

Results

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2016

First half

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Core Business Figures

Operating Data		H1 2016	H1 2015	%
Net Production	GWh	71,859	68,443	5.0
Hydro	GWh	13,378	8,284	61.5
Nuclear	GWh	12,013	11,573	3.8
Coal	GWh	2,004	5,466	-63.3
Gas Combined Cycle	GWh	22,912	22,698	0.9
Cogeneration	GWh	2,992	2,724	9.8
Renewables	GWh	18,541	17,660	5.0
Installed capacity	MW	44,241	45,352	-2.4
Hydro	MW	11,079	10,171	8.9
Nuclear*	MW	3,410	3,410	-
Coal**	MW	874	3,178	-72.5
Gas Combined Cycle	MW	12,923	12,672	2.0
Cogeneration	MW	1,217	1,238	-
Renewables	MW	14,739	14,684	0.4
Distributed Electricity	GWh	114,291	113,013	1.1
Electricity users (managed supply points)	N° (mil)	29.9	29.2	2.5
Electricity customers	N° (mil)	13.5	13.6	-0.7
Gas users (managed supply points)	N° (mil)	4.1	3.6	13.7
Gas supplies	GWh	70,318	56,785	23.8
Gas storage	bcm	2.5	2.5	0.8
Employees	N°	28,333	27,021	4.9

(*) Includes Garoña plant.

(**) Longannet closure at the end of March 2016

Operating Data		H1 2016	H1 2015	%
Spain				
Net Production	GWh	34,155	28,844	18.4
Hydro	GWh	12,245	7,273	68.4
Nuclear	GWh	12,013	11,573	3.8
Coal	GWh	284	1,242	-77.1
Gas combined cycle	GWh	1,100	764	44.0
Cogeneration	GWh	1,116	1,076	3.7
Renewables	GWh	7,397	6,916	7.0
Installed capacity	MW	26,167	25,283	3.5
Hydro	MW	9,715	8,807	10.3
Nuclear	MW	3,410	3,410	-
Coal	MW	874	874	-
Gas combined cycle	MW	5,695	5,695	-
Cogeneration	MW	367	388	-5.3
Renewables	MW	6,105	6,109	-0.1
Distributed Electricity	GWh	45,913	46,361	-1.0
Gas Supplies	GWh	8,313	6,968	19.3
Consumers	GWh	5,234	4,758	10.0
Gas combined cycle	GWh	3,079	2,210	39.3
Electricity Users (managed supply points)	No (mill.)	10.9	10.9	0.4
Electricity Customers	No (mill.)	10.3	10.3	0.05
Gas users (managed supply points)	No (mill.)	0.92	0.84	9.5
United Kingdom				
Production	GWh	7,363	9,856	-25.3
Hydro	GWh	313	343	-8.8
Coal	GWh	1,719	4,225	-59.3
Gas combined cycle	GWh	3,815	3,233	18.0
Cogeneration	GWh	-	-	-
Renewables	GWh	1,515	2,054	-26.2
Installed Capacity	MW	4,233	6,462	-34.5
Hydro	MW	563	563	-
Coal*	MW	-	2,304	-100.0
Gas combined cycle	MW	1,967	1,967	-
Cogeneration	MW	1	1	-
Renewables	MW	1,702	1,627	-
Distributed Electricity	GWh	18,127	18,587	-2.5
Gas Storage	bcm	0.09	0.07	31.3
Gas Supplies	GWh	27,708	26,668	3.90
Consumers	GWh	19,003	19,561	- 2.85
Gas Combined Cycle	GWh	8,705	7,107	22.48
Electricity users (managed supply points)	No (mill.)	3.5	3.5	0.15
Electricity users customers	No (mill.)	3.2	3.3	-0.50
Gas users (customers)	No (mill.)	2.2	2.2	

Core Business Figures

Operating Data		H1 2016	H1 2015	%
USA				
Production	GWh	9,278	8,292	11.9
Hydro	GWh	218	213	2.3
Gas combined cycle	GWh	8.7	0.3	N/A
Cogeneration	GWh	1,037	791	31.2
Renewables	GWh	7,994	7,250	10.3
Installed capacity	MW	6,660	6,458	3.1
Hydro	MW	118	118	-
Gas combined cycle	MW	209	9	N/A
Cogeneration	MW	636	636	-
Renewables	MW	5,697	5,695	-
Distributed Electricity	GWh	18,809	16,877	11.4
Gas supplies	GWh	34,296	23,149	48.2
Gas Storage		2.44	2.44	-
Electricity users (managed supply points)	No (mill.)	2.2	1.9	18.2
Gas users (managed supply points)	No (mill.)	1.0	0.6	70.7
Brazil				
Production	GWh	1,770	1,443	22.6
Hydro	GWh	601	454	32.4
Gas combined cycle	GWh	713	671	6.3
Cogeneration	GWh	88	89	-1.1
Renewables	GWh	368	229	60.6
Installed capacity	MW	1,165	1,165	
Hydro	MW	682	682	-
Gas combined cycle	MW	208	208	-
Cogeneration	MW	29	29	-
Renewables	MW	246	246	-
Distributed Electricity (under management)*	GWh	31,442	31,189	0.8
Customers (managed supply points)*	No (mill.)	13.3	13.0	2.6
Mexico				
Production	GWh	18,541	19,155	-3.2
Gas combined cycle	GWh	17,275	18,029	-4.2
Cogeneration	GWh	751	768	-2.2
Renewables	MW	515	358	43.7
Installed capacity	MW	5,395	5,240	3.0
Gas combined cycle	MW	4,844	4,793	1.1
Cogeneration	MW	184	184	-
Renewables	MW	367	263	39.5
Rest of the World				
Production	GWh	752	853	-11.8
Renewables	MW	752	853	-11.8
Installed capacity	MW	621	744	-
Renewables	MW	621	744	-

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

(*) Longanet closure at the end of March 2016

(**) Includes 100% of Neoenergía.

Stock Market Data		H1 2016	H1 2015
Market capitalisation	EUR (MM)	37,983	37,702
Earnings per share (6,240,000,000 shares at 06/30/16 and 6,240,000,000 shares, at 06/30/15)	€	0.23	0.24
Net operating cash flow per share	€	0.52	0.49
P.E.R.	Times	16.01	15.51
Price/Book value (capitalisation to NBV at the end of the period)	Times	0.96	1.08

Economic/Financial Data*

Income Statement		H1 2016	H1 2015
Revenues	EUR (MM)	14,898.0	16,125.6
Gross Margin	EUR (MM)	6,776.3	6,634.0
EBITDA	EUR (MM)	3,892.1	3,839.2
EBIT	EUR (MM)	2,253.6	2,168.1
Net Profit	EUR (MM)	1,456.7	1,505.9
Net Operating Expenses/Gross Margin	%	-27.46	-26.83

Balance Sheet		June 2016	Dec. 2015
Total Assets	EUR (MM)	103,577	104,664
Shareholders' Equity	EUR (MM)	39,618	40,956
Net Financial Debt	EUR (MM)	27,978	28,067
ROE	%	6.1	6.6
Financial Leverage ⁽¹⁾	%	41.4	40.7
Net Financial Debt/Equity	%	70.6	68.5

(1) Net Financial Debt/(Net Financial Debt + Shareholder's Equity).

* Financial terms are defined in the "Glossary"

Credit Rating of IBERDROLA Senior Debt

Agency	Rating	Outlook	Date
Moody's	Baa 1	Positive	26 April 2016
Fitch IBCA	BBB+	Stable	8 July 2016
Standard & Poor's	BBB+	Stable	22 April 2016

Operating Highlights for the period

Iberdrola's results for the period must be framed within the process of implementation of the corporate strategy announced on Capital Markets Day in 2016, and which is defined by the growing weight of regulated activities (transmission and distribution of electricity and gas) and of the renewables business, both in terms of investments and in terms of contribution to the Group's profit, with a growing weight of the United Kingdom and United States businesses on said contribution.

Furthermore, the first half of 2016 was affected by the performance of Iberdrola's reference currencies compared to the first half of 2015. The depreciation of the Sterling Pound and the Brazilian Real has not been offset by an almost flat US Dollar, unchanged from the first semester 2015.

In the general scope of the system, it is worth noting the following:

- In Spain, the period was characterised by a higher national system hydro production (+41.6). Electricity demand in Mainland Spain kept stable both in absolute terms (0.0%) and in terms adjusted to number of working days and temperature (0.9%), affected by the performance of the industrial sector demand, which, although in annual terms has grown by 2%, has been impacted by the lower consumption of the Steel industry.
- In the United Kingdom, electricity demand dropped by 2.1% compared to 2015, while customers' gas demand (does not include generation consumption) also dropped by 0.3%, due to the mild temperatures of the first quarter.
- In Avangrid's area of influence on the East Coast of the United States, electricity demand dropped by 4.1%, while gas demand dropped by 11.8%
- In Brazil, demand in Iberdrola's area of influence increased by 0.8% compared to the same period of the previous year, mainly because of Neoenergia distribution areas performance, while Elektro's area demand decreased affected by the weaker demand of the industrial sector in this area.

During the first half of 2016, international commodities markets performed as follows:

- The average price of Brent oil was fixed at USD 39.7 per barrel compared with USD 58.0 per barrel last year (-31%).
- The average price of gas (TTF) over the period dropped to EUR 13.0/MWh, compared with EUR 21.2/MWh in the first semester of 2015 (-39%).
- The average price of API2 coal is at USD 47.0/MT, compared to USD 59.8/MT (-21%) last year.
- The average cost of CO₂ rights dropped from EUR 7.2/MT in the first half of 2015 to EUR 5.7/MT in 2016 (-21%).

The average performance of Iberdrola's main reference currencies against the Euro during the first half of 2016 compared to the same period of last year has been as follows: the Sterling Pound has depreciated by 5.5% and the Brazilian Real has depreciated by 25.5%, whereas on its part the US Dollar continues at the same levels as last year (+0.1%).

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

- First full year-half of consolidation of UIL in the United States, an effect that is posted essentially in the Networks business of that country.
- Networks Spain reverses the trend with regard to the first quarter of the year, incorporating the latest details of the new regulatory framework, which includes a 2.5% increase in remuneration. This fact offsets the effect of the positive re-settlements that took place in the first quarter of 2015 (EUR +29 million).
- The Liberalised Business in Spain continues to be affected by a fall in the results of the gas business in 2016 (EUR -73 million). However, that impact is partly offset by the above-mentioned increase in production, as well as by the positive net effect of court rulings (EUR +17 million), particularly those referring to compensation resulting from territorial

supplements applied in Spain as a result of a positive court ruling of EUR 60 million.

- The EBITDA of the Renewables business dropped by 3.0%, given that the improvement in production in Spain (+7.0%) and US (+10.3%) was not able to compensate for the deterioration of the British business, a result of lower production (-26.2%) and lower prices with regard to the first half of 2015.
- Group Depreciations dropped by 2.0% in the first half of the year, compared to the same period of the previous year, due to the write-offs carried out in 2015 with a view to the closing of the Longannet plant in the United Kingdom (EUR 66 million) and to the extension by 40 years of the useful life of the towers and other components of the civil works of the wind farms (EUR 76 million). These two effects exceeded the impact of UIL's consolidation (EUR -93 million) in this line of results.
- The Net Financial Result improved more than 30%, as a result of the the financial cost drop and the exchange rate hedges carried out at the start of the year on the Sterling Pound and the US Dollar.
- Corporate Tax recorded a significant increase with regard to 2015, given that in the first semester of last year, a reversal of a fiscal provision amounting to EUR 220 million was accounted for.
- Recurring Profit was up by 13.8% thanks to the operating improvements that took place during the period, as well as to the improvement of the Financial Result mentioned above. Reported Net Profit, however, dropped by 3.3%, mainly due to the impact of the fiscal reversal accounted for in the first semester of 2015 (EUR 220 million).

The main items of the Profit and Loss Account have evolved as follows:

EUR million	H1 2016	vs. H1 2015
GROSS MARGIN	6,776.3	+2.1%
EBITDA	3,892.1	+1.4%
EBIT	2,253.6	+3.9%
RECURRING NET PROFIT	1,427.0	+13.9%
NET PROFIT	1,456.7	-3.3%

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

- Net Financial Debt reached EUR 27,978 million, increasing by EUR 1,777 million since June 2015, mainly due to the consolidation of UIL. In pro-forma terms, debt decreased by EUR 576 million as a result of the impact of the depreciation of the Pound. Financial leverage increases to 41.4%, compared to that reported in June 2015, when it was at 40.7%.
- Funds from Operations at the end of the first half of the year grew by 6.5% and reached EUR 3,226.8 million.
- Solvency ratios improved in pro-forma terms, that is, including the UIL contribution for both periods.

Operating Highlights for the period

Iberdrola and the result of the UK-EU Referendum (Brexit)

A 25.6% (EUR 619.9 MM) of Iberdrola Group's 2015 Net Profit (EUR 2,421.6 MM), was generated in Sterling Pounds, whereas 20.3% was originated in US dollars (USD 492.6MM). This means that the expected evolution of the US dollar (acting as safe-haven currency) could partially offset the impact of the Brexit on the Sterling Pound.

27.7% of Iberdrola Group 2015 EBITDA came from the UK, while 23.2% was generated in US dollars.

2015 EBITDA EUR million	UK Business	% Iberdrola Group	% UK business
Networks	1,138.0	32%	57%
Renewables	437.5	28%	22%
Generation & Supply	420.7	18%	21%
Total EBITDA	2,023.7	28%	

Iberdrola Debt structure by currency (as of 30th June 2016) is the following:

GBP	22.2 %
US Dollar	28.1 %
Other currencies	49.7 %

The 2016 estimated EBITDA has the following distribution:

GBP	23.0 %
US Dollar	28.9 %
Rest of currencies	48.1 %

The 2016 estimated Funds From Operations (FFO):

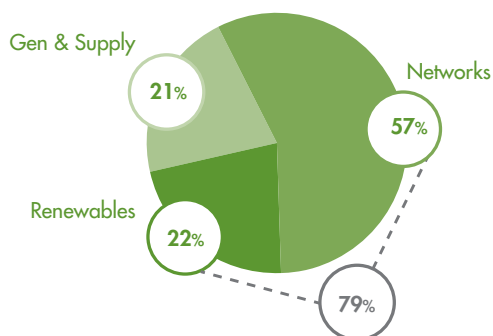
GBP	23.4 %
US Dollar	27.1 %
Other currencies	49.5 %

Hedge on solvency ratios: Virtually immunized from significant variations of the EUR/GBP exchange rate. EUR/GBP FX variations would have proportional impacts on Debt, FFO and EBITDA, which are the elements of the solvency ratios Net Debt/EBITDA and FFO/Net Debt.

Hedge on Net Profit: As of today and for 2016 results, GBP contribution to Group's Net Profit is 100% hedged by using derivatives and other financial instruments.

From the EBITDA generated in the UK in 2015, 79% came from Regulated businesses (Transmission - Distribution) and Renewables, both activities have stable and predictable regulations. In general, British long-term regulatory frameworks are defined in real terms and therefore potential future inflationary tensions should not affect the expected returns.

UK EBITDA by business



Regarding **Networks, the Distribution Business** remuneration is guaranteed until 2023 by RIIOED-1 regulatory framework.

Relative to the **Transmission business**, the remuneration is guaranteed as well, until 2021 by RIIOT1 regulatory framework.

In the **Renewables business**, Iberdrola has 1,655MW of installed capacity. Wind farms already in operation under the ROCs mechanism, and new projects, as the off-shore wind farm of East Anglia through CFDs, have approved compensation schemes. These mechanisms cover the first 15-20 years of useful life of the wind farms.

Generation & Supply

The main magnitudes of the Iberdrola Group in UK Generation and Supply business, as of June 30th 2016, are as follows:

- Installed capacity (ex-Renewables): 2,531 MW; composed by 563 MW of hydroelectric and 1,967 MW of Gas Combined Cycles.
- Generation business' market share reached 4.8%
- Supply: 3.2 million electricity customers and 2.2 million gas customers.

GDP slowdown could affect electricity demand, although the efforts made during the last years by the UK in terms of energy efficiency have substantially reduced the correlation between GDP and such energy demand.

Finally, and for the investments included in the 2016-2020 Plan for United Kingdom, a 75% do not have currency risk because the amount is either hedged in advance or secured by contract. Of the remaining percentage, 21% includes formulas for price revision covering different contingencies that will mitigate potential impacts.

Operational performance for the period

1. Networks Business

1.1. Spain

At close of June 2016, Iberdrola Distribución Eléctrica had 10.87 million supply points, and its distributed energy for the year so far amounted to 45,913 GWh.

At the end of the first half of 2016, the CAIDI indicator of supply quality was at 26.95 minutes, a 13.3% improvement with regard to the same period of 2015. The table below shows the CAIDI (interruption time) and SAIFI (number of interruptions) values compared with previous years:

Year	CAIDI accumulated	SAIFI accumulated
2015	30.7	0.57
2016	26.95	0.49

During this financial year the investment made by the business in Spain has made it possible to commission the facilities included in the following table:

Physical Units commissioned (June 2016)	Total	Voltage				
		Very high	High	Medium	Low	
Lines	Overhead (km)	9	0.3	0.8	-39.8	47.7
	Underground (km)	163.1	2	0.2	96.8	64
Substations	Transformers (units)	2	2			
	Capacity increase (MVA)	270.5	265	5.5		
	Substations (units) ⁽¹⁾	1				
Secondary sub-stations	Secondary sub-stations (units)	63				
	Capacity increase (MVA) ⁽²⁾	-22.4				

(1) On February the new substation ST Villanueva de la Torre de 132 kV in Guadalajara started to be operational.

(2) Transformers were taken to warehouses allocated in the Center, East and Madrid Regions.

In addition, during this quarter, a total of 659,234 meters with a remote management system (smart meters) were installed, within the STAR smart network project.

1.2. United Kingdom

At 30 June 2016, Scottish Power Energy Networks (SPEN) had more than 3.5 million supply points. The volume of distributed energy throughout the first six months of 2016 was 18,127 GWh, which amounts to a 2.5% drop compared to the same period of the previous year, mainly attributable to the mild weather conditions.

Customer Minutes Lost, CML was as follows:

CML (minutes)	Jan-Jun 2016	Jan-Jun 2015
Scottish Power Distribution (SPD)	16.8	19.4
Scottish Power Manweb (SPM)	17.9	19.0

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

CI (No of interruptions)	Jan-Jun 2016	Jan-Jun 2015
Scottish Power Distribution (SPD)	24.6	26.3
Scottish Power Manweb (SPM)	19.6	16.9

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

1.3. United States - AVANGRID

1.3.1. Electricity Distribution

At close of June 2016, Avangrid Networks had 2.2 million electricity supply points. The volume of distributed electricity for the first half of 2016 was 18,809 GWh, a 11.4% drop compared to the previous year.

