supplementary dividend charged against the results of fiscal year 2012, Iberdrola announced on 1 July 2013 the number of subscription rights required to obtain a new share of the Company free of charge.

Shareholders wishing to receive the supplementary dividend traditionally paid out in the month of July in paid-up shares of Iberdrola must hold 30 subscription rights in order to obtain one new Company share, with no expenses or commissions.

The Iberdrola Dividendo Flexible plan also allows shareholders to receive the remuneration in cash by selling their rights to Iberdrola (at a guaranteed fixed price) or on the open market. If they take the first option the company offers a guaranteed price of EUR 0.130 per share,

with a withholding tax of 21% applicable. Shareholders who prefer to sell their rights in the market will have no fiscal retention, but neither will they benefit from a fixed guaranteed price.

As usual, the default option in this new edition of the Iberdrola Flexible Dividend plan will be the delivery of a new Iberdrola share for every 30 free-of-charge subscription rights. Shareholders who opt to receive their compensation in cash must sell their rights to the Company between the 3rd and 12th of July, or on the open market between the 3rd and 17th of July.

In addition to the guaranteed price offered by Iberdrola and the Eur 0.143 per share paid in January, shareholders will receive a cash dividend of Eur 0.03 per share. The Company thereby maintains shareholder remuneration against 2012 earnings at Eur 0.30 per share.

## 5. OTHER SIGNIFICANT EVENTS

### 5.1. Regulation in Spain

In the second quarter of 2013, a set of provisions was approved affecting the electricity industry. This section presents the most significant changes.

Last 5 June, the Official Gazette -BOE- published **Law 3/2013 on the creation of the National Commission for Markets and Competition -Comisión Nacional de los Mercados y la Competencia-** (CNMC), which groups together the functions of different supervisory and regulatory bodies, among which the National Energy Commission -Comisión Nacional de Energía- and the National Competition Commission -Comisión Nacional de la Competencia-. The Commission will start operating on the date determined by the Minister of Economy and Competition and, in any case, within four months as from the entry into force of this law (6 June).

*The Decision of 26 June 2013 of the General Administration of Energy Policy and Mines revising the electrical energy production costs and the last resort tariffs to be applied as from 1 July 2013* was published on the last day of the quarter. The update of these tariffs includes the cost of energy arising from the CESUR auction held on 25 June.

The 12 July, a regulatory package aimed at solving the problem of the tariff deficit Spanish electricity sector was presented at the Council of Ministers. This package consists of the Royal Decree-Law 9/2013, adopted on the same day and already passed to Law, and various proposals

for new legislation: an electricity sector Bill and numerous Royal Decrees and Ministerial Orders that are currently under public consultation. The package contains mostly economic measures to assure the sustainability of the electricity sector and modifications of several regulated activities remunerations. It also includes a proposal for a Ministerial Order that will implement an Access Tariffs average increase of 6.5% while changing its pricing structure.

## 5.2. Regulation in United Kingdom

### Energy Market Reform (EMR)

As part of the Energy Market Review, on 27 June 2013 the UK Government Department for Energy and Climate Change (DECC) published draft strike prices for the Contract for Differences (CfDs)

for renewable technologies. The CfD duration is 15 years and the price will be fully indexed to Consumer Price Index (CPI). Windfarms commissioned up to 2017 can opt for either Renewables Obligation Certificates (ROC) or CfDs for the life of the project. All existing installations will continue to receive ROCs for the remainder of the agreed period. The Government's analysis underlying the proposed draft strike prices was included in DECC's EMR Delivery Plan published on 17 July 2013. This is now subject to a 10-week consultation period.

The proposed strike prices with over 1 Gigawatt of Potential Deployment are as follows:

RENEWABLE TECHNOLOGY	Draft Strike prices (£/MWh) (2012 prices)				
	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019
Biomass Conversion	105	105	105	105	105
Hydro	95	95	95	95	95
Offshore Wind	155	155	150	140	135
Onshore Wind	100	100	100	95	95
Large Solar Photo-Voltaic	125	125	120	115	110



The UK Government also announced on 27 June that it will run a first capacity auction in 2014 with a delivery year of 2018/19, subject to state aid clearance.

On 17 July DECC published its proposals for a reliability standard which will guide the level of capacity to contract for under the auction process. This is now subject to a 10-week consultation period. Additional work on the Capacity Mechanism design will continue over the summer with a further consultation expected in the autumn.

#### **RIIO ED1**

On 1 July, SP Energy Networks submitted to Ofgem its business plan proposals for SPD and SPM for the period 2015-2023. The proposal includes investing 5,200 million Pounds Sterling, which shall create 2,500 jobs and perform an important role in the transition of the United Kingdom towards a low-carbon emissions economy, in addition to offering significant improvements in reliability and service and cost reductions for clients. This is the greatest investment to date in the distribution network, complementing the 2,600 million pound investment in the transmission network until 2021.

## Analysis of the Consolidated Profit and Loss Account

### 1. RELEVANT INFORMATION

#### 1.1. Energy Business: Spain

##### Revaluation of balance sheet

Law 16/2012 established the option of a voluntary revaluation of balance sheet, in other words, the possibility of revaluing assets (for tax purposes) in accordance with pre-established coefficients in order to include the effects of inflation. Some of Iberdrola's subsidiaries in Spain adopted this option and have updated the value of certain assets. In addition, the same law establishes that the amortisation of the revaluation applied is tax-deductible as from 2015 and throughout the remaining useful life of the assets. Lastly, the law establishes a payment of a levy of 5% of the revalued amount in the financial year when the update is effected.

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

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

##### Tariff Deficit

In accordance with Royal Decree 5/2005 of 11 June, this establishes the provisional financing percentage corresponding to Iberdrola at 35.01% of the total for the Sector. The figure financed by Iberdrola in cumulative terms as at 30 June 2013 amounted to EUR 2,153 million, breakdown as follows: EUR 1,430 million corresponding to financial year 2012 ex post, EUR 671 million for the deficit generated in 2013 and lastly, the remaining EUR 52 million, to financial years prior to 2012.

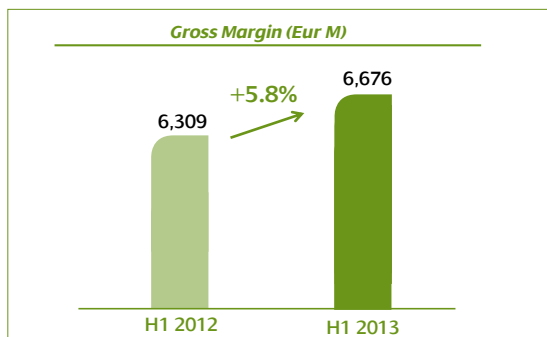
### 2. ANALYSIS OF THE CONSOLIDATED INCOME STATEMENT

The most relevant Results figures for the first half of 2013 are as follows:

Eur Millions	H1 2013	v. H1 2012
REVENUES	16,836.2	-0.9%
GROSS MARGIN	6,676.4	+5.8%
EBITDA	4,051.0	-0.9%
EBIT	881.7	-65.3%
NET RECURRENT PROFIT	1,402.0	+2.8%
NET PROFIT	1,728.0	-2.0%
FUNDS FROM OPERATIONS	3,171.1	-3.9%

#### 2.1. Gross Margin

Gross Margin reached EUR 6,676.4 million, showing an increase of 5.8% from the first half of 2012, due to the positive evolution in all the countries and businesses, despite the unfavorable evolution of the average exchange rates of the main foreign currencies (Dollar -0.7%; Pound Sterling: -3.2%; Real: -10.9%).



By business, we can highlight the following:

- The **Networks business** reduced its contribution by 1.5% amounting to EUR 2,855.6 million. The most significant events in the first half compared to that period in 2012 are:
  - The evolution in Spain (+6.0%) is due to the application of the January 2013 Tariff Order, which updates the regulated income from that activity (+7.2%; EUR +57 million).
  - The United Kingdom registered a 6.3% increase as a result of a greater base of assets to remunerate from the investments made, as a result of the application of the DPCR5 (regulatory framework in force), as well as transmission and distribution cost resulting from RIIO-T1 effect since April 2013, even taking into account the effect of the depreciation of the Pound (-3.2%).
  - The contribution of Iberdrola USA in the period amounted to EUR 736.3 million (+3.7%), as a consequence of the tariff improvements in force, the contribution of the high-voltage transmission line and other positives impacts resulting from the US GAAP-IFRS conversion.
- **Generation and Supply Business**, increases by 12.4% to EUR 2,426.8 million.
  - In Spain, to EUR 1,537.5 million (+13.9%), due to a higher production (+5.1%), as a result of the increase in hydraulic production (+110.6%) and the reduction of combined cycle production (-47.1%), coal (-80.1%) and nuclear production (-6.9%).
  - United Kingdom totalled EUR 633.4 million (+12.7%). 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 (+8%), explain the good performance of this business.
  - Mexico increased its Gross Margin by 0.9% to EUR 248.9 million as a result of the right availability of the generation facilities.
  - USA and Canada (gas): gross margin reached EUR 5.5 million, as a result of higher storage margins in Canada.
- Gross Margin in Brazil decreased by 22.9% to EUR 540.7 million, despite the higher in demand (+5.8%). This trend is a direct consequence of the increase of the cost of energy, due to the drought, with an impact on the Networks business (EUR -43 million), as well as on the Regulated Generation business (EUR -4.1 million), these will recover, Elektro tariff revision (EUR -70 million) and Neoenergia (EUR -20.5 million) as well as the decline in the value of the Real (-10.9%), compared to 2012.

- **Renewables Business** increased its Gross Margin by 12.5% to EUR 1,318.1 million due to the increase of operating capacity to 14.028 MW, despite the effect of the divestment made to date (366 MW), the increase of production (+10.1%), the wind resource in all areas (30.6% on average) and, lastly, the improvement of prices (+1.7%) due to the greater weighting of production and prices in Spain over the total.
- Lastly, it should be noted that the contribution of **Other Businesses** increased to EUR 102.0 million (+0.5%).

## 2.2. Gross Operating Result - EBITDA

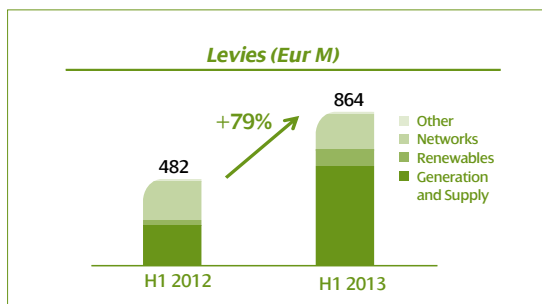
Consolidated EBITDA decline 0.9% to EUR 4,051.0 million. In addition to the performance already described of the Gross Margin (+5.8%), it should be noted that the Net Operating Expenses decrease by 2.2% due to efficiency program developed. The good performance of the above headings has not been enough to offset the impact of higher Levies (EUR 863.5 millions) incurred in the period and the negative effect of the exchange rate (EUR -36 million).

Net Operating Expenses can be broken down as follows:

Net Operating Expenses		
Eur M	H1 2013	% v. H1 2012
Net Personnel Expenses	879.7	-0.8%
Net External Services	882.3	-3.5%
<b>Total</b>	<b>1,762.0</b>	<b>-2.2%</b>

- Net Personnel Expenses decline by 0.8%, to EUR 879.7 million as a result of the efficiency measures implemented.
- Net External Services decreased by 3.5% to EUR 882.3 million, due to the efficiency programs implemented, but negatively impacted by the adaptation of accounting to the new regulatory standards in the United Kingdom, and positively by extraordinary income in the US.

The Levies increased 79.3% totalling EUR 863.5 million due to the following effects:



- The new fiscal measures for energy sustainability in Spain, contained in Law 15/2012 (fiscal levies on Generation) implying a 7% on sales, a 22% canon on hydroelectric production and taxes on nuclear waste, as well as the related to the new sustainability measures amounting to EUR 252 million.
- In the Generation and Supply business of the United Kingdom, the increase in levies is mainly due to the new energy efficiency programs (ECO) established, which comparative tend to improve throughout the year as CERT/CESP programs implemented

in 2012 were developed mainly in the second half of that year (in 2013 the 60% was accounted during the first half, while in June 2012 only the 25% of the annual total was accounted). This implies higher levies of EUR 95 millions.

- Finally and in the opposite direction, Supreme Court ruling of 7 February, exempting generation companies from financing the bono social and recognises their right to be reimbursed any amounts paid for this item, which had a positive impact in 2012 of EUR 100 million, with no correspondence in 2013.

### 2.3. Net Operating Result - EBIT

EBIT was EUR 881.7 million, a fall of 65.3% in comparison with the first half of 2012.

Amortisations and Provisions rose by 104.9% to EUR 3,169.2 million.

The main comments are as follows:

- Amortisation increased by 1.6%, to EUR 1,382 million, basically due to the investment process of the group, as well as the change in the useful life of the underground lines in the United Kingdom, from 60 to 40 years.
- Provisions amounted to EUR 1,657 million. The greatest variations were caused by the write-offs of the promotion costs related to the renewables portfolio as the probability of success of the pipeline has been revised and the value has been adjusted according to lower growth estimates (EUR -585 million) as well as the review of the assets value in United States and Canada due to market conditions (EUR -1,072 millions).

### 2.4. Financial Result

The Net financial result was EUR -568.4 million, a 15.2% decrease in comparison to the same period of last year. The following can be highlighted:

- The average balance of Net Debt dropped by 4.4%, while the average cost stood at 4.66%.
- The acknowledgement of the margin in the remuneration of the Tariff Deficit generated in previous financial years has had an impact of EUR +50.9 million.
- The impact of foreign exchange hedging amounted to EUR +53.7 million.