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

SAIFI	Jan-Jun 2016	Jan-Jun 2015
Central Maine Power (CMP)	0.79	0.72
NY State Electric & Gas (NYSEG)	0.60	0.56
Rochester Gas & Electric (RGE)	0.25	0.41
United Illuminating Company (UIL)	0.27	0.20

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

CAIDI (h)	Jan-Jun 2016	Jan-Jun 2015
Central Maine Power (CMP)	1.81	1.70
NY State Electric & Gas (NYSEG)	2.03	2.08
Rochester Gas & Electric (RGE)	1.72	1.79

The System Average Interruption Duration Index (SAIDI) for Avangrid is as follows:

SAIDI (min.)	Jan-Jun 2016	Jan-Jun 2015
United Illuminating Company (UI)	23.25	16.10

1.3.2. Gas

The number of gas users in the United States at the end of June 2016 exceeds one million supply points, which have been supplied with 34,296 GWh during the first half of this year, down 12.8% from the same period last year.

1.4. Brazil

At close of June 2016, Neoenergia had 10.7 million supply points in Brazil, while Elektro had 2.5 million. The distributed electricity volume for 2016 was 22,709 GWh by Neoenergia and 8,737 GWh by Elektro, with an average increase of 0.8% compared with the previous year.

The average customer interruption time (*duração equivalente de interrupção por unidade consumidora, DEC*) is as follows:

DEC (hrs)	Jan-Jun 2016	Jan-Jun 2015
Elektro	4.24	3.83
Coelba	11.74	14.74
Cosern	6.93	8.06
Celpe	8.75	11.22

The average number of customer interruptions (*freqüência equivalente de interrupção por unidade consumidora, FEC*) is as follows:

FEC	Jan-Jun 2016	Jan-Jun 2015
Elektro	2,28	2,19
Coelba	4,33	4,61
Cosern	3,61	3,69
Celpe	3,50	4,36

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

Central	MW *	MW Attributable **	Date
Baixo Iguaçu	350	96	2018
Belo Monte	11,233	438	2016-2018
Total	11,583	534	

* MW equivalent to 100 % of the power of the central.

** MW equivalent to the % of Iberdrola stake.

2. Generation business and customers

2.1 Spain and Portugal

At the close of the first half of 2016, the installed capacity of Iberdrola in Spain reached 20,061 MW, with the following breakdown:

SPAIN	Consolidated installed MW	Investee companies	TOTAL
Hydro	9,715		9,715
Nuclear*	3,166	244	3,410
Coal	874		874
Combined cycle gas	5,695		5,695
Cogeneration	298	69	367
Total	19,748	313	20,061

*Includes Garoña

Of the 20,061 MW, Iberdrola consolidates 19,748 MW and manages through investee companies a further 313 MW, which, since the entry into force of IFRS 11, go on to being consolidated using the equity method.

Furthermore, **Spanish Mainland Energy Production in the first half of 2016** is characterised by a high renewable production (50.7% of the total) due to

the very high increase in hydroelectric production (+41.6%), given that the last 6 months have been very rainy. As a result, thermal production has dropped compared to the same period in 2015, especially coal-fired (-53.4%), although also gas production (-15.6%). Electricity demand has stayed at the same level as 2015, slightly improving in terms adjusted to number of working days and temperature (+0.1%). Worthy of note is the evolution of electricity consumption of the segment of companies and industries, which showed a 0.9% growth over the last 12 months, broken down as +0.8% for industrial consumers and 0% for the services sector.

Also worthy of note is that once the 0.9% effect of the drop in demand of the steel industry has been deducted, the aggregate would become +0.3%. This drop in the steel sector is partly due to the drop in the cost of the commodities (integrated steelworks are once again profitable at the expense of electric arc steelworks, which require greater consumption per tonne produced) and also due to the increase of Chinese exports due to lower internal demand.

With regard to Iberdrola, during the first half of 2016, production increased by 22% to 26,758 GWh thanks to the increase of the hydroelectric and nuclear production. The trend broken down by types of technology is as follows:

- Hydroelectric production totalled 12,245 GWh, representing an increase of 68.4% compared with the previous year. As at 30 June 2016, hydroelectric reserve levels were at 75.7% (equivalent to 8,532 GWh).
- Nuclear production reached 12,013 GWh, representing an increase of 3.8%.
- Coal-fired thermal power plants reached a total of 284 GWh, compared to 1,242 GWh during the previous year, due to the System's lower thermal gap.
- Meanwhile, CCGT plants production rose by 44.0% to 1,100 GWh
- Cogeneration plants registered a 3.7% increase in production, to 1,116 GWh.

Of the 26,758 GWh produced, Iberdrola consolidated 26,528 GWh at EBITDA level, with 229

GWh being consolidated by the equity method in accordance with IFRS 11.

The breakdown is as follows:

	GWh Consolidated at EBITDA level	GWh Investee companies (equity method)	TOTAL
Hydro	12,245		12,245
Nuclear	11,976	36	12,013
Coal	284		284
Combined cycle gas	1,100		1,100
Cogeneration	923	193	1,116
Total	26.528	229	26,758

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

	2016	2015
Hydro	45,8%	33,2%
Nuclear	44,9%	52,8%
Coal	1,1%	5,7%
Gas combined cycle	4,0%	3,4%
Cogeneration	4,2%	4,9%
Total	100%	100%

Note: IFRS 11 does not apply

As to retail business, as at 30 June 2016, the portfolio managed by Iberdrola included 16,353,841 contracts, a total of 581,168 more contracts than in the same period in 2015 (+3.7%).

The breakdown is as follows:

	Spain	Portugal	Spain & Portugal
Electricity contracts	10,284,904	108,105	10,393,009
Gas contracts	921,576	-	921,576
Contracts for other prod. & serv.	4,973,074	66,182	5,039,256
Total contracts	16,179,554	174,287	16,353,841

By market type they can be split into the following:

	Spain	Portugal	%
Liberalised market	12,331,381	174,287	76%
Last resort	3,848,173	-	24%
Total	16,179,554	174,287	

Iberdrola's electricity sales in the first half of 2016 came to 44.5 TWh measured at power substation busbars, of which 27.2 TWh were sold on the liberalised market, 4.9 TWh correspond to energy at the voluntary price for small consumers (PVPC) and 12.4 TWh to other markets.

With regard to gas, in the first half of 2016 Iberdrola managed a total gas portfolio of 2.51 bcm, of which 1.54 bcm were sold in wholesale transactions, 0.46 bcm were sold to end customers and 0.5 bcm went towards electricity generation.

2.2. United Kingdom

During the first half of 2016, installed capacity in the United Kingdom has been 2,531 MW due to the closure at the end of March of the Longannet coal-fired power station (2,304 MW).

The breakdown of the installed capacity at close of the first half of the year is:

United Kingdom (SPW)	MW
Hydro	563
Coal	0
Gas combined cycle	1,967
Cogeneration	1
Total	2,531

As regards production from Iberdrola's traditional electricity generation in the United Kingdom, this fell by 25% during the first half of 2016 to 5,847 GWh, compared to 7,802 GWh in the previous year.

The market share of the UK generation business in the first half of 2016 was 4.8%, compared to 6.2% in the previous year, due to the closure of Longannet mentioned above. The highlights are as follows, broken down by production technology:

- Combined cycle gas production grew by 18% to 3,815 GWh compared to 3,233 GWh for the same period in 2015.
- Hydroelectric production dropped by 9% to 313 GWh, compared to 343 GWh in 2015.

Regarding retail, in the first half of this year, customers were sold 11,127 GWh of electricity and 19,003 GWh of gas, compared to the same period in 2015: 11,499 GWh of electricity and 19,561 GWh of gas.

At the end of the first half of 2016, Scottish Power had 3.2 million electricity customers and 2.2 million gas customers, continuing at similar levels to those of last year.

2.3. Mexico

The thermal operating capacity in the first half of 2016 was 5,028 MW, broken down as follows:

Capacity (MW)	MW
Monterrey	1,002
Altamira II y IV	1,036
Enertek	144
La Laguna	538
El Golfo	1,121
Tamazunchale	1,187
Total	5,028

Seven new plants are currently under construction, of which three will be operational at the end of 2016: the combined cycle plant in Baja California III, of 300 MW long term contracted with CFE, with a 25-year contract; a 50 MW cogeneration plant, which is currently in the final commissioning phase, and a new 300 MW combined cycle unit in the Dulces Nombres plant in Monterrey for private customers.

With this, contracted capacity with the Federal Electricity Commission (CFE) in 25-year regulated contracts reaches a total of 6,277 MW.

The electrical energy sold in Mexico in the second quarter of 2016 by the combined cycle and cogeneration plants totalled 9,385 GWh, which added to the 8,642 GWh of the first quarter consolidated a total of 18,026 GWh in the first half of the year.

The current load factor for the year is 83.5%; reliability has been 98.5%, an excellent level within comparable parameters of combined cycles on a world scale.

3. Renewables

At the end of the first half of 2016, the Renewables business had an installed capacity of 14,739 MW.

Over the last 12 months, Iberdrola installed 182 MW (it dismantled 3.84 MW of mini-hydro, and sold 122 MW managed in investee companies in Italy). Of the 14,739 MW, Iberdrola consolidated

14,260 MW and managed through subsidiary companies a further 479 MW.

	Installed MW Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Wind Energy Spain	5,508	244	5,752
Wind Energy USA	5,486	161	5,647
Wind Energy U.K.	1,687	15	1,702
Onshore	1,492	15	1,508
Offshore	194	0	194
Wind Energy Brazil	187	59	246
Wind Energy Mexico	367	0	367
Wind Energy RoW	615	0	615
Total Wind Energy	13,851	479	14,330
Total Onshore Wind	13,655	479	14,135
Total Offshore Wind	194	0	194
Other Renewables	409	0	409
Total Inst. capacity	14,260	479	14,739

(*) IFRS11, figures rounded to the nearest unit.

(**) Includes Neoenergia.

Production in the period associated to the installed and managed capacity was as follows:

	GWh Consolidated at EBITDA level (*)	MW managed by investee companies (**)	Total
Wind Energy Spain	6,710	239	6,949
Wind Energy USA	7,750	176	7,925
Wind Energy U.K.	1,510	5	1,515
Onshore	1,170	5	1,175
Offshore	340	0	340
Wind Energy Brazil	268	99	368
Wind Energy Mexico	515	0	515
Wind Energy RoW	677	71	748
Total Wind Energy	17,430	590	18,020
Total Onshore Wind	17,090	590	17,680
Total Offshore Wind	340	0	340
Other Renewables	521	0	521
Total Renew. Prod.	17,951	590	18,541

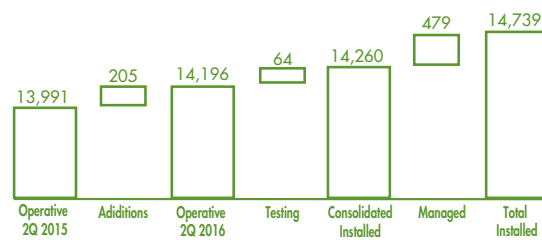
(*) IFRS11, figures rounded to the nearest unit.

(**) Includes Neoenergia

Operating consolidated capacity reached 14,196 MW after adding 205 MW in operation in the last 12 months.

Operative and Installed Capacity

MW

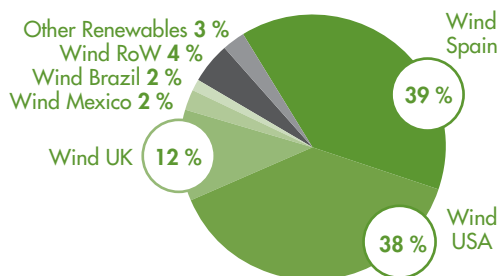


Note: Figures rounded to the nearest unit

At close of the first half of 2016, the geographical breakdown of the installed capacity of 14,739 MW is as follows:

Installed Capacity breakdown

MW



Onshore wind energy

Iberdrola reached an installed onshore wind capacity of 14,136 MW (of which all 13,657 MW are consolidated) after having added 182 MW of onshore wind capacity over the last twelve months.

Spain

Installed capacity at the end of June 2016 totalled 5,752 MW. Of this capacity, Iberdrola has consolidated 5,508 MW and manages the remaining 244 MW through subsidiary companies.

United States (Integrated as Avangrid)

The Company is present in 18 states, with a total of 5,647 MW installed wind capacity, of which 161 MW are managed through investee companies. Construction works are ongoing on the sites of Desert Wind (208 MW) with a PPA signed with Amazon in North Carolina, and El Cabo (298.2 MW) in New Mexico. And in the following months in 2016,

construction will start on Tule (132 MW) in California, and Deerfield (30 MW) in Vermont.

The Company has a project portfolio of 5,278 MW in wind energy and 1,026 MW in solar energy, of which 1,700 MW in wind energy and 550 MW in solar energy are in advance state of development.

United Kingdom

Installed onshore wind capacity amounts to 1,508 MW in the United Kingdom. Of this capacity, 1,492 MW are consolidated and 15 MW are managed through investee companies.

Works and installations were completed on Ewe Hill 6WTG (13.8 MW); and works are currently ongoing on the wind farms of Black Law Extension Phase I (45 MW), Dersalloch (69 MW), Killgallioch (239 MW) and Hare Hill extension (29.75 MW), Ewe Hill Phase 2 (36.8 MW) and Black Law Ext Phase 2 (18.4 MW). Glen App (22 MW) is currently in the phase prior to the start of construction.

This makes for a total of 474 MW under construction in 2016 subject to the ROCs system, all of them build before the end of 2017.

Brazil

In Brazil, Iberdrola has 246 MW installed wind energy capacity, of which 187 MW are consolidated and 59 MW are managed through Neoenergia.

Furthermore, six projects for a total of 174 MW in wind energy won the 'Leilões' (tenders) that took place in 2014. Works are underway on the wind farms of Calango 6 (30 MW), Santana I (30 MW) and Santana II (24 MW).

Mexico

In Mexico, installed capacity at end of the first half of 2016 totalled 367 MW following the completion of the wind farm Pier II (66 MW) in the state of Puebla, and the consolidation of capacity at Dos Arbolitos (70 MW).

Rest of the World

Installed capacity at close of June 2016 totals 615 MW, broken down as follows:

	MW consolidated at EBITDA level
Italy	10
Portugal	92
Greece	255
Cyprus	20
Hungary	158
Romania	80
Total	615

Offshore wind energy

Currently, the renewables business is developing offshore wind projects, in the United Kingdom, Germany and France

In 2014, the company commissioned the West of Duddon Sands project in the United Kingdom, located on the Irish Sea. Attributable installed capacity is 194 MW. The farm has concluded its first full year of operation with a production 13% higher than the initial estimates.

Iberdrola is in the middle of a construction campaign for the offshore wind farm of Wikinger (Germany). The piles installation is currently taking place. The first jackets are now ready for their transport to Sassnitz-Mukran with the aim of starting their installation in the month of July. Works to prepare the sea-bed have started, in order to open the ditch and lay the cables for the windfarm. The OSS is ready to be transported and installed on site over the following months. Meanwhile, the supplier is making progress in manufacturing the turbines for installation and commissioning in 2017.

Iberdrola is also developing the 'East Anglia' projects in the United Kingdom, on the North Sea. The East Anglia 1 project, which in February 2015 secured a contract in the first CfDs (Contracts for Difference) auction process for 714 MW of capacity, and for which an investment of GBP 2,600 million was approved in February 2016, has already signed a contract, with exchange insurance, with Siemens for the supply of 102 wind turbines with a capacity of 7 MW, and is in the process of bidding and awarding all of the remaining contracts necessary for their construction throughout 2016.

Furthermore, in the first quarter of 2016, Iberdrola and its partner Vattenfall concluded negotiations with The Crown Estate for the distribution of the remaining projects in the East Anglia area, as a result of which Iberdrola has become the owner of 100% of the rights over a further three projects in different phases of development, with an accumulated capacity of 2,800 MW.

In April 2012, the consortium formed by Iberdrola and the French company EOLE-RES was awarded by the French Government the exclusive rights for the exploitation of the offshore wind farm of Saint-Brieuc, with a capacity of 500 MW. The project was technically redefined in 2013 with the aim of using a more modern machine, with 8 MW unit capacity. In October 2015, the project submitted a request for a construction permit. In 2016, the company will work towards answering the requests from the French administration within the process for the approval of said permit, as well as on the consolidation of the main supply agreements for the future farm.

Other renewable technologies

The Renewables business has facilities of other renewable technologies in several countries, amounting to a total of 409 MW, broken down as shown in the following table:

Technology	MW	Country
Mini Hydro	303	Spain
Photovoltaic	56	USA (50 MW) and Greece (6 MW)
Hybrid Gas-solar	50	Spain
Total MW	409	

4. Shareholder remuneration

Iberdrola Scrip Dividend

The General Shareholders' Meeting held on 8 April 2016 ratified, on the proposal of the Board, a shareholder remuneration of 0.28 Euro gross per share for the year 2015. This is equivalent to a 4% increase in shareholder remuneration.

This amount is comprised of 0.127 Euro gross per share paid last January, 0.03 Euro gross per share in cash that Iberdrola paid for on 8 July, and the 0.124 Euro gross per share with a guaranteed price that the Company commits to paying to shareholders who choose to sell their rights to the company under the 'Iberdrola Scrip Dividend' programme.

Thus, remuneration charged to the results of the last financial year totals 0.281 Euro gross per share

Reduction of share capital of Iberdrola

Likewise, in the mentioned General Shareholders' Meeting, in point 12 of the agenda, a reduction of capital was approved by means of the redemption of a maximum of 157,197,000 own shares, which amount to 2.46% of the share capital. This reduction of capital aims to maintain the number of shares at 6,240 million, as a way of avoiding diluting the 'Iberdrola Scrip Dividend' programme.

Thus, on 8 April, a reduction of share capital was made through the redemption of treasury stock. The share capital resulting from the reduction has been

fixed at 4,680,000,000 Euro, corresponding to the aforementioned 6,240,000,000 shares.

5. Other significant events

5.1 Regulation in Spain

Remuneration of the distribution: On 17 June, Order IET/980/2016 of 10 June was published, by which the remuneration of the electrical energy distribution companies is established for 2016.

The remuneration methodology was established in Royal Decree 1048/2013, of 27 December, by which the methodology for calculating the remuneration of the electrical energy distribution activity is established. Said Royal Decree states that by Order of the Ministry of Industry, Energy and Tourism, the reference unit values for the installations of mainland distribution will be established.

These unit values were approved by means of Order IET/2660/2015, of 11 December, which approves the standard installations and benchmark unit values per item of property with regard to investment, operation and maintenance, and the remuneration unit values of other regulated tasks used to calculate the remuneration of electrical energy distribution companies, and establishes the definitions of natural growth and relevant capacity increase, as well as the compensation for use and reservation of premises.

Given that the order was approved during the month of December 2015, it was not possible to make the remuneration calculations resulting from applying the unit values approved in Order IET/2660/2015, of 11 December. For this reason, Order IET/2735/2015, of 17 December –by which tariffs for access to electrical energy are established for 2016, and specific model facilities and remuneration parameters for electrical energy installations from renewable energy, cogeneration and waste sources are approved– established an amount as payment on account until company remuneration was established under the mentioned Royal Decree.

Lastly, Order IET/980/2016, of 10 June, was published, by which remuneration of electrical energy distribution companies is established for 2016. This remuneration, with the exception of the incentive or penalisation for reduction of losses, will be definitive for the year 2016, and will amount to EUR 5,162.6 million, of which the amount of EUR 1,655.5 million corresponds to Iberdrola Distribución Eléctrica.

Transmission Remuneration: That same day, Order IET/981/2016, of 15 June, was published, by which remuneration of companies owning electrical energy transmission systems is established for 2016. Final remuneration for 2016 for companies that own transmission facilities will amount to EUR 1,710 million.

5.2 Regulation in the United Kingdom

Final report of the Competition Market Authority (CMA): Published on 24 June 2016. The main decisions include a control of electricity and gas prices in the case of users with prepayment meters. It also includes the creation of a database to allow market rivals to offer their products to customers that have had the standard variable rate for more than three years, and a proposal to allow those customers who have complex meters to access flat rates. The package of measures also includes the expected proposals to improve transparency in the sales to SMEs, improve the response in the process of modifying industry codes, reduce regulatory restrictions on regulated rates, strengthen the competencies of OFGEM (Office of Gas and Electricity Markets) and introduce zone charges for losses.

Capacity Market. In the first half of 2016, DECC has carried out a series of adverts and proposals aimed at reforming the Capacity Market. These adverts and proposals include the reinforcement of sanctions for the failure to build the new plants committed in the auctions, the increase in capacity volume, a new auction for capacity to be generated over the 2017/18 period, and a proposal for the allocation of the annual costs of capacity payments to

be more effective. The Government also announced considerations regarding the quality of the air of embedded diesel generation. Furthermore, Ofgem is revising the allocation of transmission charges and how that allocation could be providing some benefits obtained by distributed generation, which could be distorting the prices of the capacity auctions. Scottish Power presented a proposal to suspend these benefits for new plants until Ofgem completes its work.

Budgets 2016. In the budgets presented on 16 March 2016, the Government announced that there will be three further auctions for offshore wind farms (and other non-mature renewable technologies) until May 2020, with a total budget for all three of GBP 730 million. The first auction, which is expected to be held at the end of 2016, has a budget of GBP 290 million and a limit of GBP 105/MWh for offshore wind energy. The aim is to reduce the price to GBP 85/MWh for the plants commissioned in 2026. The budgets also confirm that the Carbon Floor Price tax (CFP) is frozen at GBP 18/tonne for 2020/21, although this cost would be indexed in the RPI for that period. New calculations are presented for the Levy Control Framework, showing a reduction of GBP 300 million in the over expenditure planned for 2020 of GBP 1,100 million. This is included in the allowed margin of GBP 1,500 million.

5.3 Regulation in the United States

PTCs and ITCs. On 18 December 2015, Congress approved legislation extending and gradually reducing fiscal credits for renewable production (PTC) and fiscal credits for solar investment (ITC). Any developers starting building works on a wind farm before 2017 will receive the credit in full, whereas those starting construction between 2017 and 2019 will receive a reduced credit. Developers starting building works on a solar project before 2020 will access an investment credit (ITC) of 30%. Projects starting construction after 2019 will be entitled to a lower ITC. On 5 May, the Treasury issued the guide with the PTC application procedure. Wind energy developers will have at least four years

as from the start of the construction to complete a project according to the 'safe harbor' qualification regulations. Furthermore, 'interconnection delays' are included in the 'interruptions list' that exempt from the need for continuous construction.

RFPs in Oregon. Following the approval in Oregon of new legislation establishing a Renewable Portfolio Standard (RPS) that promotes the early acquisition of renewables, the two largest utility companies in the state proposed the review of the RFPs (Requests for Proposal) for new resources. Oregon regulators temporarily extended an RFP due to concerns regarding its terms and conditions, which may be biased towards the utility company, and asked the interested parties to reach a consensus regarding the terms of the RFP. Furthermore, the Committee started an extensive examination of the policies regarding their hiring regulations and procedures.

EPA – CPP. On 9 February, the Supreme Court granted a stay, halting implementation of the Clean Power Plan until the court rules on the merits of the case. The en banc D.C Circuit will have a hearing on the case next 27 September. It is expected that there will be an appeal to the Supreme Court, which will not issue a decision until the end of 2017 or the start of 2018. The Environmental Protection Agency (EPA) estimates that this plan will reduce CO2 emissions in the USA by 32% compared to 2005 levels.

NYSEG and RG&E Rate Case. On 19 February, NYSEG and RG&E filed with the New York Public Service Commission (NYPSC) its three-year Settlement Agreement, known as a 'Joint Proposal', containing an electric and gas service price plan. The PSC approved the plan on 15 June establishing that it should be effective as from 1 May 2016 and established the new rates from 1 July.

	Agreement with the Regulator
Duration	3 years
Shareholder's Return on Equity / Equity Ratio	9.0% / 48%
Efficiency sharing mechanism year 1 (Company/Customers)	<9.5% 100%/0%
	>9.5% 50%/50%
	>10% 25%/75%
	10.5% 10%/90%
	Up to 50% Equity Ratio
Efficiency sharing mechanism year 2 and 3 (Company/Customers)	Year 2 increase of 15 bp (up to 9.65%)
	Year 3 increase of 25 bp (up to 9.75%)

Transmission ROE Case in New England. On 22 March, an administrative judge of the Federal Energy Regulation Committee (FERC) issued an initial ruling on Return on Equity (ROE) in New England, confirming that the basic ROE for each of the periods was unfair and unreasonable, but alleging that 'the anomalous conditions of the capital market' considered, guaranteed a higher basic ROE than that proposed by the plaintiffs. The judge recommends a basic ROE of 9.59% with a maximum limit of 10.42% for the second claim of December 2012. For the claim relating to the 2014-2015 period, the judge recommends a basic ROE of 10.90% with a maximum limit of 12.19%. The decision is subject to the approval of the Committee, which is expected for late 2016 or start of 2017. On 29 April 2016, the Eastern Massachusetts Consumer-Owned Systems issued a fourth claim, recommending a basic ROE of 8.93%. On 3 June "New England Transmission Owners" (NETOs) sent a reply to FERC stating that this fourth claim should be disregarded given that it does not contribute any new information.

5.4 Regulation in Mexico

Legal separation of the *Comisión Federal de Electricidad* (CFE): On 21 April 2016, the Board of Directors of CFE approved the establishment of the Subsidiary Company called 'CFE Intermediación de Contratos, S.A. de C.V.' for legacy contracts.

Long-Term Auctions: On 20 June, CENACE published the final terms and conditions of the Second Long-Term Auction for 2016. The basic principles are similar to those of the first auction but with smaller regional differences in price (between 0 and 1 USD/MWh). On 4 July CENACE published its CFE purchase offers, where it stands out that the energy volume plus the clean energy certifications is 67% higher than that of the first auction. Furthermore, the maximum price for these products is USD 60 (above average allocation prices for the previous auction): USD 47.8/MWh). On the other hand, CFE has presented capacity purchase offers for 1,483 MW/year at a price of USD 90,000/MW.

Programme for the Development of the National Electricity Sector 'PRODESEN' 2016-2030 published by SENER on 30 May 2016, carried out with the aim of satisfying future demand, diversifying the energy matrix, increasing the number of users with access to the supply, minimising costs and reducing electrical energy losses, under the criterion of an efficient expansion of the System.

The PRODESEN includes the Indicative Programme for Installation and Removal of Electrical Plants (PIIRCE, in its Spanish acronym), and plans to decommission 15,820 MW of capacity over the next 15 years, especially conventional thermal power plants. Furthermore, the PIIRCE firmly includes two Iberdrola projects in the generation category under the new LIE:

- CCC Escobedo Privados, 1,000 MW, coming online in 2019.
- CCC Tamazuchale II, 1,000 MW, coming online in 2020.

5.5 Regulation in Brazil

Law 13.299 (former Provisional Measure 706/2015): (approved 21 June 2016). This Law proposes changes in the electricity sector, especially in the *Conta de Desenvolvimento Energético (CDE)*. The CDE covers, among other things, costs derived from the purchase of fossil fuels in isolated systems and the grid losses of the North and Northeast distributors. The law establishes modifications in the calculations that increase the subsidy to the thermal generation of isolated systems. To offset this effect, the law authorises the Federal Government to allocate funds to the CDE to finance this subsidy.

Furthermore, the Law establishes that the annual CDE fee paid by distributors should be proportional to their energy market, which will put an end to the subsidy to distributors in the North and Northeast regions. Currently, by law, distributors in the South, Southeast and Central-West pay 4.3 times more for this item than the rest of distributors

5.6 Regulation in the European Union

Paris Agreement: On 11 April, Decision (EU) 2016/590 of the Council was published, regarding the signing, on behalf of the European Union, of the Paris Agreement approved by virtue of the United Nations Framework Convention on Climate Change. The signing took place in New York on 22 April 2016.

Analysis of the consolidated profit and loss account

1. Relevant Information

1.1 AVANGRID

The merger of Iberdrola USA and the US company UIL, and its subsequent establishment as AVANGRID has been effective since 16 December 2015.

In the first half of 2016, UIL contributed with EUR 400 million to the Group's Gross Margin and EUR 224.2 million to the EBITDA.

1.2 Reclassification of capital subsidies income

Since May 2016 capital grants are posted to income in the Operating Income item, not reducing the depreciations as was done previously. The information of 2015 has been corrected to apply the same criteria and make it comparable. This change increases Operating Income in June 2016 and June 2015 by EUR 39 million and EUR 45 million, respectively. The effect on the Group's Net Profit is nil, because depreciation item increases by the same amount.

2. Analysis of the Consolidated Profit and Loss Account

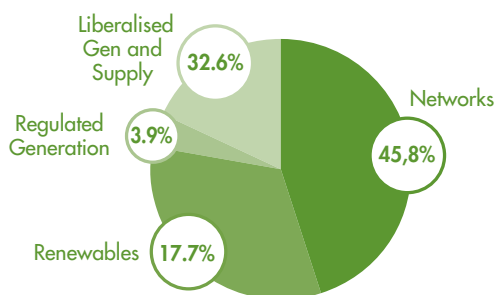
The most notable figures for the first semester of 2016 are as follows:

Eur Millions	Jan-Jun 2016	Jan-Jun 2015	%
Revenue	14,898.0	16,125.6	-7.6
Gross margin	6,776.3	6,634.0	2.1
Ebitda	3,892.1	3,839.2	1.4
Ebit	2,253.6	2,168.1	3.9
Recurring net profit	1,427.0	1,253.4	13.9
Net Profit	1,456.7	1,505.9	-3.3
Operating cash flow	3,226.8	3,031.1	6,5

2.1 Gross Margin

Gross Margin rose to EUR 6,776.3 million, up 2.1% with regard to that obtained in the first half of 2015, supported by the increase of UIL contribution (EUR 400 million). The performance of the reference currencies reduced this item by EUR 129 million.

Gross Margin by business



Its growth is mainly the result of the following:

- **The Networks business** increased with regard to 2015 by 9.4% to EUR 3,095.5 million, an effect mainly brought about by the consolidation of UIL. The highlights of the period include the following:
 - In Spain this business reached EUR 1,003.6 million (+1.6%) due to the increase in recognised revenues following the definitive approval of the new regulatory framework (EUR +42 million), which have been sufficient to fully offset the effect of the positive settlements of previous financial years registered in March 2015 (EUR +29 million).
 - The United Kingdom amounted to EUR 683.8 million (-8.2%) due to the revenues profile defined in the new regulatory framework for Distribution RIIO-ED1, which entered into force in April 2015, together with the impact of the depreciation of the Sterling Pound (EUR -37.5 million).

- The contribution of the United States for the period totalled EUR 1,255.0 million (+41.1%), due mainly to the positive effect of the integration of UIL (EUR +400 million), and to the normalisation of different seasonal effects.
- The Gross Margin of Brazil (Elektro) totalled EUR 153.2 million (-26.5%), due to the depreciation of the Real (-25.5% compared to average rate as of June 2015; EUR -39.1 million) and to the 3.5% decrease in circulated energy.
- **Generation and Supply Business** dropped by 1.6% to EUR 2,464.3 million.
 - In Spain it totalled EUR 1,516.3 million (1.4%) thanks to the greater volume of energy sold, which offsets the lower revenues for wholesale gas operations, given the current situation of the gas market.
 - The United Kingdom had a Gross Margin of EUR 667.4 million (-6.3%), negatively affected by the 5.5% depreciation of the pound (EUR -36.6 million). In local currency this item decreased by 1.2%.
The generation business increased its contribution due to higher gas production and lower procurement costs, which offset the increase in costs associated to the Carbon Tax. The commercial business dropped slightly due to the lower sales resulting from the warmer period, as well as due to the increase of regulated costs.
 - Mexico contributed EUR 262.9 million to the Gross Margin (-11.5%), a result of lower margins in contracts with private customers, the conditions of which are linked to the performance of the CFE rate, whose drop was larger than procurement costs decrease. CFE rate has recovered in the month of July, having increased by almost USD 5 /MWh compared to the June rate, up to USD 59/MWh.
 - As regards the gas activity in the US and Canada, it contributed EUR 14.9 million (compared to EUR -2.6 million in 1H 2015) as a result of an improvement in trading and contracted storage of gas.

- **The Renewables Business** had a Gross Margin of EUR 1,193.1 million (-3.9%). The main causes of this trend are:
 - The gross margin in Spain improves up to 467.5 million (+13.5%), due to a greater production (+7.0%) and an accrual of a regulatory asset due to low market prices (EUR +54 million).
 - A greater contribution of the US, up to EUR 412.3 million (+1.1%), resulting from a higher wind resource (production: +11%) which offsets the 3% drop in average price.
 - A significant drop of the gross margin in the United Kingdom (-34.2%) to EUR 201.1 million, due to the effect of the unfavourable wind conditions (production: -25.3%), lower market prices, elimination of LECs (Levy Exemption Certificates) in August 2015 and the depreciation of the pound.
 - A contribution by Latin America of EUR 49.8 million (+2.2%), with Mexico improving by 14% thanks to the new operating capacity, and Brazil dropping by 15%, affected by the depreciation of the Real.
 - The Rest of the World contributed EUR 62.3 million (-7.6%) due to lower production.
- The contribution of **Other Businesses** totalled EUR 91.3 million (-14.3%).

2.2 Gross Operating Result - EBITDA

Consolidated EBITDA increased by 1.4% compared to the first half of 2015, reaching EUR 3,892.1 million and reflecting the improvement of the results in operating terms from the first quarter of the year (January-March: -6.0%).

In addition to the already explained Gross Margin, Net Operating Expenses increased by 4.5% to EUR 1,860.7 million, affected by the integration of expenses of the US company UIL as from 1 January. Not taking into account UIL or the exchange rate performance, this item would have dropped by 1%, despite there being negative impacts due to the reversal of a provision for a sanction by CNMC in March 2015 (EUR 21 million), with no equivalent

in 2016, and due to compensation to customers for problems relating to the implementation of new IT systems last year (determined by Ofgem), with a negative impact of EUR 23 million, accounted for in the first quarter of 2016.

The Taxes item increased by 0.9% to EUR 1,023.5 million, with the impact of the incorporation of UIL partially offset by the positive net impact of EUR 26 million related to rulings in Spain, given that in the second quarter EUR 69 million were recognised.

2.3 Net Operating Result - EBIT

EBIT was EUR 2,253.6 million, 3.9% higher compared with the same period of 2015.

Amortisations and Provisions dropped by 2.0%, totalling EUR 1,638.5 million:

- The Amortisations item registered a 3.6% drop to EUR 1,515.3 million, a reflection of the impact of, on the one hand, the write-offs carried out in Longannet in 2015 with a view to its closure in March this year (EUR +66 million), and on the other, the extension by up to 40 years of the useful life of the towers and civil works of the onshore wind farms, in accordance with industry standards (EUR +76 million), which more than offset the incorporation of UIL (EUR -93 million)
- The Provisions item came to EUR 123.2 million, with a greater expense of EUR 23.4 million, a 24% increase by various impacts.

2.4. Financial Result

The net financial result was EUR -361.2 million, improving by EUR 157.1 million compared to that registered last year.

- The drop in the average cost to 3.51% (69 b.p. lower than last year) contributed to reducing the result associated to debt by 9%, despite that Net Debt average increases in EUR 2,220 million.
- The hedges made to protect the Net Profit generate a positive mark to market value derived from the performance of the Sterling Pound compared to the

Euro, affected by Brexit result in UK Referendum, since the start of the year.

- Other non-recurring contingencies recorded both in 2015 and in 2016 caused the improvement of the the financial result by EUR 25 million.

	H1 2015	H1 2016	Dif.
Debt Result	-541.8	-491.8	+50.0
Derivatives and exchange differences	-45.7	+86.4	+132.1
Others	+69.2	+44.2	-25.0
Financial result	-518.3	-361.2	+157.1

2.5 Results of Companies Consolidated by the Equity Method

The item corresponding to Results of Companies Consolidated by the Equity Method reached EUR 31.7 million (-4.6%), mainly as a result of the sale of the stake in wind farms in Italy and the lower share of Neoenergia, a consortium in which Iberdrola has a 39% stake, contributed EUR 30 million to the results consolidated by the equity method.

2.6 Income from Non-Current Assets

Income from Non-Current Assets totalled EUR 46.9 million, a 35.5% drop compared to the first half of 2015. In the first half of 2016, the most significant transactions have been the sale of Iriquois (minority stake in local gas network) in the US and the sale of the stake in the company Inmobiliaria Oceanic Center.

2.7 Net Profit

Lastly, Net Profit totalled EUR 1,456.7 million, with a 3.3% drop compared to that obtained in 2015 due to the accounting of non-recurring positive fiscal impacts in the first half of 2015 (EUR 220 million due to reversal of fiscal provisions). This effect will be offset over the course of the year due to the write-off of the Longannet plant

carried out in the fourth quarter of 2015. (EUR 206 million before taxes).