The breakdown is as follows:

	Jan-Jun-13	Jan-Jun-12	Change
Debt Result	-701.2	-714.1	12.9
Interest deficit	75.1	7.0	68.1
Dividends, Derivatives, DC	73.9	20.4	53.5
Provisions y others	-16.3	16.7	-32.9
Financial Result	-568.4	-670.0	101.6

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

There is nothing noteworthy about the evolution of the item Results of Companies Consolidated by the Equity Method due to the non-strategic assets divestment programme currently under way (EUR 4,1MM).

## 2.6. Income from Non-Current Assets

Income from Non-Current Assets amounts to EUR -29.1 million, a decline of EUR 45.8 million compared to the first half of 2012. During the semester, the most significant operations were the sale of the portfolio of renewable assets in Turkey and renewable assets in France and Germany.

## 2.7. Net Profit

As a result of everything mentioned above, Profit before tax was EUR 288.3 million (-83.5%).

The Corporate Tax item reached EUR 1,460.5 million. Law 16/2012 established the option of a voluntary revaluation of balance sheet, in other words, the possibility of revaluing assets (for tax purposes) in accordance with pre-established coefficients in order to include the effects of inflation. Some of Iberdrola's subsidiaries in Spain adopted this option and have updated the value of certain assets. In addition, the same law establishes that the amortisation of the revaluation applied is tax-deductible as from 2015 and throughout the remaining useful life of the assets. Lastly, the law establishes a payment of a levy of 5% of the revalued amount in the financial year when the update is effected.

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

The Recurring Net Profit, that is, the net profit generated excluding the effect from non-current items, increase by 2.8% to EUR 1,402.0 million, due to the good operating performance and the improvement of the net financial expenses (-15,2%)

Finally, Net Profit reached EUR 1,728.0 million, a decrease of 2.0% compared to the figure obtained in the first half of 2012.

Funds From Operations\* as at June 2013 were EUR 3,171.1 million, representing an 3.9% decrease compared to the same period of the previous year.

Moreover, the change experienced by the reference credit ratios\*\* is as follows:

	Excludes Tariff Deficit		Includes Tariff Deficit	
	Jan-June 2013	Jan-June 2012	Jan-June 2013	Jan-June 2012
Funds From Operations (FFO)**/ Net Debt*	22.8	21.5	21.1	19.6
Retained Cash Flow (RCF)***/ Net Debt*	19.4	17.6	18.0	16.0
Net Debt*/EBITDA	3.5	3.8	3.7	4.1

\* Includes 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)	H1 2013	v. H1 2012
Revenues	4,195.0	-6.2%
Gross Margin	2,855.6	-1.5%
EBITDA	1,965.0	-0.8%
EBIT	1,366.3	-2.5%

The Gross Margin of the Networks business registered a 1.5% decrease, as the decline in Brazil (-22.9%) was not offset by the growth in other geographic areas (+5.3%).

#### 1.1. Spain

(Eur Millions)	H1 2013	v. H1 2012
Revenues	984.3	+6.0%
Gross Margin	984.3	+6.0%
EBITDA	755.3	+10.8%
EBIT	566.9	+14.5%

#### a) Gross Margin

Gross Margin for Networks Business in Spain increased by 6.0% to EUR 984.3 million, as a result of the application of the January 2013 Tariff Order during the first six months of the year. Even considering the effects of the January 2013 Tariff Order, the Gross Margin of the month of June of this financial year is 2.9% lower than the one registered in the month of June 2011.

#### b) Operating Profit/EBIT

EBITDA in this Business totalled EUR 755.3 million, a 10.8% increase.

To the above mentioned change in Gross Margin, we must add the positive impact of the efficiency measures implemented, which have led to an 8.6% decrease in Net Operating Expenses.

EBIT for the Networks Business in Spain totalled EUR 566.9 million (+14.5%). EUR 188.4 million (+0.9%) must be subtracted from the EBITDA figure, pertaining to amortisations and provisions due to new investments put into operation.

#### 1.2. United Kingdom

(Eur Millions)	H1 2013	v. H1 2012
Revenues	610.4	+5.4%
Gross Margin	594.4	+6.3%
EBITDA	453.9	+1.7%
EBIT	324.1	-6.9%

#### a) Gross Margin

Gross Margin of the Networks Business in the UK (Energy Networks) increased by 6.3% to EUR 594.4 million, due to a greater base of regulatory assets and the increase of the Duos and Tuos (Distribution and Transmission access charges), and despite the depreciation of the British Pound (-3.2%).

#### b) Operating Profit/EBIT

The Energy Networks EBITDA reached EUR 453.9 million (+1.7%).

Net Operating Expenses increased by 45.2% to EUR 94.1 million, due to accounting adjustments to adapt to the new regulatory standards (RIIO-T1 and RIIO-ED1), leading to lower capitalisation costs.

Personnel expenses reached EUR 35.8 million, due to the increase of the average staff, while net external services reached EUR 58.3 million.

Finally, amortisations and provisions represent EUR 129.8 million (+32.3%) as a result of the new investments put into operation (EUR 10 million) and accounting adjustments to adapt to the above regulatory standards (EUR 24 million).

### 1.3. United States

(Eur Millions)	H1 2013	v. H1 2012
Revenues	1.149,3	-4,5%
Gross Margin	736,3	+3,7%
EBITDA	423,6	+18,7%
EBIT	283,6	+14,6%

#### a) Gross Margin

Iberdrola USA increased its gross margin contribution by 3.7% to EUR 736.3 million, due to the positive performance of the business, tariffs readjustments and the increase of the contribution of Maine's transmission line.

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)	H1 2013	v. H1 2012
Electricity	604.7	6.1%
Gas	155.8	2.3%
Corporation and others (incl. IFRS adjustments)	-24.2	N/A
<b>TOTAL</b>	<b>736.3</b>	<b>2.0%</b>

#### • By company

(Eur Million)	H1 2013	v. H1 2012
NYSEG	366.2	-0.5%
RGE	217.1	-0.6%
CMP	177.2	30.6%
Corporation and others (incl. IFRS adjustments)	-24.2	N/A
<b>TOTAL</b>	<b>736.3</b>	<b>2.0%</b>

#### b) Operating Profit/EBIT

EBITDA increased by 18.7% to EUR 423.6 million.

To the Gross Margin figure, Net Operating Expenses should be added, which amount to EUR 199.5 million (-15%), mainly due to the non-recurring positive contribution of EUR 23.3 million for compensations received and lower storm costs.

Furthermore, EBIT totalled EUR 283.6 million (+14.6%), after deduction of amortisations and provisions representing EUR 140 million.

### 1.4. Brazil

(Eur Million)	H1 2013	v. H1 2012
Revenues	1,451.0	-17.5%
Gross Margin	540.7	-22.9%
EBITDA	332.3	-32.9%
EBIT	191.8	-38.1%

#### a) Gross Margin

In Brazil, the Gross Margin amounted to EUR 540.7 million (-22.9%) despite the increase of distributed electricity (+5.8%) compared with the first half of 2012.



Distributed electricity shows the following breakdown by companies: Coelba +6.2%, Cosern +7.7%, Celpe +8.5% and Elektro +2.8%.

The factors behind this change are:

- The Elektro and Neoenergia tariff revision, with a net impact of EUR -70 million and EUR -20.5 million respectively. For Elektro, this includes, firstly, the impact of the tariff reduction (EUR -53 million) and, secondly, the return of part of the excess amount charged during the period from August 2011 and August 2012 in Elektro as a result of the delay in the implementation date of that tariff adjustment (EUR -17 million).
- The temporary impact of the excess energy costs had a net effect on the network business in the first half of EUR 43 million, which shall be recovered through tariffs in the annual revisions (Neoenergia in April and Elektro in August). From the total effect of EUR 250.6 million, EUR 208 million are provided by the Government following decree No. 7945 approved in March 2013. In addition, the generation business had a negative impact of EUR 4.1 million, as the current scenario has forced the plants to purchase energy on the spot market in order to comply with the PPAs. This cost is the only one that shall not be recovered.
- The depreciation of the average exchange rate of the Brazilian Real by 10.9% (EUR -58 million).

#### b) Operating Profit / EBIT

EBITDA for the area amounted to EUR 332.3 million, with a 32.9% decline, being negatively affected by the regulatory revision of Elektro in

August 2012 and Neoenergia since April 2013 and by the temporary impact of the excess energy costs already mentioned.

Net Operating Expenses reached EUR 206 million (+1.2%), due basically to the greater inflation, market growth and the increase of the inspections plan, partially offset by the depreciation of the Real.

EBITDA is broken down as follows:

(Eur Millions)	H1 2013	v. H1 2012
Generation	43.3	-28.7%
Distribution	289.0	-33.5%
<b>TOTAL</b>	<b>332.3</b>	<b>-32,9%</b>

Amortisations and provisions totalled EUR 140.5 million (-24.3%) as a result of the drop in provisions due to defaults on payments recorded in 2012.

The EBIT of Brazil totalled EUR 191.8 million (-38.1%).

## 2. GENERATION AND SUPPLY BUSINESS

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

(Eur Millions)	H1 2013	v. H1 2012
Revenues	11,650.2	-0.1%
Gross Margin	2,426.8	+12.4%
Levies	552.7	+144.8%
EBITDA	1,172.2	-6.1%
EBIT	-392.3	-152.9%

On a global level, the Generation and Supply Business was affected mainly by greater Levies,

that more than double in the case of Spain and United Kingdom.

## 2.1. Spain

(Eur Millions)	H1 2013	v. H1 2012
Revenues	6,625.1	-6.7%
Gross Margin	1,537.5	+13.9%
Levies	393.7	+149.9%
EBITDA	769.7	-7.9%
EBIT	482.5	-9.8%

To analyse this market performance, the following aspects arising in the **Spanish Mainland Electricity System** during the first half of 2013 must be kept in mind:

- A 3.8% decline in mainland demand (adjusted demand -2.6%)..
- A greater special regime production than last year (59,913 GWh, +14.3%).
- All of the above, together with the Royal Decree establishing restrictions for burning domestic coal, has meant a reduction of Ordinary Regime production by 17% and a drop in average energy prices due to the fall in coal prices.

Gross Margin for Iberdrola's Generation and Supply Business recorded an increase of 13.9%, totalling EUR 1,537.5 million.

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

- Higher production (+5.1%), in which hydroelectric production (+110.6%) offset the

decline in gas cycles production (-47.1%), coal (-80.1%), and nuclear production (-6.9%).

- Higher margins due to lower production cost as a result of the extraordinary hydrological condition.
- With respect to the application of the energy, 78% corresponded to forward sales at a fixed price, while 22% were spot market sales.
- The Procurement cost decreased by 9.8%, due to a greater rainfall compared to the same period of 2012.
- Hydroelectric reserves as of 30 June 2013 were at 8,903 GWh (78.9%), a 62.8% higher compared to the same period of the previous year.
- The free allocation of CO<sub>2</sub> rights disappeared, which had a negative impact of EUR 24 million.

### b) Operating Profit / EBIT

EBITDA dropped 7.9% to EUR 769.7 million, because, although Operating Expenses dropped (-1.8%), the increase in Levies (+149.9%) overrides this effect as well as Gross Margin growth for the business.

As mentioned, Operating Expenses dropped by 1.8% due to the efficiency measures adopted in previous financial years. Personnel Expenses decreased by 4.2%, whereas External Services dropped by 0.1%.

The Levies item multiplied by more than two and a half, to EUR 393.7 million, as a result of:

- Law 15/2012 on fiscal measures for energy sustainability, in force since 1 January, which establishes a 7% tax on energy produced, a 22% canon on hydroelectric production and a tax on spent nuclear fuel production, has a negative impact of EUR 208 million. The green cent on gas and coal production is already reflected in the Gross Margin (EUR 5 million).
- A positive impact (EUR 53 million) of the ruling of the Constitutional Court on the “Ecotasa” of Castilla-La Mancha, that does not offset the positive impact of EUR 100 million in the first half of 2012 due to the favourable sentence regarding the “Bono Social”.
- The financing of energy savings and efficiency plans, in accordance with Royal Decree Law 14/2010, amounted to EUR 25 million in the period.
- Higher regional Levies of EUR 7 million.

The Amortisations and Provisions item registered a decrease of 4.6% to EUR 287.2 million.

As a result of the above, EBIT dropped by 9.8% compared to the first half of 2012, reaching EUR 482.5 million.

## 2.2. United Kingdom

(Eur Millions)	H1 2013	v. H1 2012
Revenues	4,624.0	+8.7%
Gross Margin	633.4	+12.7%
Levies	155.8	+137.7%
EBITDA	224.7	-7.3%
EBIT	74.9	-17.7%

### a) Gross Margin

The Scottish Power’s Generation & Supply business Gross Margin reached EUR 633.4 million (+12.7%). Noteworthy:

- Higher production (+4.9%), despite the closing of the Cockerzie coal plant in March 2013.
- From April 1 2013, the Carbon Tax, which taxed coal and gas purchases, began to be implemented, with an impact during first half of £ 10 million.
- Partial recovery of the Supply business due to the increase of the number of clients (6.1% in electricity and 11.1% in gas) to 5.6 million, greater volumes sold due to colder weather and better electricity unit margins.

### b) Operating Profit/EBIT

EBITDA for Generation & Supply amounted to EUR 224.7 million.

Net Operating Expenses reached EUR 252.9 million (-12.8%). This is due, mainly, to improvements in efficiency in the personnel expenses after the measures implemented in the first half of 2012. Thus, personnel expense items

totalled EUR 74.6 million (-27.3%) and External Services totalled EUR 178.3 million (-4.9%).