Recurring Net Profit totalled EUR 1,427.0 million (+13.9%). The conciliation of the Recurring Net Profit and the Reported Net Profit is as follows:

	H1 2016	H1 2015	%
Recurring Net Profit	1,427.0	1,253.4	+13.9
Extraordinary write-offs	-31.6	-9.6	
Income from non-current assets	39.4	88.4	
Non-recurring taxes	22.1	173.7	
Reported Net Profit	1,456.7	1,505.9	-3.3%

Funds Generated from Operations* at 30 June 2016 were at EUR 3,226.8 million, an increase of 6.5% compared to the same period of the previous year. The evolution of the benchmark credit ratios is as follows:

	June 2016*	June 2015*	June 2015 Reported
Funds from Operations (FFO)**/ Net Financial Debt	22.4%	21.1%	21.9%
Retained Cash Flow (RCF)***/ Net Financial Debt**	19.7%	17.9%	18.5%
Net Financial Debt/EBITDA	3.6x	3.7x	3.6x

(*) Pro-forma data, include 12 months of contribution of UIL to FFO, as well as the debt from UIL in June 2015

(**) FFO = Net Profit + Minority Results + Depreciations, and Prov. - Profit of Companies consolidated by the equity method - Net Non-recurring Results - Financial Prov. Activation + Dividends of companies consolidated by the equity method - Adjustment of tax deductible items and other effects

(***) RCF = FFO - Cash paid dividends - Net interest hybrid issuance

Results by business

1. Networks business

The key figures for the Networks business are as follows:

(Eur M)	H1 2016	vs H1 2015
Revenues	4,357.6	5.0%
Gross Margin	3,095.5	9.4%
EBITDA	1,894.5	4.3%
EBIT	1,199.8	-0.4%

The Networks business increased its contribution to the Gross Margin (+9.4%), thanks to the consolidation of UIL (EUR 400 million) and the application of the new regulatory framework in Spain which increased remuneration by 2.5%.

1.1 Spain

(Eur M)	H1 2016	vs H1 2015
Revenues	1,010.9	1.9%
Gross Margin	1,003.6	1.6%
EBITDA	783.9	3.5%
EBIT	548.2	1.6%

a) Gross Margin

The Gross Margin of the Networks Business in Spain increased by 1.6% to EUR 1,003.6 million, due to the 2.5% increase in remuneration resulting from the new regulatory framework. Thus, revenue for investments of previous financial years and the application of the new remuneration model according to Order IET/980/2016 more than offset the positive re-settlements accounted for in the first quarter of 2015 (EUR 29.3 million).

b) Operating Profit / EBIT:

EBITDA in this business amounted to EUR 783.9 million, with a 3.5% growth.

Net Operating Expenses dropped by 5.6% to EUR 172.6 million. This trend is explained because the increase of operating expenses (materials, etc.) was more than offset by the increase of the accrual of capital subsidies due to the reduction to 23 years of the remaining lifetime according to Order ITE/980/2016.

EBIT for the Networks Business in Spain totalled EUR 548.2 million (+1.6%). Depreciations, depreciations and provisions totalled EUR 235.7 million (+8.2%), as a result of the commissioning of new assets, (mainly meters and measuring devices) and of the updated depreciation policy to 23 years according to Order IET/980/2016.

1.2 United Kingdom

(Eur M)	H1 2016	vs H1 2015
Revenues	712.0	-8.0%
Gross Margin	683.8	-8.2%
EBITDA	524.0	-7.1%
EBIT	376.7	-9.1%

a) Gross Margin

The Gross Margin of the Networks Business in the United Kingdom (ScottishPower Energy Networks-SPEN) reached EUR 683.8 million (-8.2%), negatively affected by the exchange rate, which deducts EUR 38 million and by revenue profiling in the Distribution business after the entry into force of RIIO-ED1 as from 1 April 2015.

b) Operating Profit / EBIT:

EBITDA amounted EUR 524.0 million (-7.1%), reflecting gross margin decrease despite a drop in the Net Operating Expenses of 15.7% to EUR 105.6 million, due to lower net external services and the depreciation of the Pound. Levies dropped by 2.9% to EUR 54.2 million, also affected by the exchange rate. Depreciations and Provisions totalled EUR 147.3 million, decreasing a 1.5%, mainly due to the exchange rate trend, that in local currency increased by the new assets brought on line.

1.3 United States - Avangrid

(Eur M)	H1 2016	vs H1 2015
Revenues	1,968.6	39.3%
Gross Margin	1,255.0	41.1%
EBITDA	493.7	36,2%
EBIT	236.0	35.7%

a) Gross Margin

At the end of December 2015, the new company Avangrid was established, as a result of the merger of Iberdrola USA and UIL. The new resulting company increased its contribution to US Networks business Gross Margin by 41.1% to EUR 1,255.0 million due to the consolidation of UIL (EUR 400 million), and despite the negative impact of the warmer weather compared to the first half of last year, which resulted in lower demand this year (-4.1% in electricity and -11.8% in gas for Avangrid's reference area). This weather effect (on IFRS accounts) will be recovered over the coming quarters.

b) Operating Profit / EBIT

EBITDA increased by 36.2% to EUR 493.7 million. In addition to the performance of the Gross Margin, Net

Operating Expenses totalled EUR 434.7 million with a 67.3% growth, due to the already mentioned effects of the consolidation of UIL. Seasonal effects that were noticeable at the close of March 2015, have somewhat diluted during the second quarter of the year.

EBIT totalled EUR 236.0 million (+35.7%). Depreciations and Provisions amounted to EUR 257.7 million, increasing by 36.2% due to UIL integration. The Levies item increased by 22.4% to EUR 326.6 million, also due to UIL integration and a levies increase.

1.4 Brazil - ELEKTRO

Following the application of IFRS 11 in 2014, only Elektro is included in this section, as Neoenergia went on to be consolidated by the equity method.

(Eur M)	H1 2016	vs H1 2015
Revenues	666.0	-31.5%
Gross Margin	153.2	-26.5%
EBITDA	92.8	-29.9%
EBIT	38.9	-48.9%

a) Gross Margin

The Gross Margin totalled EUR 153.2 million (-26.5%), affected by Power demand, which dropped 3.5% due to the country's macroeconomic situation, lower rates after the quadrennial Tariff Review in August 2015 (impact will be recovered in the second half of the year by the annual tariff review that adjusts tariffs according to inflation rate) and the depreciation of the Real by 25.5% (EUR -39.1 million), which explains most of the decreased.

b) Operating Profit / EBIT

EBITDA for the area amounted to EUR 92.8 million, a 29.9% drop.

Net Operating Expenses totalled EUR 59.6 million and decreased by 20.3% compared to the first half

of 2015, due to the mentioned depreciation of the Brazilian Real despite the existing high inflation.

Depreciations and Provisions totalled EUR 53.9 million (-4.2%), also affected by the exchange rate, given that in local currency they increased due to the higher provision for insolvencies resulting from the high prices of energy for the end consumer and the economic crisis.

As a consequence of this, EBIT came to EUR 38.9 million (-48.9%).

2. Generation and supply business

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

(Eur M)	Jan-Jun 2016	vs Jan-Jun 2015
Revenues	9,656.3	-13.2%
Gross Margin	2,464.3	-1.6%
EBITDA	1,226.0	-3.0%
EBIT	759.0	3.8%

The Generation and Supply business dropped its contribution to the Gross Margin and Ebitda (-1.6% and -3.0% respectively), improving comparatively to first quarter performance (- 5.7% in Gross Margin and -18.1% in Ebitda) though. The operational improvement recorded partially offsets the lower results for wholesale gas operations, given the current situation of the gas market, and the compensation to customers in the United Kingdom imposed by Ofgem. With regard to Mexico, the effect of the lower margins in contracts with private customers, the conditions of which are indexed to CFE rate, will gradually be reduced throughout the financial year as new capacity is commissioned.

2.1 Spain

(Eur M)	Jan-Jun 2016	vs Jan-Jun 2015
Revenues	5,777.5	-10.7%
Gross Margin	1,516.3	1.4%
EBITDA	756.3	-2.5%
EBIT	495.3	-3.1%

a) Gross Margin

Gross Margin for Iberdrola's Generation and Supply Business in Spain recorded an increase of 1.4% to EUR 1,516.3 million, improving strongly from the first quarter (-10.2%).

The following can be highlighted:

- A greater production of 18.4%, caused by the increase in hydroelectric generation (+68.4%), nuclear generation (+3.8%), gas cycle generation (+44.0%) and cogeneration (+3.7%). Coal-derived production dropped by 77.1%. As a result of this production mix, the cost for Procurements dropped by 14.4%.
- At 30 June 2016, hydroelectric reserves were at 8,532 GWh, which means that reservoirs levels were at 75.7%, close to all-time highs.
- With respect to the application of the energy, 75% corresponded with forward sales while 25% were spot market sales.
- Greater commercial activity due to a greater sales volume in electricity as well as products and services.
- Negative impact due to lower gas trading activity compared to the first half of 2015, the differential effect of which reached EUR 60 million.

b) Operating Profit /EBIT

EBITDA dropped by 2.5% to EUR 756.3 million, recovering from a 31.5% drop in the first quarter of the year.

Operating Expenses grew by 15.4% to EUR 383.8 million, basically due to non-recurring positive effects accounted for in 2015 which affect the comparison: the reversal of a provision linked to the CNMC ruling with a positive impact in 2015 of EUR 20.5 million, and the positive ruling of the PNA 2008-2012 also in 2015 (EUR 22 million). Not including non-recurring aspects, Net Operating Expenses increased by 1.5%.

The Levies item dropped by 2.6% to EUR 376.2 million, with an extraordinary net positive impact of EUR 17 million relating to court rulings recorded in both periods: EUR 52 million recognised in 2015 for the Ecotax in Extremadura and the deduction of rights, compared to the positive EUR 69 million in 2016 for the Ecotax in Catalonia and the Regional Supplement.

Depreciations and Provisions decreased by 1.4%, totalling EUR 261.0 million.

As a result of all of the above, EBIT recorded a drop of 3.1% compared to 2015, amounting to EUR 495.3 million.

2.2 United Kingdom

(Eur M)	Jan-Jun 2016	vs Jan-Jun 2015
Revenues	3,269.9	-20.0%
Gross Margin	667.4	-6.3%
EBITDA	266.6	-4.2%
EBIT	121.1	71.8%

a) Gross Margin

Gross Margin for ScottishPower's Energy Wholesale & Retail business was EUR 667.4 million (-6.3%). In local currency this item decreased by 1.2%.

- The Energy Wholesale business improved its contribution to the Gross Margin thanks to a greater gas production, together with lower Procurement costs, which offset the increase in Carbon Tax since 1 April 2015, which went from GBP 9.55/MWh to GBP 18.08/MWh (+89%).

- The Retail business dropped due to lower gas and electricity sales resulting from warmer weather, as well as higher non-energy costs, due to the increase of the ROC unit price and to the higher percentage of renewable energy that must be bought (from 29.0% to 34.8%).

b) Operating Profit / EBIT

EBITDA for the Liberalised Business in the United Kingdom reached EUR 266.6 million (-4.2%), due to the depreciation of the Pound, given that in local currency it grew by 1%.

Net Operating Expenses totalled EUR 334.1 million (-2.5%), affected by the exchange rate and lower costs resulting from the closure of Longannet. This item includes the extraordinary negative impact of the compensation to customers for the amount of EUR 23 million, established by Ofgem, relating to problems with the implementation of new IT systems last year. In recurring terms and in local currency, there is a 4.4% drop in Net Operating Expenses.

Levies totalled EUR 66.7 million (-27.2%), due to lower ECO programme costs as a result of the drop in total costs of the obligation.

Depreciations and Provisions totalled EUR 145.5 million and were reduced by 30.0%, mainly due to lower depreciations in Longannet following the write-off of the plant in 2015, which was closed at the end of March this financial year.

As a result, EBIT increased by 71.8% up to EUR 121.1 million.

2.3 Mexico

(Eur M)	Jan-Jun 2016	vs Jan-Jun 2015
Revenues	681.2	-6.0%
Gross Margin	262.9	-11.5%
EBITDA	210.8	-7.9%
EBIT	166.3	-10.2%

a) Gross Margin

In Mexico, Gross Margin reached EUR 262.9 million (-11.5%) due to the lower margins in contracts with private clients, the conditions of which are indexed to CFE rate, whose drop has been greater than that of Procurement costs. The results will recover throughout the year with new capacity coming online.

b) Operating Profit / EBIT

EBITDA totalled EUR 210.8 million (-7.9%). Net Operating Expenses decreased by 24.3% to EUR 50.8 million. Depreciations and Provisions increased by 1.6%, totalling EUR 44.6 million.

Lastly, EBIT of the business totalled EUR 166.3 million, dropping by 10.2%.

2.4 Gas Storage and other

(Eur M)	Jan-Jun 2016	vs Jan-Jun 2015
Revenues	15.1	N/A
Gross Margin	14.9	N/A
EBITDA	(6.2)	69.1%
EBIT	(22.0)	39.1%

a) Gross Margin

In this business, the Gross Margin reached EUR 14.9 million, compared to EUR -2.6 million in 1H 2015, a result of the improvement both in gas trading and in contracted gas storage.

b) Operating Profit / EBIT

EBITDA of the gas business in the USA and Canada recorded a result of EUR -6.2 million. Net Operating Expenses totalled EUR 18.1 million.

Lastly, the business obtained an EBIT of EUR -22.0 million compared to EUR -36.1 million in 2015, with a drop in depreciations and provisions of 1.2% to reach EUR 15.8 million.

3. Renewables

(Eur M)	H1 2016	vs H1 2015
Revenues	1,296.9	-3.6%
Gross Margin	1,193.1	-3.9%
EBITDA	836.5	-3.0%
EBIT	399.7	9.7%

a) Gross Margin

During the first half of 2016, the Gross Margin totalled EUR 1,193.1 million, an amount 3.9% lower than that for the previous year. As described below, this evolution is mostly explained by the lower load factor in the United Kingdom, by a lower gross margin in the offshore wind business, given that the planned sale of the transmission line to the West of Duddon Sands OFTO has meant starting to pay for transmission costs. Likewise, the trend of the Gross Margin for renewables is also affected by the market valuation of contracts of hedging derivatives for production in the United States, the depreciation of the Pound and the Real. The strong wind resource in Spain and the USA has mitigated the previous facts, though not completely.

The main explanatory factors for the variation of the consolidated gross margin show the following evolution:

- Operating capacity at the close of the period was 14,196 MW, showing a 1.5% increase with regard to its value at 30 June 2015. The average operating capacity during the period increased by +1.9%. Production was at 14,199 GWh (+5.9%) due to higher load factors.
- The consolidated load factor was 28.9%, higher by 0.9 percentage points than that of the same period of the previous year. The wind load factor in Spain was high, reaching 27.9%, higher by 2.2 percentage points than that of the same period of the previous year. The United States had a wind

load factor of 32.4%, higher (+2.7 pp) than the previous period, despite the wind resource being lower than expected in the first half of the year due to the effect of the weather pattern known as El Niño. In the United Kingdom (onshore wind power), a load factor 18.7% lower than the first half of 2015 (-7.9 pp) was recorded, much lower than historical averages. In Mexico and Brazil, both countries with strong wind resources, the load factors reached 32.1% and 32.86% respectively, both very high figures. The Rest of the World (RoW) registered a load factor of 25.2%. The Company's first offshore wind farm, West of Duddon Sands, reached a load factor of 40%, in line with expectations, but with a production 16% lower than that reached in 2015.

- The average sale price of renewable production is at EUR 65.8/MWh, showing a 7% drop that includes, among others, a higher sale price for the Spanish wind production, which however, does not quite offset the re-settlements of the Puertollano plant, the drop in prices in several regions and the depreciation of the Pound and the Brazilian Real.
- The market valuation of the hedging derivatives for production in the United States contributed EUR -1 million to the gross margin; but, however, as at close of June 2015, they contributed with EUR 25 million, therefore affecting the year-on-year comparison.

One must analyse the trend of the results separately for each market in which the Company operates. Thus, the results of Spain stand out especially, having greatly offset the weak wind resource of the United Kingdom. By business, the Gross Margin trend was as follows:

- **Wind Energy Spain:** Gross Margin for the period was at EUR 441.9 million, increasing by 17% due to a production higher by 9% and a 7% increase in price, influenced by the accounting of a regulatory asset due to the low market prices.
- **Wind Energy USA:** Gross Margin increased by 8%, totalling EUR 391.7 million. Production increased by 11%, offsetting a drop in average prices in dollars by 3%.
- **Wind Energy United Kingdom - onshore:** The Gross Margin dropped by 34% to EUR 152.3 million derived from the 28% drop in production, a consequence, as mentioned above, of very unfavourable weather conditions during the semester. Prices in local currency dropped around 3%, partly due to the disappearance of the LECs, and the pound depreciated by approximately 5.5%.
- **Wind Energy United Kingdom - offshore:** The West of Duddon farm has contributed EUR 48.9 million to the gross margin of the business for the period, which represents a decrease of EUR 25 million with regard to the previous period. Half of this drop is explained by the lower production (-16%) compared to the previous year, which had an extraordinarily high resource; and the remaining half is explained by the assumption of the cost of transmission (OFTO), as expected following the sale of the offshore wind energy transmission line to a third party, in line with British legislation.
- **Wind Energy Mexico:** The increase in average operating capacity (+59%) offset the lower wind energy, and led to an increase in production of 44%. The price in local currency dropped by 20% as a result of the drop in prices of commodities that form part of the benchmark index (CFE) of the sale contracts under the category of 'self-procurement'. Taking all of these effects into consideration, Gross Margin totalled EUR 33 million (+14%).
- **Wind Energy Brazil:** the comparison reflects an increase of the average operating capacity by 47%, which together with a practically stable load factor, led to an increase in production of 46%. The average price billed dropped by 27% in local currency, though this is distorted by re-settlements that adjust the energy really produced over the previous year compared to the standard production. In turn, the Real depreciated by an average of 25%. After these effects, Gross Margin in the country totalled EUR 17 million (-15%).
- **Wind Energy Rest of the World:** Production dropped by 7% as a direct result of a lower load factor than last year, which reached 25.2%. The

variation in prices added -1% and thus, gross margin dropped by 8% to EUR 61.1 million.

- **Mini Hydro and Other Renewables:** The Gross Margin was EUR 35.3 million, affected by re-settlements of the revenues for the 2009-2011 period for the Puertollano thermal solar power plant, by an approximate amount of EUR -10 million.
- **Thermal Business in the United States:** The Gross Margin reached EUR 12 million, EUR 23 million lower than the previous financial year. This section includes the market valuation of derivatives contracts entered into for the hedging of long term wind energy production. In the first six months of 2016, this 'mark to market' contributed EUR -1 million; however, in the same period of the previous year, it contributed EUR 25 million, which affects the year-on-year comparison.

b) Operating Profit / EBIT

- EBITDA registered a 3.0% drop, totalling EUR 836.5 million. In addition to the mentioned Gross Margin trend (-3.9%), there was a 6.8% drop in the Net Operating Expenses due to the recording of one-off income items. Excluding this effect, Net Operating Expenses would have increased only by 1.7% in line with the average increase in capacity of 1.9%.
- The Depreciation and Provisions item totalled EUR 436.8 million, dropping by 12.2% with regard to the previous year. The company has re-assessed the useful life of assets in operation and, as a result, has modified the depreciations policy, going on to amortise the cost of the civil works of the farms and the value of the wind turbine towers with a term of 40 years. This measure has reduced the depreciations expenses for the semester by some EUR 76 million. Furthermore, the growth in installed capacity has increased the amount by EUR 8.5 million, and write-offs for approximately EUR 13 million have been accounted for.
- Lastly, taking into account all of the above, EBIT reached the figure of EUR 399.7 million, showing a growth of +9.7%.