The increase in Levies, which reached EUR 155.8 million, is mainly due to greater energy efficiency costs required by the British regulatory body OFGEM. These programmes are aimed at reducing CO<sub>2</sub> emissions and are focused on insulating housing and improving energy efficiency at home. The increase amounts to EUR 90 million after new environmental programs established (ECO in 2013 and CERT/CESP in 2012). In 2013, approximately 60% of the annual estimate was registered, whereas in 2012, 25% of the annual total was registered in the first half of the year. Throughout the year this difference will tend to lessen.

Lastly, amortisations and provisions amounted to EUR 149.8 million.

### 2.3. Mexico (Regulated Generation)

(Eur Millions)	H1 2013	v. H1 2012
Revenues	663.6	+19.0%
Gross Margin	248.9	+0.9%
EBITDA	191.0	0%
EBIT	155.6	-2.5%

#### a) Gross Margin

In Mexico, Gross Margin reached EUR 248.9 million (+0.9%), maintaining the availability of the plants.

#### b) Operating Profit/EBIT

EBITDA in Mexico amounted to EUR 191 million, with no increase showing no significant change compared with the same period of 2012.

Net Operating Expenses increased by 3.5%, to EUR 56.8 million, affected by the USD exchange rate.

Lastly, EBIT of the business amounted to EUR 155.6 million, a decline of 2.5% in line with EBITDA and despite the increase in amortisations and provisions (+12.9%) due to reversal of positive adjustments in 2012.

### 2.4. USA and Canada (gas)

(Eur Millions)	H1 2013
Revenues	5.7
Gross Margin	5.5
EBITDA	-13.2
EBIT	-1,105.3

#### a) Gross Margin

In this business, Gross Margin totalled EUR 5.5 million as a result of the extension of the margins in the rental of own storage of gas that partly offset the worst trading margin obtained in the transmission activities.

#### b) Operating Profit / EBIT

EBITDA of the gas business in the USA and Canada recorded a negative result of EUR 13.2 million.

Net Operating Expenses totalled EUR 16.5 million.

Lastly, EBIT for the business reached EUR -1,105.0 million, affected by the write-offs in the 2013 accounts in the amount of EUR 1,073 million, as a result of the revision of the projects portfolio value of this business.

### 3. RENEWABLES

(Eur Millions)	H1 2013	v. H1 2012
Revenues	1,403.3	+12.2%
Gross Margin	1,318.1	+12.5%
EBITDA	937.5	+10.5%
EBIT	-48.8	N/A

#### a) Gross Margin

During the first half of 2013, the Renewables business showed a performance with significant growth. Thus, Gross Margin amounted to EUR 1,318.1 million with an increase of 12.5% resulting from:

- An increase in production of 10.1% to 18,624 GWh, as a consequence of :
  - An increase of operating capacity at the end of the period, which reached 14,028 MW (+3.5%),
  - A high average load factor, at 30.6%, higher from the same period of 2012, when 28.7% was recorded. The breakdown by area and its evolution over the first half of 2012 is as follows:
    - The load factor in Spain was 29.2%, (+4.1 percentage points)
    - United States had a load factor of 33.7%, (-0.7 pp).
    - In the United Kingdom the load factor was 27.0%, (+1.7 pp)

- Rest of the World had a load factor of 26.4%, (+1.5 pp).

- The average renewable price over the period reached EUR 69.9/MWh, showing an increase of 1.7% resulting from the increase of the price in the United States, Rest of the World and the greater contribution of Spain, with an average price above the rest.

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

- **Wind Energy Spain:** Gross Margin for the period was at EUR 610.8 million (+16.5%), as a result of the strong increase in production (+20.7%), and despite a 3.5% drop in the price, due to the change of the remuneration regime from a Pool + Premium scheme to another Regulated Tariff scheme.
- **Wind Energy United States:** Gross Margin increased by 9.5% to EUR 358.3 million, due to a 2.4% increase in production, to a 7.7% increase in the price in dollars and a slight negative effect of the exchange rate, of 0.7%.
- **Wind Energy United Kingdom:** Gross Margin amounted to EUR 149.1 million (+26.9%), as a result of the increase in average power (+20.2%), a better load factor and the increase of the per unit price in local currency (1.0%), affected by a depreciation of the Sterling pound by 3.2%.
- **Wind Energy Rest of the World:** The decrease in production (-12.2%), as a result of divestments made during the last quarter of 2012, is not offset by a notable prices increase

(+6.7%), drove the Gross Margin down by -6.3%, placing it at EUR 142.3 million.

- **Mini-hydro and other Renewables:** Gross Margin totalled EUR 41.7 million (-0.1%), reflecting an increase of mini-hydraulic production in Spain, which has offset the decrease in revenues from facilities under the Ordinary Production Regime.
- **Thermal Business in the United States:** Gross Margin reached EUR 15.9 million in the first half of 2013.

#### b) Operating Profit/EBIT

EBITDA registered an increase of 10.5%, totalling EUR 937.5 million. In addition to the increase in Gross Margin of +12.5%, it should be added a decrease of Net Operating Expenses, of 0.4% to EUR 280.6 million, despite an increase in average operating power (3.7%). For its part, Levies showed an increase of 142.2% (EUR +58.7 million), due mainly to the fiscal measures approved by the Government in Law 15/2012 for Energy Sustainability.

The amortisations and provisions item reached EUR 986.3 million. This item includes accounting for provisions for the amount of EUR 596 million, which mainly correspond to extraordinary write-offs of wind projects in the USA. Meanwhile, amortisations fell by 5.9% and reached EUR 340.3 million

Lastly, EBIT, penalised by the extraordinary write-off made, totalled EUR -48.8 million, 111.2% lower the figure for the same period of 2012. Without this effect, the Recurring EBIT would increase by 25.3% to Eur 547.2 MM.

## 4. OTHER BUSINESSES

(Eur Millions)	H1 2013	v. H1 2012
Revenues	258.6	+10.3%
Gross Margin	102.0	+0.5%
EBITDA	-8.4	-215%
EBIT	8.9	N/A

#### a) Gross Margin

The Gross Margin amounted to EUR 102 million, 0.5% higher than that registered in the same period of 2012.

#### b) Operating Profit / EBIT

EBITDA amounted to EUR -8.4 million. Net Operating Expenses of these businesses amounted to EUR 109.9 million, registering a 17.6% increase.

Amortisations and Provisions dropped to total EUR 17.3 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 -15.4 million.

## Balance Sheet Analysis

### January-June 2013

(Eur Millions)	June 2013	v. Dec. 2012
TOTAL ASSETS	94,098	-2.8%
TANGIBLE FIXED ASSETS	52,509	-1.7%
INTANGIBLE ASSETS	17,680	-8.9%
LONG-TERM INVESTMENTS	2,531	-0.7%
SHAREHOLDERS' EQUITY	35,153	3.1%
ADJUSTED NET DEBT <sup>(1)</sup>	28,803	-5.0%

(1) Includes tariff deficit and includes TEL.

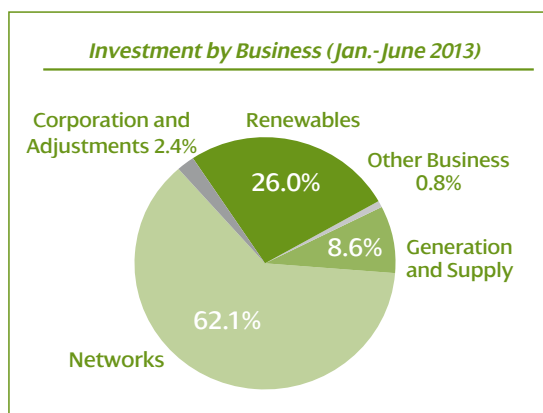
The Balance Sheet for Iberdrola as at 30 June 2013 shows Total Assets of EUR 94,098 million, highlighting the maintenance of its asset strength.

### 1. FIXED ASSETS

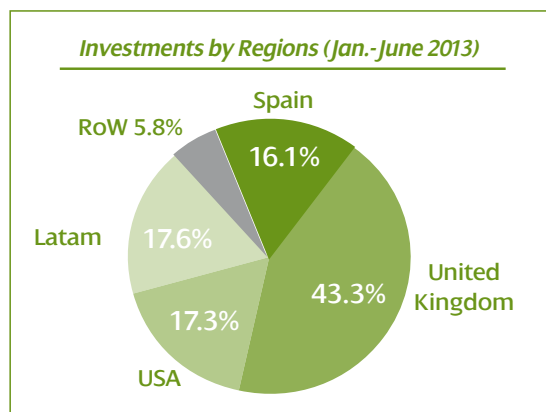
Total investments during the period from January to June 2013 amounted to EUR 1,380 million, confirming the investment containment established in recent years. These can be broken down as follows:

(Eur Millions)	Jan.- June 2013	%
<b>Networks Business</b>	<b>858</b>	<b>62.1%</b>
Spain	108	
UK	274	
USA Iberdrola	223	
Brazil	252	
<b>Renewables</b>	<b>359</b>	<b>26.0%</b>
<b>Generation and Supply</b>	<b>119</b>	<b>8.6%</b>
Spain	47	
UK	52	
Mexico	18	
USA and Canada	2	
<b>Other Businesses</b>	<b>11</b>	<b>0.8%</b>
Engineering	0	
Non-Energetic	10	
<b>Corporate and Adjustments</b>	<b>34</b>	<b>2.4%</b>
<b>Total investment</b>	<b>1,380</b>	<b>100.0%</b>

Investments in the period were focused on Regulated and Renewables businesses, with the two combined items accounting for almost 88% of total investments in the period.



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



As regards the Regulated Business, the investments in the period amounted to a total of EUR 858 million, or 62% of total investments. The most significant investments were in ScottishPower Networks, with a total of EUR 274 million invested, and 252 million invested in Brazil, the latter financed with funds generated in the country. Meanwhile, investment in Iberdrola USA was directed towards the CMP transmission line and, to a lesser extent, electricity and gas distribution, amounting to EUR 223 million in the period. Lastly, investment in Networks Spain totalled EUR 108 million.

Under the section “Renewables”, more than 60% of the investment in the period was aimed at wind projects in the United Kingdom, with EUR 208 million invested in offshore wind power.

With respect to investments in the Generation and Supply Business, these can be broken down into those made in Spain for a total of EUR 47 million, mainly in hydroelectric and nuclear

power, in the United Kingdom for EUR 52 million and in Mexico for EUR 18 million.

## 2. SHARE CAPITAL

Last 21 May, after completing the share buy-back plan, a reduction of Share Capital was performed through the retirement of 150.74 million treasury shares. Thus, the Company’s Share Capital at 30 June 2013 amounted to 6,130,430,000 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 364 million (net amount), as at 30 June 2013, is the result of the historic business in USA.

## 4. FINANCIAL DEBT

Adjusted net financial debt at 30 June 2013 dropped by EUR 3,224 million to EUR 28,803 million compared to the EUR 32,028 million at 30 June 2012, as a result of the containment in investment and the positive progress of divestments and funds from securitisations. The Financial leverage is at 45.0% compared to 48.3% in the same period of the previous year.



Excluding financing of the tariff deficit, which in the case of Iberdrola amounted to EUR 2,153 million at 30 June 2013, adjusted net financial debt would be EUR 26,650 million and adjusted leverage would be 43.1%, compared to the EUR 29,318 million and 46.1% at 30 June 2012 respectively.

Adjusted net financial debt (including the tariff deficit) would decrease to EUR 28,535 million if the cash pending to be collected from disposals of operating assets in Poland and Chile were included.

The rating is broken down as follows:

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

With respect to the change in the Company's financial net debt cost, at 30 June 2013, it was at 4.66% compared to 4.56% in the same period of the previous year, due to the combined effect of the greater weight of the fixed rate debt and the increase of surplus balances.

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

	June 2013	June 2012
Euro	53.9%	59.5%
Dollar	17.1%	17.0%
British Pound	25.5%	21.3%
Brazilian Real and other currencies	3.5%	2.2%
Fixed Rate	65.9%	57.8%
Floating Rate (1)	29.7%	37.9%
Capped Rate	4.4%	4.3%

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

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

(1) Without the deficit (EUR 2,153 million), the floating rate % would be reduced to 24.3% in June 2013.

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 most 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:

	June 2013	June 2012
Holding	74.5%	75.9%
UK	8.1%	6.6%
USA	8.3%	8.2%
Brazil	5.5%	5.3%
Mexico	1.6%	1.7%
Other	2.0%	2.2%
<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:

	June 2013	June 2012
Euro market	40.1%	35.7%
Dollar market	17.1%	16.2%
British Pound market	10.6%	9.0%
Remaining bonds	2.5%	2.2%
Notes	4.5%	4.1%
EIB	8.1%	8.1%
Project Finance	4.9%	4.6%
TEI	1.4%	1.6%
Bank loans	10.8%	18.5%
<b>TOTAL</b>	<b>100%</b>	<b>100%</b>

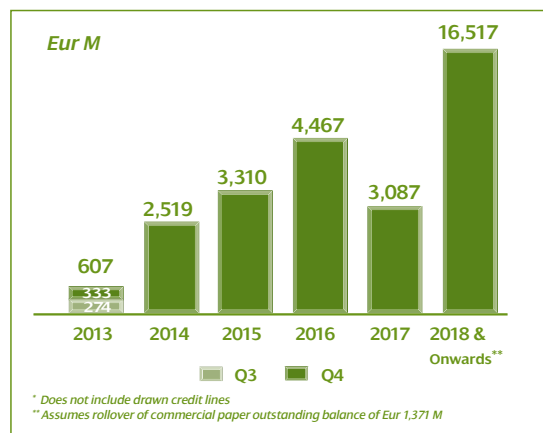
(\*) Gross Debt. Including TEI.

Iberdrola has a strong liquidity position at the close of the first half of 2013, reaching almost EUR 12,000 million (equivalent to about 36 months of the company's financing needs), compared to EUR 9,500 million in the same period of the previous year.

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

Iberdrola has a good debt maturity profile, with approximately 6.2 years of average debt life, as a result, among other factors, of the active management of liabilities carried out throughout 2013. The following chart shows the debt

maturity profile\* of Iberdrola at the close of the first half of 2013.



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

	Eur M	June 2013	June 2012
Shareholders' Equity		35,153	34,263
Gross Debt*		31,416	34,776
Cash		2,116	2,134
Derivates, Asset and other		497	614
Adjusted Net Debt		28,803	32,028
Leverage		45.0%	48.3%
Tariff deficit		2,153	2,710
Adjusted Net Debt (excl. Deficit)		26,650	29,318
Leverage (excl. Deficit)		43.1%	46.1%

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

## 5. WORKING CAPITAL

Working capital shows a slight increase by EUR 30 million since December 2012 as a result of several different effects offsetting one another: a reduction of 'Current Financial Investments' mainly due to the reduction of the tariff deficit pending collection thanks to the securitisations carried out in the first months of the year, a lower balance of the item 'Accounts Payable' as a result of the payment of investments carried out in the last quarter of the previous year, a reduction of the item 'Current trade and Other Receivables' and an increase in the accounts payable to Other Tax Payables.

	Including Tariff Deficit		
	June 2013	Dec. 2012	Change
Assets held for sale	516.1	215.8	300.3
Nuclear Fuel	383.9	310.4	73.5
Inventories	2,013.2	1,895.8	117.4
Current trade and Other Receivables	4,507.7	5,686.2	(1,178.5)
Current Financial Assets	3,068.5	3,960.3	(891.8)
Other Tax receivables	1,004.9	739.7	265.2
<b>CURRENT ASSETS*</b>	<b>11,494.3</b>	<b>12,808.3</b>	<b>(1,314.0)</b>

\* Do not include Cash and Debt Derivatives.

	June 2013	Dec. 2012	Change
Liabilities directly associated with assets held for sale	180.9	83.5	97.4
Provisions	314.2	434.5	(120.3)
Derivate financial instruments	409.5	479.0	(69.5)
Trade and other current payables	5,272.0	7,448.7	(2,176.7)
Other Tax payables	1,937.0	1,012.1	924.9
<b>CURRENT LIABILITIES**</b>	<b>8,113.6</b>	<b>9,457.8</b>	<b>(1,344.2)</b>

\*\*Do not include financial debt and debt derivatives

<b>NET WORKING CAPITAL</b> (Reduction)/Increase	<b>3,381</b>	<b>3,350</b>	<b>30</b>
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## 6. FUNDS FROM OPERATIONS

The Funds Generated from Operations as at 30 June 2013 were at EUR 3,171.1 million, compared to EUR 3,299.9 million in the same period of the previous year.

	June 2013	June 2012	%
Net Profit (+)	1,728.0	1,763.1	-2.0%
Amortisation and depreciation (-)	-3,169.2	-1,546.9	104.9%
Companies by equity method (-)	4.1	-136.1	-103.0%
Income from non-current assets net of taxes (-)	-20.6	11.6	-277.6%
Minority interests (-)	-20.8	-17.7	17.8%
Financial provisions (-)	-80.1	-62.9	27.4%
Removal of effect of various deferred taxes (+)	-306.0	-215.1	42.2%
Removal of fiscal effect of revaluation of balance sheet (-)	1,537.5	0.0	N/A
<b>FFO</b>	<b>3,171.1</b>	<b>3,299.9</b>	<b>-3.9%</b>

(\*) Includes reformulation of financing costs for 2012 in compliance with IAS 39.

## 7. FINANCE TRANSACTIONS

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

Issuer	Transaction	Amount (millions)	Currency	Maturity
Iberdrola International	EMTN / Exchange	1,000	Eur	8 years
	Hybrid bond market	525	Eur	Undated
	EMTN / Exchange	600	Eur	7.5 years
	EMTN	450	Nok	10 years
	Syndicated loan / Extension	536	Eur	+1 year
Iberdrola Finance Ireland	Structured EMTN	47	Eur	Various
Iberdrola USA	FMB and USPP	225	Usd	30 years

### Second Quarter Financing

#### Bond Issues on the Euromarket

With the same purpose as the operation carried out in the first quarter: To extend debt duration, improve liquidity and layer the profile of medium term maturity profiles, Iberdrola has completed a new bond exchange operation in the second quarter.

In this new action, bonds were initially issued for an amount of EUR 600 million with a maturity of seven and a half years (maturity in November 2020) with a strong demand (almost 3 times the initial offer), which made it possible for the coupon to go to 2.875%, the lowest in the history of Iberdrola. Simultaneously, repurchase orders were made for different company bonds in circulation for their subsequent exchange with the new reference.

As a result of the above, Iberdrola has managed to reduce debt maturities in 2014 by EUR 360 million and in 2016 by EUR 240 million.

In addition, last June Iberdrola Internacional, under the EMTN programme, released an issue for the amount of NOK 450 million (around EUR 59 million) with a ten year maturity (maturity in June 2023).

#### Syndicated loan

In May, Iberdrola exercised the option of extending the maturity date it had on the loan tranche of the syndicated financing operation signed in May 2012. Following this action, the new maturity date for that loan tranche is May 2016.

## 8. CREDIT RATING

	Moody's			Standard and Poors			Fitch Ibc		
	Rating	Outlook	Date	Rating	Outlook	Date	Rating	Outlook	Date
Iberdrola S.A.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012	BBB+	Negative	Nov 2012
Iberdrola Finance Ireland Ltd.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012	BBB+	Negative	Nov 2012
Iberdrola Finanzas S.A.U.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012	BBB+	Negative	Nov 2012
Iberdrola Finanzas S.A.U. (Escala Nacional)							AAA(mex)	Stable	Nov 2012
Iberdrola International B.V.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012	BBB+	Negative	Nov 2012
Iberdrola USA Corporation	Baa3	Positive	Sept 2011	BBB	Stable	Nov 2012	BBB	Rating Watch	May 2013
Iberdrola Renewables Holdings Inc.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012	BBB+	Negative	Nov 2012
CMP	Baa1	Stable	Apr-09	BBB+	Stable	Apr-13	BBB+	Stable	May 2005
NYSEG	Baa1	Stable	Sept 2011	BBB+	Stable	Apr-13	BBB+	Stable	Sept 2011
RG&E	Baa2	Stable	Apr-09	BBB+	Stable	Apr-13	BBB-	Positive	May 2013
Scottish Power Ltd.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012	BBB+	Negative	Nov 2012
Scottish Power UK Plc.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012	BBB+	Negative	Nov 2012
Scottish Power UK Holding Ltd.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012			
Scottish Power Finance US Inc.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012			
Scottish Power Energy Networks Holdings Ltd.				BBB	Stable	Nov 2012			
Scottish Power Generation Ltd.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012			
Scottish Power Transmission Ltd.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012			
Scottish Power Manweb Plc.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012			
Scottish Power Distribution Ltd.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012			
Scottish Power Distribution Finance Ltd.	Baa1	Negative	Nov 2012						
Scottish Power Energy Management Ltd.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012			
Scottish Power Energy Retail Ltd.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012			
Scottish Power Investment Ltd.	Baa1	Negative	Nov 2012	BBB	Stable	Nov 2012			
Neoenergía				BBB-	Stable	March 2010			
Celpe				BBB-	Stable	March 2011			
Coelba	Baa2	Stable	Apr-11	BBB-	Stable	March 2010			
Cosern				BBB-	Stable	March 2010			
Neoenergía (Escala nacional)				brAAA	Stable	March 2010			
Celpe (Escala nacional)				brAAA	Stable	March 2011			
Celpe (Escala nacional)				brAAA	Stable	March 2010			
Celpe (Escala nacional)				brAAA	Stable	March 2010			
Celpe (Escala nacional)				brAAA+	Stable	March 2011			
Elektro (Escala nacional)				brAAA	Stable				

## Balance Sheet

### June 2013 (Unaudited)

<b>ASSETS</b>	<b>June 2013</b>	<b>Dec. 2012*</b>	<b>Change</b>
<b>NON-CURRENT ASSETS</b>			
<b>Intangible assets</b>	<b>17,680</b>	<b>19,403</b>	<b>-1,723</b>
Goodwill	7,792	8,309	-517
Other intangible assets	9,888	11,094	-1,206
<b>Investment properties</b>	<b>516</b>	<b>520</b>	<b>-3</b>
<b>Property, plant and equipment</b>	<b>52,509</b>	<b>53,423</b>	<b>-914</b>
Property, plant and equipment in use	47,297	48,924	-1,627
Property, plant and equipment under construction	5,212	4,499	713
<b>Non current financial investments</b>	<b>2,531</b>	<b>2,548</b>	<b>-17</b>
Investments accounted through the equity method	428	438	-10
Non-current financial investments	710	675	34
Other non-current financial investments	1,037	1,031	6
Derivative financial instruments	356	403	-47
<b>Non-current receivables</b>	<b>502</b>	<b>468</b>	<b>34</b>
<b>Deferred tax assets</b>	<b>6,606</b>	<b>4,515</b>	<b>2,091</b>
<b>Total non-current assets</b>	<b>80,345</b>	<b>80,877</b>	<b>-532</b>
<b>CURRENT ASSETS</b>			
<b>Assets held for sale</b>	<b>516</b>	<b>216</b>	<b>300</b>
<b>Nuclear fuel</b>	<b>384</b>	<b>310</b>	<b>73</b>
<b>Inventories</b>	<b>2,013</b>	<b>1,896</b>	<b>117</b>
<b>Current trade and other receivables</b>	<b>5,513</b>	<b>6,426</b>	<b>-913</b>
Income Tax receivables	388	253	135
Other tax receivables	617	487	131
Trade and other receivables	4,508	5,686	-1,178
<b>Current financial assets</b>	<b>3,212</b>	<b>4,047</b>	<b>-836</b>
Current financial investments	5	130	-126
Other current financial investments	2,739	3,401	-662
Derivative financial instruments	468	516	-48
<b>Cash and cash equivalents</b>	<b>2,116</b>	<b>3,044</b>	<b>-928</b>
<b>Total current assets</b>	<b>13,754</b>	<b>15,939</b>	<b>-2,186</b>
<b>TOTAL ASSETS</b>	<b>94,098</b>	<b>96,816</b>	<b>-2,718</b>

<b>EQUITY AND LIABILITIES</b>	<b>June 2013</b>	<b>Dec. 2012*</b>	<b>Change</b>
<b>EQUITY:</b>	<b>35,153</b>	<b>34,085</b>	<b>1,068</b>
<b>Of shareholders of the parent</b>	<b>34,363</b>	<b>33,760</b>	<b>603</b>
Share capital	4,598	4,604	-6
Unrealised asset and liability revaluation reserve	-347	-493	146
Other reserves	30,264	28,748	1,517
Treasury shares	-185	-500	316
Translation differences	-1,696	-1,364	-331
Net profit of the year	1,728	2,765	-1,037
<b>Hybrid Capital</b>	<b>532</b>	<b>-</b>	<b>532</b>
<b>Of minority interests</b>	<b>258</b>	<b>325</b>	<b>-67</b>
<b>EQUITY INSTRUMENTS WITH CHARACTERISTICS OF A FINANCIAL LIABILITY</b>	<b>314</b>	<b>370</b>	<b>-56</b>
<b>NON-CURRENT LIABILITIES</b>			
<b>Deferred income</b>	<b>5,827</b>	<b>5,786</b>	<b>41</b>
<b>Provisions</b>	<b>4,301</b>	<b>3,928</b>	<b>372</b>
Provisions for pensions and similar obligations	2,000	1,902	98
Other provisions	2,300	2,026	274
<b>Financial Debt</b>	<b>27,221</b>	<b>28,851</b>	<b>-1,630</b>
Financial Debt - loans and others	26,898	28,428	-1,531
Derivative financial instruments	324	423	-99
<b>Other non-current payables</b>	<b>544</b>	<b>516</b>	<b>28</b>
<b>Deffered tax liabilities</b>	<b>8,661</b>	<b>9,093</b>	<b>-433</b>
<b>Total non-current liabilities</b>	<b>46,553</b>	<b>48,175</b>	<b>-1,621</b>
<b>EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY</b>	<b>105</b>	<b>107</b>	<b>-2</b>
<b>CURRENT LIABILITIES</b>			
<b>Liabilities held for sale</b>	<b>181</b>	<b>84</b>	<b>97</b>
<b>Provisions</b>	<b>314</b>	<b>435</b>	<b>-120</b>
Provisions for pensions and similar obligations	16	7	10
Other provisions	298	428	-130
<b>Financial Debt</b>	<b>4,268</b>	<b>5,101</b>	<b>-833</b>
Financial Debt - loans and others	3,764	4,456	-692
Derivative financial instruments	504	645	-141
<b>Trade and other payables</b>	<b>7,210</b>	<b>8,461</b>	<b>-1,251</b>
Trade payables	3,994	6,113	-2,119
Tax payables	1,013	618	396
Other tax payables	924	394	530
Other current liabilities	1,278	1,336	-58
<b>Total current liabilities</b>	<b>11,973</b>	<b>14,080</b>	<b>-2,107</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>94,098</b>	<b>96,816</b>	<b>-2,718</b>