4. Other businesses

(Eur M)	H1 2016	Vs H1 2015
Revenues	378.5	-7.7%
Gross Margin	91.3	-14.3%
EBITDA	-15.3	38.6%
EBIT	-20.3	24.1%

a) Gross Margin

Gross Margin reached EUR 91.3 million, 14.3% lower than in the first half of 2015, as a result of the drop in Engineering sales and the lower contribution from Real Estate.

b) Operating Profit/EBIT

EBITDA totalled EUR -15.3 million. Net Operating Expenses of these businesses amounted to EUR 105.7 million (-8.4%).

Depreciations and Provisions totalled EUR 5.0 million and EBIT was EUR -20.3 million.

5. Corporation

The Corporation item includes the costs of the structure of the Group and the administration services of the corporate areas that are subsequently billed to other companies. Among the items, the Levies item (EUR 43.6 million) is worthy of note, as it includes Spain's Social Bonus (rates Subsidy).

Balance Sheet Analysis

January-June 2016

	June 2016	Vs Dec. 2015
Total assets	103,577	104,664
Fixed assets	60,943	61,789
Intangible assets	19,356	20,760
Long-term investments	3,717	3,711
Shareholders' equity	39,618	40,956
Net Financial Debt	27,978	28,067

Iberdrola's Balance Sheet at 30 June 2016 shows Total Assets of EUR 103,577 million, highlighting the maintenance of its solid asset strength.

1. Fixed assets

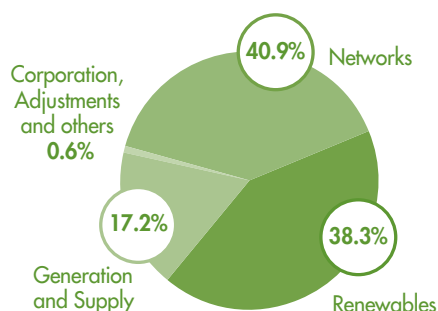
Total net investment for the January to June 2016 period reached EUR 1,859 million. This can be broken down as follows:

(Euros M)	Jan-Jun. 2016	%
Networks Business	783.9	42.2%
Spain	148.3	
UK	300.0	
Iberdrola USA	311.4	
Brazil	24.2	
Renewables Business	732.7	39.4%
Spain	9.6	
UK	538.1	
USA	186.2	
Brazil	0.1	
Mexico	0.3	
Others	-1.6	
Generation and Supply Business	329.3	17.7%
Spain	100.4	
UK	45.3	
Mexico	182.8	
Brazil	0.0	
USA and Canada	0.7	
Other Business	-28.3	-1.5%
Corporation and Adjustments	41.1	2.2%
Total investment	1,859	100.0%

Investments in the period focused on the Renewables and Networks Businesses, with the two combined

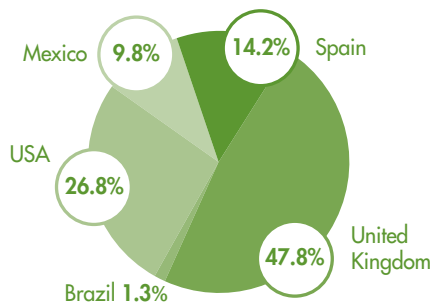
items accounting for over 81% of total investments in the period.

Investments by businesses (January-June 2016)



By geographic areas, investment for the period was spread according to the following graph:

Investments by geographical areas (Jan-June 2016)



As regards Renewables activities, investment for the period reached a total of EUR 732.7 million, which is 39.4% of the total investment amount, with EUR 538.1 million corresponding to the United Kingdom being used mainly for offshore projects.

Under the 'Networks Business' section, the investment made by the United Kingdom in Scottish

Power's Networks Business for EUR 300 million stands out especially. Investments made in Networks in the USA reached EUR 311.4 million for the period.

2. Share Capital

In line with the commitment announced in the Outlook 2016-2020 to keep the number of shares stable at 6,240 million, on 29 April 2016, a reduction of share capital took place by means of the redemption of 157,197,000 treasury shares, representative of 2.46% of the share capital. Thus, the Company's share capital at 30 June 2016 totalled 6,240,000,000 bearer shares with a nominal value of EUR 0.75 each.

Said reduction of share capital was approved by the Company's General Shareholders' Meeting held on 8 April 2016, under point twelve of the agenda, and implemented by the Board of Directors of Iberdrola in its meeting of 26 April 2016.

3. Financial Debt

Net financial debt at 30 June 2016 was reduced by EUR 576 million to EUR 27,978 million compared to EUR 28,554 million at 30 June 2015 (pro-forma including UIL). Financial leverage (pro-forma) remains unchanged, 41.4% compared to 41.6% in the same period of the previous year.

The ratings issued by rating agencies are as follows:

Credit Rating of IBERDROLA Senior Debt

Agency	Rating	Outlook	Date
Moody's	Baa1	Positive	26 April 2016
Fitch IBCA	BBB+	Stable	8 July 2016
Standard & Poor's	BBB+	Stable	22 April 2016

Regarding the trend of the Company's financial cost, at 30 June 2016 it was at 3.51%, 69 bp below that for 30 June 2015.

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

	June 2016	June 2015
Euro	48.2%	55.3%
British pound	22.2%	24.3%
Dollar	28.1%	19.9%
Brazilian Real and other currencies	1.5%	0.5%
Fixed Rate	45.5%	42.8%
Variable Rate	54.3%	57.0%
Capped Rate	0.2%	0.2%

(*) Net Financial Debt including forwards and swaps.

(**) Gross Financial Debt

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

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

	June 2016	June 2015
Corporation	70.9%	73.7%
UK	8.3%	10.4%
USA	14.1%	10.0%
Brazil	3.0%	3.2%
Mexico	2.1%	1.9%
Others	1.6%	0.9%
Total	100%	100%

(*) Gross Financial Debt.

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

	June 2016	June 2015
Euro market	37.8%	37.4%
Dollar market	21.0%	20.0%
British pound market	10.7%	13.7%
Remaining bonds	1.2%	1.4%
Notes	6.5%	3.9%
EIB	6.0%	7.7%
Project Finance	2.0%	3.8%
Bank loans	14.3%	11.1%
TEI	0.6%	0.9%
Total	100%	100%

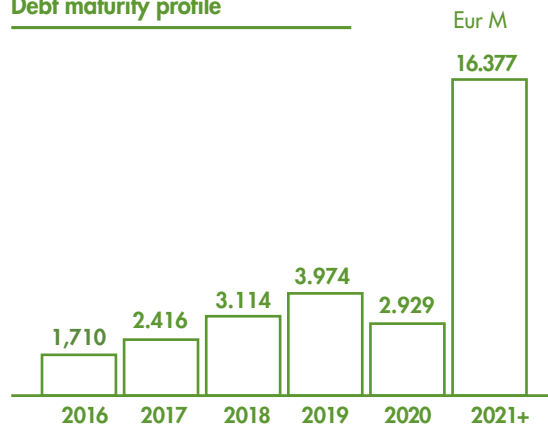
(*) Gross Financial Debt.

Iberdrola has a strong liquidity position at the end of the first half of 2016, with a total of EUR 9,571 million, equivalent to more than 24 months of the company's financing needs.

Credit Line Maturities	Available
2017 onwards	6,834
Total credit line	7,109
Cash and IFT	2,462
Total Adjusted Liquidity	9,571

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 this financial year. The following chart shows the debt maturity profile of Iberdrola at the end of the first half of 2016.

Debt maturity profile



Lastly, the change in financial leverage was as follows:

	June 2016	June 2015*
Shareholder's Equity	39,618	40,081
Gross Financial Debt	31,691	30,568
Cash flow	2,469	1,016
Derivative assets	1,244	1,032
Net Financial Debt	27,978	28,554
Leverage	41.4%	41.6%

(*) Pro-forma including UIL contribution

4. Working capital

The working capital recorded a drop of EUR 398 million over the last 12 months, as a result of several effects:

- A EUR 20 million reduction in inventories which decreased working capital.
- An increase in the balance of current financial investments by EUR 137 million, which in turn increases the working capital.
- An increase in the balance of commercial creditors by EUR 482 million, which in turn decreases the working capital.
- Other effects to a lesser extent.

CURRENT ASSETS	June 16	June 15	Change
Nuclear Fuel	335	359	(24)
Inventories	1,536	1,756	(220)
Commercial debtors and other accounts receivable	5,249	5,205	44
Current financial investments	820	683	137
Asset derivative financial instruments	194	126	68
Public Administrations	608	696	(88)
Total current assets*:	8,742	8,824	(82)

* Does not include cash or debt asset derivatives.

CURRENT LIABILITIES	June 16	June 15	Change
Provisions	116	171	(55)
Liability derivative financial instruments	200	224	(24)
Commercial creditors and other accounts payable	6,615	6,133	482
Public Administrations	1,765	1,853	(88)
Total current liabilities**:	8,696	8,381	315

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

Net working Assets	46	444	(398)
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5. Funds generated from operations

Funds from Operations as at 30 June 2016 have increased by 6.5% to EUR 3,226.8 million.

	Jan-Jun. 2016	Jan-Jun. 2015	Change
Net Profit (+)	1,456.7	1,505.9	-49.1
Depreciations (-)	-1,638.5	-1,671.1	32.6
P/L Equity (-)	31.7	33.2	-1.5
Extraordinary results (-)	46.9	72.7	-25.8
Non-recurring corporate taxes (-)	-11.3	-26.9	15.7
Financial provisions capitalized (-)	-56.2	-57.8	1.6
Minorities P/L (-)	-47.9	-17.9	-30.0
Adjustment tax deductible items (+)	89.8	89.8	0.0
Dividends Equity consolidated subsidiaries (+)	43.9	32.2	11.7
Allocation of capital subsidies to income (-)	38.8	44.7	-5.9
Reversal of tax provisions (-)	0.0	219.75	-219.8
FFO	3,226.8	3,031.1	195.7

Note: the signs of the figures (positive or negative) make reference to their condition of income or book expense

6. Financial transactions

Summary of the main financial transactions carried out in 2016

Borrower	Transaction	Amount	Currency	Coupon	Maturity date
Iberdrola International BV	EMTN	50	EUR	6M Euribor + 0.75%	7 years
Iberdrola International BV	Green Bond	1,000	EUR	1.125%	10 years
Iberdrola Distribución *	EIB loan	325	EUR	-	7 years
Iberdrola SA	Syndicated loan	1,900	EUR	-	+1 year (5 years)
Iberdrola SA	Syndicated loan	2,500	EUR	-	+1 year (5 years)
Iberdrola México *	Bank loan	300	USD	-	2 years
Iberdrola SA	Bilateral loans	49.5	EUR	-	3+1+1 years
Avangrid	Syndicated loan	1,500	USD	-	5+1+1 years
Avangrid	Commercial paper	1,000	USD	-	
Iberdrola International BV	EMTN	200	EUR	3M Euribor + 0.35%	2 years
Iberdrola Financiación	EIB loan	200	EUR	-	6 years
Iberdrola SA	Syndicated loan	500	EUR	3M Euribor+ 0.30%	5+1+1 years
Elektro *	EIB loan	50	EUR	-	8 years

* Provision of financing signed in 2015, this does not imply a new debt

Second Quarter Financing

CAPITAL MARKET

Commercial Paper

On 13 May Avangrid, the subsidiary of the Group in the USA signed a commercial paper programme for the amount of USD 1,000 million, which replaces the existing ones in NYSEG and CMP for USD 200 million and USD 350 million respectively.

Bond Issues on the Euromarket

On 16 June, Iberdrola made an issue for the amount of EUR 200 million with a 3M Euribor + 0.35% coupon maturing in 2018.

BANKING MARKET

On 23 May Iberdrola signed and drawn a new direct loan with the EIB for the amount of EUR 200 million, maturing in 2022. This loan will be used to finance the RDI investment programme in the Networks, Generation and Renewables areas in Spain and the United Kingdom during the 2015-2018 period, totalling EUR 420 million, approximately.

On 29 June, Iberdrola signed a syndicated credit line for the amount of EUR 500 million and a term of five years with the option of extending its maturity by 1 + 1 years. The transaction contributes to an appropriate liquidity level and to improve the financing conditions.

On 1 July Elektro proceeded to the disposal of a first tranche of EUR 50 million, maturing in 2027, corresponding to the EIB loan signed in December 2015 for the amount of EUR 150 million.

7. Credit Ratings

	Moody's			Standard and Poor's			Fitch Ibc		
	Rating	Outlook	Date	Rating	Outlook	Date	Rating	Outlook	Date
Iberdrola S.A.	Baa1	Positive	April 2016	BBB+	Stable	April 2016	BBB+	Stable	Mar 2014
Iberdrola Finance Ireland Ltd.(*)	Baa1	Positive	April 2016	BBB+		April 2016	BBB+	Stable	Mar 2014
Iberdrola Finanzas S.A.U.(*)	Baa1	Positive	April 2016	BBB+		April 2016	BBB+	Stable	Mar 2014
Iberdrola Finanzas S.A.U. (national scale)(*))	Aaa(mex)	Stable	April 2016	mxAAA		April 2016	AAA (mex)	Stable	Mar 2014
Iberdrola International B.V.(*)	Baa1	Positive	April 2016	BBB+		April 2016	BBB+	Stable	Mar 2014
Avangrid	Baa1	Stable	April 2015	BBB+	Stable	April 2016	BBB+	Stable	April 2016
CMP	A2	Stable	April 2016	A-	Stable	April 2016	BBB+	Stable	April 2016
NYSEG	A3	Stable	April 2016	A-	Stable	April 2016	BBB+	Stable	April 2016
RG&E	Baa1	Positive	April 2016	A-	Stable	April 2016	BBB+	Stable	April 2016
UI	Baa1	Stable	April 2016	BBB+	Stable	April 2016	BBB+	Stable	May 2016
CNG	A3	Stable	April 2016	BBB+	Stable	April 2016	A-	Stable	May 2016
SCG	Baa1	Positive	April 2016	BBB+	Stable	April 2016	BBB+	Stable	May 2016
BCG	Baa1	Positive	April 2016	BBB+	Stable	April 2016	A-	Stable	May 2016
Scottish Power Ltd	Baa1	Positive	April 2016	BBB+	Stable	April 2016	BBB+	Stable	Mar 2014
Scottish Power UK Plc	Baa1	Positive	April 2016	BBB+	Stable	April 2016	BBB+	Stable	Mar 2014
Scottish Power UK Holdings Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
Scottish Power Finance US Inc	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
Scottish Power Energy Networks Holdings Ltd				BBB+	Stable	April 2016			
ScottishPower Generation Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
SP Transmission Ltd	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
SP Manweb plc	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
SP Distribution plc	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
ScottishPower Energy Management Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
ScottishPower Energy Retail Ltd.	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
Scottish Power Investment Ltd	Baa1	Positive	April 2016	BBB+	Stable	April 2016			
Neoenergia S.A.				BB	Negative	Feb 2016			
Celpe				BB	Negative	Feb 2016			
Coelba	Ba2	Negative	Feb 2016	BB	Negative	Feb 2016			
Cosern				BB	Negative	Feb 2016			
Neoenergía (national scale)				brAA-	Negative	Feb 2016			
Celpe (national scale)				brAA-	Negative	Feb 2016			
Coelba (national scale)				brAA-	Negative	Feb 2016			
Cosern (national scale)				brAA-	Negative	Feb 2016			
Elektro (national scale)				brAA-	Negative	Feb 2016			

(*) Guaranteed by Iberdrola S.A.

Balance Sheet (Unaudited)

M Eur

ASSETS	June 2016	December 2015	Variation
Non-Current Assets:	91,919	93,985	-2,066
Intangible assets	19,356	20,760	-1,404
Goodwill	8,693	9,353	-660
Other intangible assets	10,663	11,407	-743
Real Estate properties	478	481	-2
Property, plant and equipment	60,943	61,789	-846
Property, plant and equipment in use	54,973	56,827	-1,855
Property, plant and equipment in the course of construction	5,970	4,961	1,009
Non current financial investments	3,717	3,711	6
Investments accounted by equity method	2,131	2,050	81
Non-current financial assets	91	92	0
Other non-current financial assets	645	609	36
Derivative financial instruments	849	960	-111
Non-current receivables	625	615	10
Deferred tax assets	6,800	6,630	170
Current Assets:	11,659	10,679	979
Assets held for sale	0	44	-44
Nuclear fuel	334	350	-16
Inventories	1,536	1,797	-261
Current trade and other receivables	5,858	6,048	-190
Tax receivables	311	411	-100
Other tax receivables	297	267	30
Trade and other receivables	5,250	5,370	-120
Current financial assets	1,469	1,288	181
Current financial assets	5	5	0
Other current financial assets	816	683	133
Derivative financial instruments	648	600	48
Cash and cash equivalents	2,462	1,153	1,309
Total Assets	103,577	104,664	-1,087

Balance Sheet (Unaudited)

M Eur

EQUITY AND LIABILITIES	June 2016	Dec.2015	Variation
Equity:	39,618	40,956	-1,338
Of shareholders of the parent	35,873	37,159	-1,286
Share capital	4,680	4,753	-73
Unrealised assets and liabilities revaluation reserve	-283	-222	-61
Other reserves	32,229	31,305	924
Treasury stock	-284	-639	356
Translation differences	-1,925	-459	-1,466
Net profit of the year	1,457	2,422	-965
Hybrid Capital	536	551	-15
Of minority interests	3,209	3,246	-38
Equity instruments having the substance of a financial liability	79	117	-39
Non-current liabilities:	49,261	49,002	260
Deferred income	6,441	6,511	-71
Provisions	4,561	5,005	-445
Provisions for pensions and similar obligations	2,056	2,233	-177
Other provisions	2,504	2,772	-267
Financial Debt	25,799	24,899	900
Loans and others	25,328	24,567	761
Derivative financial instruments	470	332	139
Other non-current payables	661	690	-28
Deferred tax liabilities	11,800	11,896	-97
Equity instruments having the substance of a financial liability	100	99	1
Current liabilities:	14,520	14,490	30
Provisions	116	245	-130
Provisions for pensions and similar obligations	3	10	-8
Other provisions	113	235	-122
Financial Debt	6,026	5,662	364
Loans and others	5,617	4,877	740
Derivative financial instruments	409	785	-376
Trade and other payables	8,379	8,583	-204
Trade payables	4,456	5,577	-1,122
Current tax liabilities and other tax payables	553	250	302
Other tax payables	1,212	1,001	211
Other current liabilities	2,159	1,754	404
Total equity and liabilities	103,577	104,664	-1,087