\* Restated

## Profit and Loss

### June 2013 (Unaudited)

	Eur M		
	June 2013	June 2012	%
<b>REVENUES</b>	<b>16,836.2</b>	<b>16,992.6</b>	<b>(0.9)</b>
PROCUREMENTS	(10,159.8)	(10,683.4)	(4.9)
<b>GROSS MARGIN</b>	<b>6,676.4</b>	<b>6,309.2</b>	<b>5.8</b>
Emission rights allocated	-	60.3	(100.0)
<b>BASIC MARGIN</b>	<b>6,676.4</b>	<b>6,369.5</b>	<b>4.8</b>
<b>NET OPERATING EXPENSES</b>	<b>(1,762.0)</b>	<b>(1,801.2)</b>	<b>(2.2)</b>
<b>Net Personnel Expense</b>	<b>(879.7)</b>	<b>(886.7)</b>	<b>(0.8)</b>
Personnel	(1,135.6)	(1,167.1)	(2.7)
Capitalized personnel costs	255.9	280.4	-8.7
<b>Net External Services</b>	<b>(882.3)</b>	<b>(914.5)</b>	<b>(3.5)</b>
External Services	(1,094.4)	(1,117.4)	-2.1
Other Operating Income	212.1	202.9	4.5
<b>LEVIES</b>	<b>(863.5)</b>	<b>(481.5)</b>	<b>79.3</b>
<b>EBITDA</b>	<b>4,051.0</b>	<b>4,086.8</b>	<b>(0.9)</b>
AMORTISATIONS AND PROVISIONS	(3,169.2)	(1,546.9)	104.9
<b>EBIT</b>	<b>881.7</b>	<b>2,539.9</b>	<b>(65.3)</b>
<b>Financial Expenses</b>	<b>(1,189.2)</b>	<b>(1,291.8)</b>	<b>(7.9)</b>
<b>Financial Income</b>	<b>620.8</b>	<b>621.8</b>	<b>(0.2)</b>
<b>FINANCIAL RESULT</b>	<b>(568.4)</b>	<b>(670.0)</b>	<b>(15.2)</b>
<b>RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD</b>	<b>4.1</b>	<b>(136.1)</b>	<b>(103.0)</b>
<b>RESULTS FROM NON-CURRENT ASSETS</b>	<b>(29.1)</b>	<b>16.7</b>	<b>(274.5)</b>
<b>PBT</b>	<b>288.3</b>	<b>1,750.5</b>	<b>(83.5)</b>
Corporate Tax	1,460.5	30.3	4,724.9
Minorities	(20.8)	(17.7)	17.8
<b>NET PROFIT</b>	<b>1,728.0</b>	<b>1,763.1</b>	<b>(2.0)</b>



## Results by Business (Unaudited)

Eur M

June 2013	Networks	Generation and Supply	Renewables	Other Businesses	Corporation and adjust
Revenues	4.195,0	11.650,2	1.403,3	258,6	(670,9)
Procurement	(1.339,3)	(9.223,4)	(85,1)	(156,6)	644,6
<b>GROSS MARGIN</b>	<b>2.855,6</b>	<b>2.426,8</b>	<b>1.318,1</b>	<b>102,0</b>	<b>(26,2)</b>
Emission Rights Allocated	-	-	-	-	-
<b>BASIC MARGIN</b>	<b>2.855,6</b>	<b>2.426,8</b>	<b>1.318,1</b>	<b>102,0</b>	<b>(26,2)</b>
NET OPERATING EXPENSES	(684,7)	(701,9)	(280,6)	(109,9)	15,1
Net Personnel Expense	(355,9)	(244,9)	(77,5)	(73,2)	(128,2)
Personnel	(557,1)	(263,2)	(91,9)	(87,9)	(135,6)
Capitalized personnel costs	201,1	18,3	14,4	14,7	7,4
Net External Services	(328,7)	(457,0)	(203,1)	(36,8)	143,3
External Services	(472,5)	(525,2)	(220,1)	(37,7)	161,2
Other operating income	143,8	68,2	17,0	0,9	(17,9)
LEVIES	(205,9)	(552,7)	(100,0)	(0,5)	(4,3)
<b>EBITDA</b>	<b>1.965,0</b>	<b>1.172,2</b>	<b>937,5</b>	<b>(8,4)</b>	<b>(15,4)</b>
Amortisation and Provisions	(598,7)	(1.564,5)	(986,3)	17,3	(36,9)
<b>EBIT / Operating Profit</b>	<b>1.366,3</b>	<b>(392,3)</b>	<b>(48,8)</b>	<b>8,9</b>	<b>(52,4)</b>
Financial Result	(201,5)	(73,0)	(82,3)	(8,1)	(203,4)
Results of companies consolidated by equity method	1,3	(0,2)	-	3,1	-
Results of non-current assets	(4,7)	(0,3)	10,3	(31,9)	(2,5)
<b>PBT</b>	<b>1.161,3</b>	<b>(465,9)</b>	<b>(120,8)</b>	<b>(28,0)</b>	<b>(258,3)</b>
Corporate tax and minority shareholders	27,3	1.198,3	74,7	8,2	131,3
<b>NET PROFIT</b>	<b>1.188,6</b>	<b>732,4</b>	<b>(46,2)</b>	<b>(19,9)</b>	<b>(126,9)</b>

June 2012	Networks	Generation and Supply	Renewables	Other Businesses	Corporation and adjust.
Revenues	4.470,3	11.667,5	1.250,8	234,5	(630,5)
Procurement	(1.570,6)	(9.507,7)	(79,3)	(133,0)	607,2
<b>GROSS MARGIN</b>	<b>2.899,7</b>	<b>2.159,8</b>	<b>1.171,6</b>	<b>101,5</b>	<b>(23,3)</b>
Emission Rights Allocated	-	60,3	-	-	-
<b>BASIC MARGIN</b>	<b>2.899,7</b>	<b>2.220,2</b>	<b>1.171,6</b>	<b>101,5</b>	<b>(23,3)</b>
NET OPERATING EXPENSES	(705,6)	(746,1)	(281,8)	(93,5)	25,8
Net Personnel Expense	(348,1)	(279,7)	(78,2)	(54,5)	(126,3)
Personnel	(554,6)	(293,6)	(98,4)	(84,3)	(136,2)
Capitalized personnel costs	206,5	13,9	20,2	29,8	10,0
Net External Services	(357,5)	(466,5)	(203,6)	(39,0)	152,0
External Services	(482,1)	(560,7)	(216,5)	(42,0)	183,9
Other operating income	124,7	94,2	12,9	3,0	(31,8)
Levies	(213,5)	(225,8)	(41,3)	(0,7)	(0,3)
<b>EBITDA</b>	<b>1.980,6</b>	<b>1.248,2</b>	<b>848,5</b>	<b>7,3</b>	<b>2,2</b>
Amortisation and Provisions	(579,8)	(506,4)	(411,7)	(6,1)	(43,0)
<b>EBIT / Operating Profit</b>	<b>1.400,8</b>	<b>741,8</b>	<b>436,8</b>	<b>1,2</b>	<b>(40,8)</b>
Financial Result	(165,7)	(92,4)	(70,7)	(6,4)	(334,8)
Results of companies consolidated by equity method	2,3	8,5	-	(146,8)	-
Results of non-current assets	11,1	5,1	0,2	-	0,3
<b>PBT</b>	<b>1.248,4</b>	<b>663,0</b>	<b>366,4</b>	<b>(152,0)</b>	<b>(375,3)</b>
Corporate tax and minority shareholders	(8,2)	(172,9)	58,5	41,8	93,4
<b>NET PROFIT</b>	<b>1.240,2</b>	<b>490,1</b>	<b>424,9</b>	<b>(110,2)</b>	<b>(281,9)</b>

## Networks Business (Unaudited)

Eur M

June 2013	SPAIN	UNITED KINGDOM	US	BRAZIL
Revenues	984.3	610.4	1,149.3	1,451.0
Procurement	-	(16.1)	(413.0)	(910.3)
<b>GROSS MARGIN</b>	<b>984.3</b>	<b>594.4</b>	<b>736.3</b>	<b>540.7</b>
Emission Rights Allocated	-	-	-	-
<b>BASIC MARGIN</b>	<b>984.3</b>	<b>594.4</b>	<b>736.3</b>	<b>540.7</b>
NET OPERATING EXPENSES	(185.1)	(94.1)	(199.5)	(206.0)
Net Personnel Expenses	(107.5)	(35.8)	(113.9)	(98.7)
Personnel	(171.0)	(96.8)	(166.8)	(122.5)
Capitalized personnel costs	63.5	61.0	52.8	23.8
Net External Services	(77.6)	(58.3)	(85.6)	(107.3)
External Services	(151.5)	(82.6)	(111.1)	(127.4)
Other operating income	73.9	24.3	25.5	20.1
Levies	(43.9)	(46.5)	(113.2)	(2.4)
<b>EBITDA</b>	<b>755.3</b>	<b>453.9</b>	<b>423.6</b>	<b>332.3</b>
Amortisations, Provisions and other	(188.4)	(129.8)	(140.0)	(140.5)
<b>EBIT / Operating Profit</b>	<b>566.9</b>	<b>324.1</b>	<b>283.6</b>	<b>191.8</b>
Financial Result	(30.4)	(57.1)	(70.5)	(43.5)
Results of companies consolidated by equity method	1.5	-	-	(0.2)
Results of non-current assets	-	0.2	-	(4.9)
<b>PBT</b>	<b>538.0</b>	<b>267.2</b>	<b>213.0</b>	<b>143.1</b>
Corporate tax and minority shareholders	217.4	(49.3)	(104.0)	(36.8)
<b>NET PROFIT</b>	<b>755.3</b>	<b>217.9</b>	<b>109.0</b>	<b>106.3</b>
June 2012	SPAIN	UNITED KINGDOM	US	BRAZIL
Revenues	928.9	579.0	1,203.9	1,758.5
Procurement	-	(20.0)	(493.6)	(1,057.0)
<b>GROSS MARGIN</b>	<b>928.9</b>	<b>559.0</b>	<b>710.3</b>	<b>701.5</b>
Emission Rights Allocated	-	-	-	-
<b>BASIC MARGIN</b>	<b>928.9</b>	<b>559.0</b>	<b>710.3</b>	<b>701.5</b>
NET OPERATING EXPENSES	(202.6)	(64.8)	(234.7)	(203.6)
Net Personnel Expenses	(112.4)	(24.5)	(112.7)	(98.5)
Personnel	(175.8)	(92.0)	(161.1)	(125.7)
Capitalized personnel costs	63.4	67.5	48.4	27.2
Net External Services	(90.1)	(40.2)	(121.9)	(105.1)
External Services	(159.8)	(69.2)	(123.8)	(129.3)
Other operating income	69.7	28.9	1.9	24.2
Levies	(44.4)	(47.9)	(118.8)	(2.4)
<b>EBITDA</b>	<b>682.0</b>	<b>446.3</b>	<b>356.8</b>	<b>495.5</b>
Amortisations, Provisions and other	(186.7)	(98.1)	(109.4)	(185.5)
<b>EBIT / Operating Profit</b>	<b>495.2</b>	<b>348.2</b>	<b>247.4</b>	<b>310.0</b>
Financial Result	(13.4)	(34.0)	(70.4)	(47.9)
Results of companies consolidated by equity method	1.4	-	-	0.8
Results of non-current assets	1.5	(0.2)	10.1	(0.3)
<b>PBT</b>	<b>484.7</b>	<b>314.0</b>	<b>187.1</b>	<b>262.6</b>
Corporate tax and minority shareholders	(121.0)	(34.8)	(71.2)	218.9
<b>NET PROFIT</b>	<b>363.7</b>	<b>279.1</b>	<b>115.9</b>	<b>481.5</b>

## Generation and Supply (Unaudited)

Eur M

June 2013	SPAIN	UNITED KINGDOM	MEXICO	US & CANADA	Interco
Revenues	6,625.1	4,624.0	663.6	5.7	(268.2)
Procurement	(5,087.6)	(3,990.6)	(414.8)	(0.2)	269.8
<b>GROSS MARGIN</b>	<b>1,537.5</b>	<b>633.4</b>	<b>248.9</b>	<b>5.5</b>	<b>1.6</b>
Emission Rights Allocated	-	-	-	-	-
<b>BASIC MARGIN</b>	<b>1,537.5</b>	<b>633.4</b>	<b>248.9</b>	<b>5.5</b>	<b>1.6</b>
NET OPERATING EXPENSES	(374.1)	(252.9)	(56.8)	(16.5)	(1.6)
Net Personnel Expenses	(152.6)	(74.6)	(10.2)	(7.5)	-
Personnel	(164.1)	(81.3)	(10.2)	(7.6)	-
Capitalized personnel costs	11.5	6.7	-	0.1	-
Net External Services	(221.5)	(178.3)	(46.6)	(9.0)	(1.6)
External Services	(246.4)	(218.4)	(49.7)	(9.3)	(1.4)
Other operating income	24.9	40.1	3.0	0.3	(0.2)
Levies	(393.7)	(155.8)	(1.0)	(2.2)	-
<b>EBITDA</b>	<b>769.7</b>	<b>224.7</b>	<b>191.0</b>	<b>(13.2)</b>	<b>-</b>
Amortisations, Provisions and other	(287.2)	(149.8)	(35.4)	(1,092.2)	-
<b>EBIT / Operating Profit</b>	<b>482.5</b>	<b>74.9</b>	<b>155.6</b>	<b>(1,105.3)</b>	<b>-</b>
Financial Result	(45.5)	(6.5)	(11.3)	(9.6)	-
Results of companies consolidated by equity method	(0.2)	-	-	-	-
Results of non-current assets	(0.8)	0.4	-	-	-
<b>PBT</b>	<b>436.0</b>	<b>68.8</b>	<b>144.3</b>	<b>(1,115.0)</b>	<b>-</b>
Corporate tax and minority shareholders	924.1	(16.7)	(30.2)	321.1	-
<b>NET PROFIT</b>	<b>1,360.1</b>	<b>52.1</b>	<b>114.2</b>	<b>(793.9)</b>	<b>-</b>

Eur M

June 2012	SPAIN	UNITED KINGDOM	MEXICO	US & CANADA	Interco
Revenues	7,098.9	4,255.6	557.7	0.8	(245.5)
Procurement	(5,748.5)	(3,693.6)	(311.0)	-	245.5
<b>GROSS MARGIN</b>	<b>1,350.3</b>	<b>561.9</b>	<b>246.7</b>	<b>0.8</b>	<b>-</b>
Emission Rights Allocated	24.2	36.1	-	-	-
<b>BASIC MARGIN</b>	<b>1,374.5</b>	<b>598.1</b>	<b>246.7</b>	<b>0.8</b>	<b>-</b>
NET OPERATING EXPENSES	(381.1)	(290.2)	(54.9)	(20.0)	-
Net Personnel Expenses	(159.3)	(102.6)	(8.8)	(8.9)	-
Personnel	(170.2)	(105.1)	(8.8)	(9.4)	-
Capitalized personnel costs	10.9	2.5	-	0.5	-
Net External Services	(221.8)	(187.6)	(46.1)	(11.1)	-
External Services	(275.9)	(225.3)	(48.5)	(11.1)	0.1
Other operating income	54.1	37.7	2.4	-	(0.1)
Levies	(157.6)	(65.5)	(0.8)	(1.9)	-
<b>EBITDA</b>	<b>835.9</b>	<b>242.3</b>	<b>191.0</b>	<b>(21.1)</b>	<b>-</b>
Amortisations, Provisions and other	(301.0)	(151.3)	(31.4)	(22.8)	-
<b>EBIT / Operating Profit</b>	<b>534.9</b>	<b>91.0</b>	<b>159.7</b>	<b>(43.8)</b>	<b>-</b>
Financial Result	(66.9)	(12.1)	(10.0)	(3.5)	-
Results of companies consolidated by equity method	5.7	-	2.8	-	-
Results of non-current assets	-	5.1	-	-	-
<b>PBT</b>	<b>473.8</b>	<b>84.1</b>	<b>152.4</b>	<b>(47.4)</b>	<b>-</b>
Corporate tax and minority shareholders	(142.2)	(2.2)	(43.3)	14.8	-
<b>NET PROFIT</b>	<b>331.6</b>	<b>81.9</b>	<b>109.2</b>	<b>(32.6)</b>	<b>-</b>

## Quarterly Results (Unaudited)

**Eur M**

	2013	JAN-MARCH 2013	APR-JUNE, 2013
<b>REVENUES</b>		<b>9,221.9</b>	<b>7,614.3</b>
PROCUREMENTS		(5,648.1)	(4,511.6)
<b>GROSS MARGIN</b>		<b>3,573.8</b>	<b>3,102.6</b>
Emission rights allocated		-	-
<b>BASIC MARGIN</b>		<b>3,573.8</b>	<b>3,102.6</b>
<b>NET OPERATING EXPENSES</b>		<b>(883.9)</b>	<b>(878.1)</b>
<b>Net Personnel Expense</b>		<b>(433.6)</b>	<b>(446.1)</b>
Personnel		(559.1)	(576.5)
Capitalized personnel costs		125.5	130.4
<b>Net External Services</b>		<b>(450.3)</b>	<b>(432.1)</b>
External Services		(552.4)	(542.0)
Other Operating Income		102.1	110.0
<b>LEVIES</b>		<b>(410.5)</b>	<b>(453.0)</b>
<b>EBITDA</b>		<b>2,279.5</b>	<b>1,771.5</b>
AMORTISATIONS AND PROVISIONS		(765.4)	(2,403.8)
<b>EBIT</b>		<b>1,514.0</b>	<b>(632.3)</b>
<b>Financial Expenses</b>		<b>(761.1)</b>	<b>(428.1)</b>
<b>Financial Income</b>		<b>487.0</b>	<b>133.8</b>
<b>FINANCIAL RESULT</b>		<b>(274.1)</b>	<b>(294.3)</b>
<b>RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD</b>		<b>(0.1)</b>	<b>4.2</b>
<b>RESULTS FROM NON-RECURRING ASSETS</b>		<b>4.7</b>	<b>(33.8)</b>
<b>PBT</b>		<b>1,244.5</b>	<b>(956.2)</b>
Corporate Tax		(356.5)	1,817.0
Minorities		(8.7)	(12.1)
<b>NET PROFIT</b>		<b>879.3</b>	<b>848.8</b>

**Eur M**

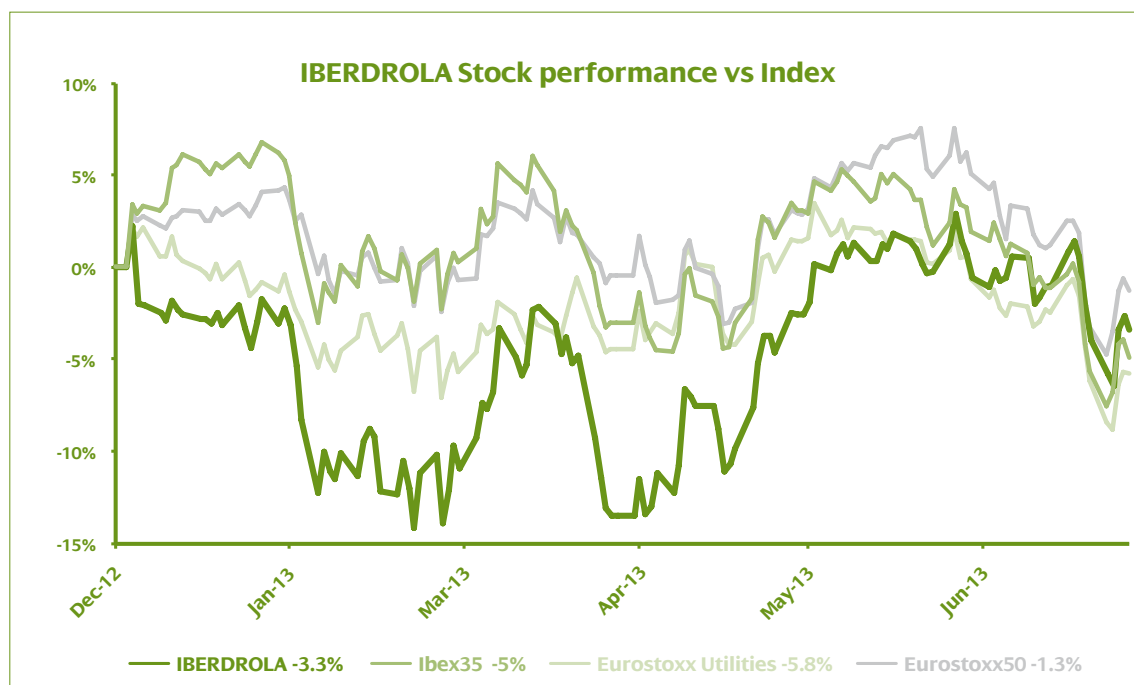
	2012	JAN-MARCH 2012	APR-JUNE, 2012
<b>REVENUES</b>		<b>9,331.0</b>	<b>7,661.5</b>
PROCUREMENTS		(5,942.6)	(4,740.8)
<b>GROSS MARGIN</b>		<b>3,388.4</b>	<b>2,920.8</b>
Emission rights allocated		40.6	19.8
<b>BASIC MARGIN</b>		<b>3,429.0</b>	<b>2,940.5</b>
<b>NET OPERATING EXPENSES</b>		<b>(877.1)</b>	<b>(924.1)</b>
<b>Net Personnel Expense</b>		<b>(450.7)</b>	<b>(436.0)</b>
Personnel		(590.0)	(577.0)
Capitalized personnel costs		139.4	141.0
<b>Net External Services</b>		<b>(426.4)</b>	<b>(488.1)</b>
External Services		(531.1)	(586.3)
Other Operating Income		104.7	98.2
<b>LEVIES</b>		<b>(186.5)</b>	<b>(295.0)</b>
<b>EBITDA</b>		<b>2,365.4</b>	<b>1,721.4</b>
AMORTISATIONS AND PROVISIONS		(741.7)	(805.3)
<b>EBIT</b>		<b>1,623.7</b>	<b>916.1</b>
<b>Financial Expenses</b>		<b>(733.6)</b>	<b>(558.2)</b>
<b>Financial Income</b>		<b>409.8</b>	<b>212.0</b>
<b>FINANCIAL RESULT</b>		<b>(323.8)</b>	<b>(346.2)</b>
<b>RESULTS OF COMPANIES CONSOLIDATED BY EQUITY METHOD</b>		<b>2.4</b>	<b>(138.5)</b>
<b>RESULTS FROM NON-RECURRING ASSETS</b>		<b>5.9</b>	<b>10.8</b>
<b>PBT</b>		<b>1,308.2</b>	<b>442.2</b>
Corporate Tax		(274.9)	305.2
Minorities		(11.0)	(6.6)
<b>NET PROFIT</b>		<b>1,022.3</b>	<b>740.8</b>

## Statement of Origin and Use of Funds

### June 2013 (Unaudited)

	Eur M		
	June 2013	June 2012	Difference
EBIT	882	2,539	(1,658)
Amortisations	1,382	1,360	22
Provisions	1,787	187	1,600
Other personnel and capitalised costs	(196)	(210)	14
<b>Operating Cash Flow</b>	<b>3,855</b>	<b>3,876</b>	<b>(21)</b>
Interest paid	(779)	(823)	44
Interest received	236	186	50
Dividends received from affiliates		15	(15)
Taxes	(156)	(236)	81
<b>Cash Flow</b>	<b>3,157</b>	<b>3,018</b>	<b>139</b>
Acquisition of free-of-charge share allocation rights	(308)	(437)	129
<b>Retained Cash Flow</b>	<b>2,848</b>	<b>2,581</b>	<b>267</b>
Total Cash Flow allocations:			
<i>Net Investments</i>	(1,380)	(1,558)	178
<i>Treasury stock</i>	(254)	(52)	(202)
<i>Non core divestments</i>		7	(7)
<i>Disposal of Group Companies</i>	465	39	426
<i>Taxes on investment activities</i>	9	(6)	14
<i>Pension &amp; Others</i>	(236)	(162)	(74)
Total Cash Flow allocations	(1,396)	(1,732)	336
Capital Change in working capital and others	(744)	(838)	94
<b>Decrease/(Increase) in debt</b>	<b>709</b>	<b>11</b>	<b>698</b>
Exchange rate differentials	295	(334)	629
Hybrid issuance	517		517
<b>Decrease/(Increase) in gross debt</b>	<b>1,521</b>	<b>(323)</b>	<b>1,844</b>
Financial debt	1,463	(359)	1,821
Capital inst. w/nature of financial liability	58	36	22

## Stock Market Evolution



IBERDROLA Share	H1 2013	H1 2012
Number of shares outstanding	6,130,435,584	5,972,865,000
Price at the end of the period	4.05	3.71
Average Price of the period	3.98	3.88
Average daily volume	44,686,734	49,522,919
Maximum volume (06-24-2013 / 06-25-2012)	306,609,901	435,328,652
Minimum volume (01-29-2013 / 02-15-2012))	11,613,980	13,072,644
Dividends paid (€)	0.143	0.146
Gross Interim (01-22-2013/01-20-2012)	0.143 <sup>(1)</sup>	0.146 <sup>(1)</sup>
Dividend yield <sup>(2)</sup>	8.35%	9.08%

(1) Iberdrola guaranteed fixed price for the rights.

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

## APPENDIX - Iberdrola and Sustainability

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

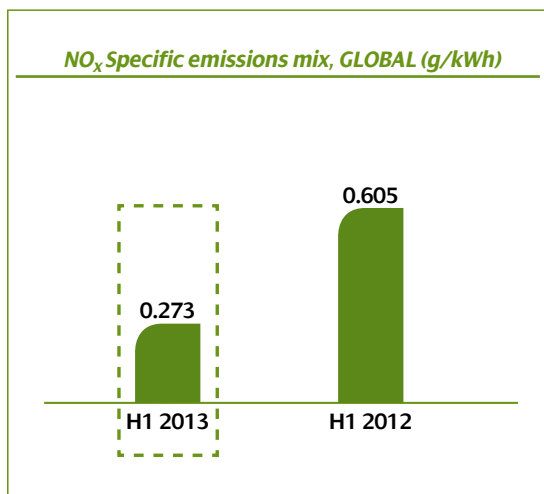
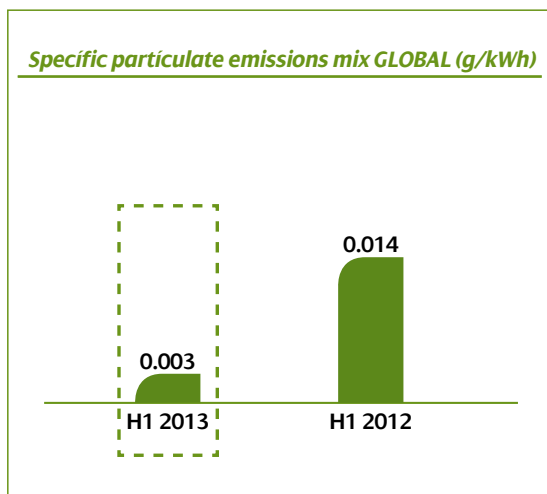
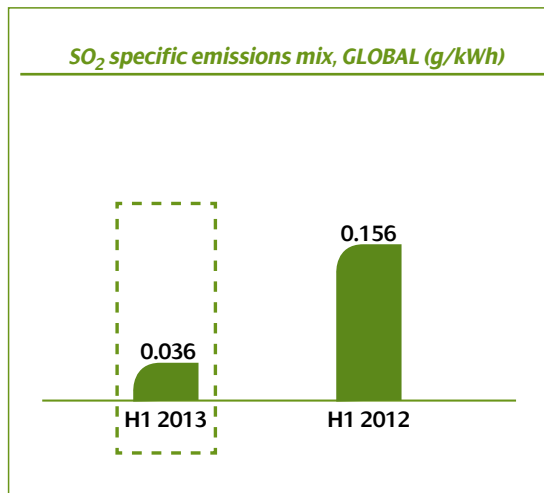
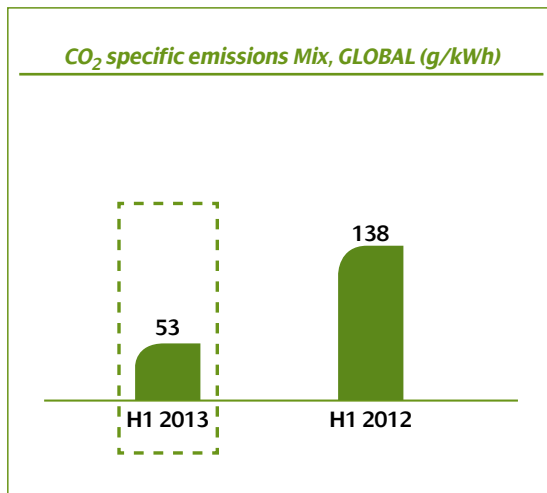
### 1. SUSTAINABILITY INDICATORS