Profit and Loss (Unaudited)

M Eur

	June 2016	June 2015*	%
Revenues	14,898.0	16,125.6	(7.6)
Procurements	(8,121.8)	(9,491.6)	(14.4)
Gross Margin	6,776.3	6,634.0	2.1
Net operating expenses	(1,860.7)	(1,780.2)	4.5
Net Personnel Expense	(975.8)	(929.1)	5.0
Personnel	(1,267.1)	(1,161.9)	9.1
Capitalized personnel costs	291.3	232.8	25.1
Net External Services	(884.9)	(851.1)	4.0
External Services	(1,169.2)	(1,119.1)	4.5
Other operating income	284.3	268.0	6.1
Levies	(1,023.5)	(1,014.6)	0.9
EBITDA	3,892.1	3,839.2	1.4
Amortisations and provisions	(1,638.5)	(1,671.1)	(2.0)
EBIT	2,253.6	2,168.1	3.9
Financial Expenses	(918.6)	(1,162.3)	(21.0)
Financial Income	557.4	644.0	(13.4)
Financial Result	(361.2)	(518.3)	(30.3)
Results of Companies consolidated by equity method	31.7	33.2	(4.6)
Results from non-current Assets	46.9	72.7	(35.5)
PBT	1,971.0	1,755.7	12.3
Corporate Tax	(466.4)	(232.0)	101.0
Minorities	(47.9)	(17.9)	167.8
Net Profit	1,456.7	1,505.9	(3.3)

(*) Restated

Results by Business (Unaudited)

Eur M						
June 2016	Networks	Generation and supply	Renewables	Other Businesses	Corporation and adjustments	
Revenues	4,357.6	9,656.3	1,296.9	378.5	(791.2)	
Procurements	(1,262.0)	(7,192.0)	(103.8)	(287.2)	723.3	
Gross Margin	3,095.5	2,464.3	1,193.1	91.3	(67.9)	
NET OPERATING EXPENSES	(772.4)	(791.2)	(253.4)	(105.7)	62.0	
Net Personnel Expense	(469.6)	(243.5)	(89.3)	(74.1)	(99.3)	
Personnel	(694.8)	(258.6)	(100.9)	(74.1)	(138.7)	
Capitalized personnel costs	225.2	15.1	11.6	-	39.4	
Net External Services	(302.9)	(547.6)	(164.0)	(31.5)	161.2	
External Services	(458.5)	(614.4)	(231.6)	(32.6)	168.0	
Other operating income	155.7	66.7	67.6	1.0	(6.7)	
LEVIES	(428.6)	(447.1)	(103.2)	(.9)	(43.6)	
EBITDA	1,894.5	1,226.0	836.5	(15.3)	(49.5)	
Amortisation and Provisions	(694.6)	(467.0)	(436.8)	(5.0)	(35.1)	
EBIT / Operating Profit	1,199.8	759.0	399.7	(20.3)	(84.6)	
Financial Result	(207.9)	(38.6)	(75.5)	(0.1)	(39.0)	
Results of companies consolidated by equity method	26.5	10.9	(15.7)	24.3	(14.2)	
Results of non-current assets	3.0	(6.4)	(1.6)	16.8	35.0	
PBT	1,021.4	724.9	306.9	20.8	(102.9)	
Corporate tax and minority shareholders	(267.0)	(124.3)	(66.8)	6.9	(63.1)	
Net Profit	754.4	600.6	240.1	27.6	(165.9)	

Eur M						
June 2015*	Networks	Generation and supply	Renewables	Other Businesses	Corporation and adjustments	
Revenues	4,151.8	11,130.6	1,345.8	410.2	(912.8)	
Procurements	(1,321.7)	(8,626.5)	(104.3)	(303.7)	864.4	
Gross Margin	2,830.2	2,504.2	1,241.5	106.6	(48.4)	
NET OPERATING EXPENSES	(642.7)	(758.6)	(272.0)	(115.4)	8.4	
Net Personnel Expense	(372.9)	(257.3)	(100.1)	(83.9)	(114.9)	
Personnel	(564.9)	(271.1)	(108.6)	(83.9)	(133.4)	
Capitalized personnel costs	192.0	13.8	8.5	-	18.5	
Net External Services	(269.8)	(501.3)	(171.8)	(31.5)	123.3	
External Services	(419.0)	(580.6)	(222.4)	(32.1)	133.9	
Other operating income	149.1	79.3	50.6	0.7	(10.6)	
LEVIES	(371.0)	(481.6)	(107.5)	(2.2)	(52.2)	
EBITDA	1,816.4	1,263.9	862.1	(11.0)	(92.2)	
Amortisation and Provisions	(612.3)	(532.5)	(497.6)	(5.3)	(23.5)	
EBIT / Operating Profit	1,204.2	731.4	364.5	(16.3)	(115.6)	
Financial Result	(176.8)	(86.9)	(13.9)	11.9	(252.6)	
Results of companies consolidated by equity method	34.6	(20.3)	6.9	16.0	(4.0)	
Results of non-current assets	1.0	1.1	(3.9)	0.4	74.1	
PBT	1,062.9	625.4	353.5	12.1	(298.1)	
Corporate tax and minority shareholders	(52.5)	(174.1)	(90.1)	(1.9)	68.8	
Net Profit	1,010.4	451.2	263.3	10.2	(229.3)	

(*) Restated

Networks Business (Unaudited)

Eur M					
June 2016	SPAIN	U.K.	US*	BRAZIL	
Revenues	1,010.9	712.0	1,968.6	666.0	
Procurements	(7.3)	(28.3)	(713.6)	(512.8)	
Gross Margin	1,003.6	683.8	1,255.0	153.2	
NET OPERATING EXPENSES	(172.6)	(105.6)	(434.7)	(59.6)	
Net Personnel Expense	(114.6)	(52.4)	(265.6)	(36.9)	
Personnel	(167.7)	(126.5)	(352.7)	(47.9)	
Capitalized personnel costs	53.1	74.0	87.1	11.0	
Net External Services	(58.0)	(53.2)	(169.1)	(22.7)	
External Services	(146.2)	(91.8)	(189.7)	(31.3)	
Other operating income	88.2	38.6	20.7	8.6	
LEVIES	(47.0)	(54.2)	(326.6)	(0.8)	
EBITDA	783.9	524.0	493.7	92.8	
Amortisation and Provisions	(235.7)	(147.3)	(257.7)	(53.9)	
EBIT / Operating Profit	548.2	376.7	236.0	38.9	
Financial Result	(29.9)	(64.1)	(94.8)	(19.1)	
Results of companies consolidated by equity method	1.3	(-)	6.1	19.1	
Results of non-current assets	0.4	0.3	2.3	-	
PBT	519.9	312.9	149.6	38.9	
Corporate tax and minority shareholders	(136.9)	(66.0)	(55.9)	(8.2)	
Net Profit	383.1	246.9	93.7	30.7	

(*) Avangrid

Eur M					
June 2015*	SPAIN	U.K.	US**	BRAZIL	
Revenues	991.8	774.2	1,412.8	973.0	
Procurements	(3.9)	(29.4)	(523.7)	(764.7)	
Gross Margin	987.9	744.9	889.1	208.3	
NET OPERATING EXPENSES	(182.9)	(125.3)	(259.8)	(74.7)	
Net Personnel Expense	(114.4)	(51.3)	(163.1)	(44.1)	
Personnel	(167.8)	(128.2)	(212.1)	(56.9)	
Capitalized personnel costs	53.4	76.9	48.9	12.8	
Net External Services	(68.5)	(74.0)	(96.7)	(30.7)	
External Services	(137.5)	(106.3)	(136.0)	(39.2)	
Other operating income	69.0	32.3	39.4	8.5	
LEVIES	(47.4)	(55.8)	(266.7)	(1.1)	
EBITDA	757.6	563.8	362.6	132.5	
Amortisation and Provisions	(217.8)	(149.5)	(188.7)	(56.3)	
EBIT / Operating Profit	539.8	414.2	173.9	76.2	
Financial Result	(39.6)	(72.5)	(49.6)	(15.2)	
Results of companies consolidated by equity method	-	-	-	34.5	
Results of non-current assets	0.1	0.6	0.4	-	
PBT	500.3	342.3	124.7	95.6	
Corporate tax and minority shareholders	95.4	(75.4)	(50.1)	(22.5)	
Net Profit	595.7	266.9	74.6	73.1	

* Restated

** Iberdrola US

Generation and Supply (Unaudited)

Eur M

June 2016	SPAIN	U.K.	MEXICO	OTHER
Revenues	5,777.5	3,269.9	681.2	(72.3)
Procurements	(4,261.2)	(2,602.5)	(418.4)	90.0
Gross Margin	1,516.3	667.4	262.9	17.7
NET OPERATING EXPENSES	(383.8)	(334.1)	(50.8)	(22.5)
Net Personnel Expense	(145.7)	(77.0)	(10.5)	(10.3)
Personnel	(155.1)	(79.5)	(13.4)	(10.7)
Capitalized personnel costs	9.3	2.5	2.9	0.4
Net External Services	(238.0)	(257.1)	(40.3)	(12.2)
External Services	(270.0)	(285.7)	(47.7)	(10.9)
Other operating income	32.0	28.6	7.4	(1.3)
LEVIES	(376.2)	(66.7)	(1.2)	(3.0)
EBITDA	756.3	266.6	210.8	(7.8)
Amortisation and Provisions	(261.0)	(145.5)	(44.6)	(15.8)
EBIT / Operating Profit	495.3	121.1	166.3	(23.7)
Financial Result	(9.4)	(1.2)	(16.5)	(11.5)
Results of companies consolidated by equity method	(9.2)	(0.3)	-	20.3
Results of non-current assets	(5.9)	-	(0.4)	-
PBT	470.8	119.7	149.3	(14.9)
Corporate tax and minority shareholders	(69.0)	(22.7)	(45.2)	12.6
Net Profit	401.7	97.0	104.2	(2.3)

Eur M

June 2015*	SPAIN	U.K.	MEXICO	OTHER
Revenues	6,470.2	4,087.2	725.0	(151.7)
Procurements	(4,975.3)	(3,374.7)	(427.8)	151.3
Gross Margin	1,494.9	712.5	297.2	(0.4)
NET OPERATING EXPENSES	(332.7)	(342.6)	(67.1)	(16.3)
Net Personnel Expense	(145.2)	(89.2)	(12.7)	(10.2)
Personnel	(155.3)	(91.8)	(13.5)	(10.5)
Capitalized personnel costs	10.1	2.6	0.8	0.3
Net External Services	(187.5)	(253.4)	(54.3)	(6.1)
External Services	(228.8)	(286.0)	(56.6)	(9.2)
Other operating income	41.3	32.6	2.3	3.1
LEVIES	(386.3)	(91.6)	(1.1)	(2.7)
EBITDA	775.9	278.4	229.0	(19.4)
Amortisation and Provisions	(264.8)	(207.9)	(43.8)	(16.0)
EBIT / Operating Profit	511.2	70.5	185.2	(35.5)
Financial Result	(59.9)	4.6	(16.3)	(15.3)
Results of companies consolidated by equity method	(15.9)	0.2	-	(4.5)
Results of non-current assets	-	1.1	-	-
PBT	435.3	76.4	168.9	(55.2)
Corporate tax and minority shareholders	(121.7)	(19.1)	(50.7)	17.3
Net Profit	313.7	57.3	118.2	(37.9)

(*) Restated

Renewable Business (Unaudited)

Eur M						
	June 2016	SPAIN	U.K.	US*	LATAM	RoW
Revenues		474.8	221.1	486.0	52.2	62.7
Procurements		(7.2)	(20.0)	(73.7)	(2.4)	(0.4)
Gross Margin		467.5	201.1	412.3	49.8	62.3
NET OPERATING EXPENSES		(95.4)	(41.1)	(93.9)	(12.3)	(10.7)
Net Personnel Expense		(25.4)	(8.7)	(50.5)	(1.4)	(3.3)
Personnel		(25.4)	(16.1)	(54.7)	(1.4)	(3.3)
Capitalized personnel costs		-	7.4	4.2	-	-
Net External Services		(70.0)	(32.4)	(43.4)	(10.9)	(7.3)
External Services		(84.4)	(49.8)	(88.4)	(10.8)	(9.5)
Other operating income		14.4	17.4	45.0	-	2.2
LEVIES		(52.5)	(8.9)	(39.3)	(0.7)	(1.7)
EBITDA		319.7	151.1	279.1	36.8	49.9
Amortisation, Provisions and other		(121.5)	(82.6)	(199.3)	(17.5)	(15.8)
EBIT / Operating Profit		198.2	68.5	79.8	19.2	34.1
Financial Result		(42.1)	(10.9)	(14.3)	(5.0)	(3.2)
Results of companies consolidated by equity method		(0.7)	(0.6)	(7.1)	1.6	(8.8)
Results of non-current assets		(1.7)	-	-	-	-
PBT		153.6	57.0	58.4	15.8	22.0
Corporate tax and minority shareholders		(43.7)	(16.7)	6.9	(2.4)	(10.9)
Net Profit		109.9	40.4	65.3	13.5	11.1

(*) Avangrid

Eur M						
	June 2015*	SPAIN	U.K.	US**	LATAM	RoW
Revenues		419.5	325.6	481.9	50.7	68.1
Procurements		(7.4)	(20.1)	(74.0)	(2.0)	(0.7)
Gross Margin		412.1	305.5	407.8	48.7	67.4
NET OPERATING EXPENSES		(95.2)	(52.4)	(100.0)	(10.8)	(13.6)
Net Personnel Expense		(28.6)	(11.2)	(56.1)	(1.0)	(3.2)
Personnel		(28.6)	(17.1)	(58.6)	(1.2)	(3.2)
Capitalized personnel costs		0.0	5.8	2.5	0.2	0.0
Net External Services		(66.6)	(41.2)	(43.8)	(9.8)	(10.4)
External Services		(85.8)	(44.9)	(84.1)	(9.8)	(12.1)
Other operating income		19.2	3.7	40.2	0.0	1.6
LEVIES		(56.3)	(10.0)	(39.2)	(0.3)	(1.6)
EBITDA		260.6	243.1	268.7	37.6	52.2
Amortisation, Provisions and other		(133.4)	(89.6)	(240.2)	(15.4)	(19.0)
EBIT / Operating Profit		127.1	153.4	28.5	22.3	33.2
Financial Result		(28.9)	(15.2)	37.9	(5.5)	(2.2)
Results of companies consolidated by equity method		3.3	0.1	(1.4)	0.6	4.3
Results of non-current assets		(4.3)	0.0	0.3	0.0	0.0
PBT		97.2	138.3	65.3	17.4	35.3
Corporate tax and minority shareholders		(31.1)	(31.2)	(9.7)	(5.3)	(12.8)
Net Profit		66.1	107.1	55.6	12.1	22.5

* Restated

** Iberdrola US

Quarterly Results (Unaudited)

<u>Eur M</u>	Jan-Mar 2016*	Apr-Jun 2016
Revenues	8,184.8	6,713.3
Procurements	(4,534.9)	(3,586.9)
Gross Margin	3,649.9	3,126.4
NET OPERATING EXPENSES	(950.5)	(910.2)
Net Personnel Expense	(511.2)	(464.6)
Personnel	(648.0)	(619.1)
Capitalized personnel costs	136.8	154.5
Net External Services	(439.3)	(445.6)
External Services	(574.4)	(594.8)
Other operating income	157.0	127.3
LEVIES	(691.5)	(332.0)
EBITDA	2,008.0	1,884.2
Amortisations and Provisions	(780.4)	(858.1)
EBIT	1,249.5	1,004.1
Financial Expenses	(470.2)	(448.4)
Financial Income	330.0	227.3
Financial Result	(140.1)	(221.1)
Results of companies consolidated by equity method	10.0	21.7
Results from non-current assets	29.1	17.8
PBT	1,148.5	822.6
Corporate Tax	(254.3)	(212.1)
Minorities	(25.5)	(22.4)
Net Profit	868.7	588.02

<u>Eur M</u>	Jan-Mar 2015*	Apr-Jun 2015*
Revenues	8,780.7	7,344.9
Procurements	(5,167.0)	(4,324.7)
Gross Margin	3,613.7	3,020.3
NET OPERATING EXPENSES	(853.7)	(926.5)
Net Personnel Expense	(446.7)	(482.5)
Personnel	(557.9)	(604.0)
Capitalized personnel costs	111.3	121.5
Net External Services	(407.1)	(444.0)
External Services	(517.1)	(602.0)
Other operating income	131.7	136.3
LEVIES	(623.7)	(390.9)
EBITDA	2,136.3	1,702.9
Amortisations and Provisions	(814.2)	(856.9)
EBIT	1,343.8	824.3
Financial Expenses	(1,026.3)	(136.0)
Financial Income	730.8	(86.8)
Financial Result	(295.5)	(222.8)
Results of companies consolidated by equity method	18.7	14.5
Results from non-current assets	72.1	0.7
PBT	1,139.1	616.7
Corporate Tax	(289.3)	57.3
Minorities	(9.0)	(8.9)
Net Profit	840.8	665.08

(*) Restated

Statement of Origin and Use of Funds (Unaudited)

	June 2016	June 2015*	Variation
EBITDA	3,892.1	3,839.2	52.9
Adjustments to results and others	(410.9)	(336.3)	(74.5)
Financial payments and cash receipts	(392.6)	(429.4)	36.8
Corporate Tax Payment	144.1	(98.6)	242.7
Provision payments (net of normal expenses)	(183.8)	(165.8)	(18.0)
Operating Cash Flow	3,049.0	2,809.0	240.0
Dividends Paid	(421.7)	-	(421.7)
Retained Cash Flow	2,627.3	2,809.0	(181.7)
Total Cash Flow allocations:	(2,378.0)	(1,495.0)	(883.0)
<i>Net Investments</i>	(1,858.7)	(1,302.3)	(556.4)
<i>Divestments</i>	102.4	23.6	78.7
<i>Treasury stock</i>	(591.0)	(185.9)	(405.1)
<i>Capital issue</i>	(0.5)	(0.2)	(0.3)
<i>Hybrid</i>	(30.2)	(30.2)	-
Exchange rate differentials	733.0	(978.4)	1,711.4
Change in regulatory receivables	(28.0)	157.9	(185.9)
Working capital variations and other variations	(865.1)	(1,076.1)	211.0
Decrease/(Increase) in net financial debt	89.1	(582.6)	671.8

* Re-expressed

Stock Market Evolution

IBERDROLA Stock Performance vs. index



IBERDROLA Share	H1 2016	H1 2015
Number of outstanding shares	6,240,000,000	6,388,483,000
Price at the end of the period	6.087	6.04
Average price of the period	6.05	6.02
Average daily volume	29,790,036	36,302,299
Maximum volume (01-04-2016 / 06-26-2015)	86,439,332	90,216,773
Minimum volume (05-16-2016 / 06-03-2015)	4,444,650	12,156,918
Dividends paid (€) ⁽¹⁾	0.132	0.132
Gross Final dividend (01-29-2016 / 12-19-2015)	0.127	0.127
Shareholder Meeting attendance bonus	0.005	0.005
Dividend yield ⁽²⁾	4.53%	4.57%

(1) Iberdrola fixed guaranteed price for the rights.

(2) Dividends paid in the last 12 months and Shareholder Meeting attendance bonus/price at the end of period.

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 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

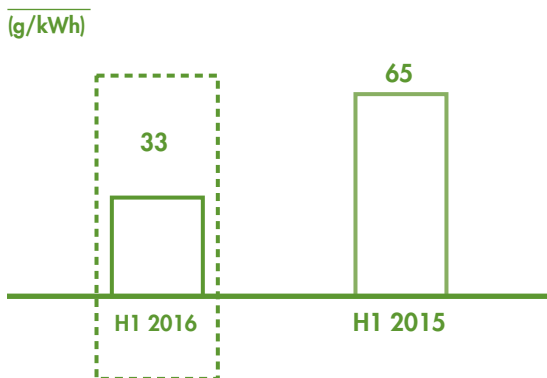
Sustainability Indicators	H1 2016	H1 2015
Contribution to GDP (Gross Margin) (*)	0.57%	0.60%
Contribution to GDP (Net Revenues) (*)	1.36%	1.67%
Net profit (EUR million)	1,456.7	1,505.9
Dividend yield (%) (**)	4.53%	4.57%
CO2 emissions in the period (gr. CO ₂ /kWh). Total	160	211
CO2 emissions in the period (gr. CO ₂ /kWh). Spain	33	65
CO2 emissions in the period (gr. CO ₂ /kWh). United Kingdom	433	533
CO2 emissions in the period (gr. CO ₂ /kWh). US	42	36
Emission-free production (GWh): Total	43,936	37,514
Emission-free production (GWh): Spain	31,655	25,762
Ratio output emission-free production out of production (%): Total	61%	55%
Ratio output emission-free production out of production (%): Spain	93%	89%
Total emission-free installed capacity (MW)	29,226	28,264
Spain emission-free installed capacity (MW)	19,230	18,326
Emission-free production out of production (%): Total	66%	62%
Emission-free production out of production (%): Spain	73%	72%
Ratio output with total low emissions technologies (%)	36%	37%

(*) Source: Iberdrola Results and National Quarterly Accounting for Spain – INE (Last data published in Q1 2016)

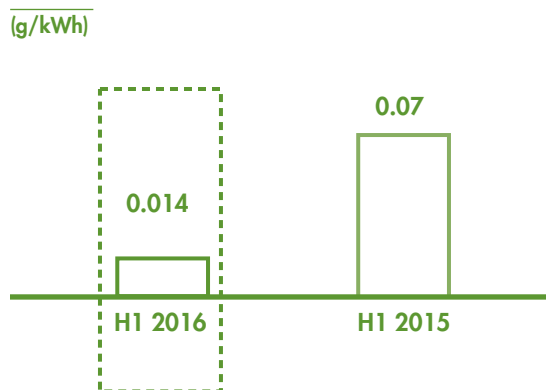
(**) Dividends paid in the last 12 months and Shareholder Meeting attendance bonus/price at the end of period.

Development of specific thermal mix emissions, Global: CO₂, SO₂, particles and NO_x.

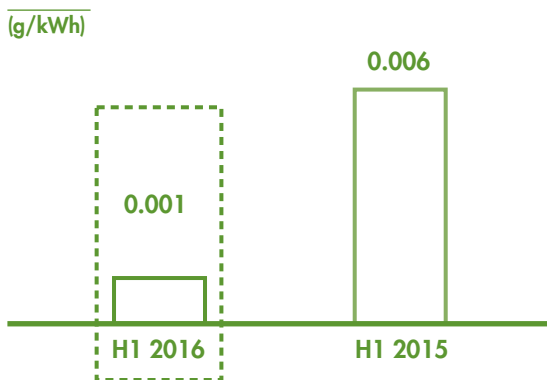
CO₂ specific emissions mix GLOBAL



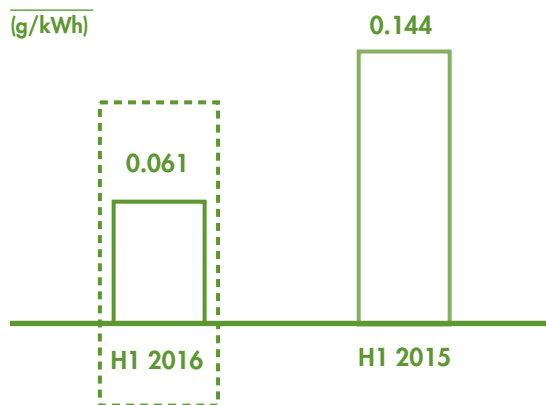
SO₂ specific emissions mix GLOBAL



Specific particulate emissions Mix GLOBAL



NO_x specific emissions Mix GLOBAL

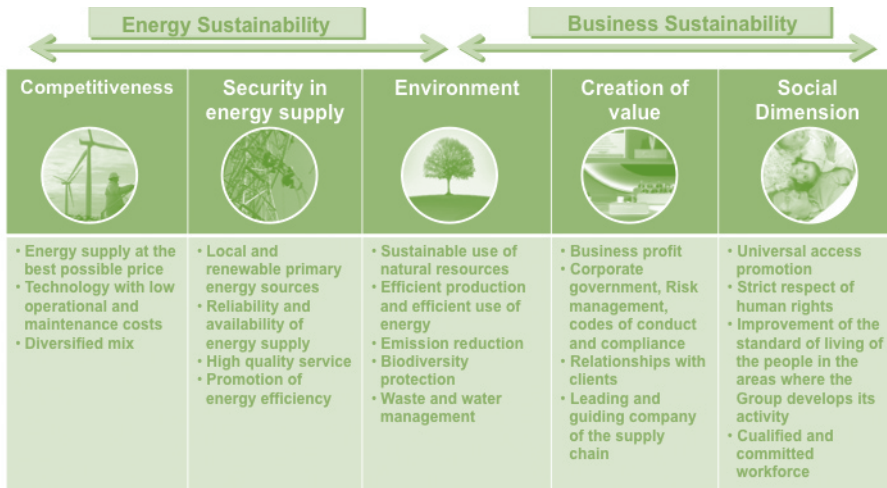


2. Indices, Rankings and Recognitions

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

Sustainability and Corporate Reputation	
	Rating/Situation
Dow Jones Sustainability World Index 2015	Iberdrola member in all editions
Global 100	Selected in 2016
FTSE4Good	First utility with nuclear assets to meet standards for FTSE 4Good. 5 years in a row selected
Carbon Disclosure Leadership Index 2015	100/100
Carbon Performance Leadership Index 2015	A category
Global Roundtable on Climate Change	IBERDROLA one of the developers
Sustainability Yearbook Robeco Sam 2016	Classified as "Silver Class" in the electricity sector.
OEKOM Research 2015	Prime Category
MERCO 2015	Leader among Spanish utilities: electricity, gas, and water industry
Euronext Vigeo index: Eurozone 120	Iberdrola selected
ET Global 800 Carbon Ranking	Iberdrola first Spanish utility
Nesweek and Green Rankings 2015	Iberdrola first Spanish utility and fourth worldwide
MSCI Global Sustainability Index Series	Iberdrola selected AAA
2015 World's Most Ethical Company	Iberdrola selected
Fortune Global 500	Iberdrola selected
Stoxx ESG Leaders	Iberdrola selected

Sustainability Policy



3. Contribution to social development

IBERDROLA's most significant actions with regard to social commitment in the Jan-Jun 2016 period have been:

3.1 Corporate Social Responsibility (CSR) Recognition

- **IBERDROLA recognised as one of the World's Most Ethical Companies**

IBERDROLA has been included in the *2016 World's Most Ethical Company* ranking, made by the Ethisphere Institute, which recognises organisations contributing ethical leadership and behaviour at corporate level. For the third consecutive year, our Company achieved this recognition, and is the only Spanish company featuring among the world's most ethical companies for 2016.

- **IBERDROLA, recognised for its Corporate Governance**

For the third consecutive year, in 2016 IBERDROLA has been named the European utility company with the best Corporate Governance policies, according to the prestigious publication *Ethical Boardroom*, which awards the *Corporate Governance Awards 2016*.

- **IBERDROLA, the IBEX 35 leader in fiscal transparency**

Our Company leads the IBEX 35 as regards fiscal transparency in 2015, according to the *Transparency Report on the Fiscal Responsibility of Companies*, drafted by the Fundación Compromiso y Transparencia (Commitment and Transparency Foundation).

- **Ignacio Galán named the best European Utility Company CEO, and IBERDROLA crowned as the best company for its investor relations**

IBERDROLA has won all four categories assessed: best investor relations, and best CEO, CFO and Director of Investor Relations, according to the *2016 All-European Executive Team* ranking of the prestigious Institutional Investor Research Group.

- **IBERDROLA's 2016 Shareholders' Meeting obtains the Sustainable Event certification**

IBERDROLA has been the first Spanish company, and the first electrical utility among the world's 10 largest, to be awarded the ISO 20121 Sustainable Event certification for its 2016 General Shareholders' Meeting, as well as the "*Erronka Garbia*" environmental label awarded by the Basque Regional Government.

- **IBERDROLA is recognised at the European Environment Awards with an award for Best Basque Company 2016**

IBERDROLA has received the award for the special 'biodiversity' category, as well as a runner-up award for the Environmental management category at the 'European Environment Awards for Best Basque Company 2016', awarded by the Basque Regional Government.

- **ScottishPower, winner of an innovation award**

ScottishPower received the *Big Bang* national award for Innovation during the 'Utility Week Stars Award'. The company was selected as the most innovative company among more than twenty leading companies in the gas, electricity and water sectors in the United Kingdom.

- **Elektro chosen as Latin America’s best company to work for**

Elektro was recognised in 2016 as the ‘Best Company to work for in Latin America’, according to the study carried out by *Great Place to Work*, in which more than 1,500 companies took part.

- **IBERDROLA México, recognised as a ‘Socially Responsible Company’**

IBERDROLA México has been awarded the ‘Socially Responsible Company’ label by the Centro Mexicano de la Filantropía, for the fourth consecutive year.

3.2.- Relations with Stakeholders

- **IBERDROLA adheres to the conclusions of the COP21, held in Paris**

The Company has committed to working with other companies towards limiting global warming to a maximum of 2°C, and providing real and tangible solutions in the fight against climate change, during the Conference of the Parties to the UN Framework Convention on Climate Change (COP21), by means of the *Just2Challenge* initiative.

- **Support to Suppliers**

Throughout this year, IBERDROLA has presented the *Supplier of the Year Awards*, in Brazil and in the United States, with the aim of incentivising sustainable development, innovation and internationalisation among its suppliers. It will also be presenting the awards corresponding to the United Kingdom and Spain before the end of 2016.

- **Campaign for the Promotion of Youth Employment**

IBERDROLA was the first IBEX 35 Company to adhere to the campaign for the UN to declare

2016-2025 the ‘Youth Employment Decade’, by means of the *Pegasus Programme*, coordinated by the Novia Salcedo Foundation. The aim of this programme is to place youth employment on the Global Human Development Agenda, by means of its declaration by the General Assembly of the United Nations.

- **Presentation of the 1st Iberdrola Solidarity Awards**

The Chairman of Iberdrola, Ignacio Galán, has presented the *1st Iberdrola Solidarity Awards*, which have recognised the Menudos Corazones, Plena Inclusión and Save the Children organisations. The Chairman has stated that the values put into practice and the results achieved by these organisations “are an encouraging stimulus to continue working towards a more human, caring society that makes for a better world for everyone”.

- **Salamanca’s ‘Festival de Luz y Vanguardias’, sponsored by IBERDROLA**

Our Company is committed to this Festival, defined as a pioneering cultural event in Spain, which joins the ranks of those already held in cities such as Berlin, London and New York. IBERDROLA’s great support towards art and culture, as well as its environmental support, the training it provides and the social action it engages in, come together to forge the Company’s powerful social contribution.

- **IBERDROLA, leading sponsor of the 8th European Conference of Sustainable Cities**

IBERDROLA has been the leading sponsor of the European Conference of Sustainable Cities, held in the Basque Country, and considered to be Europe’s leading event regarding local sustainability.

3.3.- Staff

- **IBERDROLA México, recognised for its work towards safety in the workplace**

IBERDROLA México has been awarded the international award for Safety in the Workplace ("Prever 2015"), awarded by the Spanish General Council of Industrial Relations and Work Science, in recognition of the 'excellent' track record in this field over the last three years, in which there have not been any accidents requiring leave off work.

- **Cultural exchange programmes.**

The new editions of the cultural exchange programmes *Hello-Hola* and *Mi Invitado* have been launched. These are offered to children of employees to provide them with a chance to experience an international stay in the different 'Iberdrola countries'.

- **International Volunteer Programme**

Within IBERDROLA's Volunteer Programme, articulated through the *International Volunteer Programme*, the following stand out especially:

- **IBERDROLA celebrated the 10th anniversary of its Corporate Volunteer Programme.** This Programme was launched in 2006, with the aim of harnessing the spirit of solidarity of employees and motivating their participation in social projects aligned with the values of the Company and its Social Responsibility Policy.
- **Initiatives to help disadvantaged people.** Different actions have been launched in countries where the Company is established, such as:
 - **9th IBERDROLA Tree Day.** The ninth edition of the Tree Day has been held in Muxika (Biscay), combining environmental work and activities for people with disabilities, in collaboration with Asociación Gorabide and Fundación Lurgaia.

- **'IBERDROLA Operation Kilo' initiative.** Solidarity initiative to collect food with the aim of contributing to alleviating the difficult economic situation of vulnerable families. Distribution is carried out through different aid organisations.
- **Human Warmth Week,** in which warm clothing has been collected by the employees of the companies NYSEG and RG&E of AVANGRID to care for children and families in vulnerable situations.
- **Volunteer Day.** A volunteer day devoted to games and sports and environmental-awareness, aimed at people with disabilities, has been held in the Community of Madrid.
- **INVOLVE (INternational VOLunteering Vacation for Education) Initiative.** The fifth edition of this corporate volunteering programme will be held, in which IBERDROLA employees from other regions will travel to Brazil and Mexico during their holidays to help teenagers improve their employability, by means of IT and web application training.

3.4 Community Action

a) Training and Research

2015 Call for Research Scholarships and Grants

The Scholarships and Grants Programme of Fundación Iberdrola España, the aim of which is to foster a new generation of professionals that contribute to a more sustainable energy model, has evolved in line with the international dimension of the Foundation, with students of all five nationalities (Spain, United Kingdom, United States, Mexico and Brazil). Furthermore, the masters courses have been updated to include industry needs, incorporating the subjects of energy and the environment, and specifically the chance to study Information and Communication Technologies (ICT), Big Data

and cybersecurity. As in previous editions, the International Scholarship Programme of Fundación Iberdrola España also includes grants for research into energy and the environment at universities and technology centres.

In the second quarter of 2016, the call for Masters grants and the call for Iberdrola Research Grants have both concluded, in which 74 candidates have received grants for the Masters programme and 20 candidates have received research grants. In addition, a further 48 students will benefit in 2016 from programmes managed by other bodies with which our foundations collaborate.

b) Sustainability and Biodiversity

Bird migration monitoring programme (MIGRA)

The IBERDROLA Foundation collaborates with the Sociedad Española de Ornitología (Spanish Society of Ornithology), SEO/BirdLife, in an initiative aimed at studying the migratory movements of the birds present in Spain. The main aim of this project is to have a scientific basis for the movements of each species throughout one or several years, to find out about their migratory routes, resting areas during the journey and hibernation areas.

Throughout this second quarter, the planned taggings have taken place, a total of 44 for this year, and work is being carried out on the first publications based on the data regarding the behaviour of the booted eagle, the red kite and the Audouin's gull. The data regarding the different species can be followed in real time on the project's website (www.migraciondeaves.org)

c) Art and Culture

Restoration Programme

The Foundation supports unique projects for the recovery and conservation of historical-artistic heritage, in collaboration with agencies and institutions of renown, both public and private. The **Atlantic Romanesque Programme** is the most significant programme of this kind. It is carried out in collaboration with the Portuguese Ministry for Culture and the Regional Government of Castile-Leon, and is an ambitious project to restore and provide maintenance to the Romanesque monuments in both countries, affecting temples located in the North of Portugal and Salamanca and Zamora.

In addition to the artistic restoration dimension, this project also incorporates two very significant elements. On the one hand, there is a component of innovation, with the installation of a monitoring system for the environmental and structural variables; and on the other hand, the launch of an outreach programme that contributes to the area's social and economic revitalisation, taking advantage of the opportunities offered by art, history, nature and tourism.

During this second quarter, work has continued on this year's interventions, specifically on Ciudad Rodrigo Cathedral, where there are plans to create a visitors' centre for the project, joining the existing centres at San Pedro de la Nave in Campillo, San Martín de Tous in Salamanca and San Martín de Castañeda. Work has also been carried out on the Cultural Revitalisation Programme activities. Further information at www.romanicoolatlantico.org

Museo del Prado and Bilbao Fine Arts Museum restoration workshop

The IBERDROLA Foundation is a 'Museo del Prado Benefactor' and collaborates with the Bilbao Fine Arts Museum with its support to the Museum Restoration Workshops, complemented by three annual grants at El Prado and one at the Fine Arts Museum for young restorers.

In 2014 the 'Iluminando el Prado / Lighting the Prado' Project started, with the aim of providing the Museum's exhibition rooms with new lighting systems incorporating LED technology. The aim of this new lighting system is to improve the conservation of the works exhibited, thanks to the absence of infrared and UV ray emission, improve the viewing of the works, and improve the energy efficiency and associated maintenance costs for the entire lighting system.

In the second quarter of 2016, a temporary exhibition of Bosch has been held at El Prado. The bulk of the installation in the permanent exhibition will be carried out in the second half of 2016.

Lighting Programme

During the second quarter of the year two new LED lighting installations have been completed. The interior of the Synagogue of Santa María la Blanca in Toledo and the event itself have both boasted high attendance levels from institutions, and were widely covered in the press. Furthermore, during the month of April, the LED system was switched on in the main rooms of the Real Academia de Bellas Artes de San Fernando in Madrid, which has managed to notably improve the quality of lighting in this museum. The event was widely attended by academics that publicly recognised the work of the Foundation.

Work has also been carried out on other lighting projects such as El Palacio de los Chapiteles in Logroño, Capilla del Colegio del Patriarca in

Valencia, the façades of the Town Halls of Irún and San Sebastián and the altar of the Church of Santa María de El Paular Monastery in Rascafría.