Sustainability Indicators	H1 2013	H1 2012
Contribution to GDP (Gross Margin) (*)	0.70%	0.59%
Contribution to GDP (Net Revenues) (*)	1.88%	1.86%
Investments in equipment (EUR million)	1,380	1,558
Investment in clean generation over the total investments in generation (%)	88%	93%
Net profit (EUR million)	1,728.0	1,763.1
Dividend yield (%) (**)	8.35%	9.08%
CO <sub>2</sub> emissions in the period (gr. CO <sub>2</sub> /kWh). Total	227	268
CO <sub>2</sub> emissions in the period (gr. CO <sub>2</sub> /kWh). Spain	53	138
CO <sub>2</sub> emissions in the period (gr. CO <sub>2</sub> /kWh). SPW	694	705
Total emission-free production (GWh)	40,569	35,089
Spain emission-free production (GWh)	28,204	23,122
Emission-free production out of total production (%)	57%	51%
Spain emission-free production out of total production (%)	92%	81%
Total emission-free installed capacity (MW)	27,462	27,275
Spain emission-free installed capacity (MW)	18,309	18,030
Total emission-free installed capacity (%)	61%	59%
Spain emission-free installed capacity (%)	72%	70%

(\*) Source: Iberdrola Results and National Quarterly Accounting for Spain – INE. (Last data published Q1 2013).

(\*\*) 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 selected in the Index
Carbon disclosure Leadership Index	IBERDROLA Selected
Carbon disclosure Performance Index	A category Iberdrola
Storebrand Investment SRI	2nd global utility
Global Roundtable on Climate Change	IBERDROLA, among the promoters
Sustainability Yearbook Robeco Sam 2013	Classified as "Gold Class" in the electricity sector
OEKOM Research	IBERDROLA classified as "Prime"
European Business Awards 2013	Ruban D'Honneur 2013 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
New York Stock Exchange, NYSE Euronext y Vigeo	IBERDROLA Selected
EI New Energy Top 100 Green Utilities	IBERDROLA in the 1st Position among 100 Utilities
ET Global 800 Carbon Ranking	IBERDROLA Fist Spanish Utility
Observatorio RSC	IBERDROLA is Leader

### 3. CONTRIBUTION TO SOCIAL DEVELOPMENT

The most significant actions of Iberdrola during the January-June period of 2013, with regard to social commitment, have been as follows:

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

- **Iberdrola México recognised as a Socially Responsible Company 2013**

Iberdrola México has been awarded with the *ESR Distinction 2013* (Socially Responsible Company) granted by the Centro AliaRSE, in recognition for its outstanding commitment towards society.

- **Iberdrola USA ranked among the Top five in customer satisfaction**

For the first time ever, all three Iberdrola USA companies have been ranked among the top five in the J.D. Power and Associates annual survey of business customer satisfaction.

- **ScottishPower ranked best energy supplier**

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

#### 3.2. - Relations with Stakeholders

- **Regional Advisory Boards**

Working meetings were held with the three Advisory Boards in Spain (Andalusia, Castilla-Leon and the Valencian Community). The

purpose of these boards is to contribute to the development of their respective regions through dialogue and exchange of management and innovation experience with major business and financial organisations within these regions.

- **SP Energy Networks**

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

- **Entrepreneurs**

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

#### 3.3. - Staff

- **International Volunteer Programme**

Within Iberdrola's Volunteer Programme, organised through the *International Volunteer Portal* (a website that serves as a meeting point to reinforce the global community of volunteers of the Group), the following actions can be highlighted from the period:

- **6th Iberdrola Tree Day.** The sixth Tree Day was celebrated in Bermeo (Vizcaya), in

collaboration with the Gorabide Association and the Lurguia Foundation, to create the Iberdrola Forest, which will reach an area of five hectares.

- **1st Environmental Volunteering Day in Madrid.** Iberdrola volunteers, together with members of the Downs Syndrome Foundation, planted the first trees of the future Iberdrola Forest in Madrid.
- **Volunteer Days.** A series of volunteer days devoted to games and sports aimed at people with disabilities in Navarra, Madrid, Castilla-León, and the Valencian Community have been held.
- **“Lights and Action” Project.** A group of young people from Madrid at risk of social exclusion will receive training by employees of our Company in order to favour their access into the job market.
- **“School Meal Grants” Programme.** Collaboration with this Programme of *Aldeas Infantiles*, which aims to fund school meals for children whose families have trouble covering the costs of their food.
- **“Iberdrola Kilo Operation” initiative.** Every two months, Iberdrola launches this initiative to collect food in order to contribute to ameliorating the difficult situation of many families as a result of the economic crisis. The food is distributed through aid organisations such as *Cáritas*, *Casa Caridad* and the *Banco de Alimentos*.

- **CSR Course for Iberdrola Group employees, through the corporate Intranet**

A Corporate Social Responsibility (CSR) course has been made available to all employees of the Group with the objective of divulging among the staff these new business management concepts and practices. More than 22,000 employees have started the course since the end of May. A specific course on Human Rights will be available on the training platform soon.

### 3.4 Community Action

- **ScottishPower Foundation**

Last 29 May an event to mark the opening of the ScottishPower Foundation was held. This Foundation has been set up to strengthen corporate social commitment in the United Kingdom.

The foundation supports the work of non-governmental organisations that carry out their activity in the areas of training, environmental protection, art, culture and science, as well as solidarity and community development.

#### a) Training and Research

##### Scholarships and Grants Programme for Energy and Environmental Research

On 17 June, lists were published announcing the 73 selected candidates in the 2013 Call for Scholarships and Grants for the Energy and Environmental Research Programme.

Fundación Iberdrola will support 50 Spanish, British, US and Mexican students who will

broaden their education with Master's studies. In addition, it will enable 20 young Spanish researchers to continue their research projects and three to study restoration at the Prado Museum.

A new feature this year is the participation of Mexican students for the Masters Programme in Spain and of Spanish and British students for the Masters Programme in the USA.

The number of grants awarded increased by 37% compared to 2012.

On 3 July, a diploma award ceremony was held in Casa America, Madrid.

### **Entrepreneurial Talent Grants from the Fundación Príncipe de Girona**

These grants have offered 20 young people under the age of 35 the opportunity to attend the IMPULSA forum, held on 26 and 27 June at the Girona Conference Centre.

The IMPULSA forum aims to identify and propose the educational, technological, economic, political and social conditions that are required to enable thousands of inquiring young people to become catalysts for progress by putting them into contact with experienced professionals. The selection process took into account factors such as initiative, an inquiring mind and creativity, with priority being given to those that had not already taken part before.

### **Rochester Institute of Technology (RIT), USA**

The Electric Vehicle Club of RIT designs and develops experimental electric vehicles. In the last year it has been working on the new design of its miniature dragster electric motorcycle

in order to turn it into a vehicle for daily use. The "dragster" bike was presented at the Green Grand Prix. The Club has also designed a customised quick fit harness.

### **Binghamton University, USA**

Students from the Watson School of Engineering and Applied Sciences have designed an efficient and sustainable process for transforming organic waste from the centre's cafeteria into biomass briquettes for use in the university boilers.

### **School of Electricians, Brazil**

Free electricity training has been provided to young people in order to increase electrical qualifications in the sector and train future professionals who may become part of the staff of Elektro.

### **Grants to study at the Monterrey Institute of Technology and Higher Education, in Altamira, Mexico**

Four grants have been awarded to read Engineering at the Monterrey Institute of Technology and Higher Education, specifically at its Altamira campus.

The grants are aimed at young low income people who have completed their secondary education. They have been awarded since 2002.

## **b) Sustainability and Biodiversity**

### **Rey Jaime I Awards**

The Fundación has collaborated again this year in the ceremony of the Environmental Protection award which, in 2013, went to Professor Xavier Querol for his scientific

contribution to the improvement of air quality and reduction of the impact of pollution on the population.

Xavier Querol Carceller is a member of the Scientific Advisory Committee of the World Health Organisation for evaluation of air quality policy in the European Union. Doctor Querol's research has focused on the study of atmospheric particles in order to understand from a scientific point of view their impact on the quality of urban air.

#### **Cantabrian Capercaillie Protection Scheme**

This LIFE+ Project started in 2010 continues to make progress. One of the main actions of the scheme is to reinforce the population of capercaillies with chicks from the breeding centre at Sobrescopio. With this aim in mind, three sites in the National Park of Picos de Europa have been pre-selected. During July the exact place and number of chicks to release shall be determined.

#### **Reproductive and hibernating bird migration monitoring scheme in Spain**

On 9 May, to start the celebration of the World Migratory Bird Day, a red kite in the centre of Spain was tagged with a GSM transmitter. The red kite is one of the most beautiful birds of prey in the Iberian Peninsula, but very little is known about their exact migratory movements and behaviour throughout the year.

In June new booted eagles and European rollers were tagged with satellite monitoring devices.

All the information regarding the movements is available in real time at the Scheme's website [www.migraciondeaves.org](http://www.migraciondeaves.org).

#### **Scottish Green Awards, United Kingdom**

The fifth Scottish Green Awards were given out in April, in recognition of the achievements of individuals and businesses for their development of exceptional, innovative environmental initiatives.

These awards were created with the aim of raising awareness among the public and private sectors regarding the need to promote good environmental practices and to adopt a sustainable development model.

#### **Urban and forest community projects, United Kingdom**

A total of 32 voluntary employees of ScottishPower have taken part in four community urban and forest projects. On 17 May, three projects were carried out under the motto "Business in the Community - Volunteers Day of Employees in the United Kingdom". In North Wales, a team of heads of the Network business restored access to a forest community area and replanted a sensory garden in a non-profit organisation working with children in the area of Warrington.

#### **Maine Huts and Trails, USA**

This organisation manages four shelters and more than 50 kilometres of forest trails in the West of Maine. In addition, it offers different mountain adventure activities for different ages combined with accommodation.

### **Discovery Center, USA**

This interactive museum with a surface area of more than 22,500 square meters, specially designed for children, offers playing and learning activities for the public in the area of South New York and North-east Pennsylvania.

## **c) Art and Culture**

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

The restoration of Rubens' copy of Titian's "Adam and Eve" from Tiziano has been completed and has been taken again to its usual place in the Central Gallery of the Villanueva building. Its placement next to the original which inspired it, affords the public a rare insight into the interest that the Venetian painter awoke in the Flemish artist.

### **The Atlantic Romanesque Project**

A board of experts has been constituted to analyse the actions to be carried out in the Church of San Pedro de la Nave in Campillo, Zamora.

Within the framework of the Communication Plan of the project, on 23 April, the first guided tour was organised of three of the temples of Zamora adapted for people with hearing impairment.

The Office of the Secretary of State of Culture of Portugal has resumed the project and will work on the Church of Santa María in Cova do Barroso, Boticas.

### **Lighting of the Mosque of Cristo de la Luz in Toledo**

On 19 June, the new lighting of the Mosque of Cristo de la Luz was inaugurated. This

temple was built in 999. The new LED based lighting guarantees greater energy efficiency. In the inside of the building lamps have been installed that enable the adjustment of the light tone on the frescoes to achieve a good chromatic reproduction without ultraviolet radiation, which would damage the paintings. As to the exterior, the lighting system is adjustable from a local tactile screen, a computer or a mobile phone, with different levels and tones to create different scenes.

### **Restoration of the tapestries of the College of the Patriarch in Valencia**

Following their transportation to the Royal Tapestry Factory, the restoration works for the tapestries of the College of the Patriarch continue. The tapestries are a series of six large panels from the 16th century of Flemish origin, donated by its founder, Juan de Ribera, to the Royal College of Corpus Christi. The pieces are invaluable and belong to the period of splendour of Flemish tapestry making.

In June the washing and cleaning of the first two tapestries was started. This cleaning process will interrupt the process of deterioration of the fabric and restore it to a healthier condition. After passing through the cleaning facilities at the Royal Tapestry Factory, unique in Spain, these tapestries have recovered the colours that had remained buried under a thick layer of dirt and accumulation of smoke.

Over the next few months, the restoration work proper will start. The process will consolidate the structural recovery of the tapestries and the visual reintegration of the decorative elements.

### **10th Ramón Rubial Narrative Competition for Schoolchildren**

One of the prizes in the 10th edition of the Ramón Rubial Storytelling Competition for schoolchildren was awarded in an event held at the Euskalduna Palace in Bilbao.