Tapestry restoration programmes

In collaboration with the 'Real Fábrica de Tapices', all six Flemish tapestries of the 'Colegio del Patriarca' in Valencia are currently being restored. These are exceptional 16th century works that were in very poor condition due to the weather and environmental conditions to which they were exposed.

During this quarter, after more than two years' work, the first four tapestries have been finished, and an exhibition is being prepared, to showcase them and their restoration. It will be held in October this year.

Language immersion programmes

Their aim is to contribute to promoting the bilingualism (Spanish-English) of students who are successful academically but encounter difficulties in accessing summer English courses for children and young people, additional to the language courses they are taught in the formal school year.

Thus, during this quarter, the courses to be held in July and August have been prepared, in collaboration with the Regional Departments of Education and Culture of Castile-León, Comunidad Valenciana and the Regional Government of Extremadura.

c) Cooperation and Solidarity

Social Grants

The main aims of Fundación Iberdrola España include contributing to the improvement of the quality of life of the most vulnerable people and groups. In its annual call for social projects, it selects projects of social agencies working in Spain. These initiatives deal with situations such as poverty

and social exclusion, the quality of life of people who are seriously ill, dependent or with functional diversity.

During the second quarter of this year, all 32 projects selected in the call for 2015 have continued. These projects will be carried out until December 2016.

Also at the end of May the 2016 edition of the social grants programme was called, which was very well received by social agencies, and which supported the same kind of projects as the previous edition.

Cooperation for Development:

The electrification and drinking water supply project in rural communities of Oaxaca (Mexico) has made progress, in collaboration with Save the Children and Energy Without Borders, with a first field visit already having taken place. This project is included within the third line of action of Iberdrola's 'Electricity for everyone' programme, which focuses on the development of projects with a high social component, through NGOs.

Institutional Collaborations

Lastly, Fundación Iberdrola España continues to collaborate with and support significant cultural, social, scientific and cooperation institutions of renown in Spain, such as Instituto Elcano, Carolina Foundation, the Royal Spanish Academy of Language and History, Instituto Cervantes, the Atapuerca Foundation, Casa de América, the Red Cross Foundation and Energy Without Borders, among others. These collaborations are mainly financial and to provide support to their activities, and amount to more than one million Euro per year. This quarter it is worth mentioning the official signing of the agreement with the Royal Spanish Academy of Language, which recognises the Foundation's collaboration in the creation of the new digital dictionary, a world standard for Spanish language.

4. Corporate governance

The Corporate Governance highlights during the first quarter of financial year 2016 were as follows:

- On 20 October 2015, the Board of Directors approved the implementation of the second increase of paid-up capital approved by the General Shareholders' Meeting held on 27 March 2015, under section B, point six of the agenda. On 8 January 2016, the Company sent the National Exchange Commission (CNMV) the complement to the memorandum regarding the second increase of paid-up capital approved by the General Shareholders' Meeting of 27 March 2015. Lastly, IBERDROLA reported on 26 January 2016 the implementation of the second increase of paid-up share capital, through which the *Iberdrola Scrip Dividend* is implemented.
- On 13 January 2016 IBERDROLA published the financial calendar for financial year 2016.
- On 29 January, the Company submitted its energy production figures for the financial year 2015.
- The IBERDROLA Board of Directors, in its meeting of 23 February 2016, prepared the annual accounts and individual management reports of the Company consolidated with its subsidiaries, corresponding to the financial year ending 31 December 2015, as well as the proposals to distribute a cash dividend of EUR 0.030 gross per share with rights to such payment, and to approve an increase of paid-up capital for the free-of-charge allocation of new shares to the shareholders of the Company, within the framework of the shareholder compensation system named *Iberdrola Scrip Dividend*. Likewise, the CNMV was notified of the offer to workers of the Iberdrola Group in Spain to receive shares, fully or partly, of the annual variable compensation corresponding to financial year 2015. Also on 23 February, IBERDROLA notified the CNMV of the agreement to carry out a buyback programme of the Company's own shares in

- accordance with the authorisation conferred by the General Shareholders' Meeting held on 28 March 2014, under point nine of the agenda. In relation with this, since that date, IBERDROLA periodically reported to the CNMV on the share buyback programme until 31 March 2016, the date when it ended. As a result, the Company acquired a total of 8,351,173 own shares, representing approximately 0.131%.
- On 24 February 2016, the Company submitted to the CNMV its Presentation of Results for the financial year ending on 31 December 2015.
 - On 26 February 2016, IBERDROLA sent to the CNMV the *Annual Corporate Governance Report and the Annual Report on Remuneration of Directors* and the statistical information corresponding to financial year 2015.
 - On 15 April 2016, the Company submitted its energy production figures for the first quarter of 2016.
 - IBERDROLA approved on 26 April 2016 the first implementation of the increase in paid-up capital approved by the 2016 General Shareholders' Meeting.
- Subsequently, on 13 June, the Company notified the CNMV of the changes to the implementation calendar for the first increase of paid-up capital, and the date of dividend payment charged to the results of the financial year ending on 31 December 2015.
- On 1 July 2016, the Company published an appendix to the memorandum regarding the first increase of paid-up capital approved by the General Shareholders' Meeting of 8 April 2016.
- On 26 April 2016, the reduction in capital was notified through the redemption of treasury stock, approved by the 2016 General Shareholders' Meeting. Iberdrola's share capital was reduced by 117,897,750 Euro, by means of the redemption of 157,197,000 own shares, the share capital being fixed at 4,680,000,000 Euro, corresponding to 6,240,000,000 shares.

- On 27 April 2016, the Company submitted to the CNMV its presentation of results for the first quarter of 2016.
- On 14 June, the CNMV was notified of the sale, made by Iberdrola Renovables Italia S.p.A. in favour of CEF 3 Wind Energy S.p.A., of the Italian subsidiary companies SER S.p.A. ("SER") and SER 1 S.p.A. ("SER 1").
- On 17 June, it was published that IBERDROLA and Iberdrola Participaciones, S.A., as shareholders (indirect and direct, respectively) of Gamesa Corporación Tecnológica, S.A., on the one hand, and of Siemens AG, on the other hand, had signed a contract regarding (i) Gamesa in the context of a merger process of the wind energy businesses of Gamesa and Siemens AG; and (ii) their relations as future shareholders of Gamesa following the merger.

General Shareholders' Meeting

During the meeting held on 23 February 2016, the Board of Directors of IBERDROLA agreed to call a General Shareholders' Meeting for 8 April 2016. In addition, the Board approved the payment of a gross attendance bonus of EUR 0.005 per share for the shareholders present or represented at the General Shareholders' Meeting.

The announcement of the call for the General Shareholders' Meeting was published by the Company in the Official Bulletin of the Commercial Registry on 26 February 2016.

On 28 April 2016, the Company's General Shareholders' Meeting was held at first session, with a quorum of 77.91% of the share capital (8.23% present and 69.68% represented), and approved each and every agreement put to vote that had been included in the meeting agenda, as detailed below:

Agreements relating to the annual financial statements, corporate management and Company Auditor

The General Shareholders' Meeting approved the individual annual accounts of Iberdrola and the consolidated accounts with its subsidiaries, corresponding to financial year 2015, as well as the Company's

individual management report and the report on the consolidated management with its subsidiaries, in addition to corporate management and performance of the Board of Directors during financial year 2015.

Furthermore, the General Shareholders' Meeting approved the re-election of Ernst & Young, S.L. as the accounts auditor of the Company and its consolidated group for financial year 2016, including the delegation in favour of the Board of Directors, with full powers of substitution, of the powers necessary to enter into the corresponding service contract with Ernst & Young, S.L.

Agreements relating to shareholder compensation

The General Shareholders' Meeting approved the appropriation of earnings proposed by the Board of Directors, which includes the payment of a dividend corresponding to financial year 2015 of EUR 0.03 gross per each IBERDROLA share.

In addition, under sections A and B of point six of the agenda, the General Shareholders' Meeting approved two increases in paid-up share capital by issuing new ordinary shares of the Company, with a maximum reference market value of 855 and 985 million Euro, respectively, for the free-of-charge allocation of the new shares to the Company's shareholders. Said agreements include the delegation to the Board of Directors, with full powers of substitution, of the powers required to execute capital increases, including that of newly drafting the article in the Articles of Association that regulates the share capital.

These capital increases were agreed in order to implement the two new editions of the Iberdrola Scrip Dividend system and offer all of the Company's shareholders new-issue paid-up shares or, eventually, the purchase of free-of-charge allocation rights received for the shares they hold at a guaranteed fixed price.

Agreement regarding the renewal of the Board of Directors

The General Shareholders' Meeting approved the re-election as Directors, for the statutory term of four years, of Mr Iñigo Victor de Oriol Ibarra, as external

director and of Ms Inés Macho Stadler, Mr Braulio Medel Cámara and Ms Samantha Barber, all of whom were classified as independent directors.

Likewise, the General Shareholders' Meeting approved the appointment of Mr. Xabier Sagredo Ormaza as director, following the report by the Appointments Committee, for the statutory term of four years, also classified as an external director.

Agreement regarding the update of the Corporate Governance System

The General Shareholders' Meeting approved:

- a) The amendments to the *Articles of Association* to formalise the introduction to the *Mission, Vision and Values of the Iberdrola Group* and emphasise the Company's commitment to its corporate values, social return and the involvement of all stakeholders, as well as the creation of a new Preliminary Title and the restructuring of Title I. Likewise, this amendment clarifies the distribution of the competencies of the Appointments Committee and the Remunerations Committee and introduces other technical improvements.
- b) The amendments to the *Regulations of the General Shareholders' Meeting* to formalise the commitment of the Company to the sustainable development of the General Shareholders' Meeting as an event, promote environmentally friendly communication channels, regulate the premium of the General Shareholders' Meeting and introduce technical improvements.

Agreement regarding capital decrease

The General Shareholders' Meeting approved a reduction of capital by means of the redemption of a maximum of 157,197,000 own shares, which represent 2.46% of the share capital.

Agreement regarding general matters

In point thirteen of the agenda, the General Shareholders' Meeting agreed, without prejudice to the delegations included in the previous agreements,

to jointly and severally grant powers to the Board of Directors, the Executive Committee, the Chairman and CEO and the Secretary of the Board of Directors to formalise and execute all agreements adopted by the General Shareholders' Meeting for their notarisation and interpretation, correction, supplementation, development and inscription.

Agreement regarding the agreement put to advisory vote

Lastly, the Annual Report regarding the remuneration of directors corresponding to financial year 2015 was put to advisory vote by the General Shareholders' Meeting.

Board of Directors

On 26 April 2016, following reports of the Company's Appointments Committee, the 'other external' director, Mr Manuel Moreu Munaiz, was appointed as a member of the Executive Committee and the 'other external' director Mr Xabier Sagredo Ormaza was appointed as a member of the Auditing and Risk Supervision Committee.

Corporate Governance System

IBERDROLA permanently updates its Corporate Governance System, which is the set of documents comprising the *Articles of Association*, the *Mission, Vision and Values of the Iberdrola Group*, 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.

Since the start of financial year 2016, the following updates and reviews of the Corporate Governance System of IBERDROLA have been made:

- On 23 February 2016, the *Mission, Vision and Values of the Iberdrola Group* were approved as an autonomous regulation within the Company's Corporate Governance System, and there was an agreement to modify the introduction of the Corporate Governance System.

With a view to reflecting this new *Mission, Vision and Values of the Iberdrola Group*, as well as to developing the Company's commitment to social return, giving the corporate website a greater role to play, reinforcing the compliance system in terms of the criminal liability of legal persons, introducing legal developments regarding accounts auditing, adapting the role of Secretary of the Board of Directors, and carrying out the annual review of *Risk Policies*, the modification and update of the following documents that form part of the corporate governance system were approved: *General Corporate Governance Policy*, *Shareholder Engagement Policy*, *Communication and Contact Policy regarding Shareholders*, *Institutional Investors and Voting Advisers*, *Policy of Recruitment of Candidates to Director*, *Policy of Accounts Auditor Recruitment*, which went on to be called *Account Auditor Hiring and Relations Policy*, and *Policy for Crime and Fraud Prevention*. As regards the review of the *Risk Policies*, the *General Risk Control and Management Policy*, the *Summary of Corporate Risk Policies and the Summary of Specific Risk Policies of the Group Businesses*. As regards the Social Responsibility Policies, the *General Corporate Social Responsibility Policy*, the *Policy of Stakeholder Relations*, the *Innovation Policy*, the *Human Resources Framework Policy*, the *Recruitment and Selection Policy*, the *Equal Opportunity and Work-Life Balance Policy* and the *Sustainability Policy*. Furthermore, the consolidated texts of the following were also approved: *Regulations of the Board of Directors*, *Regulations of the Audit and Risk Supervision Committee*, *Regulations of the Appointments Committee* and *Regulations of the Corporate Social Responsibility Committee*. Lastly, the *Code of Ethics of Directors*, the *Code of Ethics*, the *Regulations of*

the Compliance Unit and the Action Protocol for the Management of News and Rumours.

- On 6 April IBERDROLA agreed to the modification of several regulations of the Corporate Governance System aimed at renewing the commitment to the fight against climate change, and to developing a sustainable energy model, to developing gender equality policies, and favouring a work-life balance, as well as other technical improvements. The modifications affected the *General Policy on Corporate Governance*, the *Policy of Recruitment of Candidates to Director*, the *Recruitment and Selection Policy*, the *Policy on Equal Opportunities and Work-Life Balance*, the *Environmental Policy*, the *Policy against Climate Change*, the *Biodiversity Policy*, the *Regulations of the Appointments Committee*, the *Regulations of the Remunerations Committee*, the *Code of Ethics and the Internal Regulations regarding the Composition and Functions of the Operating Committee*.
- As mentioned in the section on the agreements of the General Shareholders' Meeting, on 8 April 2016, the modification of the *Articles of Association* and the *Regulations of the General Shareholders' Meeting* was approved. On that same date, the update of the introduction of the Company's Corporate Governance System was announced.
- On 26 April 2016, the Company's *Sustainability Policy* was amended to introduce the management of sustainable events.
- On 21 June IBERDROLA agreed on the review of the internal rules regarding market abuse, and measures were introduced to promote equality in the sphere of hiring: *General Policy on Corporate Social Responsibility*, *Human Resources Framework Policy*, *Recruitment and Selection Policy*, *Equal Opportunities and Work-Life Balance Policy*, *Regulations of the Board of Directors*, *Regulations of the Audit and Risk Supervision Committee*, *Regulations of the Corporate Social Responsibility Committee*, *Code of Ethics*, *Procedure for Conflicts of Interest and Operations related to directors*,

significant shareholders and top management, Internal Code of Conduct in Stock Markets, Internal Regulations for the handling of privileged information, Summary of the Action Protocol for the investigation of possible illegal uses of privileged information and Action Protocol of the Management of News and Rumours.

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

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 financial year 2016 to ensure that institutional investors and financial analysts are kept fully informed.

On-Line Shareholders (OLS)

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

CNMV: Relevant Events from April to June 2016

Date	Event	Registration No.
08/04/2016	The Company reports on the agreements adopted by the General Shareholders' Meeting and the Board of Directors on 8 April 2016.	237214
14/04/2016	Bond issue for the amount of 1,000 million Euro in the euromarket by Iberdrola International, B.V., guaranteed by Iberdrola S.A.	237385
15/04/2016	Iberdrola publishes the date of the Presentation of Results of the First Quarter of 2016.	237412
15/04/2016	The Company reports its Energy Production figures as at the end of the first quarter of 2016.	237454
26/04/2016	The Company reports on appointment of new members of the Executive Committee and of the Audit and Risk Supervision Committee.	237795
26/04/2016	Implementation of the reduction in capital through the redemption of treasury stock, approved by the General Shareholders' Meeting held on 8 April 2016, under point twelve of the agenda.	237824
26/04/2016	Implementation of the first increase in paid-up capital approved by the General Shareholders' Meeting of 8 April 2016 and publication of the corresponding memorandum.	237825
27/04/2016	The Company issues information regarding the results of the first quarter of 2016.	237851
27/04/2016	Presentation of results corresponding to the first quarter of 2016.	237852
29/04/2016	Inscription of the deed of reduction in capital through redemption of treasury stock executed by the Board of Directors in their meeting of 26 April 2016.	238049
13/06/2016	Changes to the calendar of implementation of the first increase in paid-up capital approved by the General Shareholders' Meeting of Iberdrola, S.A. of 8 April 2016 and to the date of payment of the dividend in cash.	239670
14/06/2016	Sale of the stake of Iberdrola Renovables Italia S.p.A. in Italian companies SER S.p.A. and SER 1 S.p.A.	239748
17/06/2016	Iberdrola, S.A. and Iberdrola Participaciones, S.A. Sociedad Unipersonal have underwritten a shareholder's agreement with Siemens AG with regard to Gamesa Corporación Tecnológica, S.A.	239899
21/06/2016	Iberdrola announces the partial reform of the Company's Corporate Governance System.	239986

Glossary of Terms

Alternative Performance Measures	Definition
Market capitalisation	Number of shares at the close of the period x price at the close of the period
Earnings per share	Net profit for the quarter / number of shares at the close of the period
PER	Price at the close of the period / Earnings per share for the last four quarters
Price / Book value	Market capitalisation / Net equity
Dividend yield (%)	Dividends paid in the last 12 months and attendance bonus / price at close of the period
Gross Margin	Net Revenue - Procurements
Net Operating Expenses	Personnel expense - Capitalized personnel expense + External services - Other Operating Income
Net Operating Expenses / Gross Margin	Net Operating Expenses / Gross Margin
Net Personnel Expense	Personnel Expense - Capitalized Personnel Expense
Net External Services	External Services - Other Operating Income
Gross Operating Profit (EBITDA)	Operating Profit + Depreciations, Amortisations and Provisions
Net Operating Profit (EBIT)	Operating Profit
Financial Result	Financial Revenue - Financial Expenses
Income from Non-Current Assets	Benefits from sale of non-current assets - Losses from sale of non-current assets
ROE	Net Profit of the four last quarters / Net Equity
Financial leverage	Net Financial Debt/(Net Financial Debt + Net Equity)
Gross Financial Debt	Financial Debt (loans and other) + equity instruments with certain characteristics of financial liability + Liability derivative debt instruments
Net Financial Debt	Gross Financial Debt – Asset derivative debt instruments - Other short-term credits - Cash and other cash equivalents
Net Financial Debt / Equity	Net Financial Debt / Net Equity
Net Financial Debt / EBITDA	Net Financial Debt / EBITDA for the last four quarters
Funds from Operations (FFO)	See section 'Funds From Operations' in the report
Funds From Operations (FFO) / Net Financial Debt	FFO for the last four quarters / Net Financial Debt
Net Operating Cash Flow per Share	FFO for the quarter / Number of shares at close of the period
Retained Cash Flow (RCF) / Net Financial Debt	RCF for the last four quarters / Net Financial Debt
Retained Cash Flow (RCF)	See 'Cash Flow Statement' section

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