The award went to Colegio Kirikiño for the story “La luna de enero” (January Moon), by one of its students.

More than 700 schoolchildren in the Basque Country took part this year.

### **“La Noche de los Museos” (“The Museums Night”) at the Ramón Gaya Museum in Murcia**

One more year, Iberdrola has collaborated with the celebration of “La Noche de los Museos” at the Ramón Gaya Museo in Murcia, held on 17 and 18 May.

After nine years celebrating this night, the event has become a point of artistic and cultural reference in the city of Murcia.

The activity was free and attendants got a chance to find out more about the theme for this year, “Ramón Gaya and Picasso”.

### **Museum of Bellas Artes, Bilbao**

In April, the agreement with this Museum was renewed. Iberdrola will contribute to the annual programme of conservation and restoration of art works of the museum’s collection: two tableaux by Nicolás Solana, an oil painting by Aurelio Arteta, another painting by Rafael Ruiz Balerdi and six works on paper by Joan González.

In addition, it will continue to support the Museum’s educational programmes for visitors with special needs.

### **ScottishPower Swap Shop Competition, United Kingdom**

This year the fifth Swap Shop competition was held. This award-winning initiative in collaboration with the Edinburgh International Book Festival aims to encourage primary school children in Scottish schools to read and recycle their old books, while raising money for charity.

The award-winning children’s writer Vivian French visited a school in Edinburgh to encourage children to share their favorite’s books with their class mates. ScottishPower expects 5,000 children across Scotland to take part. Five schools will have the chance to win a visit from a children’s literature author.

### **Borinquen Dance Theatre, USA**

A company founded in 1981 famous for its unique mix of Puerto Rican folklore and contemporary latino style. It has performed across the United States and Canada. It has travelled from Michigan to Kentucky, performed at festivals in New York and Niagara Falls and taken part in events such as the World Hispanic Fair.

### ***Energia en Escena* -Energy on Scene- (Projects subject to the Federal Law of Incentives to Culture -Rouanet Regulations-), Brazil**

From the start of the year until May, this cultural project offering free Brazilian cinema in the open air, has travelled to more than 34 cities of the Elektro area of concession with

an attendance of more than 10,000 viewers. From now to the end of the year, the project is expected to visit over 40 cities, with a total expected attendance of 100,000 people.

#### d) Cooperation and Solidarity

##### **Social Aid Programme**

On 18 June, the list of the 46 beneficiary social entities of the 4th Call for Social Aid of the Fundación was announced.

These entities work in Spanish territory and have been selected from among more than 525 applications. The beneficiary projects are related with the fight against poverty and social exclusion and improved quality of life.

Funding of up to 20,000 Eur per selected project will be awarded, provided this amount does not exceed 50% of the total amount for the project.

The aid awarded this year is 18% greater than that given last year.

##### **Young Enterprise Awards, United Kingdom**

Support has continued for this programme that seeks to stimulate entrepreneurial spirit among secondary school students with a view to them setting up their own businesses during an academic year.

This year more than 400 students took part in the North of Wales. They set up 38 companies selling a broad range of innovative products and services. The final saw the eight best competing for a series of awards. The Best Company Award, supported by ScottishPower, went to the secondary education institute

of Prestatyn for its “Star Jars” concept, which allowed it to take part in the Wales Final held in May.

##### **Urban League of Rochester, NY, USA**

Founded in 1965 as a reaction to the racial riots that hit the community of Rochester, it offers assistance to lower income social sectors and minorities in housing, employment, education and health.

It has more than 30 programmes for young people and disabled people, focused on economic development, employment, services for families and children, education, housing and aid to entrepreneurs.

##### **Mitchell Institute, USA**

On an annual basis, the Mitchell Institute awards grants to students who have completed their secondary education in Maine and wish to access university. The selection is carried out based on academic results, economic resources and community service record. Since 1995, this programme has devoted more than 9 MM dollars to the education of more than 2,000 Maine students.

##### **Ecological ‘Meninos’, Brazil**

So far this year, a total of 30 adolescents have taken part in the various activities aimed at environmental protection such as identification of species, reforestation or recollection of seeds. The programme has led to the identification of over 100,000 vegetable species.



### **Golden Kimono, (Projects subject to Federal Law of Incentives to Sport), Brazil**

This initiative promotes the education of children through judo. The project has benefited 50 children from the city of Aranas, who have received weekly classes and may take part in competitions representing the Asociación Marcos Mecadante de Judô.

## **3. CORPORATE GOVERNANCE**

Iberdrola's corporate governance highlights during the first half of financial year 2013 were as follows:

- On 18 January 2013, the second execution of the increase of paid-up share capital related to the *Iberdrola Dividendo Flexible* system was approved, on the occasion of what would have been the traditional payment of the dividend corresponding to financial year 2012. As a result, 142,291,000 shares with a per unit nominal value of 0.75 Euros 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 29 January 2013, Iberdrola announced the agreement to deliver shares to the Group's employees as part of the variable remuneration accrued in financial year 2012.
- The Board of Directors of Iberdrola, in its meeting of 13 February 2013, prepared the individual and consolidated annual accounts and management reports of the company, corresponding to the financial year ending 31 December 2012, 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 14 February 2013, Iberdrola informed to the CNMV the agreement to carry out a buy-back programme of the Company's own shares in accordance with the authorization granted by the General Shareholders Meeting held on 26 March 2010, under item eight of the Agenda. In relation with this, since that date, Iberdrola has periodically reported to the CNMV on the share buyback programme until the 20th of May 2013, the date when it ended. As a result, the Company acquired a total of 68,488,267 treasury shares (1.09%) of Iberdrola share capital, in implementation of the share buyback programme.
- On that same date, Iberdrola submitted to the CNMV its Results Presentation and Annual Corporate Governance Report corresponding to financial year 2012.
- On 23 April 2013, Iberdrola published the approximate schedule for the first implementation of the paid-up capital increase in relation with the system *Iberdrola Dividendo Flexible*, which was subsequently modified in accordance with the notification sent to the CNMV dated 21 May.
- On 24 April, Iberdrola submitted to the CNMV its Results Presentation corresponding to the first quarter of 2013.

- The Company notified the CNMV on 21 May 2013 of the agreement to implement the reduction of share capital by means of the retirement of treasury shares and the acquisition of own shares for the retirement thereof, approved by the General Shareholders' Meeting of the Company held on March 22, 2013 under item ten on the agenda.
- Subsequently, on 27 May, the CNMV was informed that the public deed regarding the reduction of share capital and the amendment of the By-Laws of Iberdrola has been recorded.
- Also on 21 May, Iberdrola approved the implementation of the first paid-up capital increase approved by the General Shareholders' Meeting in 2013, under section A, point six of the agenda.
- Subsequently, on 1 July 2013, the Company published a supplement to the information memorandum relating to the implementation of the first paid-up capital increase approved by the General Shareholders' Meeting of 22 March 2013.

## **GENERAL SHAREHOLDERS' MEETING**

The Board of Directors of Iberdrola, in its meeting of 13 February 2013 agreed to convene the General Shareholders' Meeting to be held at the first session on 22 March 2013, or, if the necessary quorum were not attained, at the second session on 23 March 2013. In addition, the Board approved the payment of a gross attendance bonus of EUR 0.005 per share 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 14 February 2013.

On 22 March 2013, the General Shareholders' Meeting of the Company was held at first session, with a quorum of 81.09% of the share capital (15.85% present and 65.24% represented), with the approval of each and every agreement put to vote that had been included in the meeting agenda, 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 2012.

Likewise, the shareholders acting at the General Shareholders' Meeting have approved the re-election of Ernst & Young, S.L. as auditor of the Company and of its consolidated group for fiscal year 2013.

- **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 2012, in the gross amount of three Euro cents (EUR 0.030), per share, with the right to receive it.

In addition, the shareholders acting at the General Shareholders' Meeting have approved two fully-paid increases in the share capital by means of the issuance of new ordinary shares of the Company at a maximum reference market value of eight hundred eighty three million Euros and one thousand twenty one million Euros, respectively, for the free-of-charge allocation of the new shares to the shareholders of the company.

These capital increases has been adopted for the purposes of offering all of the Company's shareholders, under each instalment 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 authorisations and delegations requested for the Board of Directors

- The shareholders acting at the General Shareholders' Meeting have approved the

ratification of the appointment of Mr. Manuel Lagares Gómez-Abascal as director, qualified as an external director representing significant shareholders, for the statutory term of four years.

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

- **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 article 6 of the *Articles of Association* in accordance with article 497 of the Capital Companies Law.
- b) The amendment of articles 39, 42 and 43 of the *Articles of Association* to introduce technical improvements in the regulation of the operation of the Board of Directors and its Committees.

- **Resolution relating to the share capital decrease**

The shareholders acting at the General Shareholders' Meeting approved a decrease of share capital through the amortization of 87,936,576 treasury shares in Iberdrola's portfolio, representing 1.40% of share capital, and the purchase of a maximum of 62,811,840 additional treasury shares, representing up

to 1% of share capital, through a repurchase program for the amortization.

- **Resolution relating to general matters**

In addition, 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 voting 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.

## BOARD OF DIRECTORS AND CONSULTING COMMITTEES

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

On 23 April 2013, the Board of Directors of Iberdrola accepted the resignation of Mr. Víctor de Urrutia Vallejo from its positions as vice-chairman and member of the Board of Directors and member of the Executive Committee.

In turn, the appointment by cooption of Ms. Georgina Kessel Martínez as external independent director, in replacement of Mr. Víctor de Urrutia Vallejo was approved following the favorable report from the Appointments and Remuneration Committee.

In addition, it was agreed to reclassify director Mr. Ángel Jesús Acebes Paniagua as an external independent director, effective April 24, 2013.

## CORPORATE GOVERNANCE SYSTEM

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

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

Corporate Policies develop the principles reflected in the Company's corporate governance System and contain the guidelines that govern the activities of the Company and the companies of

its Group, as well as their directors, executives and employees, within the context of the Strategic Plan and the vision and values of the Company with regard to corporate governance and regulatory compliance, risk and social responsibility.

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

During the first half of financial year 2013, the following updates and reviews of the Corporate Governance System of Iberdrola were made:

- On 18 January 2013, article 5 of the *By-Laws* was modified as a result of the second execution of the paid-up capital increase within the framework of the *Iberdrola Dividendo Flexible* system.
- On 19 January 2013, the Company approved the review and update of the Risk Policies (*general risk control and management Policy, the Summary of corporate risk Policies and the Summary of specific risk policies of the Group businesses*).
- On 13 February 2013, the Board of Directors agreed the review and update of the *Policy of remuneration of directors* and of the *Policy of remuneration of high management*.
- As a result of the agreements adopted by the General Shareholders' Meeting held on 22 March 2013, the *Articles of Association* of the Company were modified. In addition, on the same date, the Board of Directors agreed to the modification of the *Board of Directors*

*Regulations* in order to coordinate its content with the modifications to the *By-Laws*.

- On 23 April 2013, the Board of Directors reviewed and updated the *Policy of remuneration of directors*.
- Following the implementation of the the reduction of share capital by means of the retirement of treasury shares and the acquisition of own shares for the retirement thereof, notified to the CNMV on 21 May, article 5 of the *By-Laws* was modified.
- On 18 June, the Board of Directors approved the new *Purchasing Policy* of the Company. The approval of this new policy required adapting the *General risk management and control Policy* and the *Summary of Corporate Risk Policies*.

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 non-financial information provided to shareholders, investors and markets. In this respect, there has been a high level of activity during the first half of 2013 to ensure that institutional investors and financial analysts are kept fully informed.

- **On-Line Shareholders (OLS)**

The On-Line Shareholders (OLS) interactive system has been made available through the corporate website, allowing shareholders to make confidential or public enquiries, 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 April to June 2013**

<b>Date</b>	<b>Event</b>	<b>Registration No.</b>
04/02/2013	The company submits periodic information on the operations carried out under its Share buy-back Programme.	184635
04/08/2013		184963
04/15/2013		185175
04/22/2013		185529
04/29/2013		185989
05/13/2013		187088
05/29/2013		187672
04/09/2013	The company reports the date for submitting results of the first quarter of 2013.	184992
04/11/2013	The company reports its Energy Production figures as at the end of the first quarter of 2013.	185072
04/23/2013	The company reports on modifications in the composition of the Board of Directors and the Executive Committee.	185584
04/23/2013	The company reports on the estimated date for payment of the dividend corresponding to financial year 2012 and of the terms of the implementation of the first paid-up capital increase related to the "Iberdrola Dividendo Flexible" system.	185590
04/24/2013	The Company issues information regarding the results of the first quarter of 2013.	185613 185617
05/21/2013	The company reports on the implementation of the the reduction of share capital by means of the retirement of treasury shares approved by the General Shareholders' Meeting of 22 March 2013, under point ten of the agenda.	187868
05/21/2013	The company reports on the implementation of the first paid-up share capital increase approved by the General Shareholders' Meeting of 22 March 2013 and the publication of the corresponding information memorandum. Final date of payment of dividend.	187871
06/12/2013		188953
05/24/2013	The company report on the completion of the sale of Iberdrola's onshore operating assets in France.	188075
05/27/2013	The company reports on the recording of the public deed of reduction of share capital by means of the retirement of own shares approved by the General Shareholders' Meeting of Iberdrola on 22 March 2013, under point ten of the agenda.	188306
05/29/2013	The company reports on the issue of bonds by Iberdrola International, guaranteed by Iberdrola for the amount of Eur 600 million and the exchange for Iberdrola Finanzas bonds.	188438
06/07/2013		188894
06/21/2013	The company reports on the partial completion of the sale of the indirect shareholding interest held by Iberdrola, S.A.'s in Medgaz, S.A.	189349

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